U.S. Dept. of the Treasury.

PRESS RELEASES.

B-204

TO

B-373

MAY 2, 1977

JULY 29, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 2, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,301 million of 13-week Treasury bills and for $3,306 million of 26-week Treasury bills, both series to be issued on May 5, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 4, 1977			26-week bills maturing November 3, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.793 a/	4.775%	4.90%	97.462	5.020%	5.22%
Low	98.781	4.822%	4.95%	97.444	5.056%	5.26%
Average	98.785	4.807%	4.93%	97.446	5.052%	5.26%

a/ Excepting 1 tender of $670,000

Tenders at the low price for the 13-week bills were allotted 72%.
Tenders at the low price for the 26-week bills were allotted 70%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 34,605,000	$ 19,605,000	$ 18,880,000	$ 3,880,000
New York	3,515,785,000	1,991,185,000	5,273,845,000	3,140,335,000
Philadelphia	33,980,000	30,050,000	5,620,000	5,085,000
Cleveland	35,480,000	35,480,000	17,690,000	7,690,000
Richmond	15,885,000	13,885,000	9,090,000	6,090,000
Atlanta	42,500,000	36,285,000	13,190,000	10,190,000
Chicago	184,065,000	49,170,000	213,920,000	18,890,000
St. Louis	33,335,000	18,965,000	18,110,000	9,110,000
Minneapolis	24,555,000	9,055,000	22,240,000	7,240,000
Kansas City	39,010,000	38,325,000	39,345,000	28,345,000
Dallas	126,995,000	11,995,000	8,895,000	7,395,000
San Francisco	286,865,000	46,865,000	412,125,000	62,125,000
Treasury	30,000	30,000	55,000	55,000
TOTALS	$4,373,090,000	$2,300,895,000 b/	$6,053,005,000	$3,306,430,000 c/

b/Includes $ 309,200,000 noncompetitive tenders from the public.
c/Includes $109,280,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-204

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 3, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $5,500 million, or thereabouts, to be issued May 12, 1977, as follows:

91-day bills (to maturity date) in the amount of $2,200 million, or thereabouts, representing an additional amount of bills dated February 10, 1977, and to mature August 11, 1977 (CUSIP No. 912793 J5 6), originally issued in the amount of $3,699 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,300 million, or thereabouts, to be dated May 12, 1977, and to mature November 10, 1977 (CUSIP No. 912793 L2 0).

The bills will be issued for cash and in exchange for Treasury bills maturing May 12, 1977. This offering will provide for a net pay-down for the Treasury of about $900 million as the maturing issues are outstanding in the amount of $6,405 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,473 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 and from individuals at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, May 9, 1977. 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 or at the Bureau of the Public Debt on May 12, 1977, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 12, 1977. 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, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 3, 1977

RESULTS OF AUCTION OF 6-3/4-YEAR TREASURY NOTES

The Treasury has accepted $2,750 million of the $6,001 million of tenders received from the public for the 6-3/4-year 7-1/4% Notes, Series A-1984, auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	100.00	7.24%
Low	99.76	7.29%
Average	99.81	7.28%

The $2,750 million of accepted tenders includes $ 879 million of noncompetitive tenders and $1,871 million of competitive tenders (including 67% of the amount of notes bid for at the low price) from private investors.

In addition, $2,723 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing May 15, 1977, ($2,623 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($ 100 million).

B-206

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

EMBARGOED FOR RELEASE
UNTIL 6:00 P.M.
E.D.T.

Remarks by
W. Michael Blumenthal
Secretary of the Treasury
Japan Society
Hotel Waldorf Astoria
May 4, 1977

Of the many issues of common interest and concern the United States and Japan, I have chosen to speak this evening on a single issue which equally affects both countries: our relationship to the developing nations of the world.

This relationship is central to the resolution of one of the most pressing problems of the last quarter of this century -- the economic, social and political needs of the developing nations, and the continuing tensions between "North" and "South" and among the developed countries that flow from these needs and from the demands of the poorer countries.

The United States and Japan share a major responsibility for responding to the developing countries. They represent huge markets for the commodities and manufactured goods sold by the developing countries. Both countries are major sources of external capital, both public and private, for developing nations. And both play major roles in shaping the world economic system within which all nations must operate.

Without constructive policies by the United States and Japan, the needs of the developing nations will not be met, however effective their own economic policies. Their frustrations, and the tensions they engender, will multiply.

Before considering the whys and hows of our development policies, it is essential to note the diversity which distinguishes the developing world of the 1970s. Brazil is not India. Korea is not Bangladesh. Singapore is not Chad.

Indeed, there are at least two distinct sets of developing countries. The more advanced, which have come to be known the "Third World", are rapidly becoming an international middle class. Their per capita incomes are still quite low by our standards, but are generally above $500 and now exceed $1000 in many cases. They have some modern manufacturing sectors, and indeed are effectively penetrating the markets of the industrial countries in many product lines. Many have attractive deposits of raw materials, and some are agriculturally self-sufficient. They have made the first major leap toward effective development, by rising above grinding poverty and forming the base from which sustained growth can proceed. Much of Latin America and the Middle East, much of the Far East and some of Southeast Asia falls into this category.

To be sure, these countries continue to face massive problems. But their economic record is impressive -- with growth rates that exceeded the targets of the First U.N. Development Decade in the 1960s, strong trade gains including an average growth of 25 percent in their exports of manufactured goods, and a doubled share of world industrial output within the last ten or so years.

In sharp distinction to this relatively successful "Third World" is the "Fourth World" comprising 40 or so of the poorest nations on earth. Most of South Asia and sub-Saharan Africa and scattered countries elsewhere belong to this group. These countries with about a billion people have per capita incomes below $500, and frequently below $200. In many of them, per capita incomes have been stagnant throughout this decade. Some face seemingly insurmountable problems -- an overwhelming press of population, lack of the most basic economic infrastructure, rudimentary political systems, overwhelming reliance on commodity exports -- or even a single product and shortages of indigenous talent.

These enormous problems of the Fourth World are among the most important challenges which face mankind in the coming years.

It is crucial that the responses of the United States, and Japan and the other industrial countries recognize the sharply different characteristics and needs of these two groups of developing countries.

The Third World needs primarily access to our markets. It can afford to borrow on commercial terms -- but it needs access to private capital to finance its balance of payments deficits. It can use our technology and management skills--

but it needs access to them on terms which are fair and respect its national sovereignties. It can earn much of its way in the world by selling abroad the goods it produces -- but it must have the opportunity to do so. It can continue to reap sizable earnings from its commodity exports--but it needs more stable markets to avoid disrupting its development programs.

The Third world needs the market-related lending of the World Bank and the regional development banks. But it does not require concessional lending. It does not need, nor would it even benefit from, other means of direct resource transfer:

-- Generalized debt relief would almost certainly impede the access to private capital it needs.

-- International compacts which sought to prop commodity prices artificially would erode long-run demand for its output.

-- Links between international monetary creation and aid would lessen the stability of the international monetary system.

In short, this new international middle class needs to be brought increasingly into the international economic system which has served the industrial world well for the thirty years.

Aid to the fourth world, on the other hand, must still focus on foreign assistance of all types: capital, technical assistance, appropriate technology, and food aid. While these countries can benefit from greater access to private capital markets and rich-country markets for manufactured goods, most of them are unable to take major advantage of either.

I believe the United States must respond to these needs rapidly, generously, effectively and cooperatively. We must do so, first of all, for humanitarian reasons. Our basic feelings as human beings and as Americans must impel us to help and to give new hope to those who face lives of unremitting deprivation and suffering.

Second, our economic interests compel us to help both the Third and Fourth Worlds. Those countries have already become markets for U.S. exports which account for one out of every 15 American manufacturing jobs. Those countries supply us with critical imports, including key industrial raw materials. Their sales to us of manufactured goods, while sometimes raising adjustment problems which require direct governmental response, contribute to lower prices for our consumers and help us fight inflation. These countries are home to a quarter of our foreign direct investments and are major clients of our private banks.

Third, our political and even security interests are deeply entwined with the future of the developing world.

In part, this is simply because the issues related to their development are central to the developing countries themselves. They place these matters at the top of their foreign policy agendas. If we do not respond, we thwart their fundamental purposes and make any constructive relationship between us virtually impossible.

Development will not necessarily avert tension and international conflict, but we know that an absence of development will trigger frustrations which can only produce conflict.

Thus the reasons for cooperation with the Third and Fourth Worlds are compelling. They pose a challenge to the United States and Japan, and indeed all who pride themselves on membership in the "First World." They require both an urgent response and a long-term commitment. They require both money and difficult adjustments and, perhaps hardest of all, understanding and patience. They point to an essential area in which the United States and Japan simply must cooperate to help construct an international society in which we can both live comfortably now and in the years ahead.

But the specific policy responses of our two countries, and indeed of the entire industrial world, must distinguish clearly between rhetoric and reality.

Some of the policy measures which are the focus of rhetoric both in our own countries and in the developing nations themselves do not -- to put it bluntly-- address the fundamental problems which I have outlined. The agenda for the North-South Dialogue, as the formal discussions between the developing and industrial countries are called, does not even include the most critical issues in the economic relationship between these two sets of countries.

To be sure the dialogue includes some important matters -- the quest for greater stability in commodity prices, and increases in resource transfers through both bilateral aid and the multilateral lending institutions.

But what is much more important to the Third and Fourth Worlds, indeed the single most important step we can take to help them, is the adoption of a policy of strong, stable, non-inflationary economic growth for our domestic economies. Every additional percentage point of growth in the American economy generates about half a billion dollars of additional demand for imports from non-oil developing countries. Every additional percentage point of Japanese growth generates about $200 million of such additional demand.

When unemployment is high, it becomes much more difficult to resist the inevitable pressures to raise barriers to imports -- especially to imports from "low wage" countries. When budget deficits are high, because revenues are cut by low growth and expenditures must be increased to generate more growth, it is harder to win public support for foreign assistance programs.

A special responsibility for achieving strong growth in the developed countries rests on the United States and Japan. We are not only the two largest economies in the non-Communist world. Along with Germany, we are the strongest and most stable economies with inflation rates that, though still too high, are well under control. And we have external positions which permit us to undertake some degree of internal expansion. The United States expects to meet its growth targets for 1977, and we hope that Japan will meet its announced target of 6.7 percent economic growth and a current account deficit of $700 million. Achievement of these targets is vitally important for both countries.

Second, only to stable economic growth, in terms of its importance to the developing countries, are our trade policies. The developing countries, particularly those of the Third World, must have adequate access to the markets of the industrial nations. Few if any of their economies provide sufficient scope for scales of production adequate to develop truly efficient operations. Even the development of regional markets, which we support, is seldom adequate for this purpose. Hence, they must export to achieve the needed economies. The only alternative is import substitution, whose weaknesses were amply demonstrated in earlier decades. But if developing countries are to adopt the export-oriented strategies which have proven so successful in case after case, the maintenance of open international markets must be assured.

To support this objective, the United States continues to reject restrictive solutions to international trade problems. President Carter refused to adopt widespread controls on the import of shoes, for example, an important part because the foreign exchange earnings from shoe exports are so important to many developing countries. The United States will maintain a trade policy which takes full account of the concerns of such countries.

A third area of great importance to the outlook for development is the health of the international monetary system. That system has been remarkably resilient, and continues to underpin a dramatic growth in international trade and investment --- growth which is of great benefit to developing, as well as industrial nations. In all candor, however, we must recognize that the monetary system now faces important problems: the continued huge deficits forced on the non-OPEC countries, as a group, by the sharp rise in oil prices, and the resultant sharp increase in the role played by private bank lending in financing those deficits.

We are seeking to deal with these problems promptly and decisively. Our own energy program will help reduce the imbalance between OPEC and the rest of the world. Our own more rapid economic growth, and hopefully that of Japan and Germany as well, will share out the OPEC-induced deficits in ways which permit more stable financing patterns to energy. We support the stabilization efforts of deficit countries, both directly and through the IMF, to the same end. And we strongly support the several efforts of the IMF to assure adequate official balance of payments support, particularly through the creation of the supplementary lending facility proposed recently by its Managing Director. Such measures are needed to buttress and stabilize the private lending networks.

But a sizable imbalance between oil exporters and importers will remain for years to come. This imbalance hampers the development of the poorer countries because it is they that have been hit hardest by the actions of OPEC.

Clearly, we must all move together toward resolving the fundamental problem of international payments balance if we are to deal effectively with all of the individual economic problems which I am discussing tonight.

All of these steps relate indirectly, rather than directly, to the needs and desires of the Third and Fourth Worlds. Yet it is our own firm conviction that they can, and must, lie at the heart of "North-South relations." For the South can progress only if economic growth in the North is stable and dynamic; only if the North remains devoted to an open world trading system; and only if the international monetary system, for which the North continues to bear a primary responsibility functions effectively. The United States is committed to all of these objectives itself, and will continue to work with Japan and other like-minded industrial countries to fulfill those commitments.

In addition, there are many steps we can take to deal with economic issues that are more specific to the developing countries and are on the North-South agenda in Paris and elsewhere. The Administration has indicated that it is open-minded about the possibility of negotiating international compacts for the purpose of stabilizing commodity prices around market trends, and has already entered into such negotiations on sugar. We are likewise open-minded about agreeing on some kind of "common fund" which will link the buffer stock financing mechanism of individual commodity agreements, once such agreements are in place. We are seeking significant increases in U.S. aid -- a 30 percent rise in appropriations for Fiscal Year 1978. In December, 1975, the United States agreed with other IMF members to a sharp expansion of lending through the IMF's Compensatory Finance Facility to stabilize the export earnings of the developing countries. In 1976 the Facility extended credits totaling $2.7 billion, more than in its entire 13 years of previous existence.

These measures are important and we are working hard on all of them but they pale in importance compared with the issues of growth, trade, and monetary stability on which I have already focused.

In the effort for development, progress has been made but much more remains to be done. As we gird for the long haul, we should ask ourselves three questions. First is the traditional question: Are we doing enough? But even more important may be the second question: Are we doing the right things? And, perhaps of greatest importance for the long run: What are we asking in return? I do not pretend to have full answers to these questions tonight, but let me suggest themes which might underlie the response-- focusing on the relative roles of the United States and Japan today.

Trade is clearly one of the key areas where we need to do more, both quantitatively and qualitatively. The United States now takes about 23 percent of all its imports from non-OPEC developing countries. Over 20 percent of all it manufactured imports comes from non-OPEC developing countries. And almost half of all United States imports from non-OPEC developing countries consist of manufactured goods.

By contrast, Japan imports very little from the non-oil developing countries except raw materials and food. Its imports of manufactured goods from them, which are particularly critical for developing countries' growth, are extremely small. In 1976 they totaled $2 billion, representing 9.2 percent of total Japanese imports from developing countries. This in turn reflects the fact that only 13 percent of Japan's total imports are manufactured goods, compared with 54 percent for the United States. Recognizing the structural difference in the two economies, we believe that Japan can make a greater contribution to helping expand the developing countries sales of manufactured goods.

The current limits of Japan's demand for manufactured goods imports, coupled with its own traditional strong export orientation, have produced sizable current account surpluses for Japan in eight of the last ten years. These surpluses have two adverse effects on the developing countries against the background of the OPEC surpluses: they increase the size of the current account deficits which the developing countries must run as a share of the total non-OPEC current account deficit. And they make it more difficult for the developing countries to penetrate world markets.

Much attention has been paid in recent months to the contribution which elimination of Japan's current account surpluses could make to improving Japan's relations with the United States and other industrial nations. I would submit tonight that such a development in Japan's payments position may be even more important for the future outlook for the developing nations.

Japan needs to demonstrate to the world that it wants to increase imports -- that it recognizes the contribution which can be made to its own long run welfare as well as to the world. Visible steps to create a more hospitable climate for imports would reduce the risk of actions by other nations to limit imports from Japan. Such steps would reduce the risks of worldwide protectionism.

It is clear that Japan shares our concern on this score. So we must move forward together to assure vigorous growth in our economies, to accept our shares of the OPEC-induced current account deficits, to avoid export surges which disrupt others markets, to provide markets for the products -- especially the manufactured products -- of the developing countries. In addition, we must work together in the multilateral trade negotiations to reduce trade barriers, especially barriers to sales by the developing countries.

Beyond material help, Japan can provide a source of inspiration for the development process. For postwar Japan is, after all, the most stunning economic development success story of all time. Its per capita income rose from $200 in the early 1950s to $4,900 in 1976-- a level well above that of Britain or Italy.

It took masterful advantage of an open world market to develop economies of scale, and to draw in capital and technology to fuel the tremendous talents and hard work of its people. We in the rest of the world can be proud of our contribution to that process, both by keeping our markets open for Japan and by bringing Japan increasingly into the central councils of international economic management.

As we look to the future, similar sharing of rights and responsibilities will be necessary. As countries graduate from the Third World to the First, they too must accept the responsibilities which go with such a transition -- opening of their own markets, avoidance of misaligned exchange rates, assurance of foreign access to their supplies of agricultural products and industrial raw materials, and provision of aid to those who lag behind. It is not too soon to begin thinking of how its process should work, as others emulate the brilliant success of Japan over the past quarter

By the year 2000, there can be many "new Japans"--if the United States, Japan and the other industrial countries adopt farsighted policies to permit and support this transition. Today's Fourth World may not progress so far so fast, but it too can make rapid gains if its own policies, and ours in response, are well conceived now.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

For Release at 6 PM EDT
May 4, 1977

BLUMENTHAL ADDRESSES JAPAN SOCIETY

Secretary of the Treasury W. Michael Blumenthal proposed tonight a new collaborative approach by the United States and Japan, along with the other industrialized countries, to the problems of the developing nations -- which he characterized as "one of the most pressing problems of the last quarter of this century." Secretary Blumenthal, in remarks before the Japan Society in New York, noted that the progress of the more advanced of the developing countries -- the "Third World," as opposed to the poorest countries of the "Fourth World" -- had been "impressive," but that the needs of all developing countries remained immense and continued to require outside help.

Secretary Blumenthal noted that the issues which were most important for the economic understanding between the industrialized and developing nations were not those on the agenda of the "North-South dialogue" now being held in the Conference on International Economic Cooperation (CIEC), United Nations Conference Trade and Development (UNCTAD), and other international fora. These discussions tended to focus on such matters as commodity trade, debt relief, and levels of foreign aid. Much more important, according to the Secretary, were rates of economic growth in the industrial countries, avoidance of trade barriers by those countries, and continued stability of the international monetary system. Secretary Blumenthal noted that the United States was making a major contribution to development in the poorer countries through its actions on all of these issues.

Blumenthal urged Japan, and other industrialized countries, to adopt similar steps in order to help improve the outlook for the developing countries. He hoped that Japan would achieve its economic growth target stated in 1977. He stressed the need for Japan to take its share of the balance of payments deficits forced on the rest of the world by the huge OPEC surpluses, rather than continuing to run sizable surpluses of its own. Blumenthal pointed to the relatively small share of Japan's imports which comprised manufactured goods, the export of which is critical to the economic health of the more advanced developing countries.

He noted that the "stunning" development of postwar Japan provided an example of what could be done in a world of international economic cooperation, and urged Japan to join both the United States and others to provide such an environment for the Third and Fourth Worlds of today.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 4, 1977

RESULTS OF AUCTION OF 29-3/4-YEAR TREASURY BONDS
AND SUMMARY RESULTS OF MAY FINANCING

The Department of the Treasury has accepted $1,000 million of the $2,673 million of tenders received from the public for the 29-3/4-year 7-5/8% Bonds of 2002-2007, auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield To First Callable Date	Approximate Yield To Maturity
High -	98.54 1/	7.76%	7.75%
Low -	98.13	7.79%	7.78%
Average -	98.25	7.78%	7.77%

The $1,000 million of accepted tenders includes $127 million of noncompetitive tenders and $873 million of competitive tenders (including 31% of the amount of bonds bid for at the low price) from private investors.

In addition, $900 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing May 15, 1977.

1/ Excepting 2 tenders totaling $9,000

SUMMARY RESULTS OF MAY FINANCING

Through the sale of the two issues offered in the May financing, the Treasury paid down approximately $ .4 billion of the $7.9 billion of securities maturing May 15, 1977. The following table summarizes the results:

	New Offerings: 7-1/4% Notes 2-15-84	New Offerings: 7-5/8% Bonds 2-15-02-2007	Nonmarketable Special Issues	Total	Maturing Securities Held	Net Pay-down
Public................	$2.8	$1.0	$ -	$3.8	$4.3	$ .5
Government Accounts and Federal Reserve Banks................	2.6	.9	.1	3.6	3.6	-
Foreign Accounts for Cash.................	.1	-	-	.1	-	(.1)
TOTAL	$5.5	$1.9	$ .1	$7.5	$7.9	$ .4

Details may not add to total due to rounding.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Stanley L. Sommerfield
376-0395

FOR IMMEDIATE RELEASE, MAY 5, 1977

Under Secretary of the Treasury Bette B. Anderson announced today that the Treasury Department has made satisfactory arrangements with Canada to permit the importation under the Rhodesian Sanctions Regulations of all specialty steel mill products from Canada.

In discussions with Treasury on May 3, Canadian representatives described the measures currently in force in Canada to implement the United Nations Sanctions barring imports of Rhodesian chrome materials. Laboratory testing of Canadian imports of ferrochrome from South Africa verifies that such imports do not originate in Rhodesia.

Treasury and Canadian representatives worked out the provisions of a proposed certificate of origin agreement which Treasury anticipates will be concluded with Canada in the near future. The agreement will set out the provisions which assure that imports of chrome-bearing specialty steel mill products from Canada do not contain Rhodesian chrome.

These arrangements satisfy the certification requirements of Public Law 95-12, repealing the Byrd Amendment.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: L.F. Potts
Extension: 2951

IMMEDIATE RELEASE

May 5, 1977

TREASURY ANNOUNCES FINAL
COUNTERVAILING DUTY DETERMINATION ON
IMPORTS OF CERTAIN FASTENERS FROM JAPAN

The Treasury Department announced today its final determination to impose countervailing duties on imports of nuts and bolts from Japan. At the same time it ruled that imports of screws from that country would not be countervailed because the subsidy is inconsequential.

Notice to this effect will be published in the Federal Register of May 6, 1977.

Under the Countervailing Duty Law the Treasury Secretary is required to assess an additional Customs duty that is equal to a "bounty or grant" (subsidy) found to be paid on imported merchandise. The investigation of certain fastener imports from Japan revealed that the industry receives export subsidies in the form of overseas promotional assistance from the Government agency, JETRO, and tax deferrals on export earnings in the form of interest-free loans.

The resulting subsidy of .2% of the good's value would be considered *de minimis* or legally too inconsequential to warrant a countervailing duty. However, regular customs duties of .1¢ per pound on bolts and .2¢ per pound on nuts are proximate in size to the subsidy. On this basis alone the Treasury countervailed these items. For screws, which have a regular duty of 9.5%, the subsidy is considered insignificant.

Imports of nuts and bolts from Japan were approximately $100 million in 1976. Screw imports from that country for the same year were $37 million.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE MAY 6, 1977

MEMORANDUM TO CORRESPONDENTS

Attached for your information is the Joint Communique on the Third Session of the U.S. - Saudi Arabian Joint Commission on Economic Cooperation. The Joint Commission was co-chaired by Secretary of the Treasury W. Michael Blumenthal and Saudi Arabian Minister of Finance and National Economy Muhammad Ali Abalkhail in Washington, D. C. on May 3 - 4, 1977.

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JOINT COMMUNIQUE
ON THE THIRD SESSION OF THE U.S.-SAUDI ARABIAN JOINT COMMISSION ON ECONOMIC COOPERATION

Washington, D.C.

May 3-4, 1977

The United States-Saudi Arabian Joint Commission on Economic Cooperation concluded its third formal session today with major attention given to new ways in which the Joint Commission can assist in carrying out programs for the economic and social development of Saudi Arabia. The two days of discussion affirmed the special importance each country places on strengthened bilateral economic cooperation.

The Joint Commission evaluated progress on its many program activities with special emphasis on those projects undertaken since the last Commission meeting in the areas of vocational training, electrical services and procurement and the establishment of a National Park in the Kingdom. At the meeting, new agreements were signed and understandings reached in the areas of desalination technology, consumer protection, executive development, and the establishment of an economic information center.

The United States-Saudi Arabian Joint Commission on Economic Cooperation was established in accordance with the joint statement issued by Crown Prince Fahd and former Secretary of State Kissinger on June 8, 1974. The Joint Commission meeting, held in Washington, May 3-4, 1977, was chaired by Secretary of the Treasury W. Michael Blumenthal. Minister Muhammad Ali Abalkhail, Minister of Finance and National Economy and Chairman for the Saudi side of the Commission, led the Saudi Arabian delegation. Mr. Ali Abdullah Alireza, the Saudi Arabian Ambassador to the United States, also participated in the meetings.

Also attending as delegates for Saudi Arabia were: Dr. Mansoor Alturki, Deputy Minister of Finance and Saudi Coordinator of the Joint Commission; Mohammad Al-Fayez, Deputy Minister of Labor and Social Affairs; Abdullah Muhammad Alireza, Deputy Minister of Foreign Affairs; Yousif al-Hamdan, Deputy Minister of Commerce; Mohammed Saadi, Deputy Minister of Agriculture and Water; Faisal al-Bashir, Deputy Minister of Planning; and Rida Obaid, Head of the Saudi Arabian National Center for Science and Technology.

Also members of the Saudi delegation were: Mohammed Dhalaan, Director General of Training, Ministry of Labor and Social Affairs; Mohammed Daries, Deputy Director, International Economic Relations, Ministry of Finance and National Economy; and Abdalla al-Amille, Deputy Joint Economic Commission Coordinator.

The American delegation included Richard Cooper, Under Secretary of State for Economic Affairs, C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs and U.S. Coordinator of the Joint Commission, Lewis W. Bowden, Treasury Deputy for Saudi Arabian Affairs, and John P. Hummon, Director of the U.S. Representation to the Joint Commission in Riyadh.

Other members of the American Delegation were: Bonnie Pounds, Director, Office of Saudi Arabian Affairs, Treasury Department; G. William Moser, Deputy Director, Office of Saudi Arabian Affairs, Treasury Department; Quentin West, Administrator, Economic Research Service, Department of Agriculture; Frank A. Weil, Assistant Secretary-Designate for Domestic and International Business Activities, Commerce Department; Dr. James F. Dickson, Acting Assistant Secretary for Health, Department of Health, Education and Welfare; Richard R. Hite, Deputy Assistant Secretary for Policy, Budget and Administration, Interior Department; Howard Samuel, Deputy Under Secretary for International Affairs, Labor Department; Harvey Averch, Acting Assistant Director, Scientific, Technological and International Affairs Directorate, National Science Foundation; Peter Mollica, Assistant to the Acting Administrator, General Services Administration; and Chester Davenport, Assistant Secretary for Policy, Plans and International Affairs, Department of Transportation.

Meetings were also held outside the framework of the Joint Commission with Treasury and State Department officials, and calls were paid by the Saudi Finance Minister on Vice President Walter F. Mondale, Secretary of State Cyrus R. Vance, Office of Management and Budget Director Thomas B. Lance, Assistant to the President James R. Schlesinger, and Chairman of the Federal Reserve Board Arthur F. Burns. These meetings provided an opportunity for a review of the multiple aspects of our bilateral relationships, as well as discussions on the global financial and economic situation. These sessions also served to reinforce the feelings of friendship and cooperation which have long existed between the two countries and the importance which each attaches to movement toward a just and lasting peace in the Middle East.

Other members of the Saudi Arabian Delegation took advantage of their two-day stay in Washington to carry out extensive consultations with those United States Government agencies involved in programs in Saudi Arabia. These consultations were found to be useful in terms of promoting better mutual understanding about project content and implementation, in acquainting the Saudi Delegation at first hand with Washington-based personnel and other project-related resources, as well as in providing the occasion to exchange ideas about potential future projects.

The United States and Saudi Arabia agreed that the United States should continue to play a major role in the development of key sectors of the Saudi economy and expressed strong interest in promoting increased mutual trade and private business.

The Commission noted the substantial progress which has taken place since the last meeting in undertaking project activities and in recruitment of technicians for the various programs. At present there are approximately 95 U.S. professionals in the Kingdom working on Joint Commission projects in the four major program areas: agriculture and water, industry and electrification, science and technology, and manpower and education. These projects are financed by the Saudi Arabian Government through the Trust Account in the U.S. Treasury Department.

INDUSTRIALIZATION AND RELATED PROJECTS

Acquisition of Electrical Power Equipment

In November 1975 a $57.6 million project agreement was signed involving the procurement of electrical equipment, together with warehousing and other required supplies and services. Nearly all of that equipment has been received in Saudi Arabia and the three warehouses are essentially complete. In addition, some of the generators are now being installed at three locations in the Kingdom using U.S. contractors for this purpose.

Another Joint Commission program of procurement has been agreed upon for the Saudi Consolidated Electric

Company, an entity handling electrification in the Kingdom's Eastern Province, with an initial order of $14 million of equipment. Discussions also were held during the Commission meeting about further purchases of electrical equipment, in the United States, possibly reaching as much as $100 million.

Electrical Services Project

At the second Joint Commission meeting in 1976 an agreement was reached that the U.S. Treasury would contract with a U.S. firm to prepare a comprehensive 25-year electrification program and to provide advisory assistance on the day-to-day operational problems associated with Saudi Arabia's rapidly expanding demands for power. A contract was signed within a few months after the Joint Commission meeting with a U.S. firm which for several months has had a full team in the field working on this program. A brief report was given on the progress of these activities at the Joint Commission meeting.

Under Joint Commission auspices, an American firm is establishing a training program for mid and senior level managers in electric utilities, for the Saudi Ministry of Industry and Electricity and its General Electricity Organization.

Statistics and Data Processing

The Commission received a report on the technical cooperation program under which the U.S. Bureau of the Census has been assisting the Saudi Arabian Central Department of Statistics and National Computer Center in achieving an effective statistics and data processing capability. Twenty U.S. project personnel are now permanently stationed in Riyadh. An important supporting element of this project is an on-going program to provide selected Saudi officials with mid-career professional training.

Highway Project

It is expected that a project agreement will be signed shortly between the United States and Saudi Arabia covering U.S. technical cooperation in the area of highway system planning, construction, and maintenance. The six-year program will be directed toward development of an expanded highway system with emphasis on an expressway network connecting major Saudi cities. The U.S. Federal Highway Administration is initially to place a twelve-man team in the Saudi Ministry of Communications for a two-year period. In addition, extensive training will be provided selected Saudi personnel in the U.S.

Industrial Inventory

The possibility of an industrial inventory being undertaken for the Kingdom was discussed. It was noted that this proposed project was under review in the Ministry of Industry and Electricity and would be given careful consideration by the Joint Commission.

SCIENCE AND TECHNOLOGY

Science and Technology Center

There were discussions on the Saudi Arabian National Center for Science and Technology. The two countries look toward the implementation of a wide variety of activities intended to develop the Kingdom's scientific resources in a manner responsive to its economic and social goals.

Standards

The Joint Commission is exploring the possibility of a joint U.S. Government-private industry team to assist in developing the Kingdom's industrial and food standards. This follows visits by experts from the U.S. National Bureau of Standards and the Food and Drug Administration to study the needs of the Saudi Arabian Standards Organization.

Telecommunications

It was announced that the U.S. Department of Commerce's Office of Telecommunications has completed a high-frequency computer-modeling study for the Saudi Ministry of Information. This work, which was reviewed and discussed last month during a visit to the United States by Ministry officials, came about as a response to one of a number of recommendations for up-grading the capability of the Ministry in the area of radio and television broadcasting. The two governments are considering the assignment of one or more U.S. technical advisors to the Ministry of Information.

INFORMATION

Financial Information Center

An agreement was signed at the Joint Commission meeting for the establishment of an Information Center in the Saudi Ministry of Finance and National Economy. This Center is to expand the Ministry's present information-gathering analysis capabilities through provision of U.S. information specialists and economists and the development of a modern Information Center complex. It is planned that an initial staff will be recruited shortly and that architectural and engineering work will begin at an early stage.

MANPOWER AND EDUCATION

Vocational Training and Construction

The Joint Commission heard a report on the accomplishments of a team of 18 staff members from the U.S. Department of Labor working at the Saudi Ministry of Labor and Social Affairs to improve vocational training programs. Plans are underway for the Joint Commission through the U.S. Department of Labor and the U.S. General Services Administration to provide design and construction for ten new vocational and pre-vocational centers and for the expansion of 15 existing centers.

Twenty-three prospective Saudi vocational training instructors arrived in the U.S. last month to begin instructor training. A group of 20 instructor trainees have been in training in the U.S. for the past year and will complete their training by September.

Consumer Protection

An agreement was signed at the Joint Commission meeting under which the U.S. Departments of Treasury and Health, Education and Welfare will support the Saudi Ministry of Commerce in equipping and staffing its new Consumer Protection Laboratory in Riyadh and in providing its Consumer Protection Department with other related services.

AGRICULTURE, WATER AND LAND MANAGEMENT

Specialists in Agriculture and Water

The Joint Commission reported that there are 28 U.S. professionals working in the Saudi Ministry of Agriculture and Water in a variety of fields, including: water resources, Central Research Laboratory, project execution and planning, economic analysis, soils surveys, park development, and agricultural engineering. A very important element in this project is the work at the Central Research Laboratory. U.S. specialists are working with a number of Saudi Ministry employees to speed the development of this institution which will have primary and overall responsibility for agriculture research within the Kingdom.

Desalination

A project agreement was signed at the Joint Commission meeting for joint efforts between the U.S. Department of Interior and the Saudi Saline Water Conversion Corporation in establishing a Desalination Research Development and Training Center in Jidda and a related research program. The projects are to lead to the production of a new generation of multistage flash desalting plants using the latest technology.

Kingdom Park

The Joint Commission reported that architectural and engineering work is underway by a private U.S. firm on the development of a Kingdom Park in the Asir region, located in the southwestern part of the Kingdom. It is expected that the design phase will be completed within a year and park construction completed within three years. The U.S. National Park Service will monitor the development of the park area.

Agricultural Research Stations

Fruitful discussions were held on the continuation of a program to establish two agricultural research stations in Saudi Arabia with the assistance of the Montana International Trade Commission. Two Montana specialists would work in the Ministry of Agriculture's Central Research Laboratory to develop future program requirements and carry out research at the two sites.

Development of Agricultural Areas

Useful discussions were held regarding Saudi plans for developing the agricultural potential of the Wadi Dawasir area in southwest Saudi Arabia. It was announced that a soil survey of the area would soon be underway and that a Ministry of Agriculture and Water task force studying various means of developing the area would be making recommendations in the near future.

Outdoor Recreation Parks

A discussion of Saudi Arabian Government interest in the creation of municipal parks and outdoor recreation areas resulted in agreement that the Bureau of Outdoor Recreation, U.S. Department of Interior, would furnish a specialist for a short-term assignment.

OTHER POTENTIAL PROJECTS

Archaeology

The two governments noted that preliminary discussions about cooperative projects in the areas of archaeology, cultural heritage, and historic architectural preservation, have taken place between the U.S. Department of Treasury and the Department of Antiquities and Museums in the Saudi Ministry of Education. Both sides indicated their support for the development of projects in these areas, as well as for the channeling of U.S. technical and scientific assistance necessary for the establishment and growth of an effective museum system.

Centralized Procurement Agency

It was agreed that a team of experts from the General Services Organization would go to Saudi Arabia in early May to advise on the feasibility of creating a Saudi General Services Administration which would permit centralized procurement.

Customs Assistance

It was agreed by the Saudi Ministry of Finance and National Economy and the U.S. Department of Treasury to cooperate in the area of customs operations and training. An agreement is expected to be signed shortly which will involve the assignment of short and long-term specialists in the Saudi Department of Customs to assist in upgrading and expanding the Department's capabilities. Also, training programs for Saudi officials will be provided in the United States and in Saudi Arabia.

Sister Cities

The two delegations discussed the Joint Commission's participation in the establishment of a Sister City Program for Saudi Arabia. Activities under such programs traditionally have centered on cultural and educational exchanges as well as mutual visits by city officials.

Executive Development Program

In order to enhance and deepen mutual understanding between the people of Saudi Arabia and the U.S., the two governments discussed a program for Executive Development. Under this program, a small number of Saudi Arabian public servants would travel to the United States to meet with a wide variety of American Government and industrial leaders and visit a cross section of American government, commercial and research activities.

OVERALL ASSESSMENT

The Commission considered the results of its third session to have been most useful. It noted that the understandings and project agreements entered into are positive and constructive contributions to the strengthening of U.S.-Saudi Arabian bilateral economic and commercial relationships.

The Commission commended all participating departments and agencies on both sides for their energetic efforts to date and directed them to continue in their exploration of possible new areas of cooperation.

The co-chairman agreed to hold the next Joint Commission meeting in Riyadh early in 1978.

Washington, D. C.
May 4, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT NOON
MAY 6, 1977

TREASURY ANNOUNCES TEMPORARY PROCEDURES GOVERNING IMPORTS FROM SPECIALTY STEEL-PRODUCING NATIONS

The Department of the Treasury announced today a temporary procedure that will govern imports from specialty steel-producing countries of certain ferrochrome and specialty steel products to the United States under the Rhodesian Sanctions Regulations as amended pursuant to the recent Congressional action prohibiting importation of Rhodesian chrome.

The Treasury Department has been discussing certification procedures with the specialty steel-producing countries under which these countries will issue special certificates of origin. The temporary arrangement will be effective until June 18, 1977, to enable necessary foreign administrative and legislative procedures for issuance of the special certificates to go forward. The interim arrangements are intended to prevent disruption of trade pending conclusion of these special certification agreements.

The temporary procedures will permit the entry on or before June 18, 1977 of certain ferrochrome and specialty steel mill products on a case-by-case basis if: (1) the Director of Foreign Assets Control receives a certificate from the producer that the products were in shipment or in inventory for shipment to the United States on March 18; or (2) the producing country certifies to the Director that under its laws enforcing the United Nations sanctions against Rhodesia, the products do not contain chromium of Rhodesian origin.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: J. C.
Extension: 295
May 6, 1977

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES PRELIMINARY COUNTERVAILING DUTY D
ON CORDAGE FROM THE REPUBLIC OF KOREA

The Treasury Department announced today its preliminary determination that cordage of man-made fibers measuring 3/16 inch or over in diameter from the Republic of Korea is not being subsidized.

The Department's decision, taken under the Countervailing Duty Law, will be published in the Federal Register of May 9, 1977.

The Countervailing Duty Law (19 U.S.C. 1303) requires the Treasury Secretary to collect an additional customs duty that equals the size of a "bounty or grant" (subsidy) which is paid on imported merchandise. The law requires that the Secretary make a preliminary determination within 6 months after receipt of an acceptable petition and a final determination within 12 months. A final decision in this case must be made by October 28, 1977.

Treasury's investigation revealed that certain practices of the Government of the Republic of Korea with respect to exports of cordage constitute bounties or grants but that the benefits received are legally *de minimis* or too insignificant in size to have any effect. Accordingly, a preliminary negative determination was reached.

Imports of Korean cordage of man-made fibers measuring 3/16 inch or over in diameter were valued at approximately $500,000 during calendar year 1976.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 9, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,201 million of 13-week Treasury bills and for $3,300 million of 26-week Treasury bills, both series to be issued on May 12, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 11, 1977			26-week bills maturing November 10, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.789	4.791%	4.92%	97.414	5.115%	5.32%
Low	98.777	4.838%	4.97%	97.401	5.141%	5.35%
Average	98.781	4.822%	4.95%	97.406	5.131%	5.34%

Tenders at the low price for the 13-week bills were allotted 60%.
Tenders at the low price for the 26-week bills were allotted 27%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 29,145,000	$ 24,145,000	$ 22,970,000	$ 10,970,000
New York	3,582,655,000	1,822,510,000	5,116,570,000	3,098,820,000
Philadelphia	22,140,000	22,140,000	5,385,000	5,020,000
Cleveland	33,850,000	33,770,000	63,560,000	13,560,000
Richmond	19,500,000	17,100,000	47,310,000	9,310,000
Atlanta	23,930,000	21,430,000	12,585,000	11,920,000
Chicago	162,385,000	78,365,000	211,490,000	67,835,000
St. Louis	32,595,000	23,730,000	29,880,000	18,880,000
Minneapolis	31,100,000	29,100,000	36,510,000	11,510,000
Kansas City	26,765,000	26,240,000	20,080,000	13,935,000
Dallas	36,720,000	26,720,000	14,490,000	10,990,000
San Francisco	444,815,000	75,815,000	481,900,000	27,600,000
Treasury	55,000	55,000	40,000	40,000
TOTALS	$4,445,655,000	$2,201,120,000 a/	$6,062,770,000	$3,300,390,000 b/

a/ Includes $290,055,000 noncompetitive tenders from the public.
b/ Includes $142,800,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: L.F. Potts
Extension: 2951
May 10, 1977

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES WITHHOLDING OF APPRAISEMENT ON RAILWAY TRACK MAINTENANCE EQUIPMENT FROM AUSTRIA

The Treasury Department said today that is suspending appraisement of railway maintenance equipment imported from Austria and will determine by November 10, 1977, whether it is being sold at less than fair value within the meaning of the Antidumping Act.

The Department reopened an antidumping investigation of imports of Austrian railway track maintenance equipment in November 1976, after receiving information that price assurances from the manufacturer were being violated. An earlier investigation ended in March 1972, when the Treasury Department was given satisfactory price assurances.

Under the Antidumping Act, the Secretary of the Treasury is required to withhold appraisement whenever he has reasonable cause to believe or suspect that sales at less than fair value are taking place. Sales at less than fair value generally occur when the price of merchandise sold for exportation to the United States is less than the price of such or similar mechandise sold in the home market or to third countries.

Under the Antidumping Act, a determination of "Sales at Less Than Fair Value" requires that the case be referred to the U.S. International Trade Commission, which would consider whether an American industry was being injured. Both "Sales at Less Than Fair Value" and injury must be shown to justify a finding of dumping under the law. Upon a finding of dumping, a special duty is assessed.

Imports of railway track maintenance equipment from Austria during calendar year 1976 were valued at roughly $1.6 million.

Notice of this action will appear in the Federal Register of May 10, 1977.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
THE DEPARTMENT OF THE TREASURY 1789

FOR RELEASE UPON DELIVERY
Expected at 2:00 p.m.
May 10, 1977

STATEMENT OF
THE HONORABLE LAURENCE N. WOODWORTH
ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)
ON PROPOSALS RELATING TO EMPLOYEE BENEFIT PLANS
BEFORE THE
COMMITTEE ON FINANCE
May 10, 1977, 2:00 p.m.

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss two bills dealing with jurisdiction over employee benefit plan matters and private pension investments.

DUAL JURISDICTION

When employee benefit plan legislation was being considered by Congress several years ago, extensive consideration was given to government agency jurisdiction over the area. The approach which appears in the Employee Retirement Income Security Act of 1974 ("ERISA") was ultimately enacted. As you know, various parts of ERISA are administered by three separate agencies -- i.e., the Internal Revenue Service, the Department of Labor, and the Pension Benefit Guaranty Corporation ("PBGC"). For the most part, the jurisdiction of PBGC does not overlap that of either of the other two agencies. However, administration under a substantial portion of ERISA is shared by both the Service and the Department of Labor.

For example, there are parallel provisions under the tax and labor law portions of ERISA regarding participation, vesting and funding. Some of these provisions must be implemented by regulations issued by the Treasury Department, while other parts must be implemented by Labor regulations. In each case, the regulations of the respective agency are binding on the other agency.

Perhaps the most troublesome area of dual jurisdiction has come up in connection with prohibited transactions. If anyone wants to engage in a transaction with an employee benefit plan which is otherwise prohibited under ERISA, he must request an exemption from both the Internal Revenue Service and the Labor Department. As a practical matter, an exemption will be fully effective only if it is issued by both agencies. This dual jurisdiction has resulted in long delays in the issuance of exemptions.

The reporting requirements under ERISA have also created serious problems for plan administrators and employers. For example, annual reports must be filed with both the Internal Revenue Service and the Department of Labor. The agencies have developed a single set of forms which can be filed with each agency. Duplicate filings are required at present, although the agencies have agreed upon a procedure for single-agency filing.

Solution Proposed in S. 901

S. 901 offers a legislative solution to the problem of dual jurisdiction. It would retain jurisdiction in each of the three existing agencies, but eliminate any overlapping responsibility. The Internal Revenue Serivce would have exclusive jurisdiction over those ERISA provisions dealing with participation, vesting and funding as they relate to retirement plans. The Service would also have responsibility over a number of miscellaneous retirement plan provisions, such as qualified joint and survivor annuities and the assignment and alienation of benefits. The Department of Labor, on the other hand, would have exclusive jurisdiction over disclosure, fiduciary conduct, and prohibited transactions. Labor Department jurisdiction in its areas of responsibility would extend to all employee benefit plans. This would include both retirement and welfare programs.

Treasury Observations

Both Treasury and Labor are presently studying the problems which have been created by dual jurisdiction under Titles I and II of ERISA. Both departments are working toward a joint recommendation in this area, which we expect to have later this year. Based upon our preliminary analysis, however, the Treasury Department believes that dual jurisdiction should be eliminated through a clear assignment of responsibility. Our joint recommendation, however, is likely to differ somewhat from the provisions of S. 901 as to the assignment of responsibility. Accordingly, at this time it is premature to discuss specific assignments of responsibility in detail.

Moreover, we have been advised by the Office of Management and Budget that this problem will be addressed within the framework of the President's government-wide reorganization program under OMB leadership. It is likely to take several months to complete that work. In the course of that review, OMB would consider the problems which exist as a result of different rules applied by PBGC and the Service in connection with plan terminations.

The Treasury believes the reorganization review to be undertaken in this area should give strong consideration to allowing each agency to continue to develop its strongest area of competence under ERISA and prior law. The Department of Labor has developed expertise in connection with reporting and disclosure, fiduciary responsibility, and prohibited transactions. The Internal Revenue Service has had a long history of implementing participation, vesting, and funding requirements in the administration of the Internal Revenue Code provisions relating to qualified retirement plans. The Internal Revenue Service also has expertise in administering provisions relating to prohibited transactions for over 25 years.

Another consideration the Treasury believes should be part of the reorganization review is that there may be cases in which the Internal Revenue Service or the Department of Labor has unique ability with regard to one part of a broad area. Therefore, appropriate divisions of responsibility might not be exclusively on the basis of broad classifications.

The Administration's position on these and other questions will be presented to the Committee after the reorganization study is completed, and a policy is established as to the appropriate assignments of responsibility.

Technical Considerations

S. 901 does raise a number of technical problems that we will be discussing with the Labor Department. For example, both the tax and labor law provisions under ERISA prescribe reporting requirements. As we have mentioned, an annual report must be filed with both the Department of Labor and the Internal Revenue Service. S. 901 would require the agencies to prescribe a single form and a single annual filing date for these reports. In general, however, we believe that a more orderly set of reporting requirements could be developed if a single annual report had to be filed only with the Internal Revenue Service. This would eliminate the duplication of effort involved in filing the same form with both agencies. Both agencies and in some instances PBGC, have an essential need for information concerning retirement plans. That need could be satisfied if the receiving agency were required to make the annual reports available to other agencies in a manner that will permit them to carry out its statutory responsibilities in a timely fashion.

S. 901 would also give Federal district courts the right to issue declaratory judgments when Labor, the Service or PBGC failed to act with respect to an employee benefit plan in a matter arising under ERISA. The Treasury Department questions this provision of the bill. As a result of ERISA, the Tax Court already has the authority to issue a declaratory judgment relating to the qualification of retirement plans. The addition of declaratory judgment authority in other areas would seriously hinder the administrative process. The wisdom of insulating the administration of the Federal tax laws from judicial intervention has long been recognized. The Declaratory Judgment Act was amended by the Revenue Act of 1935 to preclude this type of intervention. At that time, the Senate Finance Committee indicated that the amendment was necessary to preserve the orderly and prompt determination and collection of Federal taxes, noting that existing procedures before the courts provided an effective remedy for the correction of errors. Senate Report No. 1240, 74th Congress, 1st Session, part 1, at page 11 (1935).

PENSION INVESTMENTS

Let me turn now to S. 285, which would limit the amount of stock that certain pension managers could acquire in large corporations, and, at the same time, allow plans to invest some plan assets in small riskier companies without regard to the "prudent man" rule. We understand the dual purposes of the bill. On the one hand, it is designed to prevent a pension manager from controlling such a large portion of a corporation's stock that actions by the pension manager have a disproportionate impact on the market for the stock. On the other hand, it is desirable to stimulate venture capital investments for small businesses. We agree with these objectives and are pleased that the Committee is moving to study solutions in this area.

The "Concentration" Rule

S. 285 would impose an excise tax if a pension manager, such as a bank trustee or insurance company, with investment authority over assets of more than $1 billion were to hold more than 5 percent of any class of stock in a corporation with capital of more than $150 million. The excise tax is structured in the same way as the excise tax on prohibited transactions, which would be deleted by S. 901. In other words, a tax of 5 percent would be imposed on the excess holdings. If the violation were not corrected within the prescribed period of time, the pension manager would be taxed at a rate of 100 percent on the amount involved. This limitation would not apply retroactively, so that holdings in excess of 5 percent prior to the effective date of the bill would not have to be reduced.

As I indicated, we recognize that the "concentration" rule was designed to prevent stock price manipulation by large financial institutions with significant holdings in a particular stock. In principal, the Treasury Department supports this objective. However, to the extent that concentration in the stock market is a problem, it would appear that the problem should be addressed not simply in the context of pension funds. Also, it would appear that the issue of an institutional investor's domination of trading in a stock may more appropriately be the concern of the Securities and Exchange Commission.

The "Leeway" Rule

S. 285 would also give investment managers the ability to invest up to 2 percent of the assets of any one pension plan in companies capitalized at less than $25 million without regard to any state or Federal prudent man rule applicable to pension plans. However, fiduciaries would not be relieved from any existing prohibition against self-dealing or fraudulent transactions.

As I also indicated, the "leeway" rule was designed to prevent the prudent man rule from discouraging investments in new and risky small companies. The Treasury Department supports efforts to encourage capital formation. In the case of retirement plans, however, the protection of plan benefits has always been of overriding concern. In this context, the prudent man rule has served to protect beneficiaries from imprudent actions by plan administrators. The preemption of the prudent man rule at both the state and Federal levels would eliminate all protection against imprudent investments. The Treasury Department continues to believe that the concept of prudence should govern conduct of employee benefit plan fiduciaries, including the extent to which they invest plan assets in new venture capital formations.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn Johnston
634-5377

FOR IMMEDIATE RELEASE May 10, 1977

TREASURY SECRETARY BLUMENTHAL APPOINTS ROBERT V. KRIKORIAN AS NEW SAVINGS BONDS CHAIRMAN FOR WISCONSIN

WASHINGTON -- Mr. Robert V. Krikorian, President, Rexnord Inc., has been appointed Volunteer State Chairman for the Savings Bonds Program in Wisconsin by Secretary of the Treasury W. Michael Blumenthal. The appointment is effective immediately.

Mr. Krikorian will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting bond sales throughout the state. He succeeds George F. Kasten, Chairman of the Board, First Wisconsin National Bank of Milwaukee.

Mr. Krikorian joined Rexnord in 1950. In 1953 he became manager of the Ordnance Division; in 1962 he was appointed Vice President, Construction Machinery Division; in 1963 he was appointed Vice President, and in 1967 he became President of Rexnord.

Mr. Krikorian is a member of the Board of Directors of the Marine Corporation, Manpower, Inc., and NN Corporation, all of Milwaukee; Mueller Company, Decatur, Illinois and Parker Pen Company, Janesville, Wisconsin. He is also a member, Executive Committee of the Machinery and Allied Products Institute and member of the Board of Directors of the National Association of Manufacturers.

Mr. Krikorian has been president of the Board of Trustees and chairman of the Executive Committee of the Milwaukee Art Center. He is vice chairman and member of the Board of Trustees of the Milwaukee Boy's Club and was the 1971 and 1972 Chairman of the Metropolitan Milwaukee Industrial U. S. Savings Bonds Program.

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Mr. Krikorian was born in New Haven, Connecticut and graduated from Yale University with a bachelor's degree in industrial administration. He is married, has four children, and resides in Whitefish Bay, Wisconsin.

DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER NO. 251

Establishment of the Office of the Assistant Secretary (Public Affairs)

By virtue of the authority vested in me as Secretary of the Treasury, including the authority vested in me by Reorganization Plan No. 26 of 1950, it is ordered that:

1. The position of the Assistant Secretary (Public Affairs) is hereby established. The incumbent will report to the Secretary, and will be responsible for:

   a. Establishing general operating policies and guidelines, and providing leadership, direction and management strategy for administering public affairs programs and activities in all Treasury offices and bureaus;

   b. Formulating and executing public information policies and programs which will increase the public's knowledge and understanding of Treasury's activities and services;

   c. Providing continuing public information support to the Office of the Secretary; and

   d. Serving as the principal advisor to the Secretary, the Deputy Secretary, and senior officials throughout the Treasury Department on matters affecting the public's understanding of Treasury policies and programs.

2. The Office of the Assistant Secretary (Public Affairs) is hereby established. Under the supervision of the Assistant Secretary (Public Affairs) this Office performs the following functions:

   a. Developing materials to inform the public of the Department's policies, programs, activities, and services;

   b. Serving the day-to-day needs of the print and electronic media, including the writers who specialize in economic reporting and analysis, and the media who base their daily operations in the Treasury headquarters;

c. Serving the specialized needs of specific Treasury officials for releasing public information;

d. Providing editorial support services such as preparation of Congressional and public statements, and research, correspondence, clipping service and files;

e. Coordinating public affairs policies throughout the Department.

3. All of the functions, positions, personnel, records and property assigned to the Office of the Special Assistant to the Secretary (Public Affairs) are transferred to the Office of the Assistant Secretary (Public Affairs).

4. Responsibility for maintaining the Secretary's current issues briefing book and for answering correspondence, and the positions, personnel, records, and property associated with these responsibilities are transferred to the Office of the Assistant Secretary (Public Affairs) from the immediate office of the Secretary.

5. The Assistant Secretary (Public Affairs) is authorized to define the organizational structure and the specific responsibilities of the positions and personnel assigned to the Office of the Assistant Secretary (Public Affairs).

This Order is effective immediately.

Treasury Department Order No. 99 is hereby rescinded.

W Michael Blumenthal

W. Michael Blumenthal
Secretary of the Treasury

Date: May 3, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: R. B. Self
Extension: 2951
May 11, 1977

FOR IMMEDIATE RELEASE

TREASURY REVOKES COUNTERVAILING DUTY ON FOOTWEAR FROM THE REPUBLIC OF CHINA

The Treasury Department announced today that it is revoking a countervailing duty imposed in January 1976 on imports of footwear from the Republic of China (Taiwan).

Notice to this effect will be published in the Federal Register of May 11, 1977.

The Countervailing Duty Law (19 U.S.C. 1303) requires the Treasury Secretary to impose on additional Customs duty that is equal to the size of a "bounty or grant" (subsidy) that is found to be paid on imported merchandise.

In the Treasury Department initial investigation, it was determined that the footwear exporters were eligible for certain income tax and preferential loan benefits that required the imposition of countervailing duties. At the time, Customs officers withheld final assessment of duties on these items pending further investigation. Later it was revealed that benefits afforded the footwear exporters were too inconsequential to warrant countervailing duties. Consequently, all estimated countervailing duties collected to date will be refunded.

Footwear imports from Taiwan for 1976 were $364,459,000.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 10, 1977

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 $5,300 million, or thereabouts, to be issued May 19, 1977, as follows:

91-day bills (to maturity date) in the amount of $2,100 million, or thereabouts, representing an additional amount of bills dated February 17, 1977, and to mature August 18, 1977 (CUSIP No. 912793 J6 4), originally issued in the amount of $3,603 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,200 million, or thereabouts, to be dated May 19, 1977, and to mature November 17, 1977 (CUSIP No. 912793 L3 8).

The bills will be issued for cash and in exchange for Treasury bills maturing May 19, 1977. This offering will provide for a net pay-down for the Treasury of about $700 million as the maturing issues are outstanding in the amount of $6,008 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,066 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 and from individuals at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, May 16, 1977. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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(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 or at the Bureau of the Public Debt on May 19, 1977, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 19, 1977. 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, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 11, 1977

TREASURY TO AUCTION $1,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $1,500 million of 2-year notes to refund notes maturing May 31, 1977. The offering will provide for a net pay-down for the Treasury of about $447 million as the public holds $1,947 million of the maturing notes. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for their own account in exchange for $190 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.

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Attachment

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HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED MAY 31, 1977

May 11, 1977

Amount Offered:	
To the public........................	$1,500 million
Description of Security:	
Term and type of security...........	2-year notes
Series and CUSIP designation........	Series Q-1979 (CUSIP No. 912827 GS 5)
Maturity date........................	May 31, 1979
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...............	November 30 and May 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 $1,000,000 or less
Deposit requirement..................	5% of face amount
Deposit guarantee by designated institutions........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Wednesday, May 18, 1977, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds.......	Tuesday, May 31, 1977
b) check drawn on bank within FRB district where submitted...................	Thursday, May 26, 1977
c) check drawn on bank outside FRB district where submitted...................	Tuesday, May 24, 1977
Delivery date for coupon securities.	Tuesday, May 31, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED 8;00 P.M. CDT
MAY 11, 1977

REMARKS BY W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
ECONOMIC CLUB OF CHICAGO
PALMER HOUSE, CHICAGO, ILLINOIS

Last weekend the leaders of seven major industrial nations of the world met in London at the Summit. A meeting of seven heads of state together in one room for two days of frank discussion is a good thing in itself. It allows these men, with their awesome responsibilities, and their individual national preoccupations, to get to know each other, to learn about each other's problems and to exchange ideas on how to solve them by working together.

As always, a Summit makes news all over the world, because it touches so many vital issues of concern to people everywhere. This Summit was no exception--particularly because it was the first one for President Carter. It provided him an important opportunity to get a first hand understanding of the issues and problems facing his colleagues in other countries.

What strikes me as significant is that the principal problems these leaders had to focus on were economic.

This focus on economic problems is not accidental. It reflects the general realization that the health, happiness and welfare of all peoples, and the future of each nation and of each government, depends on our individual and collective economic well being. These issues are intensively discussed among the leaders of industrial countries because each recognizes that their national economic problems are inextricably intertwined; that national economic policies depend on the international economic climate; that the solutions which each leader must seek in his own country are most easily achieved when a way is found to work together for the benefit of all.

National economic policy making in the context of a cooperative and sound international economic environment is a prerequisite for the political stability of our countries and the survival of democracies. In that sense, economics and politics are part and parcel of the same challenge.

I recall that this point was made to me many years ago when I first went to work as a deputy to former Secretary of State, Christian Herter, who had just been appointed President Kennedy's Special Representative for International Trade Negotiations. Chris Herter had had a long and distinguished political career; he had been a Congressman, a Governor and the Secretary of State.

Considering this career as a political leader, his new job as Trade Representative --dealing with shoes, and textiles, with machinery and farm products, with tariffs and quotas and the like --seemed an odd assignment. I remember asking him one day why he had taken the job, and I recall his answer only too vividly. "Mike", he said, "I suspected it before, but I know it now. There is more politics wrapped up in this business of world economics and trade than in anything else I have ever done before".

So, inflation, jobs, trade, international finance, money, exchange rates, commodity prices and the relation between the rich and the poor countries of the world, constitute much of what economic and political policy is all about. And that is why this is the stuff of which Summit meetings are made.

The President's position at the Downing Street Summit was strong, not only because he is a leader of the world's largest and richest industrial nation, not only because he has the solid support and admiration of the American people, not only because he is a new leader with a strong and secure mandate for a four year period. More important than these factors in establishing President Carter's ability to speak with strength and conviction at the meetings, was the fact that he was seen as a Head of Government who quickly moved to tackle honestly and openly the difficult task of fashioning a rational and sound economic policy for his country.

President Carter has been willing to face the many contradictions and uncertainties that underlie the complex economic issues of our day. He has not glossed over them or hidden them, or denied the complexities that exist. He has been willing to make hard decisions that are for the long term benefit of all of us, even if they mean sacrifice. And he has not been afraid to make it clear that our resources are limited, that we must husband them and allocate them carefully among our many worthwhile objectives.

Over the next several months, we will be debating and studying a variety of these economic issues. Congress will take final action on the President's proposals for an initial economic stimulus. The President's recommendations for a national energy program, for fundamental reform of the tax system, for assuring the financial soundness of Social Security, for transforming the welfare system and for the handling of trade issues will be assessed and debated in the Congress and in the country. In this process, all of us will learn with him the hard realities and choices that must be faced.

Our economic policy must serve multiple objectives. It must provide jobs for all Americans. It must come to grips with the difficult and puzzling phenomenon of persistent inflation. It must give us economic growth and foster social justice for all our citizens. And it must provide for collaboration with other nations in their quest for the same goals in their countries.

Economic policy making in each of these areas is not an easy or a certain task. For to be honest, and regardless of what the academic economists or the commentators in the media tell us, there is much that we don't know about how to reach our economic goals.

Perhaps we should ask ourselves why after the bicentennial of Adam Smith's Wealth of Nations, after centuries of economic thought dating back to the Biblical Joseph, after all the modern developments in econometrics and model building, --why after all this are we so ignorant about so much in economics?

I could easily spend the evening on that topic. I will not do so, but it is worth at least noting some of the main sources of our uncertainty. We are experiencing great changes in our economy and our society-- the growth of very large organizations in business and labor, the expansion of government, rapid changes in technology, almost instantaneous communications and an expansion of the role and impacts of the media. We have come to realize that a rapidly growing world does face resource limitations, a fact brought home by the rapid increase in the price of energy. And with this has come a transformation of the world monetary system. All this, and more, confronts policy makers with new challenges and the need to navigate in uncharted waters.

Neither the Keynesians nor the Monetarists, nor any other particular school of thought alone can show us the way. And no computer, however, well programmed or sophisticated, is able to foretell all the economic effects of alternative policies.

For perhaps the largest barrier to certainty--one that will not go away-- is that we are dealing in large measure with the reactions and the interreactions of people operating in a changed setting. Nothing is harder to comprehend and predict.

For example, take the elusive question of confidence. The other day the Washington Post in one of its editorials gently chided the Administration for too vigorous a pursuit of what the Post called the "will of the wisp of business confidence". At about the same time there were others who spoke up in more direct ways to voice their anxieties over what they consider irrelevant concern with business confidence, a concern which they feel undermines or stands opposed to the achievement of social justice, of job creation and of economic stability and security.

The confidence of consumers and of business is indeed a difficult and insufficiently understood ingredient in economic policy making. Economists find it particularly puzzling because it is, inherently, qualitative. It defies quantification via the computer or by any other reliable means. Yet its elusive nature should nonetheless not mislead us. Unless consumers and business alike can have confidence, none of our other goals for economic policy are likely to be met.

How much consumers spend depends on their confidence in the future. How much business invests in new plant and equipment equally depends on its level of confidence. Consumer and business spending patterns in turn create the demand for goods and services. And business in organizing its production to meet these demands creates the jobs we need, determines the efficiency of our production and ultimately the resources that are available for our personal and collective goals.

So the pursuit of confidence is not antagonistic to our social goals. Confidence is not something we gain at the expense of social objectives. On the contrary, we seek confidence precisely because it is a precondition for the social progress we mean to achieve.

Over the last several months, the Carter economic program has, I believe, generated a steady increase in the level of confidence.

It has done so because this Administration has set clear and sensible economic goals and has pursued coherent and consistent policies for their achievement. We seek an acceleration of economic growth in 1977 at a year-end to year-end rate of 6 percent. We seek continuing growth that will average 5.2 percent annually through 1981. We seek a steady reduction of unemployment to around 4 1/2 percent by 1982. And as a matter of equal importance, we are striving to contain inflation and to bring it down--cutting the underlying rate by two points by 1979 and making further reductions in the following years.

These goals have been matched by policy decisions that show that we mean what we say. The President's action in withdrawing the tax rebate when it was no longer needed was not easy. But it was an action that supports our goals and will help reduce the budget deficit for fiscal year 1977 from the $68 billion originally anticipated to less than $50 billion.

We intend to meet our commitment to budget balance by 1981. Tough steps to reduce waste and foster efficiency in government have been taken. The wellknown water projects are only a prominent example. Zero-based budgeting is being implemented and programs that have outlived their usefullness are on their way out.

Actions, not words, have borne out our commitment to avoid protectionism and to find ways of helping American workers and industries hurt by imports without unduly boosting prices to consumers or endangering export jobs. The decisions on shoes and sugar have set a pattern that points down this road.

And in combating inflation we have developed a program that will be effective, that recognizes inflation as the complex, multifaceted problem it is, that provides for longer-term structural remedies and for cooperation now among business, labor and government to avoid self-defeating wage-price spirals.

In all of our policies we have avoided government coercion and controls. We have sought to develop a climate within which the free market can work and in which government, business and labor can act responsibly in the national interest.

There has been criticism. Our voluntary programs have been called "weak" or "toothless" --even though the only "teeth" anyone could propose were the controls that have so miserably failed in the past. Now there is evidence that our voluntary policy is working. The recent decisions on steel price increases do, I believe, prove this point.

Because of the Carter Administration goals backed by clear and consistent policies, evidence of growing confidence is increasing. Consumers must have confidence before they will spend their incomes and this, in turn, implies that they expect to have jobs. The stimulus package which is about to become law will help more Americans join the one and a half million who have gotten jobs since January. Unemployment has declined from 8 to 7 percent, thereby reaching considerably ahead of schedule the target we had set for the end of the year. There is no reason why the unemployment rate should not drop comfortably below 7 percent, possibly closer to 6.7 percent by year-end. The fact that consumer spending is at an all-time high, and correspondingly, the consumer savings rate of 5 to 5 1/2 percent is at the low end of the historical range reveals that the average American does have a feeling of security about the way the economy is moving.

Similiarly, business must have confidence in its markets, in its ability to make a profit, and in the prospect that inflation will be handled responsibly before it will spend on new investment. While business spending on plant and equipment has been lagging until recently, there are now new signs of growth. The recent McGraw-Hill survey indicates an 18 percent current dollar increase in plant and equipment spending in 1977. Actual figures on real business capital outlays have shown a similar upturn, rising at a 14 percent annual rate during the first quarter of 1977. Order backlogs for the machine tool industry have been moving up rapidly and the cutting tool backlog--a good indicator of things to come-- has increased by 13 percent since December.

So business confidence also is on the rise.

And it is the spending of consumers and business,which depends so much on confidence, that creates the private sector jobs this country needs. It is this spending that allows for the productivity growth that will keep up our competitiveness in world markets and give us a bigger pie to divide and allow us to be done with fighting for shares of a static or inadequately growing GNP. So let no one call confidence a will-o-the-wisp. Let us all recognize that a climate of confidence is critical to the success of any economic policy.

I have talked tonight of some formidable problems. But I must mention one more, because it will soon become a major part of the national economic debate. In a few months, the Carter Administration will propose major tax reforms that can be an important factor in determining the future course of our economy.

The three goals of this reform can be summed up in the words: simplification, equity, and capital formation.

We have already taken the first step toward tax simplification. The proposed flat standard deduction for individuals, which should soon be approved by Congress, will enable 95 percent of all taxpayers to use new tax tables. No longer will they have to subtract their personal exemptions, figure their standard deduction, or subtract out their general tax credit. But the complexity of the tax system will still place an excessive burden on the ordinary taxpayer. So,while I cannot tell you the details of our proposal, we are studying ways of taking further steps that will simplify the system by limiting certain deductions and allowing reduced tax rates over the entire range.

The need for a new effort toward greater tax equity is apparent in the data revealing that taxpayers at the same income levels now pay quite different taxes. We will recommend new measures so that taxpayers in like circumstances are treated more alike. This means that we have to re-examine all of the existing tax exemptions, exclusions, and credits, with a view toward identifying those that are not so integral to our tax system or economy that their elimination would mean economic hardship.

And to encourage the higher rate of capital formation this ocuntry needs, we shall recommend important new incentives to savings and investment.

We have to consider steps to eliminate the double taxation of corporate income that now charactizes our tax system. We expect that action on this front would increase the propensity of our citizens to invest in American industry, and thereby provide business with the capital it needs to invest in order to increase its own productivity. At the same time, equity demands that we carefully examine some of our current business tax policies to insure that they do not unwisely affect the spending or investment behavior of our corporations and our financial system.

As we debate our tax package, which is bound to be controversial, I hope we shall keep a few critical facts in mind.

First, we must have a tax system that raises enough revenue to meet our major social needs. Those needs are enormous. Over the next decade, we could easily spend billions to improve our housing and neighborhoods, reduce violent crime and improve health, to mention a few. While we cannot meet all these needs, we must preserve public resources to finance the high priority programs that we choose.

Second, we must have taxes that are progressive but not so progressive as to undermine our economic system or eliminate the incentive for individuals and for business to produce what we need. Thus, lowering taxes may be part of the longer run answer.

And finally, before we rush to the barricade over shifts in business and individual taxation we should pause. Because in taxes, things are not always what they seem. Business may pay the tax but it is borne by an individual as a consumer, a worker, or an owner of capital. So rather than repeat old slogans, we should look at the distribution of tax burdens on individuals and business alike and work with open minds for a tax system that will serve our collective needs and our national economic goal of stable, non-inflationary growth.

I warned you tonight that the economic problems we face are not simple ones. But I have argued that this Administration is committed to goals, to policies, to a fundamental attitude that can meet our economic needs and, thereby, advance our broader social objectives. It is an effort in which we must succeed. It is an effort in which I ask for understanding and support.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 9:30 A.M. E.D.T.
MAY 12, 1977

STATEMENT OF THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON ANTITRUST AND MONOPOLIES
SENATE JUDICIARY COMMITTEE

The Issue

When President Carter announced his anti-inflation program on April 15, he included a prominent reference to international trade:

> Trade can play an important role in the fight against inflation. It is an effective means of improving and maintaining competition within American industry (emphasis added).

In this statement, the President clearly indicated one aspect of the relationship between trade and antitrust policy. Competition from abroad provides an important spur to competition in our own economy. Such a spur is particularly important in industries dominated by a few large firms, where domestic competition may be inadequate to provide such pressure.

A second facet of the relationship between trade and competition policy relates to the effort of sellers which are heavily concentrated abroad to limit competition in world markets. One effect of such limitation is to raise prices to American and other consumers. OPEC is of course the premier example, but such efforts have been made frequently throughout modern history.

A third relationship between trade policy and antitrust policy relates to U.S. exports. When world markets are relatively open, American firms can maximize their competitive positions by increasing production runs and learning from their counterparts in other countries. Oligopolistic collusion at home is much less likely when American firms can find increasing outlets for their energies in expanding their markets abroad.

Hence there are three major interfaces between trade policy and competition policy. The interrelationship among the three reinforces the implication of each that the most open possible trade policy is most supportive of the basic goals of antitrust policy:

-- a relatively open U.S. market for imports maximizes the likelihood that foreign markets will remain open for U.S. exports

-- a relatively open U.S. market for imports reduces the risk that other countries will limit our access to their exports

-- an avoidance of export controls by the United States reduces the likelihood that other countries will deny our access to their supplies by erecting export controls on their own products.

Two policy implications arise from this line of analysis. First, U.S. antitrust policy would be weakened by widespread resort to new barriers to imports or exports. Second, U.S. antitrust policy can be strengthened by achieving, in the Multilateral Trade Negotiations (MTN) in Geneva and elsewhere, (a) further reductions in barriers to international trade flows and (b) new international rules which would limit more effectively the ability of countries to erect barriers to imports (the "safeguard" clause) or to exports ("access to supply" rules).

Many different factors must be considered, of course, in all trade policy decisions. For example, the impact on domestic employment of rapid increases of imports in a particular product can simply be too rapid and too pervasive to be permitted to continue. Hence President Carter has directed the negotiation of "orderly marketing agreements" (OMAs) with the two countries (Taiwan and Korea) whose increased sales equaled almost 100 percent of the increase in U.S. imports of shoes over the past two years, and the one country (Japan) which accounts for over 80 percent of all imports of color television sets and whose sales rose by over 150 percent in 1976 alone.

In addition, cut-rate selling by foreign companies could in some cases eliminate domestic (and other foreign) firms from a given market, and thus <u>reduce</u> competition over the long run. Anti-dumping duties should be applied vigorously in such cases.

Export subsidies by foreign governments could have similar effects, and should be met promptly by countervailing duties. And, in some cases, imports could cause national security problems.

Hence any given trade policy decision must weigh carefully a variety of competing factors. Nothing which I say today should be construed as depicting, or advocating, a simplistic or single-factor approach to this complex subject. Nevertheless, this Administration has repeatedly indicated its strong adherence to an overall trade policy which is as open as possible -- as President Carter said in the first sentence of his decision in the escape clause case on shoes,

> "I am very reluctant to restrict international trade in any way".

Just last week, the President led the effort to incorporate a strong commitment to liberal trade into the language of the summit communique. And, from the standpoint of antitrust policy, the subject of these hearings today, an open trading system is highly desirable.

Imports and Competition in the U.S. Market

Few Americans would quarrel with the need to resist export controls by our foreign suppliers or import controls by our foreign customers, for antitrust as well as much broader economic and political reasons. Hence I will focus my remarks today on the relationship between imports and competition within the U.S. market which -- to put it mildly -- is a much more controversial subject.

The fundamental point is that import competition stimulates innovation and efficiency. The competitive environment nourished by the relatively open trade posture of the United States over the past forty years has spurred American industries to make steady improvements in the range and quality of available goods. Import barriers, by contrast, permit protected industries to raise prices and reduce incentives to improve the quality of their output -- as has resulted in a number of developing countries which pursued import-substitution strategies of economic development in the 1950s and 1960s. They promote an inefficient allocation of resources and detract from our ability to produce the things we make best.

Through these effects, open international trade serves consumers -- the ultimate beneficiary of all antitrust policies. Imports hold down prices and stimulate the discovery of cost-saving technology and other innovations. Trade barriers, by contrast, raise prices to consumers and push up the cost of living. When import penetration raises serious problems for a domestic industry, it is always sensible for the Government to consider helping that industry to improve its competitive ability directly as an alternative to providing insulation from the forces of the marketplace.

The burden of import restrictions falls particularly heavily on low-income consumers, who tend to spend a greater share of their budgets on protected items such as low-cost shoes and meat. In some cases, foreign suppliers respond to trade barriers by discontinuing lower-priced items in favor of those with higher unit prices. This tendency also hurts poorer Americans more than others.

The benefits of an open trading system in holding down the rate of inflation extend across our entire economy. But competition from abroad is especially important in industries dominated by a few large firms, since these are the industries which may be least responsive to market pressure. In such industries, imports help to brake price increases and can provide critically important incentives for diversification of production in response to new market trends. I shall illustrate this point by reference to two major American industries, steel and automobiles.

The Case of Steel

The steel industry illustrates the price-restraining effects of imports under normal circumstances. Steel prices comprise a major component of the overall price level and tend to act as a bellwether for prices throughout the economy. But the steel industry is highly concentrated. The major companies set prices and exercise reasonably effective price leadership. List prices increase but seldom decline.

Imports, which supply about 15 percent of domestic consumption, are of key importance in this setting. A major study of steel prices, undertaken by the Council on Wage and Price Stability in 1975, concluded that:

> The chief limits on administered price increases have been potential loss of steel markets to imports and government opposition....Imports....are very important in providing some flexibility or elasticity in steel supply.

The postwar history of steel prices demonstrates the point. From 1946 to 1958, there was virtually no import competition. In those years, steel prices increased by 141 percent as compared to 61 percent for all industrial prices (including steel). Steel prices contributed substantially to the inflation of the period.

In the decade 1959-1968, imports grew from 2 million tons a year to 14 million tons and reached about 14 percent of U.S. consumption. During this period, Japan and Europe developed modern and highly efficient steel industries that competed successfully with older U.S. steel plants. Spurred by this competitive pressure, U.S. industry belatedly adopted the most modern production techniques and began to invest huge sums of capital to improve its efficiency. U.S. steel prices remained essentially stable during the entire decade.

In late 1968, the U.S. steel industry and the U.S. government cooperated in obtaining voluntary restraint agreements (VRAs) from the major exporters. In the three years following the initiation of these agreements, the U.S. industry raised its prices five times as much as it had in the previous eight years. The wholesale price index for finished steel products rose by 23 percent, as opposed to 10 percent for all industrial products (including steel). Other factors than the change in U.S. trade policy were involved, but the correlation between the two is highly suggestive.

According to a detailed study done for the Department of Labor by the Public Research Institute, the VRA added about $1.5 billion (in 1960 dollars) to the cost of steel for U.S. consumers.[1/] This translates to about $2.7 billion in 1975 dollars. A more recent analysis estimates that the VRA caused steel prices to increase by $26 to $39 per ton, meaning that the price of steel would have been 13 to 15 percent lower in the absence of the VRA.[2/] Interestingly, the data show that U.S. production was only slightly above, and in one year actually below, what it would have been without the VRA.

VRAs have a further adverse effect on the concerns of this Committee. In contrast to an import quota administered by the United States, a VRA forces companies in supplying countries -- usually aided by their governments -- to organize tightly to administer the restraints. In so doing, the firms of course seek to maximize the value of their (restricted) sales, both by raising prices as much as possible and, in the case of volume-based (rather than value-based) quotas, by switching from low-cost to higher-cost items. Hence VRAs strengthen anti-competitive tendencies in industries abroad.

1/ James Jandrow et al., Removing Restrictions on Imports of Steel, May 1975.

2/ Wendy Emery Takacs, "Quantitative Restrictions on International Trade", Unpublished, Ph.D. dissertation, Johns Hopkins University, 1976, p.101.

Steel, however, also reveals the complexities of international trade -- including its impact on pricing and competition policy. When world demand for steel was booming, in 1973 and early 1974, the prices of imported steel came to exceed domestic prices. In a sense, this simply meant that foreign suppliers showed greater flexibility in their pricing on the upside as well as the downside.

However, the episode also raises questions about the reliability and benefits, under contemporary circumstances, of steel imports. To what extent do the practices of governments in other countries promote the ability and willingness of foreign steel suppliers to cut their prices? Do such practices support the usual objectives of international trade? How do they affect the national interests of the United States? These issues require careful consideration by the Administration, and we are now proceeding with a review of them.

The Case of Automobiles

The case of automobiles illustrates two other advantages of imports: the enrichment of choices available to the U.S. consumer, and the promotion of an energy-efficient and environmentally sound technology.

Before the mid-1950s, imports were negligible. Sports cars and luxury items, like Mercedes-Benz and Jaguar, had never been statistically significant. Beginning in 1955, however, Volkswagen led the way into the U.S. market for small imports. By 1958, imports had captured over 10 percent of the market.

Recovery from the 1957-1958 recession reduced the demand for small cars somewhat, however, and imports fell to 5 percent of the market by 1962. Throughout the 1960s, in response, U.S. -produced automobiles swelled in size as incomes rose and real gasoline prices fell. There was a clear correllation: as imports fell, the size (and energy consumption) of American-made cars rose.

The 1970's witnessed a new and dynamic upsurge of imports. The recession of 1970-1971, the passage of tough anti-pollution laws, and skyrocketing petroleum prices all pointed to the need for smaller and more fuel-efficient cars. This trend accentuated the shift toward imports.

By 1975, imports had reached an all-time high and accounted for over 20 percent of consumption. Most of this growth stemmed from small and economical cars, such as Datsun and Toyota. But new technology was also a factor: one manufacturer (Volvo) has just marketed a car equipped with a new, three-way catalyst system which many experts believe will be adopted by U.S. automobile producers in order to meet the air quality standards set for the 1980s by the Clean Air Act.

Such import competition again forced the domestic industry to respond. In 1971, the Vega and the Pinto made their appearance. U.S. companies also extended their production abroad, and models produced by U.S. companies in foreign countries (including Opel, Capri, and Dodge Colt) have risen. Imports clearly forced the U.S. industry to develop a capacity to produce smaller and more fuel-efficient cars -- a capacity which it lacked almost entirely less than 10 years ago.

It is this previous competition from imports which, paradoxically, places Detroit in a position in 1977 to be able to contribute positively to the energy program proposed by President Carter on April 20. At present, more than 90 percent of imported cars are fuel-efficient, whereas less than half of U.S.-made cars are fuel-efficient. Average city/highway mileage of imported cars is typically around 25 to 35 miles per gallon, whereas 1977 models of U.S.-produced cars registered an average city/highway mileage of about 16 to 17 1/2 miles per gallon. But less than half is better than nothing, and 16 miles per gallon is better than in the past. Without the previous import competition, Detroit would have confronted the energy crisis in a hopeless position -- indeed, its position might have precluded the possibility of adopting a program as essential to our nation's future as the President's.

Like steel, however, the auto case also illustrates the complexities involved in international trade -- and its relationship to domestic competition. On the one hand, still heavier reliance on imports might enable us to meet more quickly the President's goals for saving gasoline. On the other hand, seizure of a much greater share of the U.S. market by imports could well discourage the transition in Detroit which is desperately needed, both for the long-run future of American energy policy and for maintaining the strength, and levels of employment, of a key American industry. We have not yet resolved this dilemma, but plan to work closely with the other major auto-producing nations to find solutions which will provide fair and equitable treatment for them as well as support the longer term goals of our own energy efforts.

Conclusion

In conclusion, it is clear that international trade can support American antitrust policy in several key respects: by providing steady competitive pressure on American industry at home, by limiting the risk that other countries will limit our access to their supplies, and by providing global markets which permit American firms to maximize their productive efficiency. Trade policy should thus be viewed as our important ally of antitrust policy.

At the same time, many factors other than antitrust must of course be considered in formulating U.S. trade policy. No issue which comprises so many domestic and international complexities can be founded solely on a single criterion. Nevertheless, this Administration seeks to maintain maximum freedom for international trade -- and the factors being considered by this Subcommittee are a central element in that approach.

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FOR IMMEDIATE RELEASE MAY 7, 1977

OFFICE OF THE WHITE HOUSE PRESS SECRETARY
(London, England)

THE WHITE HOUSE

PRESS CONFERENCE
OF
W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY

CHURCHILL HOTEL

6:50 P.M. LDT

MR. POWELL: We are ready to begin if you all are. Secretary Blumenthal will provide the briefing again this afternoon. The entire briefing will be available for broadcast, or whatever else you want to do with it. I might say to begin that it is my understanding that a good portion of the session this afternoon dealt with nuclear issues; that that discussion is still continuing. Therefore, there will be very little that we can say on that topic this afternoon.

Q You mean it is still going on?

MR. POWELL: No, continuing tomorrow and so forth.

As is usually the case, I am sure that Secretary Blumenthal is willing to let you try your best to get what you can out of him on it, but I want to say ahead of time that there is very little bit any of us will be able to say in the midst of these discussions. So we probably are going to be running somewhat shorter than we did this morning on the briefing. And I hope you will be understanding that the Secretary has some other engagements this evening that he has to wash his feet and change his socks.

Thank you.

SECRETARY BLUMENTHAL: Thank you. This will indeed be a very short briefing, ladies and gentlemen, because the by far largest part of the afternoon was taken up with the discussion of the energy issue with particular reference to nuclear matters. That has not been concluded. It will be concluded tomorrow morning.

I may in that context perhaps mention to you the agenda for tomorrow morning which, in addition to the conclusion of the energy item, will be devoted to questions of North-South economic relations, international financial matters and the trade issue. That will take place tomorrow morning.

Today, in addition to the energy item which took up most of the discussion, there was a rather brief discussion of the human rights question. With regard to the energy matter that was discussed today, about all I could say to you is that it was a very open, free and far-ranging and frank discussion in which all of the various problems were aired, and I think I could say that the various heads of government I think felt satisfied that they made good progress in understanding the viewpoints that were expressed in elaborating upon them. We will have to see tomorrow how that concludes. It may well be that whatever decisions are reached on that matter will be communicated by the chairman of the conference, Prime Minister Callaghan.

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On the human rights question, the President made a brief statement in which he explained the position of the United States and his personal position with regard to human rights, indicating that this was a very important matter to him, that it represented the feelings of the American people to speak out on the basic rights of people everywhere.

He made the point that this was in no way directed against any one particular country and was in no way intended to be threatening or offensive toward anybody.

In the comments, the brief comments that the other heads of government had, the general response was that the emphasis on human rights that the President had made a part of his foreign policy statements and goals was welcomed, that it was understood that it represented in large measure the feelings of the other countries as well, and that he felt that it was a perfectly legitimate, proper and to them generally congenial emphasis on the very important subject.

Q All of them said that?

SECRETARY BLUMENTHAL: This was the general comment of those who commented on it, and I think virtually everybody did.

I think really that is about all I can tell you about this afternoon's meetings. I will be glad to try to take some questions, but I warn you the pickings will be slim.

Q On the nuclear question, is any effort being made to draft a common set of guidelines that would apply to future nuclear sales?

SECRETARY BLUMENTHAL: I really can't tell you. The discussion is going on. I don't know how to come out on that point.

Q Would you hope that such an agreement could result?

SECRETARY BLUMENTHAL: I am really in the position that I can't comment further on it. I really feel we have to wait until the heads of government finish their discussion.

Q Why are you discussing nuclear, what is "nuclear"? This is so general.

SECRETARY BLUMENTHAL: It is very general, and I hope tomorrow when the discussions conclude, whoever does the briefing, whether we do it individually or whether the heads of government decide to have one briefing on it, that it can be made more specific at this point, I can't really tell you any more.

Q Even though, Mr. Secretary, the discussions aren't completed, can you tell us something about the American presentation and was it in line with the President's previous remarks on this subject?

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SECRETARY BLUMENTHAL: I really can't go into detail.

Q Mr. Secretary, how would you describe the atmosphere?

SECRETARY BLUMENTHAL: The atmosphere was, I think, very good. As I said, there was a very frank and open discussion, very friendly discussion. I think the various heads of government had an opportunity to question each other, to make their viewpoints on this issue very clear and to explore it, and I think made a lot of progress in understanding what --

Q Mr. Secretary, could you tell us who put the human rights question on the agenda and in what context did it come up?

SECRETARY BLUMENTHAL: I don't know who originally put it on the agenda. I can tell you that it was President Carter who asked to speak to this issue and did.

Q Mr. Secretary, does the President intend to carry on his human rights statements publicly, even if the Kremlin blackmails him about it and gets very nasty about it?

SECRETARY BLUMENTHAL: There is nothing that I can tell you, but I think you ought to ask him directly, or perhaps Mr. Powell can give you the answer to that question.

Q Mr. Secretary, did any of the participants express any reservations about the tactical speaking out on human rights, not the issue itself, in a broad sense, but the actual speaking out?

SECRETARY BLUMENTHAL: They did not.

Q No reservations at all?

SECRETARY BLUMENTHAL: No.

Q Mr. Secretary, did President Carter brief the other participants on the United States energy plan and what was their reaction to its prospects for enactment by the United States Congress?

SECRETARY BLUMENTHAL: The President, at this morning's session, in reviewing the world economic scene did in some area refer to the plan. He did not brief the other participants as to its details, but he did relate the reasons for his having put forward this comprehensive plan towards impact not only in our own domestic economy, but to what he felt would be the positive impact on the world economy.

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Q Did they express any opinions on -- did they express any doubts, rather -- as to whether the plan would be implemented?

SECRETARY BLUMENTHAL: There was no doubt expressed as to whether or not the Congress would implement this plan. I may not have mentioned that this morning. I would say again that there was, I would have to say, universal agreement on the part of the other heads of government that this was a very important, very constructive initiative by the United States, and that they welcomed it.

Q Mr. Secretary, what about the treaty with the Brazilians and Germans, nuclear treaty? Was it discussed?

SECRETARY BLUMENTHAL: I said earlier that I really am not in the position to go into any of the details of what was discussed until the discussion is completed. You will get that information tomorrow.

Q Can you at least assure us that Mr. Carter has not given up his effort to take a world lead position in stopping the proliferation of nuclear weapons and available nuclear resources for weaponry?

SECRETARY BLUMENTHAL: I can certainly assure you that he has not given up any position that I am aware of.

Q Some of the Germans are saying that it was an agreement to disagree on the sale to Brazil. Can you comment on that?

SECRETARY BLUMENTHAL: I cannot.

Q Mr. Secretary, was there a range of comment at least in response to the President on human rights, or did everybody equally welcome the President's point of view?

SECRETARY BLUMENTHAL: Each head of government, in commenting on the human rights question, was positive and agreed with the importance of this issue. Everyone, obviously, made somewhat different points about this matter.

But the general thrust of the comments that were made was that of applauding the President for having taken the initiative of understanding what he had done, of support of it, and of underlining the importance of this issue for all of us.

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Q Mr. Secretary, as you pointed out this morning, most of the foreign leaders are fairly well familiar with President Carter's public stands on things that are in the public domain. In his presentations, is he presenting them with information that has not been generally known publicly before or is he simply repeating an explanation of his positions on these various things?

SECRETARY BLUMENTHAL: Generally speaking, he is explaining to them his positions, much of which has been previously discussed within the United States. He does from time to time refer to particular facts or data that may not have been that widely available.

Q So this is not an occasion in which he is bringing them a bulk of new information; most of this is a conversation about policies which are already very much on the record?

SECRETARY BLUMENTHAL: To a large extent, but they discussed the reasons for these policies, the thinking that has led to them, the goals of these policies toward obviously fairly free-ranging and substantive discussion that goes into the background of many of these in history and goals of many of these policies.

Q Mr. Secretary, with everyone getting along so well, you are leaving the impression everything is sweetness and light and everybody is saying what we already know. Why are they meeting?

SECRETARY BLUMENTHAL: That is a conclusion that you are drawing. With regard to the energy question, I am leaving only with you the information that there was a good and full discussion; that it was a useful and fruitful one; and that it will be continued tomorrow.

Q Mr. Secretary, usually when people use words like "free" and "frank" discussion, they are meant that there was some disagreement. Yet you say there are no reservations expressed about nuclear policy, about human rights. Why, then, do you use the term that several times these were frank discussions?

SECRETARY BLUMENTHAL: With regard to the nuclear question, since it has not been completed we agreed that they would complete it before we would talk about it in public. It is for that reason that I am not in the position to go into the details and you should draw no further conclusions from it one way or the other.

With regard to the human rights issue, it was covered in a very few minutes, and all I can do is to tell you that there was broad support for the position of the United States and the policies of the President in this area. And that is really all that happened.

Q Mr. Secretary, did any of the other leaders express --

SECRETARY BLUMENTHAL: I am sorry. I can't hear very well.

Q Did any of the other leaders express any reservations about the matter of human rights?

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SECRETARY BLUMENTHAL: They did not.

Q How much time on that subject? How many minutes?

SECRETARY BLUMENTHAL: About 15 minutes.

Q Does that mean they would like to continue their initiative?

SECRETARY BLUMENTHAL: You will have to ask them. Certainly none of them suggested that he not continue.

Q But on the nuclear question, the fact that this is not resolved and the subject is still being discussed later on tomorrow, we would be right in concluding that there are still outstanding disagreements between the members present.

SECRETARY BLUMENTHAL: The only thing you can conclude from what I am saying to you--you can conclude anything you wish--but the only thing you ought to conclude from what I am saying to you is that the discussion of the issue has not been finished.

Q What is the issue? It is silly for us to write stories. (Laughter)

SECRETARY BLUMENTHAL: I am sorry, I can't help you.

Q Has there been talk at this summit meeting of holding more summit meetings?

SECRETARY BLUMENTHAL: There has been no direct talk of that. In discussing this morning the world economic scene and in particular in discussing the targets for growth and the targets for stabilization programs that the various participating countries explained that they are pursuing, there was reference to the fact that it was important to keep these programs under review; that this was something under active review, to be sure that these targets were met; that this was something that in the first instance Ministers could do in the various international economic forums that will be meeting in the course of the next several months; and there was passing reference to the fact that if need be it would be possible of course for heads of state to similarly follow it and even to come together if that proved necessary, but it was a passing reference.

Q Mr. Secretary, on the question of human rights and negotiations with the Soviet Union, the argument which we are all familiar with is that the wrong policy on human rights will inhibit the diplomacy upon arms control and reduction. Was that matter discussed by itself?

SECRETARY BLUMENTHAL: It was not.

Q Not dealt with at all?

SECRETARY BLUMENTHAL: It was not.

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Q Was the Southern African situation discussed?

SECRETARY BLUMENTHAL: It was nct.

Q Are you satisfied you are going to reach an agreement on the nuclear question?

SECRETARY BLUMENTHAL: We will have to wait and see how things come out tomorrow. I think it is quite likely that they will.

Q Mr. Secretary, this morning the British, as I understand it, anyway, criticized the alleged inflexibility of the IMF loan conditions. How much sympathy was there among the other participants to that criticism?

SECRETARY BLUMENTHAL: I don't interpret the comments that were made in the meeting, and I don't wish to get into the comments of any one particular head of government there, but the comments that were made, the discussion that took place with regard to the question of conditionality, I do not characterize as having been criticism. There was a discussion about the fact that conditionality (a) was important. Everyone agreed that it was important. But similarly, there were views expressed which were generally accepted, that conditionality certainly had to be applied in certain special interests in cases with some perspective and some flexibility.

And that viewpoint was stressed by some countries more, and by others the importance of flexibility of conditionality per se was expressed more. But it did not result in any criticism or disagreement over this general issue.

Q Mr. Secretary, may I return to a question from this morning when you said the leaders said the economy was not recovering fast enough and that there had to be a more rapid restoration of the economy?

Were there no new proposals for moving more rapidly? Was there no discussion of ways to achieve a more rapid restoration of the full economy?

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SECRETARY BLUMENTHAL: What I would characterize as a new proposal that was accepted was the notion that there were these specific targets and that the countries in fact were committing themselves to taking the necessary measures to make sure that they be achieved; the assumption being that if that would really happen, and we continue on into 1978, along that plane, then indeed recovery would be more rapid in the future.

Q Mr. Secretary, does the President have the authority to commit the United States to achieving a growth target without consulting first with Congress and the Federal Reserve Board?

SECRETARY BLUMENTHAL: The President has previously, over a number of months, and so have other members of his Cabinet, talked about his economic program and the targets that these are intended to achieve, and he has a variety of tools at his disposal including, if he lacks some going back to the Congress and asking for additional ones, if that becomes necessary. But the way in which the figures are going, it looks pretty good that we will be able to achieve these targets anyway.

Thank you very much.

Q How long did the meeting last, Jody?

MR. POWELL: The meeting started at 3:30 and it broke about 6:10.

THE PRESS: Thank you.

END (AT 7:10 P.M. LDT)

Department of the TREASURY NEWS
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STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE HOUSE AD HOC COMMITTEE ON ENERGY

Mr. Chairman and Members of this distinguished Committee:

The broad economic effects of the National Energy Plan proposed by President Carter have been described by Mr. Schultze and there is no need for me to repeat his assessment, with which I concur. I will address myself to other aspects of the plan.

Some may be surprised that so comprehensive a program--involving as it does billions of dollars of additional tax collections and billions of dollars of disbursements--is projected to have such relatively small net impact on the nation's output and prices. The answer is that the plan is designed that way.

The plan has as its objective conservation and substitution--conservation of increasingly scarce resources through a reduction in the rate of growth in energy consumption, and substitution by conversion from energy sources which are limited and variable in supply to those which are domestically more abundant. The principal mechanism for achieving these objectives is the use of the tax system, through a combination of tax penalties and tax incentives. The plan has been designed so that, for the economy as a whole, the revenues collected under the proposed tax penalties will be recycled to finance related elements of the energy conservation program.

Let me illustrate. To conserve gasoline, the National Energy Plan proposes a graduated excise tax on automobiles with fuel efficiency below average. But the taxes collected would be disbursed through graduated rebates on new cars with mileage better than the standard. Another illustration: producer prices of domestic oil will be lifted in stages to the world prices of oil. But the difference between the producer price--adjusted for inflation--and the world price would be returned to consumers in the form of per capita energy credits. Another illustration: a penalty tax would be imposed on the use of oil and natural gas for industrial consumers and utilities, deferred until 1979 for industrial firms and to 1983 for utilities. But the cost of conversion to coal or other energy sources would be offset in part by a rebate of the penalty tax paid currently or, in some cases, by additional investment tax credits. The remaining proceeds of this tax would go into general revenues, and could be used to finance the buildup of a strategic petroleum reserve, and another large share could finance tax incentives for energy conservation in residential construction and similar activities.

Despite the rigorous effort to fashion a program with minimal impact on the general price level and on the overall economic growth rate of the country, it is clear that an effort so large and so vital must have certain costs. There will undoubtedly be transition problems as our society adjusts to a lower rate of growth in energy consumption, and to growing dependence on sources of energy other than oil and natural gas.

The automobile industry will have to accelerate its efforts to develop more fuel efficient vehicles, and this may require additional investment in research and new production facilities. Industries that wish to avoid the burden of penalty taxes on the use of natural gas and petroleum fuels by conversion to coal will have to incur investment costs which may not wholly be compensated by the rebate of the penalty tax or by an additional investment tax credit. If gasoline consumption grows too rapidly, a gasoline tax would be triggered; this tax would be recycled largely through the income tax structure, in order to maintain the real income of the consumer sector, but it is possible that the resultant rise in gasoline prices could adversely affect auto sales without a compensating rise in expenditures for other consumer goods and services. And there will undoubtedly be other transition problems and costs difficult to anticipate or measure at this point in time.

Nor is it possible to project precisely the magnitude of tax revenues and government outlays stemming from the various elements in the plan. In part, the size of the revenue and disbursement flows depend on the extent to which consumers and businesses respond to the tax penalties and tax incentives provided. Taking likely response rates into account, it is estimated that, over the period out to 1985, additional Budget outlays associated with the National Energy Plan would aggregate some $50 billion, while revenues raised by new energy-related taxes (net of credits and certain rebates) would sum to about $51 billion.

Thus, the net dollar impact on Federal finances, at a first approximation, would be less than $1 billion. Even the flows on each side of the Budget of some $50 billion, cumulated over the period to 1985, are small relative to an economy as large as ours.

In the near term there would be a measurable budgetary impact. In FY 1978, the increase in outlays under the program would exceed the increase in revenues, thereby adding about $1-1/2 billion to the Budget deficit. However, this is a relatively small addition, particularly so in light of the national benefits that will accrue from a prompt start on our conservation objectives. Nor will it detract from achieving our goal of a balanced budget by FY 1981.

The principal source of additional revenues under the National Energy Plan is estimated to be the crude oil equalization tax, which over the period ending in 1985 is projected to yield about $68-1/2 billion. All of this will be rebated: about $55-1/2 billion to heating oil purchasers and income tax payers, and about $13-1/2 billion as cash payments to nonpayers.

The next largest source of Federal revenues stemming from the National Energy Plan will be the oil and natural gas conservation tax. This tax is intended to encourage conversion by industrial enterprises and utilities to energy sources other than petroleum products and natural gas. It is estimated that over the eight year period from 1978 through 1985, receipts from this tax, net of credits allowed for conversion outlays, will result in over $40 billion in receipts. A substantial share of these general fund receipts will be available to fund the purchase of oil for the Strategric Petroleum Reserve. It will also be available to help finance the credits offered to induce homeowners to make their homes more fuel-efficient, and to finance other conservation incentives.

The third largest element in the tax program is the auto efficiency tax (with receipts estimated at close to $8 billion over the period), but this too will be rebated, in this instance to manufacturers to increase the price attractiveness of more efficient cars.

It is evident, then, that the National Energy Plan is a carefully articulated plan in which tax penalties and tax incentives reinforce each other to induce energy conservation and the conversion to energy sources in more ample domestic supply. The revenues arising from some parts of the plan are recylced for other energy-related purposes, with little if any direct net drain on the domestic economy.

I want to turn now to the possible effects of the National Energy Plan on our balance of payments. Currently, our oil bill is dominating the swing in our international trade balance. The trade deficit for the first quarter of the year was almost $7 billion, a significant deterioration from the deficit of $3-1/2 billion in the last quarter of 1976. The first quarter result is more than half attributable to the bulge in oil imports, which totaled over $11 billion for the quarter.

The rising cost and volume of our oil imports is swamping our basically strong position on other parts of our trade picture. We should, of course, be expecting our favorable balance on other trade to diminish at this stage of the business cycle, with recovery returning our imports to more normal levels relative to exports. But rising demands for oil and higher prices charged by foreign oil suppliers have aggravated that decline. As a result, our trade balance, including fuel imports, has moved from a $9 billion surplus in 1975 to a $9 billion deficit in 1976 to a projected deficit this year likely to total over $20 billion. Roughly half of this deterioration is the result of the increase in our bill for imported fuel.

We cannot and should not expect to increase our trade surpluses with other areas of the world so as to offset rising deficits with OPEC countries resulting from our present dependence on oil. Other oil-importing nations are also faced with a large increase in oil import bills and with deficits vis-a-vis OPEC. Any attempt on our part to offset more fully a growing trade deficit with OPEC by increasing our trade surplus with the rest of the world would be almost certain to fail -- and to reduce levels of trade and economic output in the process. The additional strain on other countries' external payments as a result of such U. S. actions, would incline them to take counter-measures -- either in direct retaliation or by reducing demands for imports from the U. S. by exercising further domestic economic restraint. Either way, the principal result would be a lower level of world output and trade, with equally adverse effects on the U. S. trade balance.

The one way in which we can meaningfully and constructively reduce the U. S. trade deficit is by policies which reduce oil imports. This would benefit not only the U. S. balance of payments, but also aid the balances of other oil consuming nations, particularly the LDC's, by reducing demand pressures on the world price of oil. The President's energy plan will help many countries, and the perception of what it can offer explains the enthusiastic support the President received for it at the Summit meeting last weekend.

In summary, Mr. Chairman, let me acknowledge that there is some price we must all pay to achieve our national and international objectives. But let us not delude ourselves into thinking that other alternatives to the National Energy Plan will cost less. There is one law of economics to which we are all subject. This is the simple precept that "There is no such thing as a free lunch." Do we pay for our lunch in a form of ever-escalating prices for imported oil--a tax levied by foreign suppliers of energy? Do we pass the bill on to those less able to pay, such as the less developed countries? Do we pay for our lunch by passing the bill on to our children? Or do we pay by gradually adjusting our transportation, heating and cooling habits in order to reduce our dependence on foreign suppliers and conserve the dwindling supply of convenient energy resources for future generations? By facing the problem now, when the opportunity exists for gradual adjustments, we buy the time during which accelerated research can open new energy possibilities that will enable us to preserve a standard of living which is the envy of the world.

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FOR IMMEDIATE RELEASE May 13, 1977

TREASURY SECRETARY BLUMENTHAL REAPPOINTS RICHARD B. SELLARS AS SAVINGS BONDS CHAIRMAN FOR NEW JERSEY

WASHINGTON -- Richard B. Sellars, Chairman of the Finance Committee of the Board, Johnson and Johnson, New Brunswick, New Jersey, has been reappointed the Volunteer State Chairman for New Jersey for a term of two years by Secretary of the Treasury W. Michael Blumenthal. Mr. Sellars was first appointed State Chairman in December 1974.

Under Mr. Sellar's leadership, New Jersey Savings Bonds sales in 1976 exceeded $388 million and accounted for more than 5 percent of sales nationwide.

Mr. Sellars is also 1977 National Chairman of the Savings Bonds Volunteer State Chairmen's Council, giving him a dual role in the Savings Bonds Program.

On reappointing Mr. Sellars to his state volunteer job Secretary Blumenthal said, "Be assured that your efforts are deeply appreciated. Under your dynamic leadership as State Chairman for New Jersey the state has consistently exceeded its sales goals."

In addition to his current appointments, Mr. Sellars had previously served as a member of the U. S. Industrial Payroll Savings Committee for Savings Bonds

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376-0395

FOR IMMEDIATE RELEASE, MAY 12, 1977

TREASURY BROADENS CUBAN TRAVEL AUTHORIZATION

The Department of the Treasury's Office of Foreign Assets Control today announced an amendment of the Cuban Assets Control Regulations that will facilitate Cuban travel by permitting arrangement of group tours to Cuba. Currently, only individuals are authorized to make expenditures for themselves for Cuban travel.

Travel agents who arrange individual or group travel to Cuba may now make block reservations, charter aircraft or vessels, sell through tickets on foreign carriers providing regularly scheduled service to Cuba from points outside the United States, transfer payments to Cuba on behalf of travelers, and receive commissions from Cuban businesses for services rendered in arranging and assisting such travel.

United States firms are authorized to process and pay checks, drafts, traveler's checks and credit card instruments in connection with Cuban travel.

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B-227

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FOR IMMEDIATE RELEASE May 13, 1977

The Treasury Department today announced that Form 5713, International Boycott Report, is expected to be available at the local district offices of the Internal Revenue Service about June 1, 1977. The Treasury Department also announced that the time for filing Form 5713 has been extended to July 15, 1977.

Filing of Form 5713

As detailed in Answer A-7 of the international boycott guidelines issued November 4, 1976 (published November 11, 1976 in 41 Federal Register 49923), one copy of Form 5713 should be sent to the Internal Revenue Service Center, 11601 Roosevelt Blvd., Philadelphia, Pennsylvania, 19155, and another copy attached to the taxpayer's income tax return which is filed with the taxpayer's customary Internal Revenue Service Center. Both copies should be filed when the return is due, including extensions.

Interim Procedure

By News Release B-53, dated February 15, 1977, the Treasury Department announced that persons required to file income tax returns before Form 5713 became available either could obtain an extension of time for filing their returns and the Form 5713, or could file their returns without attaching Form 5713 and then file both copies of Form 5713 no later than June 15, 1977. The June 15, 1977 date is extended to July 15, 1977.

Taxpayers who file income tax returns before July 15, 1977 without attaching a copy of Form 5713 need not file an amended income tax return when filing Form 5713 with their customary Internal Revenue Service Center unless tax benefits have been disallowed by reason of participation in or cooperation with an international boycott.

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Special Rule for Partners

Answer A-17 of the international boycott guidelines issued December 30, 1976 (published January 5, 1977 in 42 Federal Register 1092), provides that qualifying partners may, in lieu of reporting partnership operations on Form 5713, file a certificate stating that the partnership filed the Form 5713 and that the partnership had no operations that constituted participation in or cooperation with an international boycott. Answer A-17 will be revised to provide that the certificate need not be filed by a partner if the partnership files Form 5713 and the partnership had no operations that constituted participation in or cooperation with an international boycott. Until Answer A-17 is revised, the requirement that the certificate be filed by the partner is waived if the partnership filed Form 5713 and had no operations that constituted participation in or cooperation with an international boycott.

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Department of the Treasury
Internal Revenue Service

Instructions for Form 5713
(May 1977)
International Boycott Report

(References are to the Internal Revenue Code.)

Reporting Operations, Boycott Requests and Boycott Compliance.—Generally, persons having operations in or related to countries which require participation in or cooperation with an international boycott after November 3, 1976, may be required to report these operations on Form 5713. (See instruction F.)

In addition, requests to participate in or cooperate with, and actual participation in or cooperation with, international boycotts may have to be reported on Form 5713.

Tax Benefits Which May Be Lost Through Participation In or Cooperation With an International Boycott.—If there is an agreement to participate in or cooperate with an international boycott, taxpayers may lose a portion of the tax benefits of the foreign tax credit (section 908 (a)), deferral of taxation of earnings of controlled foreign corporations (section 952(a)), or deferral of taxation of DISC income (section 995(b)(1)).

If there has been a loss of tax benefits under the above mentioned sections, each taxpayer must make appropriate entries on Schedules A (Form 5713), B (Form 5713), and C (Form 5713) and on Form 1116 (individuals), Form 1118 (corporations), Form 3646, or Form 1120-DISC for the applicable tax year affected.

General Instructions

A. Who Must File Form 5713.—You must file Form 5713 if you:

1. have operations; or
2. are a member of a controlled group, a member of which has operations; or
3. are a United States shareholder (within the meaning of section 951 (b)) of a foreign corporation that has operations; or
4. are a partner in a partnership that has operations; or
5. are treated under section 671 as the owner of a trust that has operations

in or related to a boycotting country (or with the government, a company, or a national of a boycotting country). However, if you are not a United States person (as defined below), you need not file Form 5713 unless you either claim the benefits of the foreign tax credit under section 901 or own stock of a DISC.

U.S. Person.—A U.S. person includes: a citizen or resident of the United States; a domestic partnership; a domestic corporation; and any estate or trust (other than a foreign estate or foreign trust). (See section 7701(a)(30).)

See instructions C and D for definitions of "boycotting country" and "operations."

See instruction H regarding penalties for failure to file Form 5713.

B. When and Where to File Form 5713.—File Form 5713 in duplicate when your tax return is due, including extensions. Send one copy to the Internal Revenue Service Center, 11601 Roosevelt Boulevard, Philadelphia, Pennsylvania 19155, and attach the other copy to your income tax return.

C. Boycotting Country.—A boycotting country is any country which is on the list maintained by the Secretary of the Treasury under section 999(a)(3). The list currently includes Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen Arab Republic and Peoples Democratic Republic of Yemen.

Also, any other country in which you (or a member of the controlled group of which you are a member) have operations and which you know or have reason to know requires any person to participate in or cooperate with an international boycott other than a boycott referred to in section 999(b)(4)(A), (B), or (C) (see instruction E) is a boycotting country.

D. Definition of "Operations".—The term "operations" encompasses all forms of business or commercial activities whether or not productive of income, including, but not limited, to selling; purchasing; leasing; licensing; banking, financing, and similar activities; extracting; processing; manufacturing; producing; constructing; transporting; activities ancillary to the foregoing (e.g., contract negotiating, advertising, site selecting, etc.); and performing services, whether or not ancillary to the foregoing.

You are considered to have operations "in a boycotting country" if you have an operation that is carried on in whole or in part in a boycotting country.

You are considered to have operations "with the government, a company, or a national of a boycotting country" if you have an operation that is carried on outside a boycotting country either for or with the government, a company, or a national of a boycotting country.

You are considered to have operations "related to a boycotting country" if you have an operation that is carried on outside a boycotting country for the government, a company, or a national of any country if you know or have reason to know that specific goods or services produced by the operation are intended for use in a boycotting country or for the government, a company, or a national of a boycotting country.

E. Special Filing Situations and Waivers Regarding Filing Form 5713.—

1. *Consolidated Return.*—If you are a member of a controlled group of corporations (within the meaning of section 993 (a)(3)) and the common parent of that controlled group files a consolidated income tax return on behalf of all members of the controlled group and a Form 5713 with respect to the reportable operations of all members of that group, this is sufficient to discharge your reporting obligation. If the consolidated return is not filed on your behalf, you must separately file Form 5713.

2. *Partners.*—Generally, if you are a partner in a partnership that has operations in a boycotting country, you are required to file Form 5713. However, if the partnership files Form 5713 with its Form 1065 and has no operations that constitute participation in or cooperation with an international boycott, then you need not file Form 5713 if you have no operations in or related to a boycotting country, or with the government, a company, or a national of a boycotting country other than the operations that are reported on the Form 5713 filed by the partnership.

3. *U.S. Sanctioned Boycotts.*—Section 999(b)(4)(A) permits you to meet the requirements imposed by a foreign country with respect to an international boycott if United States law or regulations, or an Executive Order, sanctions participation in or cooperation with that international boycott. If your operations fall within this exception, the reporting requirements with respect to operations under such international boycott agreements are waived.

4. *Prohibition on Importation and Exportation.*—Section 999(b)(4) permits you to agree to comply with certain laws without having been treated as having agreed to participate in or cooperate with an international boycott. While you may agree to comply with prohibitions on exportation or importation described in section 999 (b)(4)(B) and section 999(b)(4)(C) without incurring tax sanctions, you are required to report the operations under such agreements on Form 5713.

5. *Unsolicited Tender Invitations.*—You need not report unsolicited invitations to tender, unless you make a response to the tender.

6. *United States Subsidiary or Sister Corporation.*—If you have a foreign parent or foreign sister corporation that is not required to file Form 5713, you need not report its operations if you either have no benefits of deferral, DISC or the foreign tax credit, or, under certain circumstances, are willing to forfeit those benefits.

F. Effective Dates for Reporting Purposes.—

Generally.—The reporting requirements of the international boycott provisions apply to agreements to participate in or cooperate with an international boycott, made after November 3, 1976, and to agreements made on or before November 3, 1976, that continue in effect thereafter.

The reporting requirements apply to operations after November 3, 1976, whether or not there has been an agreement to participate in or cooperate with an international boycott. Operations on or before November 3, 1976, are reportable if there has been participation in or cooperation with the boycott during the taxable year after November 3, 1976.

G. International Boycott Factor and Specifically Attributable Taxes and Income.—There are two alternative methods for computing the loss of tax benefits. You may either use the international boycott factor, or you may determine the taxes and income specifically attributable to boycott operations.

If you compute the loss of tax benefits by using the international boycott factor, complete Schedules A (Form 5713) and C (Form 5713). If you determine taxes and income specifically attributable to boycott operations, complete Schedules B (Form 5713) and C (Form 5713).

DISCs and partnerships need not complete Schedule C. However, they must complete Schedules A and B, unless all shareholders, or all partners compute the loss of their tax benefits using the boycott factor exclusively, or the specifically identifiable taxes and income method exclusively. In such case, the DISC and the partnership need complete only Schedule A or Schedule B as appropriate.

H. Penalties—Willful Failure to Report.—Any person (within the meaning of section 7701(a)(1) or section 6671(b)) required to report under section 999 who willfully fails to make such report shall, in addition to other penalties provided by law, be fined not more than $25,000, imprisoned for not more than one year, or both.

Specific Instructions

Notes: 1. *Numbered to correspond with the line numbers on Form 5713.*
2. *All schedules attached to Form 5713 should correspond as closely as possible to the format used for the same schedule on the form itself.*

General Information

Taxable Year of Controlled Group.—The taxable year for a controlled group (as defined in section 993(a)(3)) is the same as the taxable year of the common parent (from line 4(b)(3)).

1. Individuals.—Enter the amount from line 15c, Form 1040 (1976).

2(c). Partnerships and Corporations.—Enter the principal business activity code number and description for the person filing this form. Page 4 of the instructions provides the code list of business activities for corporations and partnerships. Using this list, enter the code number for the specific industry group from which the largest percentage of "total receipts" was derived. On Forms 1120, 1120S, and 1120–F, total receipts means gross receipts (Forms 1120 and 1120S, page 1, line 1; and Form 1120–F, page 3, line 1) plus all other income (Forms 1120 and 1120S, page 1, lines 4 through 10; and Form 1120–F, page 3, lines 4 through 10). For DISCs, "total receipts" means all income (page 1, line 4). See page 8 of the Instructions for Form 1120–DISC for business activities which apply to a DISC. For partnerships, "total receipts" on Form 1065 means gross receipts (page 1, line 1a) plus all other income (page 1, lines 4 through 11).

2(d). DISC's.—Enter the major product code number and description from Schedule N (Form 1120–DISC), page 1. This is the code number for the major product or service (as measured by export gross receipts) sold or provided by the DISC.

4(b). Common Parent Election.—In the event no common parent exists within a controlled group of corporations, the members of the controlled group are to elect the tax year of one of the members to serve as the common tax year for the group. This election is made by designating the name, taxable year and employer identification number of the elected parent on line 4(b).

All members of a controlled group must consent, in writing, to the common tax year election. A copy of the consent must be attached to, and filed with, Form 5713. In the event no consensus is reached by the members of the controlled group, the common tax year of the group will be the tax year of the member of the controlled group whose tax year ends in the latest month of the calendar year. For example, if there are three members of a controlled group with tax years ending April 30, June 30, and December 31, then, in the event no consensus is reached as to the common tax year, the member's year which ends with December 31 will be the common tax year. The taxable year election is a binding election and can be changed only with the approval of the Secretary of the Treasury.

Note: *No other election need be filed.*

4(c)(1). Corporations.—Enter the amount of total assets from the applicable 1976 form:

(a) Form 1120: Schedule L, line 14, col. (D);
(b) Form 1120–DISC: Schedule L, line 3, col. (B);
(c) Form 1120F: Schedule L, line 14, col. (D);
(d) Form 1120S: Schedule L, line 14, col. (D);
(e) Form 1120L: Annual Statement, page 14, line 26 (sum of columns 1 and 2);
(f) Form 1120M: Annual Statement, page 11, line 22 (sum of columns 1 and 2).

4(c)(2). Corporations.—Enter the amount of taxable income before net operating loss and special deductions from the applicable 1976 form:

(a) Form 1120: Page 1, line 28;
(b) Form 1120F: Page 3, line 28;
(c) Form 1120–DISC: Page 1, line 10 (Taxable income before net operating loss deduction and dividends-received deduction);
(d) Form 1120S: Page 1, Line 28 (Taxable income);
(e) Form 1120L: Schedule E: Lines 26 plus 21(d) plus 22 (Gain or loss from operations before dividends-received deduction and operations loss deduction);
(f) Form 1120M: Page 1, line 4 plus Schedule B–1, line 25 (Taxable income before unused loss deduction and dividends-received deduction).

Questions 6 Through 12

Filers Who Are Not Members of a Controlled Group.—Your answers to questions 6–12 on Form 5713 must reflect your operations, boycott requests and boycott participation or cooperation for your taxable year. In addition, if you are:

(a) a United States shareholder of a foreign corporation; or
(b) a partner in a partnership; or
(c) treated under section 671 as the owner of a trust,

then your answers to questions 6–12 must also reflect the reportable operations, requests and participation or cooperation of the foreign corporation, partnership, or trust.

When you report on behalf of a foreign corporation as a United States shareholder, report the foreign corporation's operations, requests, and participation or cooperation for the foreign corporation's taxable year that ends with or within your taxable year.

When you report on behalf of a partnership as a partner, report the partnership's operations, requests, and participation or cooperation for the partnership's taxable year that ends with or within your taxable year.

When you report on behalf of a trust as its owner under section 671, report the trust's operations, requests, and participation or cooperation for your taxable year.

Example.—Assume that you have reportable operations for your 1977 calendar taxable year. Assume also that you are a partner in a partnership that has reportable operations for its July 1, 1976–June 30, 1977 taxable year. The Form 5713 filed by you for your 1977 calendar year will reflect your operations for the 1977 calendar year and the operations of the partnership for the period July 1, 1976–June 30, 1977.

Filers Who Are Members of a Controlled Group of Corporations.—If you are a member of a controlled group of corporations, the answers to questions 6–12 on the Form 5713 filed by you for your taxable year must reflect:

(a) your operations, boycott requests and boycott participation or cooperation (and those of any trust of which you are treated as the owner under section 671) for your taxable year that ends with or within the taxable year of the common parent that ends with or within your taxable year (see instruction 4(b);
(b) the operations, boycott requests and boycott participation or cooperation of each other member of the controlled group (and those of any trust of which a member of the controlled group is treated as the owner under section 671) for each member's taxable year that ends with or within the taxable year of the common parent that ends with or within your taxable year;
(c) the operations, boycott requests and boycott participation or cooperation of each foreign corporation or partnership on whose behalf you are reporting as a United States shareholder or as a partner, for the taxable year of the foreign corporation or the partnership that ends with or within your taxable year that ends with or within the taxable year of the common parent that ends with or within your taxable year; and
(d) the operations, boycott requests and boycott participation or cooperation of each foreign corporation or partnership on whose behalf a member (other than you) of the controlled group is reporting as a United States shareholder or as a partner, for the taxable year of the foreign corporation or the partnership that ends with or within such member's taxable year that ends with or within the taxable year of the common parent that ends with or within your taxable year.

The net effect of these reporting requirements is that the answers to questions 6–

12 are identical for each member of the controlled group and need only be updated on a group basis once a year. The information is updated at the close of the taxable year of the common parent, and is reported by each member of the group for its taxable year that ends with or after the taxable year of the common parent. If the taxable years of all members, foreign corporations and partnerships coincide with the taxable year of the common parent, then all information is reported on a current basis.

If all taxable years do not coincide, then all or some of the information reported will reflect a time period that is out of phase with the reporter's taxable year.

Example.—Assume that Corporations A, B, C and D are all members of a controlled group. Corporations A, B and C report on the basis of a calendar year. Corporation D reports on the basis of a July 1–June 30 taxable year. Corporation C owns 15 percent of Foreign Corporation X. Corporation X reports on the basis of an April 1–March 31 year. Corporation A is the common parent. Corporations A, B, C, D and X have operations in boycotting countries. The Forms 5713 filed by Corporations A, B and C for their 1978 taxable years will reflect the operations of Corporations A, B, and C for the 1978 taxable year, the operations of Corporation D for the period July 1, 1977–June 30, 1978, and the operations of Corporation X for the period April 1, 1977–March 31, 1978. The answers to questions 6–12 on the Form 5713 filed by Corporation D for its taxable year ending June 30, 1979 will be identical to those on the Forms 5713 filed by Corporations A, B and C for their taxable years ending December 31, 1978. Thus, the Form 5713 filed by Corporation D for its taxable year ending June 30, 1979 will not reflect any of Corporation D's operations for its July 1, 1978–June 30, 1979 taxable year.

Part I.—Operations in or Related to a Boycotting Country

7. Boycott of Israel.—Question 7 concerns operations in or related to countries on the Secretary's list of countries associated in the boycott of Israel. Use a separate line for each country or each person having operations in that country, but do not use separate lines for separate operations by the same person in the same country.

Column (2). Enter the taxpayer identifying number of persons having operations in or related to any of the listed countries. (See instruction C.) Include the taxpayer identifying number of all members of your controlled group which have operations in or related to the listed countries.

Additionally, if you or a member of your controlled group is a United States shareholder of a foreign corporation which has operations in or related to the listed countries, enter your employer identification number or the employer identification number of the member of your group who is a United States shareholder, and in parentheses, enter the name and employer identification number, if available, of the foreign corporation of which you or a member of your controlled group are a United States shareholder, having operations in or related to the listed countries.

Column (3). Enter the principal business activity code number (see page 4) of the person having operations (for a definition of "operations," see instruction D).

Column (4). Enter a brief description of the principal business activity (see page 4).

DISCs.—Enter, in parentheses, the product code and description. (See instructions for Schedule N (Form 1120–DISC).)

8. Non-listed Countries Boycotting Israel.—If the answer to question 8 is "Yes," use the same procedure outlined in the instructions for question 7 for any non-listed countries which you know or have reason to know require participation in or cooperation with the international boycott of Israel.

9. Boycotts of Countries Other Than Israel.—If the answer to question 9 is "Yes," use the same procedure outlined in the instructions for question 7 for any international boycott other than the boycott of Israel.

10. If you receive a substantial number of similar requests, you may attach a copy of one of these requests and attach a statement stating the number and nature of all other requests received.

11. If you enter into a substantial number of boycott agreements in which the boycott clauses are similar, you may attach a sample boycott clause and attach a statement stating the number and general nature of all other boycott clauses and agreements entered into.

Part II.—Requests for and Acts of Participation in or Cooperation With an International Boycott

12(a). Check either "Yes" or "No" for any requests received, or agreements entered into with respect to any international boycott not excluded as described in instruction E–3.

12(b). Use a separate line for each country, each person, and each type of participation or cooperation, but do not use separate lines for similar types of participation or cooperation by the same person in the same country.

Column (2). Enter taxpayer identifying number of the person receiving the request or entering into the agreement.

Column (3). Enter the principal business activity code number (see page 4) of the person receiving the request or entering into the agreement.

Column (4). Enter a brief description of the principal business activity (see page 4).

DISCs.—Enter, in parentheses, the product code and description. (See the instructions for Schedule N (Form 1120–DISC).)

Column (5). Enter the number of requests received.

Column (6). Enter the number codes listed below which indicate the type of participation or cooperation requested.

Column (7). Enter the number of agreements entered into.

Column (8). Enter the number codes listed below which indicate the type of participation or cooperation agreed to.

Number Code	Type of Participation or Cooperation Requested or Agreed to
01 . . .	Refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country.
02 . . .	Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies, or nationals of that country.
03 . . .	Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion.
04 . . .	Refrain from employing individuals of a particular nationality, race, or religion.
05 . . .	As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

Instructions for Schedule A (Form 5713)

See the reverse side of Schedule A for specific instructions in computing the International Boycott Factor.

Instructions for Schedule B (Form 5713)

See the reverse side of Schedule B for specific instructions in determining specifically attributable taxes and income.

Instructions for Schedule C (Form 5713)

See the reverse side of Schedule C for specific instructions on how to compute the loss of tax benefits as a result of the application of section 999.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Enterprise Standard Industrial Classification System developed by the Office of Management and Budget, Executive Office of the President, to classify enterprises by type of activity in which they are engaged. The system follows closely the Standard Industrial Classification used to classify establishments.

Using the list below, enter the code for the specific industry group from which the largest percentage of "total receipts" is derived. For an explanation of the procedure used to determine total receipts, see instructions for line 2(c).

AGRICULTURE, FORESTRY, AND FISHING

Code
0400 Agricultural production.
0600 Agricultural services, forestry, fishing, hunting, and trapping.

MINING

Metal Mining:
1010 Iron ores.
1070 Copper, lead and zinc, gold and silver ores.
1098 Other metal mining.
1150 Coal mining.

Oil and gas extraction:
1330 Crude petroleum, natural gas, and natural gas liquids.
1380 Oil and gas field services.

Nonmetallic minerals (except fuels) mining:
1430 Dimension, crushed and broken stone; sand and gravel.
1498 Other nonmetallic minerals, except fuels.

CONSTRUCTION

General building contractors and operative builders:
1510 General building contractors.
1531 Operative builders.

Heavy construction contractors:
1611 Highway and street construction.
1620 Heavy construction, except highway.

Special trade contractors:
1711 Plumbing, heating, and air conditioning.
1721 Painting, paperhanging, and decorating.
1731 Electrical work.
1740 Masonry, stonework, and plastering.
1750 Carpentering and flooring.
1761 Roofing and sheet metal work.
1771 Concrete work.
1781 Water well drilling.
1790 Miscellaneous special trade contractors.

MANUFACTURING

Food and kindred products:
2010 Meat products.
2020 Dairy products.
2030 Preserved fruits and vegetables.
2040 Grain mill products.
2050 Bakery products.
2060 Sugar and confectionery products.
2081 Malt liquors and malt.
2088 Alcoholic beverages, except malt liquors and malt.
2089 Bottled soft drinks, and flavorings.
2096 Other food and kindred products.
2100 Tobacco manufacturers.

Textile mill products:
2228 Weaving mills and textile finishing.
2250 Knitting mills.
2298 Other textile mill products.

Apparel and other textile products:
2315 Men's and boy's clothing.
2345 Women's and children's clothing.
2388 Hats, caps, millinery, fur goods, and other apparel and accessories.
2390 Misc. fabricated textile products.

Lumber and wood products, except furniture:
2415 Logging camps and logging contractors, sawmills and planing mills.
2430 Millwork, plywood, and related products.
2498 Other wood products, including wood buildings and mobile homes.
2500 Furniture and fixtures.

Paper and allied products:
2625 Pulp, paper, and board mills.
2699 Other paper products.

Printing, publishing, and allied industries:
2710 Newspapers.
2720 Periodicals.
2735 Books, greeting cards, and misc. publishing.
2799 Commercial and other printing, and printing trade services.

Chemicals and allied products:
2815 Industrial chemicals, plastics materials and synthetics.
2830 Drugs.
2840 Soap, cleaners, and toilet goods.
2850 Paints and allied products.
2898 Agricultural and other chemical products.

Petroleum refining and related industries (including those integrated with extraction):
2910 Petroleum refining (including those integrated with extraction).
2998 Other petroleum and coal products.

Rubber and misc. plastics products:
3050 Rubber products; plastics footwear, hose and belting.
3070 Misc. plastics products.

Leather and leather products:
3140 Footwear, except rubber.
3198 Other leather and leather products.

Code

Stone, clay, glass, and concrete products:
3225 Glass products.
3240 Cement, hydraulic.
3270 Concrete, gypsum, and plaster products.
3298 Other nonmetallic mineral products.

Primary metal industries:
3370 Ferrous metal industries; misc. primary metal products.
3380 Nonferrous metal industries.

Fabricated metal products, except machinery and transportation equipment:
3410 Metal cans and shipping containers.
3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430 Plumbing and heating, except electric and warm air.
3440 Fabricated structural metal products.
3460 Metal forgings and stampings.
3470 Coating, engraving, and allied services.
3480 Ordnance and accessories, except vehicles and guided missiles.
3490 Misc. fabricated metal products.

Machinery, except electrical:
3520 Farm machinery.
3530 Construction, mining, and materials handling machinery and equipment.
3540 Metalworking machinery.
3550 Special industry machinery, except metalworking machinery.
3560 General industrial machinery.
3570 Office, computing, and accounting machines.
3598 Engines and turbines, service industry machinery, and other machinery, except electrical.

Electrical and electronic machinery, equipment and supplies:
3630 Household appliances.
3665 Radio, television, and communication equipment.
3670 Electronic components and accessories.
3698 Other electric equipment.

Transportation equipment:
3710 Motor vehicles and equipment.
3725 Aircraft, guided missiles and parts.
3730 Ship and boat building and repairing.
3798 Other transportation equipment.

Measuring and controlling instruments; photographic and medical goods, watches and clocks:
3815 Scientific instruments and measuring devices; watches and clocks.
3845 Optical, medical, and ophthalmic goods.
3860 Photographic equipment and supplies.
3998 Other manufacturing products.

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES

Transportation:
4000 Railroad transportation.
4100 Local and interurban passenger transit.
4200 Trucking and warehousing.

Other transportation including transportation services:
4400 Water transportation.
4500 Transportation by air.
4722 Passenger transportation arrangement.
4723 Freight transportation arrangement.
4799 Other transportation services.

Communication:
4825 Telephone, telegraph, and other communication services.
4830 Radio and television broadcasting.

Electric, gas, and sanitary services:
4910 Electric services.
4920 Gas production and distribution.
4930 Combination utility services.
4990 Water supply and other sanitary services.

WHOLESALE TRADE

Durable
5008 Machinery, equipment, and supplies.
5010 Motor vehicles and automotive equipment.
5030 Lumber and construction materials.
5050 Metals and minerals, except petroleum and scrap.
5060 Electric goods.
5070 Hardware, plumbing and heating equipment.
5098 Other durable goods.

Nondurable
5110 Paper and paper products.
5129 Drugs, chemicals, and allied products.
5130 Apparel, piece goods, and notions.
5140 Groceries and related products.
5150 Farm-product raw materials.
5170 Petroleum and petroleum products.
5180 Alcoholic beverages.
5190 Misc. nondurable goods.

RETAIL TRADE

Code

Building materials, hardware, garden supply, and mobile home dealers:
5220 Building materials dealers.
5251 Hardware stores.
5265 Garden supplies and mobile home dealers.
5300 General merchandise stores.
5400 Food stores.

Automotive dealers and service stations:
5515 Motor vehicle dealers.
5541 Gasoline service stations.
5598 Other automotive dealers.
5600 Apparel and accessory stores.
5700 Furniture and home furnishings stores.
5800 Eating and drinking places.

Misc. retail stores:
5912 Drug stores and proprietary stores.
5921 Liquor stores.
5995 Other misc. retail stores.

FINANCE, INSURANCE, AND REAL ESTATE

Banking:
6030 Mutual savings banks.
6060 Bank holding companies.
6090 Banks, except mutual savings banks and bank holding companies.

Credit agencies other than banks:
6120 Savings and loan associations.
6140 Personal credit institutions.
6150 Business credit institutions.
6199 Other credit agencies.

Security, commodity brokers, dealers, exchanges, and services:
6210 Security brokers, dealers, and flotation companies.
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Insurance:
6355 Life insurance.
6356 Mutual insurance, except life or marine and certain fire or flood insurance companies.
6359 Other insurance companies.
6411 Insurance agents, brokers, and services.

Real Estate:
6511 Real estate operators (except developers) and lessors of buildings.
6516 Lessors of mining, oil, and similar property.
6518 Lessors of railroad property and other real property.
6530 Condominium management and cooperative housing associations.
6550 Subdividers and developers.
6599 Other real estate.

Holding and other investment companies:
6742 Regulated investment companies.
6743 Real estate investment trusts.
6744 Small business investment companies.
6749 Holding and other investment companies, except bank holding companies.

SERVICES

7000 Hotels and other lodging places.
7200 Personal services.

Business services:
7310 Advertising.
7340 Services to buildings.
7370 Computer and data processing services.
7392 Management, consulting, and public relations services.
7394 Equipment rental and leasing.
7398 Other business services.

Auto repair and services; misc. repair services:
7500 Auto repair and services.
7600 Misc. repair services.

Amusement and recreational services:
7812 Motion picture production, distribution, and services.
7830 Motion picture theaters.
7900 Amusement and recreation services, except motion pictures.

Other services:
8015 Offices of physicians, including osteopathic physicians.
8021 Offices of dentists.
8050 Nursing and personal care facilities.
8071 Medical laboratories.
8099 Other medical services.
8111 Legal services.
8200 Educational services.
8911 Engineering and architectural services.
8932 Certified public accountants.
8933 Other accounting, auditing, and bookkeeping services.
8999 Other services, not elsewhere classified.

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Form **5713**
(May 1977)
Department of the Treasury
Internal Revenue Service

International Boycott Report

For taxable year beginning ...., 19........
and ending ...., 19........
▶ Controlled groups, see specific instructions.

To be Filed in Duplicate
(See Instruction B)

Name	Taxpayer identifying number

Number and Street

City or town, State and ZIP code

Address of Service Center where your tax return is filed

Type of person filing this form (check one):
☐ Individual ☐ Partnership ☐ Corporation ☐ Trust ☐ Estate ☐ Other

1 If an individual, enter adjusted gross income from your tax return (see instructions) . . . .

2 Partnerships and corporations:
(a) If a partnership.—Enter the name and taxpayer identifying number of each partner.
(b) If a corporation.—Enter the name and employer identification number of all members of the controlled group (as defined in section 993(a)(3)). If a consolidated return was filed, do not list members included in the consolidated return; instead, attach a copy of Form 851. List all other members of the controlled group not included in the consolidated return.

Name	Taxpayer identifying number

If necessary, attach additional sheets and check box . . . . ▶ ☐

	Code	Description
(c) Enter principal business activity code and description (see instructions)		
(d) DISCs.—Enter principal product or service code and description (see instructions) .		

3 Partnerships.—The following information must be submitted by each partnership filing Form 5713:
(a) Enter total assets of the partnership (Form 1065, page 1, item C) . . . .
(b) Enter ordinary income of the partnership (Form 1065, line 26) . . . .

4 Corporations.—The following information must be submitted by every corporation filing Form 5713:
(a) Type of form filed (Form 1120, 1120F, 1120L, 1120M, etc.) . . . .
(b) Common parent election (see instructions)—
(1) Name of common parent ▶..
(2) Employer identification number of common parent . . . .
(3) Taxable year of common parent beginning ...., 19........ and ending ...., 19........
(c) Corporations filing this form enter—
(1) Total assets (see instructions) . . . .
(2) Taxable income before net operating loss and special deductions (see instructions) .

5 Estate or trust.—Enter total income (Form 1041, line 9) . . . .

Under penalties of perjury, I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

Date	Signature	Date	Signature of individual or firm preparing the report
	Title		Preparer's address

	Yes	No
6 The following information must be submitted by every person filing Form 5713 (see specific instructions):		
(a) Are you a United States shareholder (as defined in section 951(b)) of any foreign corporation that had reportable operations under section 999(a)?		
(b) If the answer to (a) is "Yes," is any foreign corporation a controlled foreign corporation (as defined in section 957(a))?		
(c) Do you own any stock of a DISC?		
(d) Do you claim any foreign tax credit?		
(e) Do you control (within the meaning of section 304(c)) any corporation (other than a corporation included in this report) that has reportable operations under section 999(a)?		
If "Yes," did the corporation controlled by you participate in or cooperate with an international boycott at any time during its taxable year that ends with or within your taxable year?		
(f) Are you controlled (within the meaning of section 304(c)) by any person (other than a person included in this report) that has reportable operations under section 999(a)?		
If "Yes," did the person controlling you participate in or cooperate with an international boycott at any time during its taxable year that ends with or within your taxable year?		
(g) Are you treated under section 671 as the owner of a trust that has reportable operations under section 999(a)?		
(h) Are you a partner in a partnership that has reportable operations under section 999(a)?		

Part I Operations in or Related to a Boycotting Country (See Instructions)

	Yes	No
7 Boycott of Israel.—Did you have any operations in or related to any country (or with the government, a company or a national of such country) associated in carrying out the boycott of Israel which is on the list maintained by the Secretary of the Treasury under section 999(a)(3) (see Instruction C)?		

If "Yes," enter name of the country(ies), taxpayer identifying number of person(s) having operations, principal business activity code, and a description of the principal business activity. If necessary, attach additional sheets using the exact format and check box ▶ ☐

	Name of country (1)	Taxpayer identifying number of person(s) having operations (2)	Principal business activity: Code (3)	Principal business activity: Description (4)
(a)				
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
(j)				
(k)				
(l)				
(m)				
(n)				
(o)				

8 Non-listed countries boycotting Israel.—Did you have operations in any non-listed country which you know or have reason to know requires participation in or cooperation with an international boycott directed against Israel? . . . . | Yes | No |

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, and a description of the principal business activity. If necessary, attach additional sheets using the exact format and check box . . . ▶ ☐

	Name of country	Taxpayer identifying number of person(s) having operations	Principal business activity	
			Code	Description
	(1)	(2)	(3)	(4)
(a)				
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
(j)				
(k)				
(l)				
(m)				
(n)				
(o)				

9 Boycotts other than the boycott of Israel.—Did you have operations in any other country which you know or have reason to know requires participation in or cooperation with an international boycott other than the boycott of Israel? . | Yes | No |

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, and a description of the principal business activity. If necessary, attach additional sheets using the exact format and check box . . . ▶ ☐

	Name of country	Taxpayer identifying number of person(s) having operations	Principal business activity	
			Code	Description
	(1)	(2)	(3)	(4)
(a)				
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				
(i)				
(j)				
(k)				
(l)				
(m)				
(n)				
(o)				

	Yes	No
10 Were you requested to participate in or cooperate with an international boycott?		
If "Yes," attach a copy (in English) of any and all such requests received during your taxable year. If the request was in a form other than a written request, attach a separate sheet explaining the nature and form of any and all such requests. (See Instructions.)		
11 Did you, in fact, participate in or cooperate with an international boycott?		

If "Yes," attach a copy (in English) of any and all boycott clauses agreed to, and attach a general statement of the agreement. If the agreement was in a form other than a written agreement, attach a separate sheet explaining the nature and form of any and all such agreements. (See Instructions.)

Note: *If the answers to questions 10 and 11 are "No," you must file this form, but you do not have to complete Part II; nor must you file Schedules A, B, or C (Form 5713).*

Part II Requests for and Acts of Participation in or Cooperation with an International Boycott

12 (a) Did you receive requests to enter into, or, in fact, enter into any agreement:

Type of participation or cooperation	Requests Yes	Requests No	Agreements Yes	Agreements No
(1) As a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country to—				
(i) Refrain from doing business with or in a country which is the object of an international boycott or with the government, companies or nationals of that country?				
(ii) Refrain from doing business with any United States person engaged in trade in a country which is the object of an international boycott or with the government, companies, or nationals of that country?				
(iii) Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion?				
(iv) Refrain from employing individuals of a particular nationality, race, or religion?				
(2) As a condition of the sale of a product to the government, a company, or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott?				

12 (b) Requests and agreements.—If the answer to any part of 12(a) is "Yes," indicate below: the country, the taxpayer identifying number, principal business activity code, description of the principal business activity, and the number and the number code indicating the type of participation or cooperation requested or agreed to. (See Instructions.) If necessary, attach additional sheets using the exact format and check box . . . ▶ ☐

	Name of country (1)	Taxpayer identifying number of person receiving the request or entering into the agreement (2)	Principal business activity: Code (3)	Principal business activity: Description (4)	Type of cooperation or participation — Requested: Number (5)	Requested: Code (6)	Agreed: Number (7)	Agreed: Code (8)
(a)								
(b)								
(c)								
(d)								
(e)								
(f)								
(g)								
(h)								
(i)								
(j)								
(k)								
(l)								
(m)								
(n)								
(o)								
(p)								

SCHEDULE A (Form 5713) (May 1977)
Department of the Treasury Internal Revenue Service

Computation of the International Boycott Factor (Section 999(c)(1))

(To be completed only by persons not computing loss of tax benefits by the specifically attributable taxes and income method on Schedule B (Form 5713).)

▶ Attach to Form 5713. ▶ See Instructions on Back.

Name | Taxpayer identifying number

Purchases, sales, and payroll in or related to countries associated in carrying out a particular international boycott, by country

Name of country	Purchases			Sales			Payroll		
	Total	Non-boycott	Boycott (column 2 less column 3)	Total	Non-boycott	Boycott (column 5 less column 6)	Total	Non-boycott	Boycott (column 8 less column 9)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(a)									
(b)									
(c)									
(d)									
(e)									
(f)									
(g)									
(h)									
(i)									
(j)									
(k)									
(l)									
(m)									
(n)									
(o)									
(p)									
(q)									
(r)									
(s)									
Totals									

1 Numerator of boycott factor (add totals of columns 4, 7, and 10) . . . .

2 Denominator of boycott factor: **(a)** Total purchases from countries other than United States . . . . .

(b) Total sales to or from countries other than United States . . . .

(c) Total payroll paid or accrued for services performed in countries other than United States . . . . .

(d) Total of lines 2(a), (b), and (c) . . . .

3 International boycott factor (line 1 over line 2(d)) . . . .

4 Adjustment to boycott factor (see instructions):

(a) Enter date of last day of the taxpayer's taxable year that included November 3, 1976 . . . .

(b) Enter number of days for the period after November 3, 1976 to the end of the taxpayer's taxable year . . .

(c) Adjusted boycott factor $\left(\frac{\text{line 4(b)}}{\text{number of days in taxable year}} \times \text{line 3}\right)$ . . . .

5 Amount from line 3 or, if applicable, line 4(c). Enter here and on Schedule C (Form 5713) (see instruction 5) . . . .

Note: *If you are involved in any boycott other than the boycott reported on this schedule, complete a separate Schedule A for each separate boycott and attach to Form 5713.*

General Instructions

A. General Information.—Schedule A is to be completed only by persons not computing the loss of tax benefits by the specifically attributable taxes and income method on Schedule B (Form 5713). The international boycott factor is intended for use primarily by taxpayers who cannot clearly separate boycott and nonboycott operations.

The international boycott factor reflects not only the purchases, sales, and payroll of the person filing Schedule A, but also those of each member of the controlled group (within the meaning of section 993 (a)(3)) of which that person is a member. In addition, for purposes of computing the international boycott factor, a person is deemed to have a pro rata share of the purchases, sales, and payroll of each partnership of which it is a partner, and of each trust of which it is treated as the owner under section 671. Thus, a person's international boycott factor may also reflect purchases, sales, and payroll of a partnership or a trust.

To determine the relevant taxable years for which a person filing Schedule A must report the purchases, sales, and payroll of members of controlled groups, partnerships, and trusts, see the rules set forth in the specific instructions to questions 6–12 of Form 5713. See instruction C below for a special transitional rule for members of a controlled group.

B. Members of Controlled Groups.—Because the international boycott factor of a person reflects the purchases, sales, and payroll not only of that person but also of each member of the controlled group of which that person is a member, all members of a controlled group generally share a single, common international boycott factor. However, the international boycott factor of a person that is a member of two or more controlled groups will reflect the purchases, sales, and payroll of that person and of all other members of the two or more controlled groups of which that person is a member.

C. Transition Rule: Incomplete Taxable Year Which Includes November 3, 1976 for Controlled Groups.—If the taxpayer filing Schedule A is a member of a controlled group and, as of the end of that taxpayer's taxable year, the controlled group's taxable year that includes November 3, 1976 has not ended, or the taxable year of any member of the controlled group that includes November 3, 1976 has not ended, then the numerator and the denominator of the international boycott factor for the 1976 transitional year for the taxpayer filing this Schedule will reflect only the purchases, sales, and payroll of the members of the controlled group whose taxable years have ended as of the end of the taxpayer's taxable year.

D. Numerator of International Boycott Factor.—As a general rule, the numerator of the international boycott factor will reflect all purchases, sales, and payroll of a person (and, if applicable, of members of a controlled group, partnerships, and trusts) in or related to a group of countries associated in carrying out a particular international boycott. There are, however, two exceptions. First, purchases, sales, and payroll attributable to operations for which the presumption of boycott participation or cooperation has been rebutted need not be reflected in the numerator (see instruction F). Second, purchases, sales, and payroll attributable to operations carried out pursuant to certain binding contracts need be not reflected in the numerator (see instruction G).

E. Denominator of International Boycott Factor.—The denominator of the international boycott factor will reflect all purchases, sales, and payroll of a person (and, if applicable, of members of a controlled group, partnerships, and trusts) in or related to all countries other than the United States.

F. Presumption.—Generally one act of participation in or cooperation with an international boycott by a person will taint all the operations of that person and of each member of the controlled group of which that person is a member in each country that is associated with a group of countries in carrying out that particular international boycott unless rebutted as explained below.

The presumption of boycott participation or cooperation is rebutted for a particular operation if it is clearly demonstrated that that operation is a clearly separate and identifiable operation in connection with which there was no participation in or cooperation with an international boycott. If the presumption is rebutted with respect to a particular operation, then the purchases, sales, and payroll attributable to that operation are not reflected in the numerator of the international boycott factor. They will, however, be reflected in the denominator.

G. Binding Contracts.—Operations carried out in accordance with the terms of a binding contract entered into before September 2, 1976 do not constitute participation in or cooperation with an international boycott until after December 31, 1977. Therefore, the purchases, sales, and payroll attributable to such operations before January 1, 1978 are not reflected in the numerator of the international boycott factor. They will, however, be reflected in the denominator.

Specific Instructions

Note: *Compute a separate boycott factor and complete a separate Schedule A for each particular international boycott. Supply the relevant information for your operations and, if applicable, the operations of partnerships, trusts, and members of your controlled group.*

Column (1). Enter, on a separate line, the name of each relevant boycotting country.

Column (2). Enter, by country, the amount of all purchases made from that country.

Column (3). Enter, by country, the amount of purchases made from that country that are clearly demonstrated to be attributable to clearly separate and identifiable operations in connection with which there was no participation in or cooperation with a particular boycott; or are attributable to operations carried out before January 1, 1978 in accordance with the terms of a binding contract entered into before September 2, 1976. (See instructions F and G.)

Column (4). Enter, by country, the amount of boycott purchases from that country. (Column (2) minus column (3).)

Column (5). Enter, by country, the amount of sales made to or from that country.

Column (6). Enter, by country, the amount of sales made to or from that country that are clearly demonstrated to be attributable to clearly separate and identifiable operations in connection with which there was no participation in or cooperation with a particular boycott; or are attributable to operations carried out before January 1, 1978 in accordance with the terms of a binding contract entered into before September 2, 1976. (See instructions F and G.)

Column (7). Enter, by country, the amount of boycott sales made to or from that country. (Column (5) minus column (6).)

Column (8). Enter, by country, the amount of payroll paid or accrued for services performed in that country.

Column (9). Enter, by country, the amount of payroll paid or accrued for services in that country that are clearly demonstrated to be attributable to clearly separate and identifiable operations in connection with which there was no participation in or cooperation with a particular boycott; or are attributable to operations carried out before January 1, 1978 in accordance with the terms of a binding contract entered into before September 2, 1976. (See instructions F and G.)

Column (10). Enter, by country, the amount of boycott payroll paid or accrued for services performed in that country. (Column (8) minus column (9).)

Line 4. All operations of the taxpayer (or members of the controlled group) during the taxable year must be reflected in the international boycott factor. However, for taxable years including November 3, 1976, the international boycott factor is to be adjusted to reflect the effective date of section 999 (November 3, 1976). Complete line 4 if your (or the controlled group's) taxable year includes November 3, 1976. If the taxable year does not include November 3, 1976, do not complete line 4.

Line 5. Enter the international boycott factor from line 5 on the appropriate line of Schedule C (Form 5713).

If you are reducing your foreign tax credit under section 908(a), enter the amount from line 5 on line 2(a)(2) of Schedule C (Form 5713).

If you are being denied a deferral of taxation of income under subpart F (Section 952(a)(3)), enter the amount from line 5 on line 3(a)(4) of Schedule C (Form 5713).

If you are being denied a deferral of taxation of DISC income, enter the amount from line 5 on line 4(a)(2) of Schedule C (Form 5713).

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SCHEDULE B (Form 5713)
(May 1977)
Department of the Treasury
Internal Revenue Service

Specifically Attributable Taxes and Income (Section 999(c)(2))

(To be completed only by persons not computing loss of tax benefits by the international boycott factor on Schedule A (Form 5713).)

▶ Attach to Form 5713. ▶ See Instructions on Back.

Name	Taxpayer identifying number

Part I Specifically Attributable Taxes and Income By Country (Use a separate line for each country)

	Name of country (1)	Total taxable income (2)	Foreign tax credit: Foreign taxes (3)	Foreign tax credit: Foreign taxes attributable to boycott operations (4)	Subpart F income: Earnings and profits (5)	Subpart F income: Pro-rata share of international boycott income (6)	DISC income: Export gross receipts (7)	DISC income: Taxable income attributable to boycott operations (8)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11 Total								

Part II Specifically Attributable Taxes and Income By Operation (Use a separate line for each operation)

	Name of country (1)	Principal business activity: Code (2)	Principal business activity: Description (3)	Foreign tax credit: Foreign taxes attributable to boycott operations (4)	Subpart F income: Pro-rata share of international boycott income (5)	DISC income: Taxable income attributable to boycott operations (6)
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22 Total						

Part III Adjustment Factor (To be used only if your taxable year included November 3, 1976) (See Instructions)

23 Enter date of last day of the taxpayer's taxable year that included November 3, 1976

24 Enter number of days for the period after November 3, 1976 to the end of the taxpayer's taxable year

25 Adjustment factor $\left(\frac{\text{line 24}}{\text{number of days in taxable year}}\right)$

26 Foreign tax adjustment (multiply total from line 22, column (4) by line 25). (Enter here and on line 2(b), Schedule C (Form 5713))

27 Subpart F adjustment (multiply total from line 22, column (5) by line 25). (Enter here and on line 3(b), Schedule C (Form 5713))

28 DISC adjustment (multiply total from line 22, column (6) by line 25). (Enter here and on line 4(b), Schedule C (Form 5713))

Note: *If you are involved in more than one international boycott, use a separate Schedule B (Form 5713) to compute the specifically attributable taxes and income for each boycott.*

General Instructions

A. General Information

Schedule B (Form 5713) is to be completed only by persons not computing the loss of tax benefits by the international boycott factor on Schedule A (Form 5713). Taxpayers using the specifically attributable taxes and income method for computing the loss of tax benefits are to report taxes and income for the period covered by their own income tax return. Under the specific attribution method, taxes and income are reported on this schedule on an individual basis and not for all members of the controlled group.

B. Effective dates for tax sanctions.—

1. *Generally.*—The sanctions of the international boycott provisions apply to agreements to participate in or cooperate with an international boycott, made after November 3, 1976, and to agreements made on or before November 3, 1976, that continue in effect thereafter.

Example 1. Calendar Year.—If a person who reports his tax liability on a calendar year basis made an agreement, for example, on November 20, 1976, to participate in or cooperate with an international boycott, all operations of the person during the entire 1976 taxable year (including pre-November 20, 1976, operations) in or related to a boycotting country or with the government, a company, or a national of such country will be included in the amount of taxes or income specifically attributable to operations in which there was participation in or cooperation with an international boycott for the taxable year. However, under section 999(c)(2), the tax benefits specifically attributable to specific operations for which the presumption of participation in or cooperation with the boycott has been rebutted will not be denied.

The sanctions are applied to the year 1976 on a pro rata basis. If a person identifies specifically attributable taxes and income, the tax benefits denied under sections 908, 952(a), and 995(b)(1) are computed by first ascertaining the tax benefits of the foreign tax credit, deferral, and DISC respectively for the taxable year attributable to operations for which the presumption of boycott participation has not been rebutted, and then multiplying that amount by 58/366. For purposes of this example, 58 represents the number of days after November 3, 1976 through the end of the taxpayer's taxable year.

Example 2. Renunciation of an Agreement.—If under a contract made, for example, after December 31, 1976, a person agreed to refrain from an activity described in section 999(b)(3), and later renounced the agreement and communicated such renunciation to the government or person with which the agreement was made, all operations of the person during the entire taxable year within which the agreement was renounced (including post-renunciation operations) in or related to a boycotting country or with the government, a company, or a national of such country will be included in the amount of taxes or income specifically attributable to operations in which there was participation in or cooperation with an international boycott for the taxable year. However, the tax benefits specifically attributable to specific operations for which the presumption of participation in or cooperation with the boycott has been rebutted will not be denied. There is no proration between the pre-renunciation and post-renunciation portions of the taxable year.

2. *Exception.*—In the case of operations which constitute participation in or cooperation with an international boycott and are carried out in accordance with the terms of a binding contract entered into before September 2, 1976, the tax sanctions of the international boycott provision shall apply to such participation or cooperation only after December 31, 1977.

Specific Instructions

PART I.—Specifically Attributable Taxes and Income By Country

Column 1. Enter the name of the boycotting country. In reporting with respect to operations of a controlled foreign corporation (CFC), enter the name of the country in which the principal place of business of the CFC is located (Form 3646, line H, page 1).

Column 2. Enter, by country, the amount of taxable income or (loss) from sources outside the U.S. (total of column(s) 16, Schedule A from all applicable Form(s) 1118 (corporations); or total of column(s) 4, Schedule A from all applicable Form(s) 1116 (individuals)).

Column 3. Enter, by country, the amount of foreign taxes paid, accrued, or deemed paid before adjustment (total of lines 1 and 2, Part II, Schedule B, from all applicable Form(s) 1118 (corporations); or total of line(s) 1, Schedule C from all applicable Form(s) 1116 (individuals)).

Column 4. Enter, by country, the amount of foreign taxes paid, accrued, or deemed paid (other than foreign taxes otherwise disallowed by reason of the provisions of sections 901–907, 911, 1503(b), or 6038) that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott.

Column 5. Enter, by country (principal place of business of the CFC), the amount of earnings and profits for the taxable year (after reduction for any income, war profits, and excess profits taxes) as determined under section 902 or section 964 (see Form 3646, Schedule H, line 9).

Column 6. Enter, by country, your pro rata share of the income of the controlled foreign corporation (other than income attributable to earnings and profits of the foreign corporation included in gross income under section 951 (other than by reason of section 952(a)(3))) that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott.

Column 7. Enter, by country, the total amount of export gross receipts of the DISC (from Schedule N (Form 1120–DISC), Part I, Section A, column 2).

Column 8. Enter, by country, your pro rata share of one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), (C), (D), and (E) of section 995(b)(1), that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott. The taxable income of the DISC attributable to such operations is gross income of the DISC for the taxable year specifically attributable to such operations minus the deductions which are properly apportioned or allocated to such income.

PART II.—Specifically Attributable Taxes and Income By Operation

Column 1. Enter, by operation, the name of the boycotting country. In reporting with respect to operations of a controlled foreign corporation (CFC), enter the name of the country in which the principal place of business of the CFC is located (Form 3646, line H, page 1).

Column 2. Enter, by operation, the principal business activity code (see page 4 of instructions for Form 5713) for each boycott operation.

Column 3. Enter, by operation, a brief description of the principal business activity.

DISC's.—Enter, by operation, in parentheses, the product code and description. (See Instructions for Schedule N (Form 1120–DISC).)

Column 4. Enter, by operation, the amount of foreign taxes paid, accrued, or deemed paid (other than foreign taxes otherwise disallowed by reason of the provisions of sections 901–907, 911, 1503(b), or 6038) that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott.

If your taxable year did not include November 3, 1976, enter this amount on line 2(b), Schedule C (Form 5713).

Column 5. Enter, by operation, your pro rata share of the income of the controlled foreign corporation (other than income attributable to earnings and profits of the foreign corporation included in gross income under section 951 (other than by reason of section 952(a)(3))) that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott.

If your taxable year did not include November 3, 1976, enter this amount on line 3(b), Schedule C (Form 5713).

Column 6. Enter, by operation, your pro rata share of one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), (C), (D), and (E) of section 995(b)(1), that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott. The taxable income of the DISC attributable to such operations is gross income of the DISC for the taxable year specifically attributable to such operations minus the deductions which are properly apportioned or allocated to such income.

If your taxable year did not include November 3, 1976, enter this amount on line 4(b), Schedule C (Form 5713).

PART III.—Adjustment Factor

All operations of the taxpayer must be reflected in determining specifically attributable taxes and income. However, for taxable years including November 3, 1976, specifically attributable taxes and income must be adjusted to reflect the effective date of section 999 (November 3, 1976). Complete Part III if your taxable year includes November 3, 1976.

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218–295–2

SCHEDULE C (Form 5713)
(May 1977)
Department of the Treasury
Internal Revenue Service

Tax Effect of the International Boycott Provisions

▶ Attach to Form 5713. ▶ See Instructions on Back.

Name | Taxpayer identifying number

1 Method used in computing loss of tax benefits under sections 908(a), 952(a)(3) and 995(b)(1)(F)(ii) (check one):
(a) International boycott factor . . . . ▶ ☐
(b) Identification of specifically attributable taxes and income . . . . ▶ ☐

2 Reduction of foreign tax credit (section 908(a)):
(a) International boycott factor method (to be completed by persons checking box 1(a) above and answering "Yes," to foreign tax credit question (line 6(d), Form 5713))—
(1) Foreign tax credit before adjustment (line 6, Part III, Schedule B, Form 1118 (corporations); or line 6, Schedule D, Form 1116 (individuals)) . . . .
(2) International boycott factor (from Schedule A (Form 5713), line 5) . . . .
(3) Reduction of foreign tax credit (multiply line 2(a)(1) by line 2(a)(2)). Enter here and on line 7, Part III, Schedule B, Form 1118 (corporations); or enter here and on line 7, Schedule D, Form 1116 (individuals) . . . .
(4) Adjusted foreign tax credit (subtract line 2(a)(3) from line 2(a)(1)) . . . .
(b) Specific identification of taxes and income method (to be completed by persons checking box 1(b) above and answering "Yes," to foreign tax credit question (line 6(d), Form 5713)). Enter the amount of foreign taxes paid, accrued, or deemed paid (other than foreign taxes otherwise disallowed by reason of the provisions of sections 901–907, 911, 1503(b), or 6038) that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott. (See instructions.) . . . .

Note: *Enter the appropriate amount of disallowed boycott taxes on line 3, Part II, Schedule B, of all applicable Form(s) 1118 (corporations); or enter the appropriate amount of disallowed boycott taxes in column 5, Schedule B, of all applicable Form(s) 1116 (individuals).*

3 Denial of deferral under Subpart F (section 952(a)(3)):
(a) International boycott factor method (to be completed by persons checking box 1(a) above and answering "Yes," to controlled foreign corporation question (line 6(b), Form 5713))—
(1) Pro rata share of total income of controlled foreign corporation (line 9, Schedule H, Form 3646) .
(2) Less pro rata share of income attributable to earnings and profits of the controlled foreign corporation included in income under sections 951(a)(1)(A)(ii), 951(a)(1)(A)(iii), 951(a)(1)(B), 952(a)(1), 952(a)(2), 952(a)(4), and 952(b) . . . .
(3) Subtract line 3(a)(2) from line 3(a)(1) . . . .
(4) International boycott factor (from Schedule A (Form 5713), line 5) . . . .
(5) Pro rata share of Subpart F international boycott income (section 952(a)(3) amount) (multiply line 3(a)(3) by line 3(a)(4)). (Enter here and on line 5, Schedule B, Form 3646) . . . . . .
(b) Specific identification of taxes and income method (to be completed by persons checking box 1(b) above and answering "Yes," to controlled foreign corporation question (line 6(b), Form 5713)). Enter pro rata share of total income of the controlled foreign corporation (other than income attributable to earnings and profits of the foreign corporation included in gross income under section 951 (other than by reason of section 952(a)(3))) that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott. (See instructions.) (Also, enter this amount on line 5, Schedule B, Form 3646) . . . .

4 Denial of DISC benefits (section 995(b)(1)(F)(ii)):
(a) International boycott factor method (to be completed by persons checking box 1(a) above and answering "Yes," to DISC question (line 6(c), Form 5713)—
(1) Pro rata share of section 995(b)(1)(F)(i) amount. (Pro rata share of line 10, Part I, Schedule J, Form 1120–DISC) . . . .
(2) International boycott factor (from Schedule A (Form 5713), line 5) . . . .
(3) Pro rata share of DISC international boycott income (multiply line 4(a)(1) by line 4(a)(2)). (Enter here and on line 11, Part I, Schedule J, Form 1120–DISC) . . . .
(b) Specific identification of taxes and income method (to be completed by persons checking box 1(b) above and answering "Yes," to DISC question (line 6(c), Form 5713)). Enter pro rata share of one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), (C), (D), and (E) of section 995(b)(1), that has not been clearly demonstrated to be attributable to operations in which there was no participation in or cooperation with an international boycott. (See instructions.) (Also, enter this amount on line 11, Part I, Schedule J, Form 1120–DISC) . . . .

General Instructions

(Partnerships and DISCs need not complete Schedule C (Form 5713). However, partners and shareholders in DISCs must complete Schedule C (Form 5713).)

Application of the International Boycott Factor and Specifically Attributable Taxes and Income As Applied to Controlled Groups.—Once an international boycott factor has been computed for a controlled group (within the meaning of section 993(a)(3)), that international boycott factor is applied separately under sections 908 (a), 952(a), and 995(b)(1) to each member of the controlled group.

Further, if a person applies the international boycott factor to one operation during the taxable year, the factor must be applied to all operations during the taxable year under each of sections 908(a), 952(a), and 995(b) (1).

If a person identifies specifically attributable taxes and income under section 999(c)(2), that method must be applied to all operations during the taxable year under sections 908(a), 952(a), and 995(b)(1).

However, unless a consolidated return is filed, each member of a controlled group (within the meaning of section 993(a)(3)) may independently choose either to apply the international boycott factor under section 999(c)(1) or to identify specifically attributable taxes and income under section 999(c)(2). The method chosen by each member for determining the loss of tax benefits must be applied consistently to determine the loss of tax benefits of that member.

For example, if a member chooses to use the international boycott factor, then it must apply the international boycott factor to determine its loss of the section 902 indirect foreign tax credit in respect of a dividend paid to it by another member of the controlled group, even if that other member determines its loss of tax benefits by identifying specifically attributable taxes and income.

Specific Instructions

(Numbered to correspond with line numbers on Schedule C (Form 5713).)

2(b). If your taxable year included November 3, 1976, enter the amount from line 26, Schedule B (Form 5713).

If your taxable year did not include November 3, 1976, enter the amount from column 4, line 22, Schedule B (Form 5713).

3(b). If your taxable year included November 3, 1976, enter the amount from line 27, Schedule B (Form 5713).

If your taxable year did not include November 3, 1976, enter the amount from column 5, line 22, Schedule B (Form 5713).

4(b). If taxable year of the DISC included November 3, 1976, enter the amount from line 28, Schedule B (Form 5713).

If your taxable year did not include November 3, 1976, enter the amount from column 6, line 22, Schedule B (Form 5713).

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THE DEPARTMENT OF THE TREASURY 1789

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FOR IMMEDIATE RELEASE May 16, 1977

TREASURY SECRETARY BLUMENTHAL APPOINTS EVANS A. NORD AS NEW SAVINGS BONDS CHAIRMAN FOR SOUTH DAKOTA

WASHINGTON -- Secretary of the Treasury W. Michael Blumenthal has appointed Evans A. Nord, President and General Manager, Kelo-land Stations, as Volunteer State Chairman for Savings Bonds in South Dakota.

As State Chairman, Mr. Nord will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting Bond sales throughout the state. Mr. Nord succeeds Martin J. Colton, Consultant, National Bank of South Dakota.

Mr. Nord is Vice President of Midcontinent Broadcasting Company and directs the operation of television stations KELO-TV, KELO-AM & KELO-FM, Sioux Falls, South Dakota; KDLO-TV & KDLO-FM, Garden City, South Dakota; KPLO-TV, Reliance, South Dakota. He is also Vice President and Director of Wayne-Evans Associates, Minneapolis, Minnesota.

Mr. Nord is affiliated with a number of clubs and community activities, including the American Legion, Veterans of Foreign Wars, and Naval Reserve Association. In 1967 he received the United Community Services Distinguished Service Award; in 1971 the Optimist Club of Sioux Falls Friend of Youth Award; and in 1975 the Cosmopolitan Distinguished Service Award.

Mr. Nord was born in Carver, Minnesota and graduated from Augustana College, Sioux Falls, with a BA degree. He is married and has five children.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

May 16, 1977

BIOGRAPHICAL NOTES
C. FRED BERGSTEN
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

C. Fred Bergsten, 36, of Annandale, Va., signed the oath of office as Assistant Secretary for International Affairs on March 31, 1977, following confirmation March 29 by the Senate. He was nominated by President Carter on February 7.

Dr. Bergsten graduated magna cum laude in 1961 from Central Methodist College in Missouri. He received M.A., M.A.L.D., and Ph.D. degrees from the Fletcher School of Law and Diplomacy, where he majored in international economics and international relations.

Dr. Bergsten served President Carter as an advisor on international economics during the Presidential campaign, and was in charge of all aspects of international economic policy during the transition period. Shortly after President Carter's inauguration, Dr. Bergsten accompanied Vice President Mondale on his mission to the major European capitals and Tokyo.

As Assistant Secretary for International Affairs, Dr. Bergsten has major responsibilities in the formulation and execution of a wide range of U.S. international economic and financial policies. He has particular responsibility for U.S. participation in the international development lending institutions, including the World Bank. In fulfilling these responsibilities, Dr. Bergsten has recently headed the U.S. delegations to the negotiations for replenishing the resources of the International Development Association, the soft-loan affiliate of the World Bank, and to a meeting of the Group of Ten major industrial nations on international monetary problems.

Dr. Bergsten was a Senior Fellow at the Brookings Institution from 1972 until joining the Carter/Mondale transition team and then the Department of the Treasury. He was a Visiting Fellow at the Council on Foreign Relations during 1971-1972 and 1967-1969; Assistant for International Economic Affairs to the Assistant to the President for National Security Affairs, Dr. Henry A. Kissinger, in 1969-1971; and an International Economist at the Department of State during 1963-1967.

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An energetic and prolific writer, Dr. Bergsten is the author or co-author of eight books and more than sixty articles on a wide range of international economic and monetary subjects. His latest volume is The Dilemmas of the Dollar: The Economics and Politics of U.S. International Monetary Policy, which was published by the Council on Foreign Relations in early 1976. His American Multinationals and American Interests will shortly be published by the Brookings Institution. Dr. Bergsten was also the chief author of The Reform of International Institutions, a study for the Trilateral Commission, an organization dedicated to bringing about greater cooperation and new initiatives in North America, Europe, and Japan.

Among his many honors, Dr. Bergsten was given a Distinguished Alumnus Award by Central Methodist College in 1975 and was named one of Time Magazine's "200 Young American Leaders" in 1974. While at Brookings, he was a frequent witness before Congressional committees, testifying on such subjects as international monetary reform, overall U.S. foreign economic policy, commodities, trade, and international financial institutions.

Dr. Bergsten was born on April 23, 1941, in Brooklyn, New York. He is married to Virginia Wood Bergsten. They have a son, Mark David, age nine.

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STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
ON
THE PRESIDENT'S ENERGY PROGRAM
BEFORE THE COMMITTEE ON WAYS AND MEANS
WASHINGTON, D.C.

Mr. Chairman and members of this distinguished committee, it is an honor to appear before this committee again and to have an opportunity to discuss a matter as important as the President's Energy Program. Dr. Schlesinger is discussing the general setting of the program with you, and I would like to focus attention on the tax aspects.

Introduction

Let me begin by pointing out that tax aspects of the energy program before this committee are a major portion of the energy program--a carefully integrated packaged designed to reduce the annual energy growth to less than 2 percent per year by 1985.

These proposals are a balanced program. Some may be surprised that so comprehensive a program--involving as it does billions of dollars of additional tax collections and billions of dollars of disbursements--is projected to have such relatively small net impact on the nation's output and prices. The answer is that the plan is designed that way.

The tax proposals I will discuss today are intended--without the building of a vast regulatory bureaucracy--to encourage the conservation of scarce fuels, and at the same time to redirect energy use to alternative fuels--primarily coal--which are widely available. The principal mechanism for achieving these objectives is the use of the tax system, through a combination of tax penalties and tax incentives. The plan has been designed so that, for the economy as a whole, the revenues collected under the proposed tax penalties about equal related elements of the energy conservation program.

I would like to discuss first the pricing policy for oil and how an excise tax is used to achieve this effect.

Crude Oil and Gas Equalization Tax and Credits

One of the principles of our energy policy is a rational pricing policy for scarce energy sources to reflect world prices. This is necessary to assure that our scarce natural resources reflect the price which represents their true cost. The crude oil equalization tax is intended to bring the domestic refiner price of crude oil up to the world market price over a 3-year period without providing an unjustified windfall to producers of existing oil wells.

Under the crude oil equalization tax, domestic crude oil will be subject to an excise tax equal to the difference between the current controlled price and the 1977 world market price adjusted for inflation. The tax will be brought into effect in three stages, beginning in 1978. The full tax will be in effect by 1980.

This tax assures that all consumers of petroleum pay prices that reflect the true marginal cost of foreign imports. These prices should provide incentives both to reduce consumption and, where possible, to switch to alternative fuels. This tax also assures that consumers of relatively inexpensive oil will not gain an undue advantage over other consumers.

Both from the standpoint of fairness and to assure that the tax will not have an adverse effect on the economy, the net revenues derived from this tax will be recycled to users of oil. First, a refund of the tax is made to sellers of residential heating oil. But for this to be available the rebate must be flowed through to home heating oil customers. The balance of the revenues, less administrative costs and income tax reductions associated with business deduction of the tax, are to be returned to virtually all consumers on a per capita basis. All income taxpayers, including those receiving the earned income tax credit, would receive the per capita credit. The same per capita amount would be made available to those not paying tax but receiving social security payments, to those receiving SSI payments, railroad retirement payments and those on the AFDC program.

The gross crude oil equalization tax collections are estimated to amount to about $2.8 billion in 1978, rising quite rapidly to $11.9 billion in 1980 and then rising to $12.3 billion by 1985. Out of these gross tax receipts there will be paid tax refunds to jobbers to compensate them for the cost of residential heating oil exemptions. These are expected to amount to $48 million in 1978, rising to $966 million in 1981 and then staying at about that level thereafter. The remainder of the receipts are either estimated as reductions in income tax receipts or paid out on a per capita basis to income taxpayers and to those on social security, AFDC or similar programs. The estimated amount going to income taxpayers in 1978 is $1.9 billion, rising to $7.5 billion in 1985. The amount going to those on social security, AFDC or similar programs on this same per capita basis is estimated at about $500 million in 1978, rising to $1.9 billion in 1985.

Residential and Business Conservation

To provide a further stimulus to energy conservation, we have also proposed a series of residential conservation and business energy tax credits. These credits will provide individuals and businesses the incentives they need to make necessary efficiency improvements in their homes, factories, and business establishments.

The residential energy credit consists of the credits for insulation and the solar energy equipment. For home insulation a credit is provided against income tax to the individual taxpayer of 25 percent of the first $800 of expenditures of this type plus 15 percent of the next $1,400 of these expenditures (up to a maximum cumulative credit per taxpayer of $410). The expenditures for energy-saving equipment are those for wall and ceiling insulation, storm windows, clock thermostats and energy-saving furnace modifications. Expenditures for caulking and weather stripping qualify only if made in connection with other energy-saving expenditures. This incentive will go a long way towards achieving the President's goal of making as many as possible of the nation's homes thermally efficient.

In addition, we propose a significant incentive be provided for homeowners to tap our only nondepletable resource--the sun. We will provide in 1978, for example, a solar energy equipment credit of 40 percent, on the first $1,000 of solar equipment expenditures and 25 percent of additional expenditures (up to a maximum credit of $2,000). This covers both solar hot water and solar space heating installations. After 2 years, lower levels of the credit will apply through 1984. This kind of credit will enable many Americans to look beyond fossil fuels as the primary way of heating their homes and will enable them to employ the new solar heating technologies that are emerging.

We have proposed a similar program of tax credits which expand the present investment tax credit provisions for business investment in certain energy-saving equipment such as insulation, double glazed windows, energy control systems and efficient heat exchangers. These investments will be eligible for an additional 10-percent business energy property credit on top of the regular investment credit.

Solar heating equipment for commercial and industrial application and cogeneration property also would be eligible for this additional 10-percent credit. Cogeneration is the process by which waste heat generated in the process of making electricity is recycled and used in an industrial application, or vice versa. Cogeneration used to be fairly common, but today only 5 percent of total electrical generation capacity has this capability. This is an area where a tax incentive can make a significant contribution towards helping the nation conserve our energy supplies.

We estimate the cost of these residential and business credits to be $754 million in 1978 and to be $616 million in 1985. Most of this--$666 million in 1978 and $517 million in 1985--is attributable to thermal efficiency. Cogeneration accounts for most of the remainder--$52 million in 1978. (The program has expired by 1985.)

Transportation Taxes

The two primary proposals designed to encourage improved fuel use in transportation are the automobile fuel inefficiency tax and rebate and the standby gasoline tax and per capita credits and payments.

The automobile fuel inefficiency tax (commonly referred to as the "gas guzzler tax") and rebate mechanism will supplement existing law and regulation in this area, which already provide standards of fuel economy for the fleet in the years ahead and civil penalties on the automobile companies for failure to comply. The tax and rebate should result in a higher average fuel efficiency of new cars than that achievable under the EPCA standards alone. We believe the existing mechanism alone will not achieve the level of conservation we have established as a national goal.

The fuel efficiency tax and rebate is geared to a specific fuel efficiency standard already promulgated for new cars each year. For the 1978 model year, for example, the target level of automobile fuel efficiency is 18 miles per gallon. Cars just achieving that standard would pay no tax and would not be eligible for a rebate. Cars surpassing that standard would be eligible for a rebate based on their gasoline efficiency as determined by EPA testing. In 1978 cars with an average efficiency of 25 mpg, for example, would get a rebate which is five times the amount for which cars achieving only 20 mpg would be eligible. Conversely, cars not achieving the target efficiency would pay a tax of up to $450, depending on how far below the standard they rank. The standard and the tax is increased gradually so that for the 1985 model the standard is 27.5 miles per gallon and the maximum tax is about $2,500.

No net effect is expected on the budget surplus or deficit from the gas guzzler tax and rebate because the taxes collected on inefficient automobiles will be returned as rebates for efficient vehicles. Rebates on 1977 model year cars sold after May 1, 1977, along with rebates on 1978 model year cars will be paid out of 1978 model year taxes. The program is structured this way to help and encourage the automobile industry to convert from gas guzzlers to efficient small cars. The intent is to provide an incentive to purchase fuel efficient automobiles, not to collect tax revenues. The rebate mechanism will also minimize the inflationary impact of the program by reducing the net cost of fuel efficient vehicles to balance off the increases in cost of the fuel inefficient cars. The gas guzzler tax is expected to bring in receipts of $500 million in 1978, increasing to $1.9 billion by 1985. This, however, will be offset by expenditures of like amounts to cover the rebates.

Rebates will be made to foreign manufacturers on the basis of executive agreements entered into between the individual countries and the United States. These agreements will be designed to assure that domestic manufacturers are not disadvantaged by the tax and rebate system.

The standby gasoline tax in no event would go into effect before 1979 and in no year could amount to more than a 5-cent increase. It is keyed to a series of gasoline consumption targets which allow for continued increases through 1980 to a level of 7.45 million barrels a day. The present level is between 6.7 and 7.0 million barrels a day. After 1980 the targets assume that the energy program generally will result in economies in the use of gasoline and, thus, in subsequent years the consumption targets will gradually decrease to a level of 6.5 million barrels a day by 1987.

In 1979 or any subsequent year, the tax would go into effect if gasoline consumption in the preceding year exceeded the target by at least 1 percent. The amount of the tax would equal 5 cents for each percent that gasoline consumption exceeded the target in the preceding year. The tax could be reduced by 5 cents a year based on the formula in the legislation. The tax could not increase or decrease more than 5 cents per year and it could never exceed 50 cents per gallon.

In 1979, the standby gasoline tax, if imposed, would bring in revenues of $4.1 billion. This amount less reduced business income tax receipts associated with payment of higher gasoline taxes would be rebated either to income taxpayers or those on the various social security and related programs. By 1985, if every increase possible were provided, this could amount to $39.8 billion in that year; but again it would all be rebated to income taxpayers or those covered under social security or similar programs.

Two other lesser elements of the program concerned with transportation are the repeal of excise tax on buses and an increase in fuel excises paid by general aviation and motorboats.

The repeal of the 10-percent excise tax on buses is a step forward in promoting the use of this efficient mode of transportation. The higher excises on general aviation (increased by 4 cents per gallon) and motorboats (repeal of a 2 cents per gallon rebate) should achieve reductions in the use of fuel by these relatively inefficient and often nonessential modes of transportation. These higher excises will only apply to noncommercial uses of aircraft and motorboats; commercial fishermen and airlines will be exempt from the increased tax.

Since the automobile efficiency taxes and the standby gasoline taxes are designed to collect no net revenue, the budgetary impact of these transportation programs is quite small. The net impact of these two taxes is a gain of $32 million in fiscal 1978, and the impact in 1985 is estimated to be a gain of $71 million.

Oil and Gas Consumption Tax

The oil and gas consumption tax is designed to encourage industrial and utility users of oil and gas to convert to coal and other desirable fuels. Oil and gas consumption taxes would be imposed beginning in 1979 for industrial use and in 1983 for utility use of oil and gas. The tax on nonutility use is phased in gradually through 1985. The oil and gas consumption tax is intended to be a permanent tax.

These taxes would be rebated, however, to the extent that oil and gas users convert their plants to fuels other than oil or gas. This rebate will take the form of a dollar-for-dollar offset of conversion expenditures against the taxpayer's oil and gas consumption tax liability. Conversions include both modification of existing units and construction of new units. We expect a large percentage, over 50 percent in some years, of the taxes to be rebated because the higher prices of oil and gas and the lower capital costs of alternative fuels will make conversion investment economically attractive.

The oil and gas consumption taxes will apply only to those users for whom it is economically feasible to convert. A small business exemption from tax is provided for the first 500 billion BTUs a year. For an average user, this amounts to about $1.5 million in fuel costs per year. This size cutoff for taxable use will tax only the top 2,000 firms in the country which consume 90 percent of industrial oil and gas. We have also provided an exemption from these taxes for aircraft, railroads, ships, farming and use of oil or gas in the production of fertilizer and for nonfuel use by a refinery.

The expected net cost of these programs after all rebates is estimated at $1.4 billion in 1978 and about $11.9 billion in 1985.

Energy Development Incentives

Finally, we propose to provide two incentives to insure the future supply of oil, gas and geothermal resources. In regard to oil and gas intangible drilling expenses, we propose limiting the application of the minimum tax to those individuals sheltering other income through oil and gas losses. We would exempt from the minimum tax the many independent oil and gas drillers whose investments generate oil and gas income. Our amendment accomplishes this by restricting the minimum tax to intangible drilling expenses which exceed a taxpayer's oil and gas income.

In addition, we propose to provide an incentive that will aid in the development of our largely untapped geothermal resources. This is a relatively new industry, and because of this we believe that providing the industry with the opportunity to expense its intangible drilling costs will provide a needed stimulus to development. These expensed costs will be subject to the minimum tax to the extent that they exceed income from geothermal operations.

The revenue cost of these two initiatives is $24 million in 1978 and $128 million by 1985.

There has been criticism that the President's program has stressed energy conservation at the expense of development. This is not based on a close analysis of the program. Not only are there the two supply incentives just discussed, but we have what in the free enterprise system should be viewed as the most important incentive of all: a free price. After three years newly found oil will receive the 1977 world price of about $13.50 a barrel adjusted for general price increases. One remembers that crude oil sold for $3 a barrel only a few years back. This should be a great incentive. It is true that already existing discoveries will not get such a price. We see no reason for allowing windfall profits in this area.

I hope that this will provide the committee with an outline of the major tax aspects of the energy program.

The Energy Program and Tax Simplification

From my prior testimony before this committee, you are aware that one of Treasury's main concerns in the tax reform area is simplification. The proposals I have just described will certainly increase, not reduce, the volume of tax law.

We believe, however, that the Administration's energy tax proposals will add little in the way of complexity to the income tax laws, especially in regard to individual taxpayers. The bulk of our proposals take the form of excise taxes to be collected by businesses who are already well equipped to handle this form of tax. The business energy credit proposal simply expands the already existing investment tax credit provisions. The residential energy credit proposal may result in one additional line on tax returns, but it is anticipated that the other individual tax credits in the proposal will, each year, be folded into the current general tax credit.

In closing, let me reemphasize that these tax proposals form only part of a broad energy plan. Through the tax system we have tried to provide incentives for individuals to alter their consumption and production plans to meet our national objectives. The nontax proposals in the plan are also directed to this goal. The overall result is a coordinated package which will significantly reduce the rate of growth of energy demand while at the same time providing energy supply incentives.

I thank you.

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Estimated Revenue Impact of the Energy Program on Fiscal Year Receipts

($ millions)

		Fiscal Years								1978
		1978	1979	1980	1981	1982	1983	1984	1985	1985
1.	Auto efficiency tax (effective September 1, 1977)	500 1/	500 1/	500 1/	700 1/	900 1/	1,200 1/	1,500 1/	1,900 1/	7,700 1/
2.	Crude oil equalization tax net of rebates (effective January 1, 1978)	552 2/	1,180 2/	1,894 2/	2,030 2/	1,974 2/	1,960 2/	1,916 2/	1,879 2/	13,385 2/
3.	Standby gasoline tax (effective January 1, 1979)	3/	3/	3/	3/	3/	3/	3/	3/	3/
4.	Residential energy credits (effective April 20, 1977 through December 31, 1984):									
	a. Thermal efficiency (insulation, etc.) 4/	-360	-445	-469	-494	-520	-550	-581	-517	-3,936
	b. Solar energy	-32	-68	-75	-59	-68	-66	-81	-99	-548
5.	Business energy credits (effective April 20, 1977 through December 31, 1982):									
	a. Thermal efficiency	-306	-307	-349	-428	-488	-317	--	--	-2,195
	b. Cogeneration 5/	-52	-62	-106	-157	-214	-139	--	--	-730
	c. Alternative energy 6/	-4	-9	-19	-33	-46	-28	--	--	-139
6.	Oil and natural gas consumption taxes -- rebate for investment in alternative energy facilities:									
	a. Tax, net of rebate: electric utilities (effective January 1, 1983)	--	--	--	--	--	86	123	101	310
	b. Tax, net of rebate: other businesses (effective January 1, 1979)	--	1,403	3,444	4,169	4,918	6,529	8,278	11,862	40,603
7.	Tax incentives for certain energy resource supplies (effective April 20, 1977):									
	a. Expensing of intangible drilling costs, geothermal discovery and development	-5	-10	-17	-21	-20	-20	-32	-5[illegible]	[illegible]79
	b. Limitation of minimum tax on intangible drilling costs to amount in excess of net related income	-19 7/	-32	-37	-42	-48	-56	-65	-74	-373
8.	Aviation fuels tax revision (effective October 1, 1977)	44	47	50	55	61	66	71	76	470
9.	Revision of tax on gasoline for use in motorboats (effective October 1, 1977)	1	4	4	4	4	4	4	4	29
10.	Repeal excise tax on buses (April 20, 1977)	-13	-9	-9	-9	-9	-9	-9	-9	-76
	Total, excluding standby gasoline taxes	308	2,192	4,811	5,715	6,444	8,660	11,124	15,069	54,321

Office of the Secretary of the Treasury, Office of Tax Analysis — May 13, 1977

1/ Taxes shown will be fully rebated on the expenditure side of the budget.

2/ Taxes shown are net of refunds and income tax rebates and offsets and will be fully rebated on the expenditures side of the budget.

3/ Tax collected, if any, will be fully rebated. Collections after income tax rebate each year will range between zero and the following maximum allowable amounts: 1979, $0.9 billion; 1980, $2.0 billion; 1981, $3.2 billion; 1982, $4.4 billion; 1983, $5.6 billion; 1984, $6.8 billion; and 1985, $8.0 billion.

4/ In order to achieve the desired level of conservation, it may prove necessary to have mandatory standards affecting homes sold. The absence of any experience with the insulation incentives provided by this bill makes it difficult to estimate the level of insulation investment. The estimates presented here are relatively conservative. It is assumed that mandatory standards, effective January 1, 1980, would give rise to the following tax loss:

	Fiscal Years						1980-
	1980	1981	1982	1983	1984	1985	1985
Additional revenue effect	-43	-302	-395	-532	-835	-835	-2,942

5/ Includes effects of elimination of declining block rates.

6/ Coal conversion and solar equipment.

7/ The Conference agreement on H.R. 3477 includes this provision, effective for 1977 only. Thus, if the bill is enacted, this provision will have no revenue effect in calendar year 1977 or fiscal year 1978.

Oil and Natural Gas Consumption Taxes 1/

Relationship of Tax without Investment Rebate to Final Tax

($ millions)

	Fiscal Years							1979-
	1979	1980	1981	1982	1983	1984	1985	1985
'ax without rebate for qualified investment	2,745	7,555	10,499	12,467	16,467	19,235	21,566	90,534
)ualified investment rebate	-1,201	-3,675	-5,736	-6,880	-8,974	-9,700	-8,040	-44,206
leduced industry income tax 2/	-141	-436	-594	-669	-878	-1,134	-1,563	-5,415
let effect on receipts	1,403	3,444	4,169	4,918	6,615	8,401	11,963	40,913

)ffice of the Secretary of the Treasury
Office of Tax Analysis

May 13, 1977

1/ Industry and utility taxes.

2/ Results from less than full pass-through of tax to prices.

Crude Oil Equalization Tax

Relationship of Gross Excise to Energy Credits and Payments

($millions)

	Fiscal Years								1978-1985
	1978	1979	1980	1981	1982	1983	1984	1985	
Gross crude oil equalization tax collections	2,834	7,173	11,933	13,637	13,259	12,875	12,569	12,329	86,609
Refund for residential heating oil	-48	-361	-666	-966	-942	-913	-889	-871	-5,656
Reduced refiners' income tax 1/	-295	-1,059	-1,853	-2,329	-2,265	-2,156	-2,102	-2,060	-14,119
Estimated per capita energy credits	-1,939	-4,573	-7,520	-8,312	-8,078	-7,846	-7,662	-7,519	-53,449
Net effect on receipts	552	1,180	1,894	2,030	1,974	1,960	1,916	1,879	13,385
Amount available for energy payments (outlays)	552	1,180	1,894	2,030	1,974	1,960	1,916	1,879	13,385

Office of the Secretary of the Treasury
Office of Tax Analysis

May 13, 1977

1/ Results from less than full pass-through of tax to prices.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 9:30 A.M.
MAY 16, 1977

STATEMENT OF THE HONORABLE DANIEL H. BRILL
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of this distinguished Committee:

It is indeed a privilege to appear before this Committee today to lead off a discussion of the problems of incentives for economic growth, particularly incentives to increase the rate of capital formation so essential for sustaining economic growth.

In addressing these issues, we all recognize, of course, that we are not invading virgin territory. The problem has been the subject of intensive examination by economists, lawyers, business and labor leaders and by officials in the Executive and Legislative Branches of government over an extended period.

Having followed the course of these discussions over the years, from several different perspectives, I am encouraged by the growing coalescence of views on some key aspects of the problem. I think it fair to say that there is today, much wider acceptance of the theses that:

(a) there is a need to accelerate the rate of growth of our capital stock;

(b) government policies--not only the general tools of economic stabilization, such as monetary and fiscal policies, but also regulatory and tax policies--play a key role in determining the rate of capital growth;

(c) encouraging the rate of capital growth involves, importantly, the removal of impediments in the saving/investment process as well as the development of new inducements to higher levels of saving and investment.

Before turning to aspects of the problem on which there is less agreement, let me address what I think are the principal factors underlying these three generally accepted theses.

Recognition of the need to accelerate the rate of capital formation has been spurred, in recent years, by increasing evidence that productivity in the U.S. economy has deviated significantly below the earlier long-term growth trend. Ultimately, the increase in real returns to the factors of production, that is, the possibility of raising everyone's living standards, depends on the growth of output per unit of input. This sets the limits for our society as a whole. Disturbingly, in the past decade, the rate of gain in productivity has slowed significantly, limiting the possible growth in living standards and contributing to upward pressure on prices.

A substantial growth in productivity, averaging 2.9 percent annually in the nonfarm business sector, was a major contribution to the low inflation rate of the 1956-66 period. The data for the last decade, however, indicate that productivity increased at an average of only 1.5 percent per year. For the private sector as a whole, labor productivity growth was slightly more rapid because of a continued shift of employment out of agriculture into the nonfarm sector, where labor productivity is higher. However, a significant decline is equally evident for the private sector as a whole.

Of course, the decade of the mid-1950's through the mid-1960's was a period of rapid economic growth, terminating in a year of exceptionally high resource utilization. In contrast, the latest decade includes two severe recessions, and terminates in a year of low resource utilization. But even after adjustment for cyclical influences, it appears that the secular rate of productivity growth slowed perceptibly after 1969.

This slowdown in productivity growth has been attributed to a variety of causes--reduction in the workweek, slower growth in productive capital per worker, shifts in the composition of output to low productivity sectors, shifts in the composition of the workforce toward workers with less experience and fewer skills, and to a miscellany of other causes. For the most recent years, the drop in productivity after 1973 can be explained by the impact of the energy crisis, and the subsequent rebound in productivity in the past two years to the normal cyclical effects accompanying the economic recovery that began in early 1975. But these fluctuations have occurred around a level far below the long-term trend growth rate extrapolated from the experience of the 1950's and 1960's.

It is clear that no one factor satisfactorily explains the slowdown in productivity gains. But I am persuaded that the slower growth in the capital stock per worker has been one of the most important factors. I should hasten to emphasize that this has not been so much the result of a slowing in the rate of growth in the capital stock *per se*. There is some evidence that in recent years, the capital stock has grown at a somewhat slower pace than earlier, but the principal factor in the declining capital/labor ratio since 1969 has been the sharp acceleration in the growth of the labor force. In other words, we haven't been creating the tools of production as rapidly as we have been creating workers willing to use them. The amount of capital per member of the labor force grew by 3 percent per annum in the first two postwar decades. So far in the 1970's the amount of capital per worker has grown at only half that rate.

The implications of such a trend are disturbing, not only for the effect on inflation of reduced productivity but also for the sustainability over the longer term of an adequate growth rate for the economy as a whole. The benchmark study of the capital requirements of the U.S. economy, undertaken by the Department of Commerce two years ago, concluded that to assure a 1980 capital stock sufficient to meet the needs of a full employment economy, business fixed capital investment would have to absorb some 12 percent of real GNP in the second half of this decade. So far into the period, that is, in 1975 and 1976, fixed investment has been less than 10 percent of real GNP, so the gap to be filled in the remaining years would require an even faster rate of growth in additions to our capital stock than was postulated in the study.

In summary, then, we need more capital formation, both to restore productivity to the growth track of the 1950's and 1960's, and also to provide the tools of production for a full employment economy in the 1980's.

What private and public policies can facilitate the needed growth in capital formation? The answer was best put, in my judgment, in a report issued last October by the Fifty-first American Assembly, when a distinguished group of academic, business, labor and government leaders met to consider the capital needs of the United States. The final report of the Assembly noted: "The single most important means of encouraging investment expenditures is to combat economic instability and inflation."

Wide fluctuation in economic activity induce excessive caution in investment decisions. After all, whatever else may be done to increase the cost effectiveness of new investments, entrepreneurs have to have confidence that a market will be there for the products that will be produced in the plants in which they are investing. Instability in the economy breeds uncertainty, and uncertainty diminishes investment propensities.

Inflation and expectations of inflation are also adverse to investment. Businessmen no longer rush to accelerate expansion plans to "beat the price rise"; the experience of recent years has taught that by the time a new facility launched in the feverish atmosphere of inflationary momentum is likely to come on stream, a post-inflation recession will probably have dried up the intended market. And consumers have long displayed the wisdom of reducing major outlays when inflationary forces gather momentum.

The major contribution of public policy to capital formation, then, is the creation of a stable and noninflationary economic environment. The Carter Administration has expressed its dedication to this objective. The actions taken by the President to date to insure noninflationary growth, and the President's commitment to pursue this course into the future, should provide confidence to businessmen and consumers that the economic environment will be propitious for capital formation.

There are, in addition to the pursuit of macro-economic policies conducive to investment, specific policy areas addressing the capital formation problem. Principal among these is the tax structure. As this Committee knows, the Treasury has under way a major reexamination of our tax system, with the view to proposing to the Congress significant revisions. That study is not yet complete. However, it will be submitted sometime this summer or early fall; every effort is being made to reach conclusions as soon as possible.

Over the years, there have been many proposals for modifying the tax structure to enhance incentives for adding to our capital stock. The excellent study prepared by the Joint Committee on Taxation, released last month, classifies these proposals under six broad headings: proposals for the integration of corporate and individual income taxes, investment tax credits, modification of depreciation allowances, changes in the corporate tax rate, deduction of losses, and indexing for inflation. Each of these approaches, individually and in various combinations, is being carefully assessed.

The criteria that are being applied in the Treasury's evaluation of all revision options relate to three general considerations: simplification, equity and economic effectiveness, particularly in enhancing capital formation. The need for simplification is self-evident to anyone who has struggled through the preparation of an income tax return. It is only about a month since many of us have had to suffer through this annual exercise in frustration. But the complexity of the return is a function of the complexity of the law; simplification of the law will permit the design of a form more easily comprehended by the bulk of taxpayers.

The need for equity is also self-evident. Our tax system is unique in the extent to which it depends, successfully, on the voluntary participation of those subject to the system. That success can be maintained only if all taxpayers are convinced that the burden is being shared on an equitable basis. Equity considerations require correction of imbalances in the present tax structure that may be penalizing one form of income-generating income as against another, individual taxpayers as against businesses, small enterprises as against larger firms.

The need for an economically effective system, particularly one that facilitates capital formation, is evident from the analysis advanced earlier as to the economy's need for an accelerated rate of investment. One aspect of the tax structure with particular relevance to the problems of adding to our capital stock is the impact of taxes on the form of financing new investment. Our financial system is justifiably renowned for its capacity, scope, richness of form and resiliency. It functions with remarkable efficiency in gathering the savings of the public and transforming these into the means of financing private investment. Nevertheless, there is concern that the availability of financing--in both appropriate amount and form--is, or could become, an impediment to the necessary growth in our capital stock.

One fundamental problem is the tilt of the system toward financing through debt instruments. Savers appear, in general, to prefer acquiring financial assets of fixed nominal value and fixed income return--a preference that persists despite the postwar erosion in the purchasing power of fixed-value claims. Moreover, our present tax system encourages the financing of investment through debt instruments.

Over the longer-run, this is not the ideal arrangement; there are limits to which it is prudent or even feasible to pile increasing amounts of debt on a very slowly growing equity base. A debt-heavy financial structure increases the vulnerability of the business enterprise to cyclical fluctuations in income. It limits the venturesomeness of investment, for lenders cannot in good conscience underwrite the risks appropriate to an equity participant. And it inhibits economic growth because growth depends very much on willingness to risk investment in new products and new processes.

Moreover, the emphasis on debt financing raises particular problems for smaller and newer enterprises, which often lack the track record necessary to attract adequate amounts of financing from lenders, and must therefore fight for access to pools of equity financing.

Many proposals have been advanced to modify the tax structure in order to achieve more even-handed treatment of alternative means of financing investment. These proposals are all under active study.

As the Committee can well imagine, such a comprehensive assessment of the tax structure as is now under way is no mean task. Within each broad category of tax modification proposals mentioned earlier there are many variants to be pursued. There is a decided lack of unanimity among economists as to the economic "pay-off" of the various alternatives, and reasons for these differences in view must be explored. Foreign experience with some of the alternative approaches must be evaluated in terms of their possible relevance to U. S. problems. The relationship of the various alternatives to the tax measures and innovations incorporated in the National Energy Plan must be assessed.

Finally, the consistency of various alternatives must be established with the Administration's goals of reduced unemployment, reduced inflation and a balanced Budget by FY 1981. I might note, in concluding, that achievement of these goals depends importantly on maintaining a high rate of growth in investment over the balance of the decade. The Committee can be assured, therefore, that the tax revisions recommended will contribute to this objective.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 16, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,101 million of 13-week Treasury bills and for $3,201 million of 26-week Treasury bills, both series to be issued on May 19, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 18, 1977			26-week bills maturing November 17, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.741 a/	4.981%	5.11%	97.361	5.220%	5.44%
Low	98.736	5.000%	5.13%	97.349	5.244%	5.46%
Average	98.737	4.996%	5.13%	97.354	5.234%	5.45%

a/ Excepting 1 tender of $335,000

Tenders at the low price for the 13-week bills were allotted 84%.
Tenders at the low price for the 26-week bills were allotted 8%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 43,100,000	$ 26,300,000	$ 21,525,000	$ 6,525,000
New York	3,777,450,000	1,783,165,000	5,125,405,000	2,795,775,000
Philadelphia	25,060,000	24,510,000	6,285,000	6,285,000
Cleveland	28,250,000	28,250,000	61,595,000	11,595,000
Richmond	25,605,000	22,110,000	13,850,000	10,250,000
Atlanta	26,785,000	26,285,000	17,230,000	13,230,000
Chicago	211,845,000	47,005,000	283,320,000	77,400,000
St. Louis	35,740,000	25,730,000	50,860,000	31,940,000
Minneapolis	25,555,000	4,355,000	31,455,000	9,615,000
Kansas City	72,660,000	61,620,000	29,950,000	28,950,000
Dallas	19,480,000	17,480,000	11,855,000	10,395,000
San Francisco	341,845,000	33,675,000	633,115,000	199,115,000
Treasury	135,000	135,000	50,000	50,000
TOTALS	$4,633,510,000	$2,100,620,000 b/	$6,286,495,000	$3,201,125,000 c/

b/ Includes $335,465,000 noncompetitive tenders from the public.
c/ Includes $134,830,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-233

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 10:00 A.M.
TUESDAY, MAY 17, 1977

STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

Mr. Chairman and Members of this distinguished Committee:

I am pleased to have the opportunity to provide you with my first formal report on New York City's finances. My testimony will address the City's progress during the first two years of the Seasonal Financing Act and its prospects for the third and final year. In addition, I hope to begin an active dialogue over the City's future after the expiration of the present legislation in June 1978.

At the outset, Mr. Chairman, let me note the crucial role which this Committee has served in rescuing New York from the brink of bankruptcy. A balanced budget is now attainable, and it is in no small measure attributable to your foresight in shaping this legislation and your oversight in administering it.

I am pleased to report that, during its current fiscal year, the City appears to be meeting the basic objectives of its Financial Plan and thus, of the Seasonal Financing Act. I expect that all outstanding Federal loans will be repaid this year, as they were last year, on time or ahead of schedule. In addition, New York's operating deficit during its fiscal year 1977 is expected to be smaller than earlier projections.

With respect to next fiscal year, the City will submit its budget to the Emergency Financial Control Board (EFCB). After the EFCB approves the budget, in its current or a revised form, we will reach a final decision concerning its acceptability. I am hopeful that the budget will provide sufficient assurance of repayment to enable me to authorize the final year of seasonal loans beginning July 1, 1977. The City anticipates borrowing $2.1 billion from the Treasury during that year, less such amounts it may be able to borrow in the private markets.

Before I offer an assessment of New York's budget and financing prospects, let me first summarize the status of loans made to date under the Seasonal Financing Act.

Loan Program

As Appendix I indicates, the City borrowed and repaid $1.26 billion during the eight months of fiscal 1976. During the current fiscal year, the City has borrowed a maximum of $2.1 billion. It has repaid $1.075 billion of which $425 million was repaid yesterday. The balance of the loan outstanding -- $1,025 million -- is scheduled to be paid in full on June 30. I expect that the payment will be made on time.

To date, the New York City loan program has not cost the U.S. taxpayer anything. Under the law, Treasury is required to charge the City one percent more than the rate on outstanding government obligations of comparable maturity. As a result, the program will yield a net surplus of approximately $12 million this year. As you know, this amount will be returned to Treasury's general fund.

Let me now briefly review the circumstances under which the most recent loan was made. In late November, the New York State Court of Appeals invalidated a moratorium on note principal payments, causing the City to owe as much as $1.8 billion, which otherwise would have been due in fiscal 1979 and beyond. The unions and banks currently are negotiating on those "moratorium notes" which they hold, reducing the immediate obligation to $1 billion. Through February, City officials negotiated unsuccessfully with the local banks and municipal unions over a plan to finance this payment. In early February, however, the Court ordered payments to begin within 30-45 days. The City retirement funds, noting this imminent payment but no plan to finance it, suspended their schedule of loans to the City until a financing plan was developed. The City, threatened with a cash shortfall, turned to us for a $255 million loan.

As the Committee knows, the Seasonal Financing Act requires that I "determine that there is a reasonable prospect of repayment" before making each loan. In the absence of a plan to finance the $1 billion moratorium note payment, there was not adequate assurance that this requested $255 million loan would be repaid. Accordingly, I declined to authorize it.

Two weeks later, a revised repayment plan was submitted to and approved by the Emergency Financial Control Board. The City retirement funds agreed to resume their loans to the City. We conducted our own independent analysis of that plan and found that it offered a reasonable prospect of repaying the requested $255 million Treasury loan. We subsequently made that loan, which matures on June 30. Our judgment has been affirmed by the success of the City's repayment plan.

The lesson of this experience is clear: that I and my new colleagues at Treasury take literally our responsibility to assure that there is a reasonable prospect of repayment before making loans under this program. The Seasonal Financing Act is explicit on that point, and we will adhere to it.

City's Progress to Date Under the Financial Plan

Before I discuss the fiscal year 1978 budget and financing plans, I briefly will describe the major actions which New York City has taken to control its expenditures and improve its budget and accounting practices. I note these improvements because they demonstrate that the City has made substantial progress toward its goals of a balanced budget for fiscal 1978 and re-entry to the capital markets at the conclusion of that year.

New York has reduced its $968 million fiscal 1976 deficit to an estimated $642 million in fiscal 1977, including a $134 million general reserve. Moreover, we expect the City to eliminate the remaining deficit in fiscal 1978.

When measured from peak employment levels in January 1975, the number of full-time equivalent employees has been reduced by 60,000, and total payroll expenses have declined by 8 percent.

The City has realized increases in revenues of $1.3 billion, including approximately $900 million from increased taxes. We hope, however, that no further tax increases will be needed.

It has negotiated a general wage freeze with the City labor unions through June 1978 and a reduction in fringe benefits through that period.

The City should complete development of a new $16 million management information and expense control system by July, 1977. This system should provide the City with reliable financial data and facilitate accurate estimation of revenues and careful control of expenditures.

It has executed more than $6 billion in short and long-term financing during the period of the City Financial Plan, which ends June 30, 1978, including the funding of $1 billion in moratorium notes.

Regrettably, while these actions were being taken, the cost of welfare, past pension contracts, interest, energy and the general impact of inflation, all beyond the control of the City, have increased expenditures significantly. If it were not for these cost increases, the City would have accomplished its $1 billion budget deficit reduction goal within the first two years of the Plan.

Having listed these developments, Mr. Chairman, let me emphasize that much remains to be done. The City can and must reduce its expenditures, or the rate of growth in its expenditures, more than it has to date. Among other items, it must continue to address the following:

1. Elimination of Operating Expenses From the City's Capital Budget: The 1976 emergency legislation required that the expense items in the capital budget be eliminated over a ten year period. The City clearly intends to meet this schedule. Serious consideration should be given, however, to accelerating this schedule, because the existence of these expenses jeopardizes the credibility of the City's budget and the prospect of private sector financing. Unfortunately, the fiscal 1978 budget contains discouraging evidence that the amount of operating expenses in the capital budget is larger than originally projected.

2. Elimination of the Continuing Operating Deficit in the Health and Hospitals Corporation: The Health and Hospitals Corporation, which is a public benefit corporation, legally distinct from the City, is operating with a sizeable annual deficit. The City should take strong actions to improve the management of its health care delivery system to control costs and ultimately, to eliminate this deficit.

The 1978 Budget

Let me now turn, Mr. Chairman, to a brief discussion of the City's budget for the upcoming fiscal year. This budget was submitted to the Board of Estimate and the City Council on April 22. It will be submitted later to the Emergency Financial Control Board, whose judgment on it will be of critical importance to us. Finally, after the EFCB has rendered its judgment, the budget, in effect, is submitted to us.

Since the fiscal 1978 budget is not in its final form, it would be premature for me to reach definitive conclusions about its condition. We will make that judgment, in consultation with this Committee, when we receive the EFCB-approved budget next month. I am prepared, however, to offer two preliminary comments.

First, the fiscal 1978 budget will be balanced, "as defined." Local law permits the City to phase out, over a ten year period, those operating expenses which were included in the fiscal 1976 capital budget. Therefore, even when the City eliminates the general fund deficit, it still will have a fiscal 1978 deficit, in generally accepted accounting terms, of approximately $600 million.

Second, like any budget, the City's submission to the EFCB includes a series of assumptions concerning the probable rate of growth in revenues and prospective Federal and State actions. Some have questioned the soundness of certain of these assumptions, but most of them appear to be reasonable.

Having expressed these general thoughts on the budget, let me identify the key items which, after more thorough examination, may require the City's attention. It isn't productive, in my view, to debate the probabilities of realizing each budgetary item. Rather, we should await the Emergency Financial Control Board's findings before reaching definitive judgments ourselves.

> The $253 million deferral of principal payments on MAC bonds held by the union pension funds and clearing-house banks: Negotiations between the City officials and the lenders hopefully will lead to agreements on this deferral. Any agreements may be contingent upon favorable settlement of certain litigation, but we are hopeful that the deferral -- the so-called "MAC Stretch" -- will be obtained.
>
> The $135 million of countercyclical revenue sharing funds which the City will receive if Congress passes the President's proposed extension of the countercyclical aid program: The legislation has passed the full Senate and the full House. We are optimistic about the overall prospects for enactment.

Substantial increases in pension costs which may be incurred unless State legislation is enacted to permit alternative funding practices: The State Comptroller has issued accounting directives which require the City to shift from cash basis accounting to accrual methods in its pension system. The City, however, is challenging the timing of this change. We are concerned about the funding of the City's pension systems, but, in fairness, virtually no other government, including the Federal government, accounts for retirement costs on an accrual basis.

Let me conclude this discussion of the budget, Mr. Chairman, by reiterating that Treasury will act as required by the Seasonal Financing Act and require that the 1978 budget be balanced. We won't begin the third and final year of the loan program on any other basis. If further reductions in projected expenses must be pursued to achieve that balance, Treasury will require the City to do so. I believe that such reductions, if any are necessary, will be required by the EFCB.

The 1978 Seasonal Loan Program

If the budget is balanced, Mr. Chairman, we will begin, on July 1, the third and final year of the seasonal loan program. The City tentatively has indicated that it needs to borrow up to $2.1 billion under this program next year.

There is a new element in the final year of the Act, however, and I want to emphasize it. The Credit Agreement requires that the City certify to Treasury, each time it submits a seasonal loan request in 1978, that it has exhausted all efforts to borrow the same amount on its own.

Treasury intends to interpret this requirement literally. We expect City officials to demonstrate conclusively that seasonal financing is not available to them from any conventional sources. We will utilize our own judgment and the judgment of leading municipal bond experts to ascertain the availability of conventional financing.

I will say, however, that we expect New York City to borrow a portion of its 1978 requirements on its own. We see no reason why conventional short-term loans should not be obtained at market interest rates. This will require cooperation and flexibility on the part of all involved parties -- City officials, banks, unions, potential underwriters and others. We expect that all parties will work toward that goal. It is unlikely, however, that the entire amount could be financed independently.

Prospects for Self-Financing During the Post 1978 Period

I would now like to address, Mr. Chairman, perhaps the most critical question for us to consider in the coming months. Can New York City finance itself entirely, if Federal financing assistance is terminated on schedule in mid-1978?

At this moment, more than a year before that expiration date, no one can be certain of the answer. Treasury will be addressing this question intensively during the next few months -- it already is the principal focus of our New York work. We will, of course, report our developing judgments to Congress regularly as issues are examined in greater detail. Yet, I will say today, Mr. Chairman, that I am uncertain about the City's ability to finance its entire needs -- nearly $4 billion of seasonal and long-term financing -- when the present legislation expires. We expect that the City can raise some, if not most, of this $4 billion on its own, but raising the entire amount may be difficult.

Naturally, Mr. Chairman, I hope that my current uncertainty proves unfounded. We intend to work closely with the City officials and the investment community to maximize the prospects of financing all of the City's needs privately.

Long-Term Economic Outlook for the City

Let me conclude by briefly discussing the long-term economic outlook for New York City.

New York's financing problems are symptomatic of the deterioration in the City's economic base over the last fifteen years. The City, like many older central cities, gradually has suffered significant losses from its tax base-- middle-income households, employment and taxable property. These losses have undermined the City's ability to provide essential services and simultaneously to maintain a balanced budget. They remain a principal underlying cause of the City's budget difficulties, and they must be reversed if the City is to recover.

The problem of urban economic decline, unlike the City's financing difficulties, is not confined to New York City. Many other central cities are experiencing a similar deterioration in their own economic bases. These cities, like New York, face continual budget difficulties.

The problems of these declining cities cannot be solved simply by refining municipal borrowing mechanisms. Such a solution addresses only the symptoms of the problem. Instead, these cities require programs that focus on the underlying cause -- the decline of the private sector economic base. They require policies that improve the investment climate in urban areas.

I am pleased to report that the City has taken several steps to improve the investment environment in New York. The proposed reductions in the City's business and property taxes should help convince investors that the City is serious about encouraging new private sector investment. Moreover, the Mayor's economic development initiatives, while still new, are steps in the right direction.

Our urban policies should supplement these efforts by concentrating on revitalizing the central city economic base. This Administration's newly-formed Urban and Regional Policy Group, which is charged with formulating the Administration's urban policies, is working on initiatives to expand private sector employment in central cities. Each Cabinet Department will be responsible for identifying the contribution that its programs can make to urban economic development.

These local and Federal initiatives suggest that there is cause for optimism concerning New York City's future. I look forward to working with this Committee as these efforts unfold. Thank you.

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New York City Seasonal Loan Program
Borrowing and Repayment Schedule

Year[1]	Borrowing Date	Repayment Date	Amount (Millions)	Interest Rate (%)	Interest Due (Millions)
FY 1976	12/18/75	4/16/75	130	6.92	2.958
	12/31/75	5/18/76	240	6.68	6.105
	1/15/76	4/16/76	140	6.13	2.163
	2/11/76	6/18/76	250	6.29	5.516
	2/17/76	6/25/76	80	6.26	1.770
	2/17/76	6/30/76	100	6.26	2.298
	3/01/76	6/25/76	250	6.39	5.077
	3/15/76	6/25/76	70	6.33	1.238
			1,260	6.43	27.124
FY 1977	7/01/76	4/15/77	500	7.37	29.076
	7/16/76	4/20/77	150	7.02	8.020
	7/16/76	5/20/77	200	7.10	11.982
	8/04/76	5/20/77	225	7.04	12.541
	12/01/76	6/30/77	200	5.85	6.763
	12/08/76	6/30/77	200	5.83	6.516
	12/22/76	6/30/77	200	5.73	5.965
	12/30/76	6/30/77	170	5.75	4.874
	3/14/77	6/30/77	255	5.92	4.466
			2,100	6.53	90.207
FY 1978			2,100		

1/ City's fiscal year ending June 30.

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FOR IMMEDIATE RELEASE May 17, 1977

INCOME TAX TREATY NEGOTIATIONS

The Treasury Department today announced the countries with which it is engaged in income tax treaty negotiations, released the text of its current "model" income tax treaty, and invited comments.

The Treasury Department has a general policy of announcing initial income tax treaty negotiations with particular countries, and giving an opportunity for comment. However, often negotiations are scheduled on short notice, making notice impractical, and often negotiations extend over a period of several years, so that earlier comments no longer reflect current problems. In order to give better guidance and in order to obtain comments from interested persons, the Treasury Department today announced that negotiations are currently in process (or contemplated in the near future) with the following countries:

Bangladesh	India
Brazil	Italy
Canada	Kenya
Denmark	Netherlands
Federal Republic of Germany	Singapore
France	Sri Lanka
Hungary	Yugoslavia

The Treasury Department would welcome amendments to previous comments, or new or supplemental comments concerning negotiations with those countries. Comments should be sent in writing to Laurence N. Woodworth, Assistant Secretary of the Treasury, U.S. Treasury Department, Washington, D.C. 20220. In addition, the Treasury Department always welcomes comments with respect to the advisability of entering into or revising income tax treaties with any country.

The Treasury Department also made available today the text of its current "model" income tax treaty. The Treasury Department is currently suggesting this model as a starting point for negotiations. The model conforms closely to the revised draft treaty which has been developed by the Organization for Economic Cooperation and Development and should be published later this year. Any comments on this model may also be sent to Laurence N. Woodworth.

The Treasury Department also announced today that negotiations are virtually completed with the following countries:

Morocco
Republic of China (Taiwan)
Spain

Income tax treaties with Cyprus, Egypt, Israel, the Philippines, South Korea, and the United Kingdom have been signed and (except for Cyprus) submitted to the Senate for approval.

The announcement appears in the Federal Register of May 17, 1977.

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MODEL OF MAY 17, 1977

CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME AND CAPITAL

The Government of the United States of America and the Government of , desiring to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital, have agreed as follows:

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Article 1

PERSONAL SCOPE

1. Except as otherwise provided in this Convention, this Convention shall apply to persons who are residents of one or both of the Contracting States.

2. This Convention shall not restrict in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded--

a) by the laws of either Contracting State, or

b) by any other agreement between the Contracting States.

3. Notwithstanding any provision of this Convention except paragraph 4 of this Article, a Contracting State may tax its residents (as determined under Article 4 (Fiscal Domicile)), and by reason of citizenship may tax its citizens, as if this Convention had not come into effect. For this purpose the term "citizen" shall include a former citizen whose loss of citizenship had as one of its principal purposes the avoidance of income tax, but only for a period of 10 years following such loss.

4. The provisions of paragraph 3 shall not affect:

a) the benefits conferred by a Contracting State under paragraphs 1 b) and 4 of Article 18 (Pensions, etc.), Articles 23 (Relief From Double Taxation), 24 (Non-Discrimination), and 25 (Mutual Agreement Procedure); and

b) the benefits conferred by a Contracting State under Articles 19 (Government Service), 20 (Students and Trainees) and 27 (Effect of Convention on Diplomatic Agents and Consular Officers, Domestic Laws, and Other Treaties), upon individuals who are neither citizens of, nor have immigrant status in, that State.

Article 2

TAXES COVERED

1. This Convention shall apply to taxes on income and on capital imposed on behalf of a Contracting State.

2. The existing taxes to which this Convention shall apply are:

   a) In the United States: the Federal income taxes imposed by the Internal Revenue Code and the excise taxes imposed on insurance premiums paid to foreign insurers and with respect to private foundations, but excluding the accumulated earnings tax and the personal holding company tax.

   b) In ______________ : ____________________________________
   ____.

3. The Convention shall apply also to any identical or substantially similar taxes which are imposed by a Contracting State after the date of signature of this Convention in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of any changes which have been made in their respective taxation laws and shall notify each other of any official published material concerning the application of this Convention, including explanations, regulations, rulings, or judicial decisions.

4. For the purpose of Article 24 (Non-Discrimination), this Convention shall also apply to taxes of every kind and description imposed by a Contracting State or a political subdivision or local authority thereof. For the purpose of Article 26 (Exchange of Information and Administrative Assistance), this Convention shall also apply to taxes of every kind imposed by a Contracting State.

Article 3

GENERAL DEFINITIONS

1. For the purpose of this Convention, unless the context otherwise requires:

a) the term "person" includes an individual, a partnership, a company, an estate, a trust, and any other body of persons;

b) the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;

c) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;

d) the term "international traffic" means any transport by a ship or aircraft, except where such transport is solely between places in the other Contracting State.

e) the term "competent authority" means:

(i) in the United States: the Secretary of the Treasury or his delegate, and

(ii) in

____.

f) the term "United States" means the United States of America, but does not include Puerto Rico, the Virgin Islands, Guam or any other United States possession or territory.

g) the term means _______________________.

2. As regards the application of this Convention by a Contracting State any term not defined therein shall, unless the context otherwise requires and subject to the provisions of Article 25 (Mutual Agreement Procedure), have the meaning which it has under the laws of that State concerning the taxes to which this Convention applies.

Article 4

RESIDENT

1. For purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, citizenship, place of management, place of incorporation, or any other criterion of a similar nature, provided, however, that:

a) this term does not include any person who is liable to tax in that State in respect only of income from sources in that State or capital situated therein; and

b) in the case of income derived or paid by a partnership, estate, or trust, this term applies only to the extent that the income derived by such partnership, estate, or trust is subject to tax as the income of a resident of that State, either in its hands or in the hands of its partners or beneficiaries.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his or her status shall be determined as follows:

a) The individual shall be deemed to be a resident of the State in which he or she has a permanent home available; if such individual has a permanent home available in both States, or in neither State, he or she shall be deemed to be a resident of the State with which his or her personal and economic relations are closer (center of vital interests);

b) If the State in which the individual's center of vital interests cannot be determined, he or she shall be deemed to be a resident of the State in which he or she has an habitual abode;

c) If the individual has an habitual abode in both States or in neither of them, he or she shall be deemed to be a resident of the State of which he or she is a national;

d) If the individual is a national of both States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a company is a resident of both Contracting States, then if it is created or organized under the laws of a Contracting State or a political subdivision thereof, it shall be treated as a resident of that State.

4. Where by reason of the provisions of paragraph 1 a person other than an individual or a company is a resident of both Contracting States, the competent authorities of the Contracting States shall by mutual agreement endeavor to settle the question and to determine the mode of application of the Convention to such person.

5. For purposes of this Convention, an individual who is a national of a Contracting State shall also be deemed to be a resident of that State if (a) the individual is an employee of that State or an instrumentality thereof in the other Contracting State or in a third State; (b) the individual is engaged in the performance of governmental functions for the first-mentioned State; and (c) the individual is subjected in the first-mentioned State to the same obligations in respect of taxes on income as are residents of the first-mentioned State. The spouse and minor children residing with the employee and subject to the requirements of (c) above shall also be deemed to be residents of the first-mentioned State.

6. Where under any provision of this Convention income arising in one of the Contracting States is relieved from tax in that Contracting State and, under the law in force in the other Contracting State a person, in respect of the said income, is subject to tax by reference to the amount thereof which is remitted to or received in that other Contracting State and not by reference to the full amount thereof, then the relief to be allowed under this Convention in the first-mentioned Contracting State shall apply only to so much of the income as is remitted to or received in the other Contracting State during the year such income accrues.

Article 5

PERMANENT ESTABLISHMENT

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" shall include especially:

   a) a branch;

   b) an office;

   c) a factory;

   d) a workshop; and

   e) a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources.

3. A building site or construction or installation project, or an installation or drilling rig or ship used for the exploration or development of natural resources, constitutes a permanent establishment only if it lasts more than 24 months.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

   a) the use of facilities solely for the purpose of storage, display, or delivery of goods or merchandise belonging to the enterprise;

   b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

f) the maintenance of a fixed place of business solely for any combination of the activities mentioned in subparagraphs a) to e) of this paragraph.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person - other than an agent of an independent status to whom paragraph 6 applies - is acting on behalf of an enterprise and has and habitually exercises in a Contracting State an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

6. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

7. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

Article 6

INCOME FROM IMMOVABLE PROPERTY (REAL PROPERTY)

1. Income derived by a resident of a Contracting State from immovable (real) property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other State.

2. The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, boats and aircraft shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise and to income from immovable property used for the performance of independent personal services.

5. A resident of a Contracting State who is subject to tax in the other Contracting State on income from immovable property situated in the other Contracting State may elect for any taxable year to compute the tax on such income on a net basis as if such income were attributable to a permanent establishment in such other State. Any such election shall be binding for the taxable year of the election and all subsequent taxable years unless the competent authorities of the two Contracting States, pursuant to a request by the taxpayer made to the competent authority of the Contracting State in which the taxpayer is a resident, agree to terminate the election.

Article 7

BUSINESS PROFITS

1. The business profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the business profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the business profits which it might be expected to make if it were a distinct and independent enterprise engaged in the same or similar activities under the same or similar conditions.

3. In determining the business profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including a reasonable allocation of executive and general administrative

expenses, research and development expenses, interest, and other expenses incurred for the purposes of the enterprise as a whole (or the part thereof which includes the permanent establishment), whether incurred in the State in which the permanent establishment is situated or elsewhere.

4. No business profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

5. For the purposes of the preceding paragraphs, the business profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

6. Where business profits include items of income which are dealt with separately in other Articles of this Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

7. For the purposes of this Convention, "business profits" means income derived from any trade or business whether carried on by an individual, company or any other person, or group of persons, including the rental of tangible personal (movable) property, and the rental or licensing of cinematograph films or films or tapes used for radio or television broadcasting.

Article 8

SHIPPING AND AIR TRANSPORT

1. Profits of an enterprise of a Contracting State from the operation in international traffic of ships or aircraft shall be taxable only in that State.

2. For purposes of this Article, profits from the operation in international traffic of ships or aircraft include profits derived from the rental on a full or bareboat basis of ships or aircraft if operated in international traffic by the lessee or if such rental profits are incidental to other profits described in paragraph 1.

3. Profits of an enterprise of a Contracting State from the use, maintenance or rental of containers (including trailers, barges and related equipment for the transport of containers) used for the transport in international traffic of goods or merchandise shall be taxable only in that State.

4. The provisions of paragraph 1 and 3 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

Article 9

ASSOCIATED ENTERPRISES

1. Where

   a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State, or

   b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State,

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

2. Where a Contracting State includes in the profits of an enterprise of that State, and taxes accordingly, profits on which an enterprise of the other Contracting State has been charged to tax in that other State, and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been

made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.

3. The provisions of paragraph 1 shall not limit any provisions of the law of either Contracting State which permit the distribution, apportionment or allocation of income, deductions, credits, or allowances between persons owned or controlled directly or indirectly by the same interests when necessary in order to prevent evasion of taxes or clearly to reflect the income of any of such persons.

Article 10

DIVIDENDS

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed:

a) 5 percent of the gross amount of the dividends if the beneficial owner is a company (other than a partnership) which owns, directly or indirectly, 10 percent of the voting stock of the company paying the dividends;

b) 15 percent of the gross amount of the dividends in all other cases.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident.

4. The provisions of paragraphs 1 and 2 shall not apply if the recipient of the dividends, being a resident of a Contracting State, carries on

business in the other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment or fixed base. In such a case, the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

5. Where a company is a resident of a Contracting State, the other Contracting State may not impose any tax on the dividends paid by the company, except insofar as

a) such dividends are paid to a resident of that other State,

b) the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State, or

c) such dividends are paid out of profits attributable to one or more permanent establishments which such company had in that other State, provided that such profits constituted at least 50 percent of such company's gross income from all sources.

Where subparagraph c) applies and subparagraphs a) and b) do not apply, any such tax shall be subject to the limitations of paragraph 2.

Article 11

INTEREST

1. Interest derived and beneficially owned by a resident of a Contracting State shall be taxable only in that State.

2. The term "interest" as used in this Convention means income from debt-claims of every kind, whether or not secured by mortgage, and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums or prizes attaching to such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest for the purpose of this Convention.

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

4. Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which

the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.

5. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

6. A Contracting State may not impose any tax on interest paid by a resident of the other Contracting State, except insofar as

a) such interest is paid to a resident of the first-mentioned State,

b) the debt claim in respect of which the interest is paid is effectively connected with a permanent establishment or a fixed base situated in the first-mentioned State, or

c) such interest arises in the first-mentioned State and is not paid to a resident of such other State.

Article 12

ROYALTIES

1. Royalties derived and beneficially owned by a resident of a Contracting State shall be taxable only in that State.

2. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (but not including cinematograph films or films or tapes used for radio or television broadcasting), any patent, trade mark, design or model, plan, secret formula or process, or other like right or property, or for information concerning industrial, commercial or scientific experience. The term "royalties" also includes gains derived from the alienation of any such right or property which are contingent on the productivity, use, or disposition thereof.

3. The provisions of paragraph 1 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits) or Article 14 (Independent Personal Services), as the case may be, shall apply.

4. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the person deriving the royalties in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.

Article 13

CAPITAL GAINS

1. Gains derived by a resident of a Contracting State from the alienation of immovable property referred to in Article 6 (Income From Immovable Property) and situated in the other Contracting State may be taxed in that other State.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.

3. Gains derived by an enterprise of a Contracting State from the alienation of ships, aircraft or containers operated by such enterprise in international traffic shall be taxable only in that State, and gains described in Article 12 (Royalties) shall be taxable only in accordance with the provisions of Article 12.

4. Gains from the alienation of any property other than that referred to in paragraphs 1, 2 , and 3, shall be taxable only in the Contracting State of which the alienator is a resident.

Article 14

INDEPENDENT PERSONAL SERVICES

Income derived by an individual who is a resident of a Contracting State from the performance of personal services in an independent capacity shall be taxable only in that State unless such services are performed in the other Contracting State and

a) the individual is present in that other State for a period or periods aggregating more than 183 days in the taxable year concerned, or

b) the individual has a fixed base regularly available to him in that other State for the purpose of performing his activities, but only so much of the income as is attributable to that fixed base may be taxed in such other State.

Article 15

DEPENDENT PERSONAL SERVICES

1. Subject to the provisions of Articles 18 (Pensions, Etc.) and 19 (Government Service), salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in the taxable year concerned,

b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State, and

c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.

3. Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment as a member of the regular complement of a ship or aircraft operated by an enterprise of a Contracting State in international traffic may be taxed only in that Contracting State.

Article 16

INVESTMENT OR HOLDING COMPANIES

If 25 percent or more of the capital of a company which is a resident of a Contracting State is owned directly or indirectly by individuals who are not residents of that State, and if by reason of special measures the tax imposed by that State on that company with respect to dividends, interest or royalties arising in the other Contracting State is substantially less than the tax generally imposed by the first-mentioned State on corporate business profits, then, notwithstanding the provisions of Articles 10 (Dividends), 11 (Interest), or 12 (Royalties), that other State may tax such dividends, interest or royalties. For the purposes of this Article, the source of dividends, interest or royalties shall be determined in accordance with paragraph 3 a), b), or c) of Article 23 (Relief from Double Taxation).

Article 17

ARTISTES AND ATHLETES

1. Notwithstanding the provisions of Articles 14 (Independent Personal Services) and 15 (Dependent Personal Services), income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as an athlete, from his or her personal activities as such exercised in the other Contracting State, may be taxed in that other State, except where the amount of the gross receipts derived by such entertainer or athlete, including expenses reimbursed to him or her or borne on his or her behalf, from such activities do not exceed fifteen thousand United States dollars ($15,000) or its equivalent in   for the taxable year concerned.

2. Where income in respect of activities exercised by an entertainer or an athlete in his or her capacity as such accrues not to that entertainer or athlete but to another person, that income may, notwithstanding the provisions of Articles 7 (Business Profits), 14 (Independent Personal Services), and 15 (Dependent Personal Services), be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised. For purposes of the preceding sentence, income of an entertainer or athlete shall be deemed not to accrue to another person if it is established that

neither the entertainer or athlete, nor persons related thereto, participate directly or indirectly in the profits of such other person in any manner, including the receipt of deferred remuneration, bonuses, fees, dividends, partnership distributions or other distributions.

Article 18

PENSIONS, ETC.

1. Subject to the provisions of paragraph 2 of Article 19 (Government Service),

a) pensions and other similar remuneration beneficially derived by a resident of a Contracting State in consideration of past employment shall be taxable only in that State, and

b) social security payments and other public pensions paid by a Contracting State to an individual who is a resident of the other Contracting State or a citizen of the United States shall be taxable only in the first-mentioned Contracting State.

2. Annuities beneficially derived by a resident of a Contracting State shall be taxable only in that State. The term "annuities" as used in this paragraph means a stated sum paid periodically at stated times during life or during a specified number of years, under an obligation to make the payments in return for adequate and full consideration (other than services rendered).

3. Alimony paid to a resident of a Contracting State by a resident of the other Contracting State shall be exempt from tax in the other Contracting State. The term "alimony" as used in this paragraph means periodic payments made pursuant to a written separation

agreement or a decree of divorce, separate maintenance, or compulsory support, which payments are taxable to the recipient under the laws of the State of which he is a resident.

4. Periodic payments for the support of a minor child made pursuant to a written separation agreement or a decree of divorce, separate maintenance, or compulsory support, paid by a resident of one of the Contracting States to a resident of the other Contracting State, shall be exempt from tax in both Contracting States.

Article 19

GOVERNMENT SERVICE

1. a) Remuneration, other than a pension, paid by a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.

   b) However, such remuneration shall be taxable only in the other Contracting State if the services are rendered in that State and the individual is a resident of that State who:

   (i) is a national of that State; or

   (ii) did not become a resident of that State solely for the purpose of rendering the services;

   provided that the provisions of clause (ii) shall not apply to the spouse or dependent children of an individual who is receiving remuneration to which the provisions of subparagraph (a) apply and who does not come within the terms of clause (i) or (ii).

2. a) Any pension paid by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that State.

b) However, such pension shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that State.

3. The provisions of Articles 14 (Independent Personal Services), 15 (Dependent Personal Services), 17 (Artistes and Athletes), and 18 (Pensions, etc.) shall apply to remuneration and pensions in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or a local authority thereof.

Article 20

STUDENTS AND TRAINEES

1. Payments which a student, apprentice or business trainee who is or was immediately before visiting a Contracting State a resident of the other Contracting State and who is present in the first-mentioned State for the purpose of his or her full-time education or training receives for the purpose of his or her maintenance, education or training shall not be taxed in that State provided that such payments arise from sources outside that State.

2. An individual to whom paragraph 1 applies may elect to be treated for tax purposes as a resident of the first-mentioned State. The election shall apply to all periods during the taxable year of the election and subsequent taxable years during which the individual qualifies under paragraph 1, and may not be revoked except with the consent of the competent authority of that State.

Article 21

OTHER INCOME

1. Items of income of a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable only in that State.

2. The provisions of paragraph 1 shall not apply to income other than income from immovable property as defined in paragraph 2 of Article 6 (Income From Immovable Property), if the person deriving the income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 (Business Profits), Article 14 (Independent Personal Services), or Article 17 (Artistes and Athletes), as the case may be, shall apply.

Article 22

CAPITAL

1. Capital represented by immovable property referred to in Article 6 (Income From Immovable Property), owned by a resident of a Contracting State and situated in the other Contracting State, may be taxed in that other State.

2. Capital represented by movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or by movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services may be taxed in that other State.

3. Capital represented by ships and aircraft operated by a resident of a Contracting State in international traffic and movable property pertaining to the operation of such ships and aircraft shall be taxable only in that State.

4. All other elements of capital of a resident of a Contracting State shall be taxable only in that State.

Article 23

RELIEF FROM DOUBLE TAXATION

1. In the case of the United States, double taxation shall be avoided as follows: In accordance with the provisions and subject to the limitations of the law of the United States (as it may be amended from time to time without changing the general principle hereof), the United States shall allow to a resident or citizen of the United States as a credit against the United States tax on income or capital the appropriate amount of tax paid to ; and, in the case of a United States company owning at least 10 percent of the voting stock of a company which is a resident of from which it receives dividends in any taxable year, the United States shall allow as a credit against the United States tax on income the appropriate amount of tax paid to by that company with respect to the profits out of which such dividends are paid. Such appropriate amount shall be based upon the amount of tax paid to , but the credit shall not exceed the limitations (for the purpose of limiting the credit to the United States tax on income from sources outside of the United States) provided by United States law for the taxable year. For purposes of applying the United States credit in relation to tax paid to the taxes referred to in paragraphs 2 b) and 3 of Article 2 (Taxes Covered) shall be considered to be income taxes.

2. In the case of , double taxation shall be avoided as follows: In accordance with the provisions and subject to the limitations of the law of (as it may be amended from time

to time without changing the general principle hereof), the shall allow to a resident or citizen of as a credit against the tax on income or capital the appropriate amount of tax paid to the United States; and in the case of a company owning at least 10 per-cent of the voting stock of a company which is a resident of the United States from which it receives dividends in any taxable year, shall allow as a credit against the United States tax on income the appropriate amount of tax paid to the United States by that company with respect to the profits out of which such dividends are paid. Such appropriate amount shall be based upon the amount of tax paid to the United States, but the credit shall not exceed the the limitations (for the purpose of limiting the credit to the tax on income from sources outside of) provided by law for the taxable year. For purposes of applying the credit in relation to tax paid to the United States the taxes referred to in paragraphs 2 a) and 3 of Article 2 (Taxes Covered) shall be considered to be income taxes.

3. For the purposes of the preceding paragraphs of this Article, the source of income or profits shall be determined in accordance with the following rules:

a) Dividends, as defined in paragraph 3 of Article 10 (Dividends), shall be deemed to arise in a Contracting State if paid by a company which is a resident of that State or if paragraph 5 c) of Article 10 (Dividends) applies.

b) Interest, as defined in paragraph 2 of Article 11 (Interest), shall be deemed to arise in the State specified in paragraph 4 of Article 11.

c) Royalties, as defined in paragraph 2 of Article 12 (Royalties), shall be deemed to arise in a Contracting State to the extent that such royalties are with respect to the use of, or the right to use, rights or property within that State.

d) Except for income or profits referred to in subparagraphs a), b), or c), and except for income or profits taxed by the United States solely by reason of citizenship in accordance with paragraph 2 of Article 1 (Personal Scope): income or profits derived by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with this Convention shall be deemed to arise in that other Contracting State.

Article 24

NON-DISCRIMINATION

1. Nationals of a Contracting State shall not be subjected in the other State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected. For purposes of the preceding sentence, nationals who are subject to tax by a Contracting State on worldwide income are not in the same circumstances as nationals who are not so subject. This provision shall, notwithstanding the provisions of Article 1 (Personal Scope), also apply to persons who are not residents of one or both of the Contracting States.

2. The term "nationals" means:

a) in relation to ______________, ______________________________

b) in relation to the United States, United States citizens.

3. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This provision shall not be construed as obliging a Contracting State to grant to residents

of the other Contracting State any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.

4. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 5 of Article 11 (Interest), or paragraph 4 of Article 12 (Royalties) apply, interest, royalties and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same condition as if they had been paid to a resident of the first-mentioned State. For purposes of this paragraph, the term "other disbursements" shall include charges for amounts expended by such residents for purposes of such enterprise, including a reasonable allocation of executive and general administrative expenses (except to the extent representing the expenses of a type of activity which is not for the benefit of such enterprise, but constitute "stewardship" or "over-seeing" functions undertaken for such resident's own benefit as an investor in the enterprise), research and development, and other expenses incurred by such resident for the benefit of a group of related enterprises including such enterprise. Similarly, any debts of an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of such enterprise, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

5. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

6. The provisions of this Article shall, in accordance with the provisions of paragraph 4 of Article 2 (Taxes Covered), apply to taxes of every kind and description imposed by a Contracting State or a political subdivision or local authority thereof.

Article 25

MUTUAL AGREEMENT PROCEDURE

1. Where a person considers that the actions of one or both of the Contracting States result or will result for him or her in taxation not in accordance with the provisions of this Convention, he or she may, irrespective of the remedies provided by the domestic law of those States, present his or her case to the competent authority of the Contracting State of which he or she is a resident or national.

2. The competent authority shall endeavor, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Convention. Any agreement reached shall be implemented notwithstanding any time limits in the domestic law of the Contracting States.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. In particular the competent authorities of the Contracting States may agree:

a) to the same attribution of income, deductions, credits, or allowances of an enterprise of a Contracting State to its permanent establishment situated in the other Contracting State;

b) to the same allocation of income, deductions, credits, or allowances between persons, including a uniform position on the application of the requirements of paragraph 3 of Article 24 (Non-discrimination);

c) to the same characterization of particular items of income;

d) to the same application of source rules with respect to particular items of income; and

e) to a common meaning of a term.

They may also consult together for the elimination of double taxation in cases not provided for in the Convention.

4. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

5. The competent authorities of the Contracting States may prescribe regulations to carry out the purposes of this Convention.

Article 26

EXCHANGE OF INFORMATION AND ADMINISTRATIVE ASSISTANCE

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is not contrary to the Convention. The exchange of information is not restricted by Article 1 (Personal Scope). Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Convention. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

2. In no case shall the provisions of paragraph 1 be construed so as to impose on a Contracting State the obligation:

a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;

b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;

c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy (ordre public).

3. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall obtain the information to which the request relates in the same manner and to the same extent as if the tax of the first-mentioned State were the tax of that other State and were being imposed by that other State. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of depositions of witnesses and authenticated copies of unedited original documents (including books, papers, statements, records, accounts, or writings), to the same extent such depositions and documents can be obtained under the laws and administrative practices of such other State with respect to its own taxes.

4. Each of the Contracting States shall endeavor to collect on behalf of the other Contracting State such amounts as may be necessary to ensure that relief granted by the present Convention from taxation imposed by such other Contracting State does not enure to the benefit of persons not entitled thereto.

5. Paragraph 4 of this Article shall not impose upon either of the Contracting States the obligation to carry out administrative measures

which are of a different nature from those used in the collection of its own tax, or which would be contrary to its sovereignty, security, or public policy.

6. For the purpose of this Article, this Convention shall apply to taxes of every kind imposed by a Contracting State.

Article 27

DIPLOMATIC AGENTS AND CONSULAR OFFICERS

Nothing in this Convention shall affect the fiscal privileges of diplomatic agents or consular officers under the general rules of international law or under the provisions of special agreements.

Article 28

ENTRY INTO FORCE

1. This Convention shall be subject to ratification in accordance with the applicable procedures of each Contracting State and instruments of ratification shall be exchanged at ______________________________ as soon as possible.

2. The Convention shall enter into force upon the exchange of instruments of ratification and its provisions shall have effect:

a) In respect of tax withheld at the source, to amounts paid or credited on or after the first day of the second month next following the date on which this Convention enters into force,

b) In respect of other taxes, to taxable periods beginning on or after the first day of January next following the date on which this Convention enters into force.

Article 29

TERMINATION

1. This Convention shall remain in force until terminated by a Contracting State. Either Contracting State may terminate the Convention at any time after 5 years from the date on which this Convention enters into force provided that at least 6 months' prior notice of termination has been given through diplomatic channels. In such event, the Convention shall cease to have effect:

a) In respect of tax withheld at the source, to amounts paid or credited on or after the first day of January next following the expiration of the 6 months' period;

b) In respect of other taxes, to taxable periods beginning on or after the first day of January next following the expiration of the 6 months' period.

DONE at ____________________ in duplicate, in the English and   languages, the two texts having equal authenticity, this ______ day of ____________ 19___ .

FOR THE UNITED STATES OF AMERICA

FOR

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 17, 1977

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 $5,300 million, or thereabouts, to be issued May 26, 1977, as follows:

91-day bills (to maturity date) in the amount of $2,100 million, or thereabouts, representing an additional amount of bills dated February 24, 1977, and to mature August 25, 1977 (CUSIP No. 912793 J7 2), originally issued in the amount of $3,604 million, the additional and original bills to be freely interchangeable.

183-day bills, for $3,200 million, or thereabouts, to be dated May 26, 1977, and to mature November 25, 1977 (CUSIP No. 912793 L4 6).

The bills will be issued for cash and in exchange for Treasury bills maturing May 26, 1977. This offering will provide for a net pay-down for the Treasury of about $900 million as the maturing issues are outstanding in the amount of $6,210 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,320 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 and from individuals at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, May 23, 1977. 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 or at the Bureau of the Public Debt on May 26, 1977, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 26, 1977. 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, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE 12 NOON E.D.T.
MAY 17, 1977

REMARKS BY UNDER SECRETARY BETTE ANDERSON
BEFORE THE AMERICAN IMPORTERS ASSOCIATION
PLAZA HOTEL, NEW YORK CITY

It is indeed a pleasure for me to be speaking to you, knowing that I represent an Administration which has pledged itself to continued efforts at liberalizing world trade. At the Economic Summit Meeting President Carter and the other leaders of the large industrial democracies stated that:

> We are committed to providing strong political leadership for the global effort to expand opportunities for trade and to strengthen the open international trading system. Achievement of these goals is central to world economic prosperity and the effective resolution of economic problems faced by both developed and developing countries througout the world.

In sharp contrast to the unhappy history of the Thirties, the leaders of the countries that produce most of the world's output and account for most of its trade have rejected protectionism. They rejected any effort to export their unemployment and other problems to their trading partners. Instead, they called for significant new reductions of tariffs and non-tariff barriers -- with the full recognition that by expanding trade, by working together to strengthen the world's economic system each country will be better able to solve its problems at home.

This commitment is important. But it is only the beginning. Now it must be translated into reality in the Tokyo round of trade negotiations and in the actions of individual countries. I do not underrate the difficulties. When growth lags, when unemployment is high, protectionism grows stronger. That is why the Carter Administration's efforts to speed economic growth in the United States, while controlling and then reducing inflation, are critically linked to our trade policy.

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So we need your understanding and support not only for measures specifically concerned with maintaining and expanding the open trading system, we need it also for the other domestic and international economic policies that must accompany our trade policy.

Within this broad policy setting, the Treasury Department is planning innovations that will facilitate commercial trade and make life simpler for travelers returning with foreign goods.

Since the last Customs procedural reform in the early 1950's, the value of U.S. imports and the amount of duties collected has increased fivefold and the workloads of import specialists and customs inspectors have increased substantially. Customs has modernized and simplified its procedures wherever possible. But, faced with a law that reflects business and travel conditions of the 19th Century, legislative change is essential if Customs is to keep pace with today's conditions.

Most of you, I am sure, carefully followed the progress of H.R. 9220, the Customs modernization and simplification legislation in the 94th Congress. The AIA, along with other interested organizations and business associations, commented on that bill at the hearings before the trade Subcommittee in August 1976. Early this year, your association had the opportunity to review and discuss with Customs officials various drafts of a new Customs procedural reform bill. The proposed legislation, currently under consideration in the Department is, we believe, responsive to many of your concerns. Procedural reform is needed to help increase the productivity of the Customs work force in the face of increased workloads and to assure compliance with the laws. Here are some of the measures we will propose to Congress.

First we will propose to eliminate the simultaneous filing of entry documentation and payment of Customs duties, thus permitting separation of entry documentation and reporting from the Duty colleciton procedure. This will allow full implementation of the Automated Merchandise Processing System (AMPS) which is already in effect in Philadelphia, Chicago, Baltimore, Boston, and Miami and will be initiated soon in Los Angeles. With the flexibility provided by this change, transactions between customs and importers could be expedited, duty payments could be made periodically at local banks, and periodic statements of account could replace individual bills and refunds. And we would gain the double benefit of simultaneously reducing the amount of paperwork between Customs and importers and increasing the amount of information available on Customs transactions.

Second, we will propose recordkeeping requirements that allow improved verifications without requiring any records that would not be maintained for ordinary business purposes. The provision would only require records to be kept which pertain to importations of merchandise or support the correctness of information contained in the entry documents submitted to Customs.

Bearing in mind the President's concern about the costs of government record-keeping requirements, we have taken care to avoid imposing any undue hardship or needless costs and to carefully strike the proper balance between the needs of the Government and the impact on importers. Another set of specialized records would not have to be created and kept for Customs purposes. At the same time, these revised procedures should strengthen the generally amicable and cooperative relationship that exists between Customs and importers concerning audits and inquiries.

Third, we will propose an administrative summons that will provide a better and fairer means of compelling testimony or the production of books and records after reasonable notice has been given. This administrative summons would be enforceable in a United States district court, giving the person summoned an opportunity to contest the summons in a judicial setting and protecting his or her rights as well as those of the Government.

Fourth, to ease the processing of international travelers, we will propose that the personal exemption be increased to $300 from the $100 allowance permitted since 1962. And we will propose a flat duty rate of 10 percent on dutiable articles valued between $300 and $600 carried by a returning traveller or in his or her baggage.

Fifth, as another measure that will benefit returning travelers, as well as small importers, we will propose to extend informal entry procedures to shipments valued up to $600, instead of the current level of $250. Informal entry procedures, which can be likened to the short-form tax return, would produce significant savings to travellers and other small improters, and reduce formal customs entries by over 230,000, resulting in substantial savings in processing costs.

Of course, no piece of Customs legislation could rightfully be called "procedural reform" unless it contained an amendment to the so-called fraud and penalty provision of the Tariff Act, section 592. In recent years, this provision of law has been the subject of mounting criticism primarily because the required penalty, equal to the forfeiture value of the merchandise has no relationship to the loss of revenue suffered by the Government. The great majority of violations of this section, nearly 90 percent, result from the negligence of the importer rather than any intention to defraud the Government. Nevertheless, whether the violation is due to fraud or negligence, the same penalty is assessed in the first instance. Although the intent of the violator can later be considered by Customs and the penalty reduced or cancelled, the initial penalty can often result in severe injury to business.

Another criticism of existing section 592 is that judicial review of the alleged violation is for all intents and purposes precluded because the Government is required to sue for the full amount of the initial penalty, if the mitigated amount is not paid. In concrete terms, if the initial penalty is $1 million and the mitigated penalty is $50,000, it is unlikely that a businessman would risk $1 million to seek judicial review.

Accordingly, our sixth proposal will authorize the Secretary of the Treasury to assess a monetary penalty up to the value of the merchandise with the proviso that the Secretary could only apply the full penalty in those rare instances involving intentional actions or omissions designed to defraud the Government. The Secretary would establish levels of penalty which would reflect the present standard administrative practice of distinguishing between various degrees of negligent behavior. Such variations allow penalties to equal a multiple of the loss of revenue or a percentage of the value of the merchandise.

By reducing the initial penalty assessment the unintentional damage to business would be eliminated and access to the courts for review of the penalty assessment would be made available.

Seventh and last, we will offer two proposals to set reasonable time limits for the settlement of most Customs matters. We <u>will propose to amend section 621 of the Tariff Act to place a 5 year limit, measured from the date of entry, for assessment of a penalty under section 592 caused by the negligence of the importer</u>. In cases of fraud, however, we would reserve the right to assess a penalty within 5 years of discovery of the violation as is now provided by law.

In response to comments of the AIA, customhouse brokers, customs' attorneys and surety companies, we will also propose a statute of limitations on the liquidation of entries.

I hope that the many stories I've heard of entries being unliquidated for over 20 years, will soon be a thing of the past. Since the enactment of the Customs Courts and Administrative Act of 1970, it is no longer possible for an entry to be tied up in the courts for many years before it is finally returned to Customs to be liquidated. I also understand that wherever the Automated Merchandise Processing System has been installed the average time between entry and liquidation has been reduced significantly. Nevertheless, despite improvements in this area, there are benefits to importers and Customs alike from a statute of limitations on the time in which to liquidate entries. Of course, a statute of limitations would have to provide adequate time for a complete examination of the import transaction and a fair liquidation, and authority for its suspension in circumstances where liquidation is delayed by statute or an investigation cannot be completed within the required time.

In addition to the proposals we will make, there are two areas that are receiving further study. In the legislation we will propose, Title III of H.R. 9220, the amendment to the customhouse brokers provision of the Tariff Act, has been deleted. This should not be interpreted as a lack of interest in the conduct of the customs brokerage industry. To the contrary, we are very seriously examing the concept of self-regulation by the customs brokers. We understand that some customs brokerage associations are now considereing a code of ethics for their members. We applaud this movement.

However, self-regulation must be sufficient to protect the interests of all concerned. Discussions with your association and the customs brokers are anticipated as our study progresses.

The Department is also looking into the Customs ruling process, including current staffing and backlogs, the publication of classification rulings, and possiblities of strengthening the Customs Information Exchange to improve communications with the importing community and assure uniformity of action in Customs districts throughout the country.

Now let me briefly mention our enforcement of the anti-dumping and countervailing duty statutes. In the interests of Customs enforcement, I have instructed Customs to assign additional staff in order to bring all dumping master-lists up to date as soon as possible. We intend to establish a consistent and predictable approach in our enforcement of the anti-dumping and countervailing duty laws. Predictability is essential if importers, exporters and domestic manufacturers are to be able to plan their future business in a rational manner.

Finally, I would like to refer to a matter which I am sure is on all your minds: the Zenith case. You have probably heard that the Customs Court has decided in favor of Zenith Radio Corporation and adversely to the Government's position. This ruling means that the Court considers the rebate of the Japanese commodity tax to be a bounty or grant, and that our Countervailing Duty Law requires the imposition of a duty equivalent in amount. If upheld, this precedent could affect a substantial portion of our imports. Of course, this decision we find to be at complete odds with the liberalized trading policies so necessary to world economic health.

Therefore, the case was immediately appealed to the U.S. Court of Customs and Patent Appeals, and the Government's brief was filed last week, on May 12th. The argument is scheduled for June 8th. We are hopeful that a finding will be in the Government's favor, and we expect it will be handed down in early fall or possibly sooner. In the meantime, liquidation of imports of Japanese electronic products has been suspended, and bonds averaging 15 percent will have to be posted. We understand the uncertainty in which this state of affairs puts you, but everything I have said today should assure you that the Government is doing all that it can to correct this difficult situation.

As I mentioned earlier, this is an exciting time to be in the Treasury Department. We have an opportunity to make a major improvement in the procedures which affect international trade. With your assistance, it is my hope that we can work for Customs procedural reform which will be responsive to the needs of the Government and the importing public now and in the future.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: Robert Banque
566-5712

FOR IMMEDIATE RELEASE, MAY 18, 1977

U.S. AND ISRAEL ESTABLISH JOINT INDUSTRIAL R&D FOUNDATION

Ambassador Simcha Dinitz of Israel and Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten today exchanged letters formally establishing the Israel-United States Binational Industrial Research and Development Foundation. On behalf of their respective governments, Assistant Secretary Bergsten and Ambassador Dinitz each contributed $30 million to create an endowment which will be used to promote industrial research and development activities of mutual interest and benefit to both countries.

The U.S. contribution was appropriated by the Congress in the Supplemental Appropriations Act of 1977, signed by the President May 4.

The exchange of letters formally implements an agreement between the two governments signed in Jerusalem on March 3, 1976, and culminates more than two years of preparations under the auspices of the U.S.-Israel Joint Committee for Investment and Trade. The objective of the Joint Committee, which is co-chaired by Secretary of the Treasury Blumenthal and the Minister of Finance of Israel, is to foster closer economic ties between the United States and Israel.

The Foundation is designed to promote and support joint non-defense industrial research and development activities of mutual benefit to Israel and the United States. For a project to be considered for support, it must show promise of tangible direct benefit to the national economies of both the United States and Israel. The Foundation's activities are expected to lead to direct mutual economic gains such as the development of and participation in new external markets, increased exchange of materials between the two countries and increased expenditure for goods and services in both countries.

The Foundation will be managed by a Board of Governors composed of three officials from each government. The United States will be represented on the Board by Assistant Secretary of Commerce for Science and Technology Jordan J. Baruch, Assistant Secretary of the Treasury for International Affairs C. Fred Bergsten, and Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs Patsy T. Mink.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 17, 1977

TREASURY TO AUCTION $2,000 MILLION OF 4-YEAR 1-MONTH NOTES

The Department of the Treasury will auction $2,000 million of 4-year 1-month 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

B-239

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 4-YEAR 1-MONTH NOTES TO BE ISSUED JUNE 3, 1977

May 17, 1977

Amount Offered:	
To the public..........................	$2,000 million
Description of Security:	
Term and type of security...........	4-year I-month notes
Series and CUSIP designation........	Series J-1981 (CUSIP No. 912827 GT 3)
Maturity date..........................	June 30, 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..............	December 31 and June 30 (first payment on December 31, 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 $1,000,000 or less
Deposit requirement..................	5% of face amount
Deposit guarantee by designated institutions.........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Tuesday, May 24, 1977, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds.......	Friday, June 3, 1977
b) check drawn on bank within FRB district where submitted...................	Tuesday, May 31, 1977
c) check drawn on bank outside FRB district where submitted...................	Friday, May 27, 1977
Delivery date for coupon securities.	Wednesday, June 8, 1977

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FOR IMMEDIATE RELEASE

MAY 8, 1977

OFFICE OF THE WHITE HOUSE PRESS SECRETARY
(London, England)

THE WHITE HOUSE

PRESS CONFERENCE
OF
CYRUS R. VANCE
SECRETARY OF STATE
AND
W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY

CHURCHILL HOTEL

8:20 P.M. LDT

MR. POWELL: May I have your attention, please?

To conduct the briefing this evening, we have Secretary of State Vance and Secretary of the Treasury Blumenthal. The briefing will be on the record, available for broadcast. There will be no filing until the briefing is concluded.

Secretary Vance has a few opening comments for you. Following that, he and Secretary Blumenthal will be happy to respond to your questions.

SECRETARY VANCE: Thank you, Jody.

I thought I might say just a few words first in the way of general background and then both Mike and I will be glad to answer any questions which you may have on the details of the communique which was issued, and the appendix to it.

There are about three points, I think, that are important to make at the outset. First of all, I think the summit was very important because it dealt with substantive matters in a way which was unique. I talked to one person after the summit who had been to all three of the summits, and he said that there was more substance dealt with in this summit than any of the others which had been held.

This came about as a result of a process of frank exchanges between the participants. The atmosphere was friendly; yet people were willing to put their differences out on the table. They listened to each other and, as a result of this, were able to develop common ground even though they may have started with differences.

Unlike the past, there will be a follow-on for this summit and each of the countries will establish one or more individuals who will have the responsibility to follow up and make sure that the pledges which were made and the recommendations which had flowed from these meetings will be carried forward. I think this is a very important step.

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(OVER)

Thirdly, I think it is important because it gave for the first time a number of the participants a chance to meet with each other and to establish a close personal working relationship. It was interesting to observe this and to see the closeness develop as the days went on. I think in this respect it was a great success, and overall I would evaluate it as a very useful and constructive set of meetings.

The Prime Minister covered a number of the questions which you had with respect to the various pledges made and the individual items, but I am sure you have a number more. And Mike and I will divide up answering the questions. Mike will take primarily those dealing with the economic issues and trade. I will cover those dealing with the nuclear matters and with the North-South dialogue.

Who has the first question?

Q Who will follow up for the United States?

Q I would like to know about the positions, present positions, about the dual between Germany and Brazil about the nuclear question. Could you elaborate this problem?

SECRETARY VANCE: That subject was just mentioned in passing. It did not come up as a subject for any real discussion. The subject matter was much broader than that in dealing with the nuclear issues.

Q Who will follow up with the United States?

SECRETARY VANCE: Henry Owen, who is sitting right there and who is responsible for the preparation work insofar as the United States is concerned, will be the one who will do that. I might say, incidentally, that another reason for the success of this summit, I think, is the excellence of the preparation work that was done by Henry and others representing their various countries.

Q How will that work exactly?

SECRETARY VANCE: The details have not yet been worked out.

Q But there are counterparts for Mr. Owen?

SECRETARY VANCE: There are. Yes, indeed.

Q When the communique speaks of additional resources for the IMF, is that beyond what the interim committee has already agreed on, the $10 billion to $15 billion? Is there something more in mind?

Q Question?

SECRETARY BLUMENTHAL: The question is whether or not the reference in the communique to the additional resources of the IMF refers to what the interim committee has already agreed on.

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This refers first to the Wittereen facility and to the support of the countries there to making that a reality. Secondly, it refers to the support for an increase, a further increase, a seventh increase in the quotas, which has to be decided by February of next year.

Q In Washington when we got a briefing about the summit, we were told that the issue of bribery, extortion, illicit payments would not be ready for discussion at this summit. How come we end up with it in the appendix?

SECRETARY BLUMENTHAL: This was a suggestion that was made by the United States, and the other countries agreed to it. Indeed, the actual language includes not only reference to trade, but also to commerce and to banking and it really reflects the view of all of the leaders there that that was an important issue and that we should collaborate together to stamp it out.

Q At what point did you decide to bring it up? Before we left, according to the people who prepared the summit, it wasn't going to be brought up.

SECRETARY BLUMENTHAL: It was in the drafts that I saw.

Q Mr. Secretary, to follow that, just what does the language of the appendix mean? What will follow here in relation to international trade, banking and commerce? What are the practices you are talking about?

SECRETARY BLUMENTHAL: There are discussions going on to negotiate agreements in the United Nations. We have before us in the Congress a legislative proposal to make bribery for Americans illegal. That would require collaboration with other governments and certainly that language ought to make it possible to and somewhat easier to really put some teeth into that legislation.

Q Mr. Secretary, at which level the prime emphasis of the nuclear question is going to be conducted?

SECRETARY VANCE: Excuse me?

Q At which level the analysis of the nuclear question is going to be conducted?

SECRETARY VANCE: Let me tell you what was agreed upon. There was agreed that there would be a study to be completed within two months with reports back to the members of the summit. That would encompass an analysis of what could be done in general terms to meet the problems raised in the nuclear field arising out of the danger of proliferation coming from the export of nuclear materials for purposes of energy, and it was further agreed that there would be the development of the terms of reference for a much longer study which would be involved with an evaluation of the international fuel cycle, and that study would take, I would say, probably a year or more to do once the terms of reference are developed.

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Q Mr. Secretary, could you tell us whether the language of the communique is meant to imply that all of the members now approve of a common fund for commodities stabilization?

SECRETARY VANCE: There was agreement that there should be a common fund. It is not the common fund, but a common fund.

Q Is that the IRF idea?

SECRETARY VANCE: The idea is that there should be a common fund which would be related to commodity agreements which have been negotiated.

Q A common fund of how much, Mr. Secretary?

SECRETARY BLUMENTHAL: None of the details have been worked out and are stated in the communique. The important decision that was taken here is represented by the agreement of all the member governments, of all the heads of government there. On the notion that there will be -- that there shall be -- a common fund for stabilization of commodities, with buffer stocks, that the type of fund, how and where and what amounts, how it will function, thatis something to be discussed and negotiated in the future. But there is an acceptance of the notion of a common fund idea.

Q Mr. Blumenthal, I think it is lovely that you have agreed that you would promote economic growth and curb inflation simultaneously, but what specifically are you going to -- have you decided to do, that would help you achieve that rather magnificent goal?

SECRETARY BLUMENTHAL: I think the significant thing about that statement is that the heads of government have agreed that having stated certain growth targets in some cases and certain stabilization targets in other cases, that they undertake a pledge, as Prime Minister Callaghan said, to do whatever is necessary to meet those targets. And they have also agreed that the meeting of those targets cannot, should not, be at the expense of inflation; that therefore, as each of them takes the necessary steps to meet the growth targets, it is understood by all of the others that they will not do so at the expense of inflation, and that they will fight against inflation; that these two things are closely related together and must be watched together. It is clearly left to each individual country to develop its own internal policies and specifics.

Q But how is that any different from any previous goals, either common or individually? Does it mean higher inflation and less growth?

SECRETARY BLUMENTHAL: I think as far as summit meetings are concerned, there is a difference in the sense that previously there was some general goals. But here there is not only targets, but there is a commitment to do what is necessary to meet these targets.

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Q Mr. Secretary, President Carter said he is bringing new initiatives to the summit conference. Could you be more specific as to what those initiatives were and the final results of them?

SECRETARY VANCE: Yes. There were a number of new initiatives. One of them is the study that I referred to a moment ago which concerns the evaluation of the international fuel cycle. Secondly, were proposals relating to the special action fund. We reached general agreement that there should be a special action fund to take care of some of the developing countries in the greatest need and that each would contribute his adequate share to that particular fund.

The whole issue of irregular practices which Mike referred to a moment ago is another one of the new initiatives that was brought forward. Those are some examples.

Q Just to follow up on that, Mr. Secretary, this special action fund to which you refer, is that mentioned in the appendix,and what exactly is it?

SECRETARY VANCE: It is not in those terms mentioned. It is something which will come up at the meetings held in Paris at the end of this month, the North-South meetings which are called the CIEC meetings. And what it is, is a fund which will be available to meet the needs of some of the poorest countries which are having balance of payments problems and specific needs of that kind. That, in general, is the nature.

Q Outside the IMF?

SECRETARY VANCE: Yes, outside.

Q Outside of the common fund as well?

SECRETARY BLUMENTHAL: Yes. That is unrelated to the common fund. May I add one or two others in the area of special initiatives -- of new initiatives.

I would think that one ought to add that the decision in the trade area is that there has to be a new -- of the heads of government -- to pledge themselves to a new impetus in the trade negotiations, against the background of a rejection of protectionism and with the commitment to make substantial progress by the end of this year.

Q Mr. Secretary, you mentioned the nuclear, two-month nuclear study and the one-year study to set terms of reference. Was there any agreement here that during that period, either two-month or the one year, that there would not be the sales of nuclear grade materials?

SECRETARY VANCE: No. No such agreement was reached at this time. Each country will take care of that decision which it will have to make according to its own views of the matter. The discussions of these issues will continue in the London suppliers group as they have in the past.

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I just want to correct one thing. The two-month study will be a study which will include recommendations with respect to the terms of reference. So after that two-month study, one should have the terms of reference. And then a decision as to how to proceed on the actual study itself, which could last a year or more.

Q Mr. Secretary, why was the nuclear suppliers brought into the study, if at all?

SECRETARY VANCE: In the initial study, the two-month study, the nuclear suppliers group as such will not be involved in it. As one moves on to international fuel cycle evaluation, then the London suppliers group and the individuals involved in it undoubtedly become a part of that broader study.

Q Mr. Secretary, would the special action fund be within the framework of any existing organization such as OECD, G-10, or something entirely new?

SECRETARY VANCE: That decision has not yet been made as to where it would be placed.

Q Mr. Vance, how did your special action fund differ from the decisions made at the Washington Energy Conference in 1974?

SECRETARY VANCE: I can't answer that.

Q Can Mr. Blumenthal?

SECRETARY BLUMENTHAL: No, I really can't. I do not know what happened with that conference with regard to the special fund.

Q Mr. Blumenthal, most of the countries involved here have not been able to fight inflation and reduce unemployment in the recent past. Apart from saying that we are going to do it now, what is it that they have done here that is going to enable them to do it then?

SECRETARY BLUMENTHAL: I can only repeat again that what I think is significant is that the countries have agreed that they will do what is necessary to meet their growth targets. Meeting their growth targets and at the same time meeting the stabilization targets for those countries who have been deficit countries in the past will improve the international economic environment. It will create additional volumes of trade. Certainly, the stabilization programs will reduce inflation. And through this improved international environment, and through the commitment to meet those targets, the overall situation is likely to be improved.

There was no effort on the part of the heads of government to find a solution, to find the formula for dealing with inflation and for dealing with unemployment in their individual countries. There was an effort to see how they could work together in order to make that situation for each of them better.

Q Mr. Secretary, with respect to your rejection of protectionism, you still reserve the right to avoid significant market disruption. If any country can characterize its problem as significant market disruptions, wouldn't protectionism still grow under that flag?

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SECRETARY BLUMENTHAL: I don't really think so. We interpret that as a reference and it is generally interpreted as a reference to the existing arrangements that now exist and the rights that exist under the GATT for countries who face particular problems of disruption, to get some relief, sometimes for temporary periods of time. The GATT has specific provisions for that. And this particular paragraph merely calls attention to the fact that as further liberalization takes place, these rights, of course, are not affected by them.

Q Mr. Secretary, what is the difference between the part of the communique emphasizing the readiness of the heads of government to meet the targets they have set themselves in sovereignty between that old practice in the OECD to have representatives talk in various groups about targets and establishing when the governments are to meet those targets? I don't see a difference. How do you see the difference?

SECRETARY BLUMENTHAL: In the past, countries have indicated what it is that they hope to do. In this particular instance, the heads of government have not only indicated what it is that they hope to do but they have given a pledge that they will, if they fail, fall short of it, take the necessary measures to make sure that they achieve their targets.

Q Mr. Secretary, given what you have said here today, and Secretary Vance as well, just how disappointed is the American delegation that something substantial is not accomplished? (Laughter) Seriously, how disappointed are you?

SECRETARY BLUMENTHAL: We are not at all disappointed. We are quite pleased because we believe that very substantial results have been accomplished. There have been a number of specific things that have been done in the area of setting targets and the commitment that they will be met, in the commitment of all of us to strengthen international institutions, both the IMF and the World Bank, in the decision to give a real impetus to the trade negotiations which have been stalled for some time, in finding a solution to the problems of the nuclear problem to which Secretary Vance has referred, in the decision to collaborate and take some specific steps in the North-South dialogue, and to resolve to make the CIEC ministerial meetings and these discussions a success, in the matter of illicit payments, and a variety of other ways. We think that kind of complete agreement, the way in which the leaders got to know each other, that they worked out these problems, represents a considerable success. But perhaps Secretary Vance would like to add to that further.

Q Is that good intentions only?

SECRETARY VANCE: No, I don't think it is good intentions only at all. These declarations were reached and, as I indicated earlier, these are not simply pious words; they are going to be followed up on. Plans are to be developed and will be carried out. We will be seeing the results of the actions with respect to the North-South issues to which both Mike and I have referred, and the CIEC meeting which will come up at the end of this month. Insofar as the illicit payments are concerned, the fact that this declaration is made, I think it is going to have a very important effect on the action that has been going forward in the United Nations to try to complete a study in that particular area. It will give it impetus and strength. I could go on through many of the other issues.

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Q There was a great deal of discussion of the communique from the various leaders about how they had influenced each other and the President said that he had learned a great deal. Does that mean that any of his views that he had before coming into this session on these various matters were modified or changed?

SECRETARY VANCE: Yes. I think that that was not only true of the President, but of all of the participants. They really did listen to each other, and learned from the listening process.

Q Can you give us some examples of how the President's view may have been changed, for instance, on the nuclear issue, if it were modified at all there?

SECRETARY VANCE: On the nuclear issue, I think that this was primarily one in which we were trying to explain what our suggestion was about, and in the process of doing that, there was a full exchange which I think sharpened the view of all of us with respect to the problems of the other nations who are not quite as fortunate as we are in terms of the resources which we have.

And in that sense, I think it was useful for us. I think they also learned from the process and, therefore, we were very much encouraged when they were willing to agree to go forward with the studies to which I refer.

Q Does this year or more of study of the nuclear problem, Mr. Secretary, represent a retreat from President Carter's position on the nuclear proliferation?

SECRETARY VANCE: Not at all, no. This is wholly consistent with it. This is what he has proposed before.

Q What is the policy going to be on export of enriched uranium during that year or year and a half?

SECRETARY VANCE: You say you've got copies in the room?

MR. POWELL: The statements of the President's policy that were delivered two weeks ago are available in the back of the room for anyone who wants them.

SECRETARY VANCE: Did you get the answer to that?

Q I was asking you what the policy is going to be?

SECRETARY VANCE: It is laid out in some detail. It is rather long and complicated. There are two or three sheets in the back of the room on it.

Q The Common Fund will be invited to join in aid for the underdeveloped countries. Which form will this invitation have?

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SECRETARY VANCE: I think the public announcement of this is the form which it will take.

Q Mr. Secretary, there is a notable lack of reference to Japan's involvement in trilateral issues. Could you please explain how Japan was involved in the discussions and also whether or not it was talked about, Japan's trade surplus with the European countries?

SECRETARY VANCE: Japan was intimately involved in all of the discussions. There was a free-flowing discussion between the heads of state which flowed back and forth, the Japanese participated very actively and in a very constructive way during these discussions.

The question which you specifically referred to did come up as one of the items in the discussion.

Q How was it resolved?

Q Mr. Secretary?

SECRETARY VANCE: Yes.

Q The other day Secretary Blumenthal talked to us about the human rights issue, said that the leaders universally praised President Carter's position. And Mr. Callaghan tonight indicated the same thing. The German sources are saying that during the conversations, while praising President Carter's decision, Chancellor Schmidt pointed out that continuation of a too-vocal human rights policy might deter the ability of the Germans to get Germans out of Eastern countries. Did Chancellor Schmidt make such a statement during the meeting?

SECRETARY VANCE: He did make such a statement during the meeting. I don't want to go into details on what individuals said, but that was one of the issues which was raised in general terms, that some countries had different problems with respect to how they would handle it; but not with the basic principle. There was no difference at all with respect to the basic principle.

Q Do you believe --

SECRETARY VANCE: I can't hear you.

Q Do you agree with the idea of free trade and do you think --

SECRETARY VANCE: I still can't hear all of the questions.

Q Do you agree with the idea of free trade and the extent to which you think it can be organized?

Q Free trade, as the French have suggested?

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SECRETARY VANCE: Did you get that, Mike?

SECRETARY BLUMENTHAL: I think I got the question. I hope I understand the significance of it. (Laughter)

Yes, we do agree that indeed we are happy with the conclusion that comes out of this meeting, which rejects protectionism and therefore, by implication, and also very explicitly, comes down in favor of negotiating and having a new impetus so that this year there will be a lot of progress toward a rapid conclusion of the negotiations which will represent freer trade.

We certainly believe that it can be done. There was reference to the fact that there are structural changes in the world economy that have to be taken into account.

We welcome that because it will allow us in -- all of us in the context of the trade negotiations, to take into account not only tariff problems, but also non-tariff barrier problems and agricultural problems, internal taxation, subsidies, the many matters that exist in the world of trade that have to be dealt with if freer trade, which we desire and which we all want to achieve, is to be brought about.

Q Mr. Secretary, how do you see tomorrow's meeting between the President of Syria and the new meeting with Mr. Allon?

SECRETARY VANCE: How do I feel?

Q How do you see the coming meeting with President Carter and Mr. Assad and the meeting with Mr. Allon?

SECRETARY VANCE: The question was: How do I see the forthcoming meeting with President Assad which we will have tomorrow and also my meeting with Foreign Minister Allon?

The President and I are looking forward very much to our meeting with President Assad. He is one of the key figures, of course, in the Middle East and in the solving of the Middle East question. We have had the opportunity to meet with most of the other Arab leaders, but this will be our first meeting with him, at least the President's first meeting with him.

His views are going to be extremely important in the development of our final views with respect to the proposals which we may choose to make in connection with the settlement of the Middle East question.

MORE

I met with Foreign Minister Allon on my last Middle East trip. A good deal has happened since that time and we have had these meetings with the other Arab leaders during that period. Therefore, I thought it was time for us to meet again, where I could review with him what had come out of the conversations with the other Arab leaders and get the latest thinking of the Israelis on the Middle East question.

Q Mr. Secretary?

SECRETARY VANCE: One or two more questions.

Q Excuse me; one follow-up. You did mention the trade surplus of Japan to the European Economic Community, but was it resolved? Can Japan make any overtures at reducing trade surplus and helping these economic deficits in Europe?

SECRETARY BLUMENTHAL: Japan, along with the other countries, committed itself to meet its growth targets and to meet its targets that had previously been stated, and it did accept the notion that the strong countries must make a particular effort so that the surpluses in the world can be taken care of. So, in that sense, the Japanese took full cognizance of their position and promised to act accordingly.

SECRETARY VANCE: One final question.

Q Is the United States willing to modify its nuclear policy if the result of the two-month study and especially in terms of the condition, or requirement, of the approval for doing the reprocessing in foreign countries -- or do you know if the United States will store the nuclear waste inside the United States in the future?

SECRETARY VANCE: The two-month study will be a preliminary analysis, as I indicated, which will develop the terms of reference for the longer study which will go into the kind of questions which you are talking about. Of course, what comes out of that will be very important, not only to the United States in determining what its policy should be in the future, but to all the other participants who will be involved in it.

Thank you very much.

MR. POWELL: Before we conclude, I have three brief announcements for you. The President had brief remarks to the pool earlier this evening. The tape is being transcribed. We hope to have that available for you shortly.

Just from my second-hand review of it, I think there are probably a couple of items that might be of, say, medium interest to you. The press bible for tomorrow will be available at approximately 10 o'clock tonight here.

Finally, to correct something that I said earlier, the two detailed statements on President Carter's nuclear policy are not in the back of the room. We do have them in the press room for those that are interested in reviewing them -- one from April 7 and one from April 27.

Thank you very much.

END (AT 8:50 P.M. LDT)

FOR IMMEDIATE RELEASE

MAY 7, 1977

OFFICE OF THE WHITE HOUSE PRESS SECRETARY
(London, England)

THE WHITE HOUSE

PRESS CONFERENCE
OF
W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY

CHURCHILL HOTEL

1:45 P.M. LDT

MR. POWELL: If I could have your attention, we will get started right away. I will make one request here. Because of the late time starting and the importance of the Secretary of State returning, for as much as he can, to the luncheon and the Second Session, he only has about a half hour to spend here. So we will -- I am sorry, the Secretary of Treasury -- we will conclude in 30 minutes, at quarter after.

I would also ask that you please confine your questions in this first half hour to this morning's session. If you have additional questions, we will try to deal with those later on.

SECRETARY BLUMENTHAL: Thank you.

Ladies and gentlemen: Good afternoon.

We say that this opening session was devoted to a review of the world economic situation. Each of the heads of state, heads of their respective governments, made general statements with regard to their view of the world economic situation.

Thereafter, there ensued a free discussion in which some of the other Ministers, particularly the Ministers of Finance, joined in.

Generally speaking, there was a broad measure of agreement as to the state of the world economy: agreement, first, that recovery was underway but that it was not proceeding fast enough; that confidence was lagging, and that more rapid recovery would have to be restored; that the problems of unemployment and inflation were twin problems that had to be dealt with cooperatively between the countries and individually in all of the different countries, and that it was difficult to separate out one from the other; that a particular problem in that regard was the question of youth unemployment, which seemed to be a common issue in many of the different countries that were represented there; general agreement that the world economic situation today was characterized by fundamental structural changes that had occurred during the 1970s, structural changes that relate to the different energy situation , that relate to the different situation with regard to the availability of raw materials; to the relationship of the developing countries, and to the problem of growth of the world economy which has experienced some difficulty in the recent past.

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All of the countries therein discussing the problem of energy seemed to understand and to welcome the initiative which President Carter has taken in the United States in his energy program, and there was some discussions about the beneficial effect which that program would have on not only the United States but on other countries generally.

There was also some discussion about the need for the countries to work together in order to meet the targets that they had individually set for themselves and that had been discussed, and a general commitment on the part of the people there that the necessary measures would be undertaken in order to meet these targets.

In that regard, President Carter indicated that he was hopeful that,in fact certain, that the target of approximately 5.8 to 6 percent growth in the fourth quarter of 1976 to fourth quarter 1977, would be met. In the other countries, all indicated that they were working on meeting their targets and would take the necessary steps to do so.

There was a certain amount of beginning discussion, although that will be taken up later, with regard to the need to bear in mind the particular problems of the developing countries and to work actively and cooperatively to meet the needs of the developing countries. In particular, in the CIEC, in the trade negotiations, all of the countries rejected,and talked about the importance of the need to continue to reject, protectionism as a means of dealing with individual country problems.

And indeed there was some discussion of the fact that in spite of considerable difficulty, in spite of a very deep recession in the world in the last two or three years, that it was very encouraging that no country -- and the world as a whole -- had not really resorted to protectionism as a way of solving these problems, as might have been expected or might have been the case in previous periods.

These are generally speaking the main points around which the discussion took place, and it served as, generally speaking, a very good, cooperative, friendly and frank framework for the future items of the agenda that will be taken up this afternoon and tomorrow.

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Q Mr. Secretary, what are these necessary measures that were agreed upon this morning?

SECRETARY BLUMENTHAL: The necessary measures that I referred to relate to the individual steps that countries are taking in order -- those strong surplus countries and the strong economies -- in order to stimulate their economies, in order to provide the environment in which those countries were taking internal stabilization measures and were looking for a strong world economy and strong export opportunities so that these countries can carry through their internal stabilization policies and benefit from a stronger growing world environment.

Q Mr. Secretary, was this mainly a matter of reaffirming targets that already exist? Was there no attempt to get anybody to set a higher target?

SECRETARY BLUMENTHAL: There was no attempt to change the targets or to negotiate them. There was -- appeared to be general agreement on the notion that the targets that countries had previously stated would be met and that countries would do what is necessary to meet them.

Q Mr. Secretary, you say unemployment and inflation are the two problems and they are linked. By that do you mean they are contradictory to each other, that if you try to solve the unemployment, you risk making inflation worse? Was that the general consensus?

SECRETARY BLUMENTHAL: I would rather put it in terms of saying --

Q Question?

SECRETARY BLUMENTHAL: The question was, in saying, in my referring to unemployment and inflation as two problems that were linked, did I mean to say that if one goes up, the other goes down. That is not what I meant. I meant to say, or rather what the heads of government were -- in discussing this problem I think had in mind was that it was not possible to solve one without the other; that you could not solve one at the expense of the other; that indeed to bring the rate of unemployment down at the cost of higher inflation was not acceptable and was a policy that would very quickly be a self-defeating one.

Q Mr. Secretary, did anyone come up with any ideas to stimulate growth rates, or restore confidence which is lacking in terms of capital investment, or was this rather considered an endemic situation peculiar to our times?

SECRETARY BLUMENTHAL: I think there was a general feeling that given the very deep recession that had occurred in the world, and given the rather new and in some ways

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unaccustomed problems that the world was facing, the impact on consumers and on business, consumer confidence and business confidence in almost all of the countries had been noticeable, but that was a general problem that had to be dealt with.

It had to be dealt with by the kind of concerted action and cooperative approaches that were being discussed here at the Downing Street conference.

Q The President said he was going to propose new initiatives at this conference. Did he propose any new initiatives this morning?

SECRETARY BLUMENTHAL: I think the general agreement on the notion that there would be, that the targets would be met and that countries would do what is necessary to meet them certainly represents a good step forward. This was not a particular point that the President suggested directly.

Q That is not a new initiative on the part of the President, is it?

SECRETARY BLUMENTHAL: As I am saying, this is not a point that he particularly presented. I think it is a step forward that countries in fact, if they will, pledge themselves to meet the targets and take the necessary steps in order to achieve the targets that they have previously stated.

Q Mr. Secretary, what were the points that the President presented? Which points did he stress?

SECRETARY BLUMENTHAL: The President, in his general comments, in particular stressed the goals that he expected the U. S. economy to achieve. He mentioned that he was confident that the 5.8 to 6 percent growth in real terms from the fourth quarter, 1976, to the fourth quarter, '77, would be achieved. He referred to the fact that our goal of reducing unemployment to at least 7 percent by the end of the year was likely to be exceeded, given the fact that we had just had a drop from 7.3 to 7 percent.

He indicated that he felt that with his coming into office and the kind of new leadership that the American people felt, that there was increasing confidence in the United States in that not only the high level of consumer spending, which had made it unnecessary to carry on with the rebate, but also the most recent figures which indicate that business spending is picking up, that that indicates a high level of confidence by business, and he then addressed himself rather specifically to the measures which he took as part, and is taking as part of the stimulus proposals that he has made to Congress to deal with that problem of youth unemployment that is of great preoccupation in other countries as well.

And he dealt with that question, and then talked about his expectations that business spending now is likely to increase.

He made a very clear statement of his commitment to the notion that protectionism in his view also is not the answer, that obviously in each country there are at times special problems, that he understands the political significance of this for individual countries, but that in his decisions on shoes, on sugar in the past and on future trade decisions that he has to make, he certainly will be very careful in balancing the domestic considerations against international obligations.

Q Mr. Secretary, what percentage --

SECRETARY BLUMENTHAL: I am sorry, Mr. Levine?

Q Mr. Blumenthal, to what extent did the President's decision to abandon the rebate enter into the conversations this morning?

SECRETARY BLUMENTHAL: There was some mention of that. Generally speaking, I had the impression that most of the heads of the governments had studied our numbers and also our economy well enough to understand the reason for it. It was mentioned.

The President was able to point to the strong growth figures in the American economy and they indicate that it was for these reasons that he had not felt it was necessary to go forward. Indeed, there seemed to be general agreement that the various economies in terms of growth trends, the United States was doing quite well and that it was not a potential trouble spot.

Q Does that include the Germans when you said several leaders agreed that the tax rebate was a good idea? Do you include Schmidt?

SECRETARY BLUMENTHAL: I am not going into any statements of any individual there. Generally speaking, there was no criticism at all.

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Q What percentage of time did he, the President, speak compared to the other world leaders? Did he speak more than one-sixth of the time, or did he speak less?

SECRETARY BLUMENTHAL: I didn't time it. I would say there was a rather even division in time for the initial statements by the various heads of government. Then, in the discussion which followed in which primarily the Ministers of Finance made some additions, several of the heads of state intervened again, and he did also.

Q Mr. Secretary, what specific actions did other countries say they were going to take to meet their previously announced growth targets?

SECRETARY BLUMENTHAL: The other countries, generally speaking, went through the same description of their plans and targets--in their detail I hope you will get from them--to the extent that they are not already in the public domain. They represented essentially a reiteration of the commitments to the growth targets and specific steps that each country is taking in order to meet them.

Q Is that no one country would question whether the other would be able to meet its growth targets?

SECRETARY BLUMENTHAL: There was no specific criticism or questioning of a particular country.

Q It sounds as if each country, each party just reiterated that their previous plans would meet those targets. Is it correct they did not undertake to take any greater steps of stimulation at this meeting this morning?

SECRETARY BLUMENTHAL: It was my impression from listening to the conversation that what was said was basically we have certain targets; we expect to meet them, and we will do what is necessary to meet them.

Q But there was no commitment to take any specific steps for greater stimulation on the part of any country?

SECRETARY BLUMENTHAL: No particular participant said, "If we find we will not meet them, then we will do X, Y, or Z." There were a number of statements saying we will do what is necessary to meet those targets.

Q Was there also discussion about the advisability to have the very intricate and complicated discussion about stimulation in the open market, or was it touched, or was it not touched -- the advisability of the public discussions a factor for investment or not investment?

SECRETARY BLUMENTHAL: There was no particular reference to whether or not that ought to be done in public or private. There was quite a bit of discussion of the need of careful coordination to make sure that the people in the various countries understand that there is a common view of the need to collaborate and that countries will remain in close touch in doing that.

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Q How will the coordination and collaboration be done? Will there be some sort of new system set up?

SECRETARY BLUMENTHAL: There was reference to the fact that there are quite a variety of international organizations; that in many of these, more meetings are coming up in the foreseeable future.

Specific reference was made to the Ministerial meeting of the CIEC, the Ministerial meeting of the OECD, the meetings in the fall of the IMF, the meetings of the trade negotiations in Geneva. There was a general consensus that the Ministers, the Ministers of Finance in particular, should, in order to ensure that there really is some progress in these areas, follow up specifically the progress that is taking place as a result of discussions of heads of government here, and that if necessary, heads of states should stay in touch and be ready to review on their own the progress that is being made after a certain period of time.

Q Was there any discussion this morning specifically of the new IMF drawing fund?

SECRETARY BLUMENTHAL: There was no discussion of that yet. I think that will come up later in the agenda.

Q Mr. Secretary, to try to pin this down, are you saying that the United States is now completely satisfied with what the West Germans and Japanese have been doing and will make no further efforts to try to persuade them to stimulate their economies further, so the Japanese will allow the yen to increase, for the Germans to try to get into a deficit position? Is that what you are saying?

SECRETARY BLUMENTHAL: I was not explaining whether we were satisfied or not. But let me repeat what I did say.

I said that in the meeting, what I think is significant is that there was a consensus, that the stated targets by the various governments would be met and that governments indeed were saying, "We will do what is necessary to meet them."

Q I asked you two things: The first one, whether you were satisfied; and second, whether you would make any further efforts, whether the United States would make any further efforts?

SECRETARY BLUMENTHAL: I don't know. I can't tell you about that now. I would like to keep this meeting to giving you a briefing on what happened at Number 10, Downing Street.

Q We understand that President Carter will be meeting the Japanese Prime Minister briefly this afternoon at the request of the Japanese Government. Can you tell me what they are going to cover?

SECRETARY BLUMENTHAL: I do not know.

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Q Mr. Secretary, can you tell me, was Japan's surplus of trade with the EEC challenged during this first session?

SECRETARY BLUMENTHAL: It was not specifically referred to. There was reference to the fact that the surplus countries have a responsibility -- that responsibility was not challenged -- have a responsibility to run their economies in such a way as to make a contribution to, on the one hand, financing the current account deficits that exist in the world and which are of particular importance to the developing countries, and to certain of the developed countries. That was done without reference to any one particular country. That statement was made. That responsibility was underlined. That seemed to be generally acceptable.

Q Who made that statement, Mr. Secretary?

SECRETARY BLUMENTHAL: I am not going to go into -- it came up several times in the course of the discussion.

Q Was there any question of endorsing the responsibility of the GATT in the further negotiations to include other measures than what he had discussed?

SECRETARY BLUMENTHAL: In the GATT?

Q Yes.

SECRETARY BLUMENTHAL: There was some reference and some discussion about the fact that given the rejection of protectionism by everybody and given the need to make substantial progress in the trade negotiations at an early date, that the situation clearly in the late 1970s was different than in the early 1960s or in the mid-1960s at the time of the Kennedy round, and that, therefore, those negotiations would have to take into account the changed circumstances and deal with problems not only of tariffs but of a variety of other trade barriers or problems in the trade between individual countries. That was discussed.

Q Did anybody express disappointment in the targets of the strong countries and say they wished they were doing more?

SECRETARY BLUMENTHAL: Nobody did.

Q Mr. Secretary, I may have missed this because I was late. But are we going to have a new what you might call "Carter" round or "Blumenthal" round?

SECRETARY BLUMENTHAL: No, we certainly are not. There is a round underway. It is called MTN or Tokyo round. It has been sitting and not been going around very fast in Gene

Q That is the point.

SECRETARY BLUMENTHAL: There will be an impetus, certainly. That will be a separate item on the agenda that presumably will be discussed tomorrow in some detail. It was touched on briefly, touched on in the context of a view of the world environment in which protectionism seemed to be rejected by all the participants there.

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MR. POWELL: I think we just about exhausted most of the questions on this first session. We might take one or two more and then if you don't mind, let the Secretary get back to the meeting.

Q Mr. Secretary, it seems that one of the topics discussed today does not require the presence of the President of the EEC, Roy Jenkins, whereas those that will be discussed tomorrow do. Can you explain a little bit procedurally how the general arrangement is?

SECRETARY BLUMENTHAL: I think you perhaps should address that question to Prime Minister Callaghan or to those who set up the meeting. I was not in on that part of the organization of the conference, and I don't want to get into that.

Q Have you given your commitment to hit the U. S. growth target this year, at what point will the United States review its progress in meeting that target? In other words, are you setting a deadline, like a third quarter to re-examine the numbers?

SECRETARY BLUMENTHAL: We are literally reviewing that progress, not just monthly but weekly, with all of the statistics that come out.

We do that on a regular basis. We do it in the Economic Policy Group as we see that the investment figures or the inflation figures or the employment figures are not, generally speaking, tracking over a period of time where we want them to go. We put our heads together and we try to understand what the cause of it is and what we can do about it.

So we will do that on a continuing basis.

Q Was there any progress made toward a common position for the meeting of the CIEC at the end of May?

SECRETARY BLUMENTHAL: That will be also a separate agenda item. We will be talking about North-South relations.

There was only reference to the fact, as part of the world environment, that what we can do together will have a major impact on the developing countries and that we need to be as forthcoming as possible at that meeting.

Thank you.

THE PRESS: Thank you, Mr. Secretary.

END (AT 2:10 P.M. EDT)

Department of the TREASURY NEWS

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NOTE TO CORRESPONDENTS: May 16, 1977

Attached are "technical explanations" of the tax provisions in the National Energy bill. The explanations cover present law, the Administration's new proposal, and the proposed effective date for the change. A table of contents lists the 11 tax provisions, and each technical explanation refers to the sections of the bill and the Internal Revenue Code affected by the proposal.

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B-240

NATIONAL ENERGY ACT

TAX PROVISIONS

TECHNICAL EXPLANATIONS

U. S. TREASURY DEPARTMENT

May 16, 1977

RESIDENTIAL ENERGY CREDIT

(Sec. 1101 of the Bill, Sec. 44B of the Code)

TECHNICAL EXPLANATION

Present Law.

Present law provides no tax deduction or credit for expenditures incurred in the insulation of, or the installation of solar energy equipment in a taxpayer's principal residence. Such expenditures are personal and deductions of such amounts are specifically excluded by section 261 of the Internal Revenue Code.

Proposal.

The proposal provides a temporary tax credit against the individual income tax based upon a portion of expenditures paid or incurred both for the purchase and installation of certain energy conserving equipment and for the purchase and installation of solar energy equipment in the taxpayer's principal residence.

Credit Allowed.

The part of the credit which is attributable to the purchase and installation of insulation and other energy-conserving components is allowable for taxable years ending in 1977 through 1984, and is equal to the sum of 25 percent of the first $800 expended plus 15 percent of any additional amount spent, but not in excess of $410.

That part of the credit which is allowable for the purchase and installation of solar energy property declines gradually through 1984. During the taxable years ending in 1977, 1978 or 1979, the allowable credit is equal to the lesser of $2,000 or the sum of 40 percent of the first $1,000 plus 25 percent of the excess over $1,000. During the taxable years ending in 1980 and 1981, the allowable credit is equal to the lesser of $1,580 or the sum of 30 percent of the first $1,000 plus 20 percent of the excess over such amount. And, for taxable years ending in 1982, 1983, or 1984, the allowable credit is equal to the lesser of $1,210 or the sum of 25 percent of the first $1,000 plus 15 percent of the excess over $1,000.

To the extent that a residential energy credit is allowed for appropriate expenditures made in a prior taxable year, the dollar limits on the expenditures for which the credit is allowable for the current taxable year must be reduced by such earlier expenditures. Thus, the aggregate credit allowable to a taxpayer with respect to the same principal residence for qualified energy conservation expenditures may not exceed $410. Corresponding limitations are provided on the allowance of qualified solar energy expenditures. The latter limitations, however, reflect the reduction in the aggregate allowable credit from $2,000 in 1977, 1978 and

1979, to $1580 in 1980 and 1981, and to $1,210 in 1982, 1983 and 1984.

The residential energy credit may be claimed only for expenditures made during the year (or other tax period) for which the tax return is filed. If the purchase and the installation of equipment occur in two separate taxable years, the credit should be claimed for the taxable year in which the installation is completed. The credit is non-refundable. In the case of married individuals filing separately each taxpayer may claim no more than one-half of the allowable credit.

Qualifying Residence.

The expenditures for which a residential energy credit is allowed must be made for energy conservation measures installed after April 20, 1977, and before January 1, 1985 in a dwelling unit located in the United States which is the principal residence of the individual taxpayer claiming the credit and which is in existence on April 20, 1977. In the case of solar energy equipment the credit is allowed for installation in any dwelling unit located in the United States, whether in existence or newly constructed.

In the case of qualifying expenditures made by a cooperative housing corporation (as defined in section 216 of the Code), each of the corporation's stockholders who is entitled to occupy a dwelling unit owned by the corporation, and who in fact occupies the dwelling unit for that portion of the corporation's qualifying expenditures that is the same as his proportionate share of the corporation's total outstanding stock.

Basis Adjustment.

Residential energy conservation expenditures that qualify for the credit generally constitute capital expenditures which under present law increase a taxpayer's tax basis in his residence. In order to avoid a double tax benefit (allowance of a credit and an increase in basis), this provision requires that the basis of the taxpayer's principal residence be reduced by the amount of any residential energy credit allowed with respect to such residence. For example, assume that the taxpayer is allowed a $200 residential energy credit with respect to $800 of insulation expenditures which would increase his basis in his home. (The maximim credit allowable in this case is $200, the lesser of $410 or 25 percent of $800.) The net increase in taxpayer's basis in his home would be $600 (the $800 of capital expenditures minus the $200 of credit).

Qualified Energy Conservation Expenditures.

The energy conserving components for which the credit may be claimed include storm or thermal windows, clock thermostats and various insulation items, but excludes caulking or weatherstripping unless installed in conjunction with energy-saving components. Such components also include replacement burners for furnaces and boilers designed to reduce the amount of fuel consumed as a result of increased combustion efficiency, devices which increase the efficient operation or effective ignition of such equipment and devices which increase the efficient operation of a heating unit. However, the insulation or other energy conserving components qualifies only if (i) it is installed on a dwelling unit in existence by April 20, 1977, (ii) it is equipment whose original use commences with the taxpayer claiming the credit, (iii) it is equipment which has a useful life of at least three years and, (iv) it meets standards prescribed in regulations prescribed by the Secretary of the Treasury after consultation with the Federal Energy Administrator.

Since the credit is only allowed for the original installation of insulation in a dwelling unit, expenditures for purposes of reinstallation of storm windows in the Fall, for example, or for the transfer of insulation from one structure to another, will not qualify for the credit.

Insulation which constitute qualified energy conservation components must be identified by the Secretary as specifically and primarily designed to reduce heat loss or gain when installed in a building. Except with reference to storm or thermal items the equipment that qualifies for the credit is intended to be primarily and specifically energy conserving materials and not materials that are primarily structural or decorative in purpose. For example, drapes and wood paneling would not qualify although they may have been designed in part to have an insulating effect. Similarly, siding installed on a building will not qualify.

<u>Qualified Solar Energy Expenditures</u>.

The tax credit for expenditures for the purchase and installation of energy equipment applies to equipment which uses solar energy to heat or cool a building or to provide hot water. Such equipment qualifies for the credit only if it meets criteria to be prescribed in regulations published by the Secretary of the Treasury after consultation with the Federal Energy Administrator. The equipment must have a useful life of at least 5 years, and the original use of such equipment must commence with the taxpayer. Although qualified energy conservation expenditures are limited to expenditures made for an existing residence, qualified solar energy expenditures may be made for both existing and newly-constructed residences.

Currently, it is the practice, to use heating or cooling units employing conventional energy sources to supplement solar energy equipment whenever available sunlight is insufficient to satisfy current energy needs. Expenditures made for such conventional supplemental units, however, do not qualify for the residential energy credit.

Effective Date.

The residential energy credit is to be available only for amounts paid or incurred after April 20, 1977 and in taxable years ending after such date and before January 1, 1985.

FUEL INEFFICIENCY TAX AND FUEL EFFICIENCY REBATE

(Sec. 1201 of the Bill, Secs. 4064 and 6429 of the Code)

TECHNICAL EXPLANATION

Present Law.

Under present law no manufacturers' excise tax is imposed upon the sale of passenger automobile bodies or chassis or truck bodies or chassis having a gross vehicle weight of 10,000 pounds or less. In the case of the sale by manufacturers of truck and bus bodies and chassis having a gross vehicle weight over 10,000 pounds a 10 percent excise tax applies.

In addition, the Energy Policy and Conservation Act (Public Law 94-163), established mandatory average fuel economy standards effective with model year 1978 for passenger automobiles and other light-duty highway vehicles. The Act provides that civil penalties are to be assessed if a manufacturer fails to comply with the standards.

Proposal.

The proposal provides for a graduated excise tax to be imposed on the sale of new passenger automobiles and light duty trucks whose fuel economy fails to meet the fuel economy standards prescribed under the Motor Vehicle Information and Cost Saving Act (15 U.S.C. 2002. Referred to hereafter as the "Cost Saving Act"). Further, it is proposed that the amounts collected each year from the excise tax be rebated to purchasers of passenger automobiles and light duty trucks which meet or surpass the existing fuel economy standards.

Fuel Inefficiency Tax.

The proposal establishes a new graduated excise tax on sales of automobiles by automobile manufacturers, producers and importers. The tax would be imposed on the sale by the manufacturer of 1978 model passenger automobiles and 1979 and later model year automobiles whose fuel economy does not meet an established standard for the model year. The fuel economy standards are as follows:

Model Year	Fuel Economy Standard (miles per gallon)
1978	18
1979	19
1980	20
1981	21.5
1982	23
1983	24.5
1984	26
1985 and thereafter	27.5

No tax is imposed on the sale of new automobiles that meet or exceed these standards.

The tax increases geometrically for each mile per gallon decrease in fuel efficiency below the level at which no tax is imposed. Thus, for the 1978 model year, no tax is imposed at 18 miles per gallon while a tax of $112 is imposed at 16 miles per gallon and a tax of $256 is imposed at 14 miles per gallon.

Under the proposal, the fuel economy standard and excise tax based thereon are to be modified in accordance with a table issued by the Secretary of the Treasury if the average fuel economy standard prescribed under the Cost Savings Act differs from the applicable standard for a particular model year. The Secretary is to base the modified tax on the average fuel economy standard prescribed by the Secretary of Transportation; that is, at the level for which no tax is imposed. Where these changes are made the proposal requires the tax to increase with each mile per gallon decrease in fuel economy so that the modified maximum tax for the model year does not exceed the maximum tax for such year set forth in the bill. The tax for each mile per gallon decrease is to be computed by the use of a tax correction factor. The tax correction factor represents the tax rate to be multiplied by a formula which measures the difference between the actual fuel economy of the automobile and the lowest fuel economy level for which no tax is imposed by the bill. The formula is a fraction created by dividing 100,000 by the fuel economy for which tax is to be imposed, less a fraction created by dividing 100,000 by the fuel economy for which no tax is imposed. These taxes must be prescribed prior to the beginning of the model year.

For the model year 1978 the proposal would apply to the sale of all passenger automobiles. They are generally defined in the Cost Saving Act as 4-wheeled vehicles propelled by gasoline or diesel oil, which are manufactured primarily for use on public streets, roads and highways and which are rated at 6,000 lbs. gross vehicle weight or less. For 1979 and later model year automobiles, the proposal will also apply to

4-wheeled vehicles rated at more than 6,000 lbs. gross vehicle weight but less than 10,000 lbs. gross vehicle weight if the Secretary of Transportation determines that (i) it is feasible to establish fuel economy standards for such vehicles and that such standards will result in significant energy conservation, or, (ii) if such vehicles are of a type that the Secretary determines is substantially used for the same purpose as the lighter vehicles.

Under the proposal, a model year, with reference to a calendar year, is defined pursuant to the Cost Saving Act as a manufacturer's annual production period (as determined by the Administrator of the Environmental Protection Agency) which includes January 1 of such calendar year. If a manufacturer has no annual production, the term means the calendar year. Thus, under the proposal, it is immaterial when the particular model year automobile is sold.

The term "fuel economy" as used in the proposal is defined by the Cost Saving Act to mean the average number of miles traveled by an automobile per gallon gasoline (or equivalent amount of other fuel) consumed. The determination of fuel economy is to be made by the Administrator of the Environmental Protection Agency under section 503(d) of the Cost Saving Act.

The proposal also provides for the payment of the fuel inefficiency tax in cases where an automobile is leased rather than sold. In general, the tax is paid pro rata in accordance with the receipt of payments under the lease. Where the total tax has not been paid at the time a leased automobile is sold or otherwise disposed of, the balance of the tax is then payable.

Unlike prior law with respect to the manufacturers excise tax, the sale of automobiles to State or local governments and to nonprofit educational institutions would not be exempt from the fuel inefficiency tax.

Fuel Efficiency Rebate.

The proposal establishes a new rebate to be paid or credited to manufacturers selling fuel efficient automobiles. The rebate would be paid with respect to each fuel efficient automobile sold and is proposed to be the lesser of $500 or an amount determined by multiplying the base rebate by the applicable rebate coefficient.

The proposal establishes a set of base rebate amounts for each model year. These amounts increase geometrically as fuel efficiency improves to insure that larger rebates are paid with respect to automobiles that are the most fuel efficient. Thus, for the 1978 model year the base rebate is zero for an automobile whose fuel economy is 18 miles per gallon while the base rebate is $473 for an automobile whose fuel economy is 38 miles per gallon. Further, the fuel economy standards increase with each model year so that, for example, for an automobile whose fuel economy is 26 miles per gallon, the base rebate is $255 for a 1979 model year automobile but is zero for a 1984 model year automobile.

The rebate proposal authorizes the Secretary of the Treasury to prescribe alternative base rebate tables if, as under the tax proposal, the Secretary of Transportation prescribes in accordance with the Cost Saving Act, fuel economy standards different from those in the tables provided in the proposal. The modifications in the base rebate follow in form the modifications described above for the fuel inefficiency tax.

The proposal requires the Secretary of the Treasury to determine an annual rebate coefficient commencing with the 1977 and 1978 model years to apply for the model year. The coefficient represents the adjustment which must be made to the rebate amounts so that the rebates made in a particular model year do not exceed the tax collected in such year from the inefficiency tax. The Secretary is required to publish this coefficient no later than 30 days after the date of enactment in the case of the 1977 and 1978 model years and, for each subsequent model year, no later than the end of the preceding model year.

As noted previously, the rebate payment or credit is the lesser of $500 or an amount determined by multiplying the base rebate by the applicable rebate coefficient. The proposal requires the Secretary of the Treasury to determine the rebate coefficients in consultation with the Administration of the Environmental Protection Agency so that the total amount paid or credited for the year approximates, as closely as possible, the tax to be collected for the year on the sale of automobiles that are not fuel efficient. However, in the case of rebates for 1977 and 1978 model year passenger automobiles the amount of rebate for each automobile is to be determined on the basis of anticipated tax collections from inefficient 1978 model passenger automobiles.

The proposal provides for a payment or credit to manufacturers with respect to sales of electric automobiles equal to the highest payment or credit available for passenger automobiles for that model year. An electric automobile is defined in the proposal as an automobile powered primarily by an electric motor drawing current from rechargeable storage batteries or other portable sources of electric current.

The proposal provides for the rebates to be paid with respect to all domestically manufactured automobiles. With respect to foreign manufacturers, the rebate is payable only to the extent provided by executive agreements negotiated with foreign governments. Any such agreements must be designed to assure that domestic manufacturers are not disadvantaged by the program of fuel inefficiency taxes and efficiency rebates set forth in the proposal.

Disclosure of Fuel Inefficiency Tax and Rebate.

In order to assure that the taxes and rebates are passed on to purchasers, the proposal requires the manufacturer to first pay the amount of the rebate to the ultimate purchaser of the automobile before claiming a credit or refund. The proposal, in addition, amends the Cost Saving Act to require that the label required by such Act to be affixed to each automobile state that the automobile was subject to the tax or rebate, and the amount of such tax or rebate.

Effective Date.

The proposal applies to sales of automobiles made after May 1, 1977. Thus, if this provision is enacted, purchasers of fuel efficient 1977 model year passenger automobiles will receive rebates from manufacturers to the extent such passenger automobiles qualify for rebates.

STANDBY GASOLINE TAX AND REBATE

(Secs. 1221 and 1222 of the Bill, Secs. 4086, 4226 and 6430 of the Code)

TECHNICAL EXPLANATION

Current Law.

At present, a Federal tax of 4 cents a gallon is imposed on sales of gasoline by producers or importers. An excise tax of 4 cents a gallon is imposed on retail sales, or the use, of diesel fuel for highway vehicles and special fuels (liquified petroleum gas) for highway vehicles and motorboats. These taxes are scheduled to be reduced to 1-1/2 cents a gallon on October 1, 1979. Revenues from these taxes are paid into the Highway Trust Fund except for minor amounts attributable to motorboat use which are paid over to the Land and Water Conservation Fund. Fuel used in noncommercial aviation is taxed at 7 cents a gallon.

Under present law, State and local governments, non-profit schools, and users of fuels in commercial aviation, in vessels engaged in foreign trade or commercial fishing, further manufacturing (except as a fuel) and farming are exempt from tax.

In General.

The proposal establishes annual gasoline consumption targets beginning with a 12-month period ending September 30, 1978. It provides that a tax be imposed beginning in the succeeding calendar year if those targets are exceeded by one percent or more. The targets take into account the anticipated effects of the fuel inefficiency tax and compliance with mandatory fuel economy standards for new cars, and also assume some additional reduction in consumption through such practices as lower driving speeds and the increased use of carpooling. The targets for each 12-month determination period, beginning with the period ending on September 30, 1978, are as follows:

12 Month Period Ending September 30 of Determination Year	Million Barrels Average Daily Consumption
1978	7.350
1979	7.400
1980	7.450
1981	7.400
1982	7.200
1983	7.000
1984	6.800
1985	6.600
1986	6.550
1987, and thereafter	6.500

Imposition of tax.

The tax is computed by imposing a 5 cents per gallon tax for each full percentage point by which domestic consumption of gasoline exceeds the national consumption target during the preceding 12-month determination period. However, the tax cannot be increased or decreased by more than 5 cents per gallon from the tax imposed in the preceding year. The cummulative tax in any one year may not exceed 50 cents. Thus, for example, if gasoline consumption in the period ending September 30, 1978, exceeds the target for that year by more than one percent a 5 cents per gallon tax will be imposed (in addition to the current gasoline tax) to take effect on January 1, 1979. If during the period October 1, 1978, to September 30, 1979, the target is exceeded by two percent or more the tax to be imposed on January 1, 1980, would be 10 cents a gallon. If during the determination period ending September 30, 1980, the consumption target is exceeded by one percent, the tax would be reduced by 5 cents a gallon, effective January 1, 1981.

There would be no exemption for sales to States and local governments and nonprofit schools.

The Administrator of the Federal Energy Administration is required to make, and publish in the Federal Register, no later than November 15 of each calendar year, a determination of whether the domestic consumption of gasoline for the 12-month period ending on September 30 of such calendar year exceeded the target for such year. The proposal defines domestic consumption of gasoline to mean the average daily usage of gasoline in the United States during the determination period.

Floor Stocks Taxes.

To the extent increases in the gasoline tax occur there also are to be floor stocks taxes on the date of any such increase. This is the practice followed generally when an excise tax is increased in order to provide the same tax on inventories on the date of tax increase as on subsequent sales by producers and others. The gasoline floor stocks tax is to be imposed at a rate equal to the difference between the new tax rate and the old tax rate, and is to apply to the dealer's stock on hand, except stocks in the hands of retail dealers at the place where intended to be sold at retail. A "dealer" does not include a producer or importer. The proposal also provides for floor stock refunds in cases where a decrease in tax occurs.

Per Capita Rebates.

The proposal provides for a per capita rebate based upon the net revenues from standby gasoline tax receipts. The determination of the per capita amount for any calendar year is to be made by the Secretary of the Treasury and is to be published in the Federal Register no later than

November 15, of the prior year. In computing the per capita amount, the Secretary is to estimate the taxes to be collected from the tax imposed in the succeeding year and reduce that sum by the estimated reduction in income tax collections arising from business deductions of the tax. He is also to reduce the sum by the costs of administration of the rebate program.

Individual taxpayers are to receive the per capita rebate as a credit against income taxes levied on income for the year for which the credit is applicable. The credit will equal the amount of the rebate times the number of personal exemptions claimed by the taxpayer for himself, his spouse and his dependents, including the personal exemptions which are allowed a taxpayer for old age and blindness. The credit is not to exceed the tax liability of the taxpayer for that year. However, in the case of taxpayers who qualify for the earned income credit, that limitation does not apply. The Secretary of the Treasury is authorized to prescribe withholding tables which will reflect the amount of credit taxpayers will receive in each year.

Individuals who are not taxpayers or dependents of taxpayers, would receive, directly from the Treasury or State governments, payments equal to the same amount per capita as the income tax credits. Recipients of benefits under social security and railroad retirement and supplemental security income programs, would receive checks in September of 1979 (if tax were applicable for 1979), and each succeeding September in a year in which the tax was applicable, if they were entitled to social security benefits and were not income taxpayers for the preceding June. Recipients of AFDC under approved State plans would receive the per capita payment from the State if they received AFDC in any month prior to September 1 of that year.

Nontaxpayers not eligible for AFDC would be eligible for payment if they file with the appropriate State agency a form after September 30 of a year which states that, in that year, they (i) did not receive a payment of the tax rebate pursuant to an AFDC program, or under social security or railroad retirement and supplemental security income programs, (ii) had no taxable income, and (iii) were not claimed as a dependent by another taxpayer.

Taxpayers receiving a payment under any of these programs must treat such payment as a tax liability prior to applying the tax credit on their returns.

Per capita payments are not to be considered as income for purposes of the Federal and State income taxes, or as reductions of Federal income tax for State income tax purposes, and are to be disregarded in the administration of Federal and Federally funded assistance programs and State assistance programs where "need" is a criterion for assistance.

The per capita rebate program for standby gasoline tax receipts is identical to the program proposed for the crude oil tax. If a gasoline tax is imposed in any year and per capita rebates are required, then the crude oil tax per capita rebate will be combined with the gasoline tax per capita rebate in the form of one rebate payment. In the case of income taxpayers, the crude oil-gasoline tax rebate will be combined with the present law section 42 general tax credits.

Per capita rebates will only be available to residents of the United States.

Effective Date.

The proposal will be effective January 1, 1978, although no tax can be imposed earlier than January 1, 1979.

FUEL USED IN MOTORBOATS

(Secs. 1231, 1233, and 1235 of the Act; Secs. 4041
and 6421 of the Internal Revenue Code and
16 U.S. 460 l-11)

TECHNICAL EXPLANATION

Present Law.

Present law permits motorboat operators to claim a credit (against income tax), or a refund, for the fuel used in their boats of 2 cents of the 4 cents per gallon tax levied on gasoline and special motor fuels (principally liquified petroleum gas). The net revenue from the taxes on fuel used in motorboats is transferred to the Land and Water Conservation Fund.

Diesel fuel used in boats is not taxed.

Proposal.

Rescind the credit (or refund) privilege. A technical change would be made in the Land and Water Conservation Fund Act of 1965 to reflect this amendment.

Effective Date.

The amendment would be effective for fuel so used on or after October 1, 1977.

AVIATION FUEL

(Secs. 1231, 1232, 1234 and 1235 of the Act;
Sec. 4041 of the Internal Revenue
Code, 49 U.S.C. 1742, and 23 U.S.C.
120 note)

TECHNICAL EXPLANATION

Present Law.

Fuel used in noncommercial aviation currently is taxed at 7 cents a gallon. Jet fuel is subject to the 7 cents tax when sold at retail, or alternatively when used by the plane operator. A 3 cents a gallon tax on gasoline used in noncommercial aviation is collected in the same manner as the tax on jet fuel. The total tax on gasoline also is 7 cents a gallon as there is a 4 cents a gallon tax on gasoline when it is sold by the producer or importer.

Revenues from the taxes on fuel used in noncommercial aviation are transferred to the Airport and Airway Trust Fund.

"Noncommercial aviation" is defined as any use of an aircraft other than use in the business of transporting persons or property for compensation or hire (these activities are subject to a ticket or waybill tax). Also included are the operation of aircraft for compensation with a maximum certificated takeoff weight of less than 6,000 pounds if not operated on an established line and aircraft operated by one member of an affiliated group for compensation by another member(s) of such group. These business operations pay the fuel tax in lieu of the persons or waybill taxes.

Proposal.

Increase the tax on fuel used in noncommercial aviation from 7 cents a gallon to 11 cents. This would be accomplished by raising the retail tax on jet fuel from 7 to 11 cents a gallon and on gasoline from 3 to 7 cents a gallon. Since the tax on gasoline is scheduled under present law to be reduced to 1 1/2 cents a gallon on October 1, 1979, an appropriate adjustment would be made to keep the rate on gasoline used in noncommercial aviation at 11 cents on that date.

The additional revenue would be retained in the general fund of the Treasury. The revenue from the 7 cents tax would continue to be transferred to the Airport and Airway Trust Fund.

Effective Date.

The increased rates would be effective for fuel sold, or used, on or after October 1, 1977.

BUSES

(Sec. 1241 of the Act; Secs. 4063, 4221, and 6416 of the Code)

TECHNICAL EXPLANATION

Present Law.

Present law imposes a tax of 10 percent on sales by the manufacturer or importer of buses with a gross vehicle weight of over 10,000 pounds. Exempt are: 1) sales to State and local governments; 2) sales to nonprofit educational organizations; 3) sales for use predominantly in mass transit service in urban areas; and 4) sales to any person for use exclusively in transporting students or employees of public schools and private nonprofit schools.

Proposal.

Exempt all buses from the 10 percent tax.

The additional exemption would cover buses for inter-city operations, and buses for use by charter and sight-seeing operators, churches, and industries operating employee transportation.

Provision is made for refund of the tax on buses in the hands of dealers on the day after date of enactment of the Act and for refunds to purchasers for buses purchased after April 20 and on or before the date of enactment of the Act.

Effective Date.

The proposal applies to buses sold after April 20, 1977.

BUSINESS ENERGY CREDIT

(Sec. 1301 of the Bill, Secs. 46, 47 and 48 of the Code)

TECHNICAL EXPLANATION

Present Law.

Under present law, an investment tax credit is allowed for the qualified investment made by a taxpayer to acquire or construct new "section 38 property." The investment credit is also available under certain circumstances for the acquisition of used section 38 property.

In general, section 38 property is tangible personal property subject to the allowance for depreciation (or amortization) and having a useful life of at least 3 years. A building and its structural components and property which is used predominantly to furnish lodging do not qualify as section 38 property.

Under section 46(a), the amount of the credit is now 10 percent (up to 11 1/2 percent for corporations with employee stock ownership plans) of the qualified investment. The investment tax credit is scheduled to be reduced to 7 percent after 1980.

Proposal.

Under the proposal, section 46(a) would be amended to provide that in the case of business energy property (as defined in the proposal) that qualifies as new section 38 property under current law, the investment credit would be 20 percent of qualified investment. This 20 percent credit would also be extended to business energy property used in connection with the furnishing of lodging (other than property to which an election under section 167(k) relating to rehabilitated low-income housing, applies), although such property would not qualify as section 38 property under current law. Corporations with employee stock ownership plans to which section 46(a)(2)(B) applies, however, would be entitled to a credit of up to 21½ percent of qualified investment in business energy property.

When the investment tax credit reverts to 7 percent of qualified investment in 1981, business energy property would nevertheless continue to qualify for a 17 percent credit, and the 20 percent credit would be retained for cogeneration or alternative energy property. The requirements that section 38 property be subject to the allowance for depreciation (or amortization) and have a useful life of at least 3 years will apply to business energy property as well.

The investment tax credit would also be extended to certain property specially designated as business energy property by the Secretary. In the case of such special business energy property (as defined in the proposal), the credit would be 10 percent of qualified investment (up to 11½ percent for corporations with employee stock ownership plans to which section 46(a)(2)(B) applies). Special business energy property that also qualifies as cogeneration property or as alternative energy property will qualify for a 20 percent credit (up to 21½ percent where section 46(a)(2)(B) applies).

Period For Which The Business Energy Credit Is Available.

The additional credit for business energy property (including the 10 percent credit for special business energy property) is to be available for property acquired and placed in Service after April 20, 1977 and before January 1, 1983. In addition, in the case of property constructed, reconstructed, or erected by the taxpayer, the credit for business energy property is to be available for property completed by the taxpayer after April 20, 1977, to the extent of that part of the basis of the property attributable to construction, etc. after April 20, 1977, and before January 1, 1983. In those cases in which the taxpayer elects to claim the investment credit with respect to qualified progress expenditures, the proposed credit for business energy property is to be available only with respect to qualified progress expenditures made after April 20, 1977, and before January 1, 1983.

Property Must Be New Section 38 Property.

The provisions for business energy property will apply only to new section 38 property. In the case of property to which section 46(d) (relating to qualified progress expenditures) applies the additional credits for business energy property and special business energy property will apply only if it is reasonable to believe, at the close of the taxable year of the taxpayer in which construction begins (or, if later, at the close of the first taxable year to which an election under section 46(d) applies) that the property will be business energy property, or special business energy property, as the case may be, when placed in service.

Definition Of Section 38 Property To Be Expanded.

The definition of section 38 property would be amended to provide that business energy property used to furnish lodging or used in connection with the furnishing of lodging is not excluded by section 48(a)(3) from the definition of section 38 property. However, where the investment is eligible for rapid depreciation under section 167(k), relating to low-income housing, such investment would still be excluded from the definition of section 38 property under section 48(a)(8). The definition of section 38 property would also be amended to include special business energy property, such as the structural components of buildings, that would not qualify as section 38 property under sections 48(a)(1)(A), (B) or (C) of current law. These amendments apply, however, only where the amount of the credit with respect to such property is determined under the special business energy property rules added to section 46(a)

Definition of Business Energy Property.

Business energy property must be either cogeneration property, alternative energy property, solar equipment, or property identified by regulations prescribed by the Secretary of the Treasury, in consultation with the Federal Energy Administrator. These various categories are discussed further below. All business energy property must be an integral part of, or used in connection with, a building or other structure located in the United States which is substantially complete before April 21, 1977.

Property will not qualify as business energy property if it is used to carry on any manufacturing or production process which is first carried on in the building or other structure after April 20, 1977. The proposal also contains an additional limitation in the case of alternative energy property. Under the proposal, certain investments in alternative energy property will be treated, at the election of the taxpayer, as payments against special oil and gas consumption taxes to be imposed by chapter 45. If any portion of the cost of property to any person is treated as being a payment against these special taxes, the property will not qualify as business energy property.

In the case of certain certified pollution control equipment which the taxpayer is allowed to amortize under section 169 over a five year period, section 46(c)(5) currently limits the investment credit to not more than one-half the amount otherwise available. This limitation would be changed to a one-fourth credit in the case of property described in the preceding sentence that is business energy property if any part of the cost of the property is financed by the proceeds of tax exempt bonds.

Cogeneration Property.

Cogeneration property is property which produces steam, heat, or other forms of useful energy (other than electric energy) which is, or will be, used for industrial, commercial, or space heating purposes which, together with such production, generates electric energy. The property must also meet such requirements respecting minimum fuel efficiency as the Secretary of the Treasury by regulations prescribes, after consulation with the Federal Energy Administrator.

Alternative Energy Property.

Alternative energy property is defined as any of the following:

(1) a coal fired boiler,

(2) a coal fired combustor other than a boiler,

(3) a facility for the conversion of coal into synthetic gas which has a heat content of 500 British thermal units or less per standard cubic foot,

(4) a facility where coal is used as a feedstock for the manufacture of chemicals or other products (other than coke),

(5) certain equipment used for the unloading, transfer, storage, reclaiming from storage, or preparation (including washing, crushing, drying, and weighing at the point of use) of coal for use in, or with respect to, a boiler, combustor, or other facility listed in (1) through (4).

(6) a boiler (including a boiler fueled by waste materials or waste heat), the primary fuel for which is not petroleum, natural gas, or products derived from petroleum or natural gas.

(7) equipment for the burning of coal in combustors other than boilers, but only a burner and such equipment that is used to supply coal to a burner, and

(8) pollution control equipment required by Federal, State, or local regulations to be installed on, or with respect to, any of the items listed in (1) through (7).

Alternative energy property, however, does not include a building or other structure.

Solar Energy Equipment.

The third category of business energy property is solar energy equipment. Solar energy equipment is defined as equipment which is specified in regulations prescribed by the Secretary of the Treasury and which, when installed in or on, or when connected to, a building uses solar energy to heat or cool a building or any part thereof, or to heat water or to provide process heat.

The Treasury Department must consult with the Federal Energy Administration in prescribing the regulations with respect to solar energy property.

Other Business Energy property.

A fourth category of business energy property is property of a class identified by Treasury Regulations as having as its principal purpose the reduction of the amount of energy consumed (1) to heat or cool an existing building or other structure, or (2) to carry on a manufacturing or production process in the building or structure. Property in the latter category must be a new, identifiable property that does not significantly alter the manufacturing or production process. Under the proposal, the Secretary of the Treasury is to consult with the Federal Energy Administrator in prescribing the regulations with respect to this category of business energy property. The proposal also lists 15 types of property (such as insulation) which are to be included in the special business energy property regulations, unless the Secretary (after consultation with the Federal Energy Administrator) determines that the property does not meet the requisite energy reduction criteria.

Recapture.

In the event that business energy property ceases to be section 38 property (or in the case of qualified progress expenditure property, ceases to be property that will be, when placed in service, new section 38 property) the recapture rules of current law will apply. Similar recapture rules will also apply with respect to the energy bonus portion of the credit where property, by reason of a change in use, ceases to be business energy property (or property that will be new business energy property) but nevertheless continues to be section 38 property (or property that will be new section 38 property) in the hands of the taxpayer. Similar recapture rules will also apply where property loses its status as cogeneration property or alternative energy property, but remains section 38 property that is business energy property other than cogeneration or alternative energy property.

Where a portion of the investment credit allowed with respect to business energy property is recaptured by reason of the special recapture rules relating to a change in use of such property, and the property subsequently ceases to be section 38 property in a manner that would trigger the recapture rules of general application, the amount of credit recaptured by reason of a change in business energy property status is to be taken into account in determining the amount of credit subsequently recaptured because the property ceases to be section 38 property.

Effective Dates.

The amendments apply generally to taxable years ending after April 20, 1977, and to credit carrybacks from such years. The amendment to section 46(c)(5), relating to pollution control facilities, applies (1) to property acquired and placed in service after April 20, 1977 and before January 1, 1983, and (2) to property completed by the taxpayer after April 20, 1977 and before January 1, 1983, but only to the extent of basis attributable to construction, reconstruction or erection after April 20, 1977.

CRUDE OIL EQUALIZATION TAX

(Sections 1401-1408 of the Bill; Sections 34, 39, 4996, 6431 of 6432 of the Code)

TECHNICAL EXPLANATION

Present Law.

Under present law, the price of domestic crude oil is regulated by the FEA under the provisions of the Emergency Petroleum Allocation Act of 1973. The mandatory price control portions of the EPAA expire in May of 1979. Thereafter, the President has discretionary oil price control authority until September of 1981.

Under existing regulations the average price of lower tier crude oil (the amount of oil produced from a property at the lesser of 1972 production or 1975 production) has been set about $5.25 per barrel. Upper tier oil (oil produced in excess of lower tier limits), is currently controlled at a price of $11.28 per barrel. These controls extend to all domestic production of oil with the exception of oil produced from wells where the average daily rate of production is ten barrels or less (so-called "stripper wells").

Imposition of Tax.

Domestic oil would be classified as first and second tier oil, equivalent to the current upper and lower tiers. A third uncontrolled tier would consist of oil not subject to a first sale ceiling price, such as stripper well oil.

All domestic oil would become subject to a crude oil equalization tax applied in three annual stages beginning on January 1, 1978. The tax would be imposed on the delivery of domestic crude oil to the refinery or other place of first use. During calendar year 1978 the tax would be $3.50 per barrel on first tier crude oil. During calendar year 1979, the tax would be imposed in each calendar month on the difference between the national weighted average price of first tier crude oil and the national weighted average price of second tier crude oil. Beginning in calendar year 1980 and thereafter, the tax for each classification of crude oil in any calendar month would be equal to the excess (if any) of the national weighted average refiner acquisition cost per barrel (exclusive of any tariffs or import fees) of imported crude oil over the national weighted average crude oil price per barrel for all crude oil of the same classification. Domestic crude oil exported shall be subject to tax as if delivered to a domestic refiner or use.

The President is empowered to suspend any increase in the crude oil equalization tax to protect the economy from inflationary impact if the average cost to domestic refineries of imported oil significantly exceeds the inflation adjustment allowed under the legislation.

The proposal provides that the office or agency to which the President delegates his authority under the Emergency Petroleum Allocation Act of 1973 shall have authority to (i) prescribe by regulation such different or additional classifications of crude oil with respect to refiner acquisition costs as are deemed necessary, (ii) prescribe regulations specifying the application of the crude oil classification regulations to crude oil that is exchanged prior to its delivery to a refinery, (iii) prescribe regulations whereby the national weighted average cost of each classification of crude oil shall be determined or prescribed, and (iv) further define the terms used with respect to crude oil and the classification and costs thereof.

Rebate for Heating Oil.

The proposal also provides for refunds of tax to the seller of domestically refined distillate fuel oil sold and delivered into the tank of a residual structure for use in such structure. Refund to the seller is, however, conditional upon his furnishing evidence that he has reduced the price of the distillate fuel oil to the consumer to reflect fully the amount of payment claimed.

The amount of tax paid on each gallon of distillate fuel oil sold by the refiner would be determined by the Administrator c the Federal Energy Administration. Such determination would be published in the Federal Register at the end of the second month of the following quarter. The refiner of distillate fuel oil, and each subsequent seller, would be required to include on all invoices of such oil for the quarter following the publication of the average per barrel tax, a statement of the tax per gallon, except that the ultimate seller need not include such a statement if the oil is not delivered into the tank of a residential structure. For the first two calendar quarters beginning with the quarter of the imposition of the tax, the amount of tax to be stated on invoices of distillate fuel oil sold by refiners would be an amount as estimated and published by the Federal Energy Administrator.

No payments will, in fact, be made to sellers other than governmental bodies or tax exempt organizations unless $1,000 or more is payable during the first three quarters of a person's taxable year. Instead, benefits will be claimed by means of an income tax credit equal to the amount payable.

Per Capita Rebates.

The proposal provides for a per capita rebate based upon the net revenues derived from crude oil tax receipts. The determination of the per capita amount is to be made by the Secretary of the Treasury and is to be published in the Federal Register no later than November 15 of the determination year. In computing the per capita amount the Secretary is to estimate the taxes to be collected from the imposition of the tax in the following year and reduce that sum by the estimated reduction in income tax collections arising from business deductions of the tax and the rebate for heating oil. He is also to reduce the sum by the administrative costs of the rebate program.

Individual taxpayers are to receive the per capita rebate as a credit against income taxes levied on income for the year for which the credit is applicable. The credit will equal the amount of the rebate times the number of personal exemptions claimed by the taxpayer for himself, his spouse and his dependents, including the personal exemptions which are allowed a taxpayer for old age and blindness. The credit is not to exceed the tax liability of the taxpayer for that year. However, in the case of taxpayers who qualify for the earned income credit, that limitation does not apply. The Secretary of the Treasury is authorized to prescribe withholding tables which will reflect the amount of credit taxpayers will receive in each year.

Individuals who are not taxpayers or dependents of taxpayers, would receive, directly from the Treasury or State governments, payments equal to the same amount per capita as the income tax credits. Recipients of benefits under social security and railroad retirement and supplemental security income programs, would receive checks in September of 1979 (if tax were applicable for 1979), and each succeeding September in a year in which the tax was applicable, if they were entitled to social security benefits and were not income taxpayers for the preceding June. Recipients of AFDC under approved State plans would receive the per capita payment from the State if they received AFDC in any month prior to September 1 of that year.

Nontaxpayers not eligible for AFDC would be eligible for payment if they file with the appropriate State agency a form after September 30 of a year which states that, in that year, they (i) did not receive a payment of the tax rebate pursuant to an AFDC program, or under social security or railroad retirement and supplemental security income programs, (ii) had no taxable income, and (iii) were not claimed as a dependent by another taxpayer.

The per capita rebate program for crude oil tax receipts is identical to the program proposed for the standby gasoline tax. If a gasoline tax is imposed in any year and per capita rebates are required then the crude oil tax per capita rebate will be combined with the gasoline tax per capita rebate in the form of one rebate payment. In the case of taxpayers the crude oil-gasoline tax rebate will be combined with the present law section 42 general tax credit.

Per capita rebates will only be available to residents of the United States.

Effective Date.

The proposal applies to deliveries of crude oil to the refiner or first user after December 31, 1977.

OIL AND GAS CONSUMPTION TAXES AND REBATE

(Secs. 1501-1503 of the Bill; Secs. 46, 162, 1016, 4991-4993 and 6431 of the Code.)

TECHNICAL EXPLANATION

Present Law.

Present law does not contain a tax on industrial and utility use of oil and natural gas.

The Proposal in General.

The use of oil and natural gas in a trade or business would be taxed based on the quantity of energy, expressed in British thermal units ("Btu's"), consumed. For ease of reference, natural gas contains about one million Btu's per thousand cubic feet ("Mcf"); oil contains on the average about 5.8 million Btu's per barrel.

When the oil and gas consumption taxes are fully phased in, the effect would be to make the cost of natural gas *per Btu* equivalent to the cost of Number 2 distillate oil *per Btu* (not including the oil consumption tax).

Oil Consumption Tax.

The proposal would impose a tax on business use of petroleum at a flat rate. The tax would be computed on the taxable use of petroleum in a trade or business (other than electric utility use) during a calendar year at the following rates:

Taxable use occurring in calendar year	Tax in dollars per million BTU
1979	$0.15
1980	0.30
1981	0.35
1982	0.40
1983	0.45
1984	0.50
1985 and thereafter	

Converting Btu's to barrels, and assuming taxable use (discussed below) equal to actual use, these rates mean an approximate average tax of $0.90 per barrel in 1979 and $3.00 per barrel in 1985 and later years.

In the case of the taxable use of petroleum by an electric utility, a tax is imposed at the rate of 25 cents per million Btu's starting in calendar year 1983. On the average, this would mean a tax of $1.45 per barrel. An electric utility is defined as any person engaged in the sale or exchange of electric energy or a person who owns or operates a qualifying cogeneration facility.

The applicable tax rate is to be adjusted for inflation, i.e., the change from a year earlier in the implicit price deflator for the gross national product for the quarter preceding the taxable year.

"Taxable use" measures use of energy on a sliding scale, beginning at zero tax at use exceeding 500 billion Btu's and reaching 100 percent of tax when actual use reaches

1,500 billion Btu's per calendar year. Controlled groups, as now defined in the Internal Revenue Code, would be considered one unit for purposes of measuring "taxable use."

Under the proposal, the petroleum taxed would include crude oil, residual fuel oil, refined petroleum products and natural gas liquids (other than lubricating oils, greases, waxes, petroleum coke, pitch, asphalt and related products as described in regulations issued by the Secretary of the Treasury). The Secretary would establish standard Btu content for various types and grades of petroleum.

Natural Gas Consumption Tax.

Under the proposal, a tax would be imposed on trade or business use of natural gas during a calendar year. The tax would be the difference between the user's average cost of natural gas and a target price keyed to the current price of Number 2 distillate oil. The target price of the calendar year is to be calculated by adjusting a "Btu equivalency price" for the calendar year. The Btu equivalency price is the average regional price (exclusive of the oil consumption tax) of all Number 2 distillate oil sold for use in a trade or business in the region during the calendar year in which such gas is used as determined by the Administrator of the Federal Energy Administration. The Administrator is to announce this equivalency price by March 31 of the succeeding calendar year. The Btu equivalency price is to be adjusted downward by specified amounts (which in turn are to be adjusted for inflation as per the oil consumption tax inflation adjustment) so as to increase the tax gradually.

The proposal contains tables setting forth the non-inflation adjustments required to be made in the Btu equivalency price to determine the target price. These adjustments are designed to lower gradually the amount of natural gas used. Beginning in 1979, in the case of uses other than by a utility, the adjustment would require the Btu equivalency price to be reduced by $1.05. This would mean that, on the average, natural gas would cost $1.05 per million Btus (i.e., per Mcf) less than the equivalent amount of energy purchased in the form of distillate fuel. Future adjustments would raise the target price to the Btu equivalency price in 1985 and later years. This would mean that in such years the price of distillate fuel and the price of gas would, on the average, be equal, when measured in terms of the amount of energy purchased.

The tax would not be imposed on utilities until 1983. Under the proposal, the adjustment to the BTU equivalency price for utilities would be 50 cents in 1983. This adjustment would bring the cost of natural gas for utilities to a level of 50 cents per Mcf below the Btu equivalency price of number 2 distillate fuel. The adjustments change annually so that by

1988 the tax will have risen to the point where the cost of natural gas to utilities will, on the average, equal the before tax cost of number 2 distillate fuel, when measured in terms of the amount of energy purchased.

The 1983 starting date for the tax on utilities reflects the longer lead time required by utilities to convert to coal or other non-oil or gas fuels. Utilities are defined under the proposal as any person engaged in the sale or exchange of electric energy or gas or any person who operates a qualifying cogeneration facility.

As in the case of the oil consumption tax, "taxable use" measures use of energy on a sliding scale, setting the tax at zero for use of not more than 500 billion Btu's of natural gas use and increasing gradually to 100 percent tax when actual use of natural gas reached 1,500 billion Btu's.

<u>Exemptions</u>

The oil and natural gas consumption taxes are specifically made inapplicable to certain fuels and uses. The taxes do not apply to gasoline and lubricating oil or to fuel supplies for vessels or commercial aircraft. The oil and gas consumption taxes are also made inapplicable to the following uses: farming, drying of grains and feed grasses or irrigation pumping, production of anhydrous ammonia or ammonia liquor, feed stocks, vessels, or vessels engaged in foreign trade. The oil and gas consumption taxes also are made inapplicable to the following uses: use in any aircraft, rail or water transportation; farming, drying of grains and feed grasses or irrigation pumping, production of anhydrous ammonia or ammonia liquor, production of refined petroleum products (other than use as a fuel), natural gas reinjected for re-pressuring or cycling use, and natural gas used at the point of consumption which is not practically marketable.

Industrial Oil and Gas Conservation Rebate

In order to encourage conversion to use of non-oil or gas fuels, businesses (other than electric utilities) may elect to offset investment in alternative energy property against the oil or gas consumption taxes or to obtain the additional energy investment tax credit. The offset proposal treats an amount equal to the taxpayer's calendar year investment in alternative energy property as a payment against the taxpayer's oil or natural gas consumption taxes for the calendar year. A person elects this offset treatment at the time he first credits his expenditures for alternative energy property against oil and gas consumption taxes. Once made, the election cannot be revoked.

The amount treated as a payment against the oil or gas consumption taxes under the provision may not exceed the taxes imposed for the calendar year. However, any excess amount of alternative energy property expenses for the year not applied to offset such taxes may be carried over to the next calendar year and treated as an investment in alternative energy property for such following year. Thus, under the proposal, amounts may be carried over from year to year to offset future years' oil or gas taxes.

Under the proposal, alternative energy property includes: coal-fired boilers; boilers whose primary fuels will not be petroleum or natural gas; a facility for the conversion of coal into synthetic gas which has a heat content of 500 BTUs per standard cubic foot or less; equipment for the burning of coal in combustors other than boilers (limited to equipment used to supply coal to a burner, and the burner); pollution control equipment required by governmental regulation to be installed on the equipment previously described (except equipment required to be installed under regulations in effect on April 20, 1977, relating to combustors currently using coal); and equipment used for the unloading, transfer, storage, reclaiming from storage or preparation (including washing, crushing, drying, and weighing at the point of use) of coal for use in the above facilities, and at facilities where coal is used as a feedstock for the manufacture of chemicals or other products, except coke.

Under the offset proposal, alternative energy property also includes the costs of engineering, designing, purchasing, manufacturing for own use, transporting, assembling, or installing up to the time of commencement of construction of any of the described property. Alternative energy property does not include buildings and other structures, nor the costs of preparing plans or designs not otherwise specifically allowed, or the costs of preparing a site for construction (including demolition and grading).

The proposal provides for the payment against the oil and gas taxes to be deemed made on the later of the date prescribed by law for filing the return for the oil and gas tax or the date the return is actually filed.

The provision further provides that no deduction against income taxes is to be allowed for oil and gas consumption taxes to the extent that they are offset by alternative energy property expenditures. In addition, there is no requirement that the basis of alternative energy property is to be reduced by so much of the cost of such property as is treated as a payment against the tax.

Utility Oil and Gas Conservation Rebate

The proposal includes an offset for electric utilities in the form of a credit against oil and gas consumption taxes incurred by them, and based upon expenditures for qualified replacement investments made after April 20, 1977.

Qualified replacement investments include the costs paid or incurred for engineering, designing, purchasing, transporting, assembling, and installing electrical generating property with a capacity for using coal or other fuel to replace electrical generating property with a capacity for using petroleum or natural gas (other than for start up, testing, and flame stabilization). The Secretary of the Treasury will prescribe regulations further describing qualified replacement investments after consultation with the Administrator of the Federal Energy Administration.

A carryover of excess expenditures is provided as in the case of the industrial rebate.

Effective Date.

The proposal is effective December 31, 1977.

INTANGIBLE DRILLING EXPENSES OF GEOTHERMAL RESOURCES

(Secs. 1601 and 1604 of the Act, Secs. 263, 1254 and 465 of the Code)

TECHNICAL EXPLANATION

Present Law.

Under current law there is no provision which grants to taxpayers engaged in the development of geothermal properties the right to elect to expense, rather than to capitalize their intangible drilling and development costs.

Proposal.

The proposal would allow a deduction for intangible drilling costs comparable to that now available for oil and gas drilling. As under current law with respect to oil and gas drilling, the taxpayer's election to expense such costs would be an irrevocable election.

In addition, in order to conform the treatment of taxpayers engaged in the development of geothermal properties with those engaged in the development of oil and gas properties, the following changes are proposed:

(1) The excess of such expenses over the amount which would have been allowable if costs were capitalized and straight line depreciation used would be subject to the minimum tax to the extent that they exceed net income attributable to geothermal properties. (See Sec. 1604 of the Bill);

(2) gain from the disposition of taxpayer's interest in geothermal property would be subject to the recapture rules of section 1254; and,

(3) taxpayers exploring and developing geothermal property would be subject to the "at-risk" rules of section 465.

Effective Date.

The proposal applies with respect to costs incurred after April 20, 1977.

MINIMUM TAX TREATMENT OF INTANGIBLE DRILLING EXPENSES

(Secs. 1603 and 1604 of the Bill, Sec. 57 of the Code)

TECHNICAL EXPLANATION

Present Law.

In general, intangible drilling expenses, paid or incurred in connection with drilling on oil and gas properties, which are in excess of the amount which could have been deducted had the intangible costs been capitalized over a ten-year period are treated as a tax preference item under the minimum tax. An alternative reduction, based upon any method which would be permitted for purposes of cost depletion, may be elected. The provision applies only to individual taxpayers. The committee of conference on H.R. 3477 (Tax Reduction and Simplification Act of 1977) has adopted an amendment which provides that the amount subject to the minimum tax should be further reduced by the amount of net income of the taxpayer from oil and gas properties for the taxable year. The provision is to apply to taxable years beginning after December 31, 1976, and before January 1, 1978.

Present law does not provide for an election to expense intangible drilling expenses of geothermal steam wells.

Proposal.

The proposal would amend the minimum tax provisions to treat as an item of tax preference only those intangible drilling expenses paid or incurred in the taxable year with respect to the interest of a taxpayer in oil and gas properties which are in excess of (i) the amount which could have been deducted by the taxpayer had the intangible costs been capitalized and amortized over a ten year period, and (ii) by the taxpayer's net income from all oil and gas properties. Income from oil and gas properties is to be determined in accordance with the rules for determining gross income from oil and gas properties for purposes of percentage depletion under Sec. 613(a), without regard to the limitations under that section. Net income is gross income from oil and gas properties reduced by the amount of deductions properly allocable thereto (including percentage depletion).

In the case of the deduction of intangible drilling expenses on geothermal steam properties (as proposed in sec. 1601 of the Bill), the proposal provides that the intangible drilling deductions subject to the minimum tax would be reduced by the amount of the costs which could have been capitalized, as provided in the case of oil and gas properties (except that the election available for computing the reduction under any permissible cost depletion method does not apply), and by the aggregate net income received or accrued during the taxable year by the taxpayer from geothermal steam properties. Net income is defined as the excess of the aggregate amount of income from geothermal steam properties less the amount of any deductions allocable to such properties (other than intangible drilling expenses allowable for such year), reduced by the minimum tax imposed by the section.

Effective Date.

The proposal would be effective for taxable years beginning after December 31, 1976.

TREASURY INVESTIGATION OF CHARGES MADE AGAINST THE MOBIL OIL CORPORATION

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TREASURY INVESTIGATION OF CHARGES MADE AGAINST THE MOBIL OIL CORPORATION

This report summarizes the findings of a detailed investigation conducted by the Office of Foreign Assets Control, Department of the Treasury, of allegations that the Mobil Oil Corporation ("Mobil") has been engaged in the supply of petroleum products to Rhodesia in violation of the Rhodesian Sanctions Regulations administered by the Office. The Treasury Rhodesian Sanctions Regulations implement the United States participation in the United Nations embargo of Rhodesia. The embargo has been in effect since 1966, in the case of petroleum product supply.

I
BACKGROUND

A. The Allegations Against Mobil

At a June 21, 1976, Washington press conference, the Center for Social Action of the United Church of Christ (the "Center") released a report entitled "The Oil Conspiracy" (the "Center Report") which purported to demonstrate that petroleum products were reaching Rhodesia by way of export from Mobil's South African subsidiary ("Mobil South Africa") to its Rhodesian subsidiary ("Mobil Rhodesia"). The Report contained allegations that a highly sophisticated scheme was operated by Mobil South Africa whereby it sold petroleum products to Rhodesia through a series of fictitious South African companies. Among other matters, Mobil Rhodesia allegedly was asked by a secret Rhodesian Government agency called GENTA to establish what the Report referred to as a "paper-chase" of intermediary companies through which GENTA could import Rhodesia's gasoline and diesel requirements from Mobil South Africa.

The Center Report contained detailed allegations as to how Rhodesia has been able to obtain a critical commodity that it cannot produce internally and cannot function without, namely, petroleum. As argued in the Center Report, since the Rhodesian economy continued to function even after the imposition of a United Nations trade embargo on certain commodities, including petroleum, the country must have been supplying its petroleum needs from some external source. Charges were made in the Center Report that, notwithstanding the embargo, a number of international oil companies, including Mobil, managed to continue to supply Rhodesia's petroleum needs via a number of land and sea routes.

The allegations in the Center Report were primarily based on eighteen documents published in the Center Report. These documents allegedly had been provided to the Center by a clandestine South African Organization known as OKHELA. OKHELA claimed that the material had been gathered during a year of intensive secret research and intelligence work in South Africa, Rhodesia, Mozambique, Britain, the Netherlands, and the United States. The documents consisted of tables describing Rhodesia's petroleum needs, and commercial correspondence allegedly evidencing transactions by Mobil South Africa, Mobil Rhodesia, and various other firms involved in the claimed conspiracy. Among the documents were invoices for petroleum products, official and personal correspondence of company officials relating to transactions in petroleum products, and company financial statements. The documents were allegedly copied secretly from the files of Mobil Rhodesia and other firms said to be involved in the "oil conspiracy".

As acknowledged in the Center Report, subsidiaries of United States corporations which are not organized under the laws of Rhodesia--for example, a South African subsidiary--are not governed by the Treasury's Rhodesian Sanctions Regulations. However, the Regulations do extend to U.S. subsidiaries in Rhodesia, to goods of United States origin, and to United States citizens. The suggestion in the Report was that the Mobil situation would appear to involve all three elements. Specifically, the Center Report stated that it was difficult to imagine that Mobil and/or its officers did not know of the petroleum importation activities that Mobil Rhodesia carried out in collaboration with Mobil South Africa.

In this regard, one important focus of the report was on the roles of three officials of Mobil who, at the time of preparation of the Report, were American citizens and who either were serving on the board of directors of Mobil South Africa or had so served in the past. The three key officials are as follows:

> Everett S. Checkett. Mr. Checkett was a member of the board of directors of Mobil South Africa and Executive Vice President of the International Division of Mobil which owns Mobil South Africa. In the latter position, he was responsible for Mobil South Africa. Mr. William F. de la Beck, Chairman of Mobil South Africa, reported to him.

> Charles E. Solomon. At the time when the documents the Center relied on were ostensibly prepared, Mr. Solomon was a member of the board of Mobil South Africa, President of the International Division of Mobil and a member of its board of directors.

Faneuil Adams, Jr. At the time of the report, Mr. Adams was Vice President of Planning in the International Division of Mobil. From 1972 to May 1975 he was President of Mobil South Inc., a Mobil umbrella organization which has responsibility for a number of Mobil subsidiaries in Africa including Mobil South Africa and Mobil Rhodesia. At that time, he was also on the board of Mobil South Africa and Mr. Beck reported to him.

According to the Center Report, the alleged sanctions-breaking activities of Mobil South Africa were probably known to its board of directors since they involved business which would normally be reviewed and discussed in board meetings. The authors of that Report stated that the directors of Mobil South Africa included very senior executives of Mobil. The authors suggested in the Report that it would be difficult to believe that the parent company did not have knowledge of the sanctions-breaking activities of the South African subsidiary.

B. The Legal Framework

1. General

The present white-controlled regime of Rhodesia came into existence on November 11, 1965, when Prime Minister Ian Smith issued a unilateral declaration of independence (UDI). Prime Minister Smith acted in defiance of the United Kingdom's insistence that the granting of full independence to the white minority colony must be conditioned on the guaranteeing of basic rights to the black African majority (95% of the population). The United Kingdom applied economic sanctions in response to UDI, but when these failed, the assistance of the United Nations was invoked in December 1966.

On December 16, 1966 the Security Council (with U.S. support) passed Resolution 232 calling on member states to impose a mandatory munitions and petroleum embargo on sales to Rhodesia and an embargo on importation by U.N. members of certain key Rhodesian commodities. Members were specifically required not to permit their nationals or vessels to supply oil or oil products to Rhodesia. The President on January 5, 1967 issued Executive Order 11322 to implement this embargo. The Executive Order was issued under the authority given the President by the Congress in Section 5(a) of the United Nations Participation Act of 1945 (22 U.S.C. 287c).

When the limited embargo failed to have the desired effect on the breakaway regime in Rhodesia, the Security Council, on May 29, 1968, adopted Resolution 253 (again with U.S. support) calling on members to refrain from a broad range of trade and financial transactions with Rhodesia or its nationals. The Resolution imposed a total economic embargo on Rhodesia with some limited exceptions (e.g. for medical, educational, or humanitarian purposes). The President issued Executive Order 11419 on July 29, 1968, to implement United States participation in the expanded United Nations sanctions. Violations of any order, rule, or regulation issued by the President under Section 5(a) of the United Nations Participation Act are punishable by a fine of not more than $10,000 or imprisonment for not more than ten years.

Both Executive Orders 11322 and 11419 delegated the President's authority to implement the United Nations sanctions to the Secretaries of Commerce, Transportation, and Treasury. The authority of the Secretary of the Treasury is in turn exercised by the Director of Treasury's Office of Foreign Assets Control. The Office, among other matters, administers the Foreign Assets Control Regulations and the Cuban Assets Control Regulations, both promulgated under the Trading with the Enemy Act. Those Regulations apply to transactions between United States persons and China, North Korea, North and South Viet-Nam, Cambodia, and Cuba. On August 12, 1968, the Office promulgated the Rhodesian Sanctions Regulations ("the Regulations").

2. "Persons Subject to the Jurisdiction of the United States"

a. Mobil Rhodesia

The Regulations prohibit any person subject to the jurisdiction of the United States, except as authorized by a license issued by the Office of Foreign Assets Control, from engaging in any direct or indirect transaction involving, among other things: (1) transfers of property which involve merchandise destined for Rhodesia, or to or for the account of business nationals thereof, or (2) other transfers of property to or on behalf of any person in Rhodesia including an official instrumentality. The term "person subject to the jurisdiction of the United States" includes a corporation, such as Mobil Rhodesia, which is owned by a United States corporation such as Mobil.

However, although Mobil Rhodesia is itself subject to the Regulations, the policy of the Treasury Department is not to prosecute for illegal activities of a U.S.-owned or controlled enterprise in Rhodesia when that firm acts under duress exerted by the Rhodesian authorities. Obviously, if the management of the Rhodesian subsidiary would be clearly subject to criminal punishment in Rhodesia for violation of Rhodesian directives to import or export, it would be unreasonable for the U.S. Treasury to prosecute for acts conducted under such duress.

At present, Mobil Rhodesia functions under a "mandate" of the Rhodesian regime. A copy of the "mandate" has been examined. The "mandate" clearly requires the management of the Rhodesian subsidiary to comply with Rhodesian directives relating to the conduct of its business or suffer criminal penalties, corporate as well as personal. Accordingly, unlicensed imports of petroleum products by Mobil Rhodesia would not <u>per se</u> have involved a criminal violation of the Treasury Regulations.

To understand the legal implication of any involvement by Mobil Rhodesia in the alleged scheme to provide petroleum products to Rhodesia from South Africa, how that company came to exist and how it continues to function in Rhodesia after the embargo must be understood. Mobil Rhodesia was an existing operation in Rhodesia as a Mobil affiliate prior to the establishment of the Rhodesian sanctions by the U.N. The company, among other activities, operated a chain of service stations there. When the sanctions were invoked, officials of Mobil U.S. requested an opinion from FAC on how the Treasury Regulations would affect the operations of its subsidiary. Officials of Mobil stated that the filling stations received their petroleum product supplies from an official Rhodesian purchasing agency (GENTA), which handled the procurement and importation of petroleum products from foreign suppliers, and resold them to domestic customers in Rhodesia such as Mobil Rhodesia.

Officials of the company were advised that, on these facts, Mobil Rhodesia would not be involved in a violation of the Treasury Regulations if it continued to purchase petroleum products from the Rhodesian government agency, GENTA. However, Mobil Rhodesia could not be involved in any way in the procurement or importation process. This interpretation of the Regulations is consistent with the terms of the U.N. sanctions resolutions, which deal with import and export activities, and with capital movements into and out of Rhodesia, but do not apply to wholly internal transactions. (The interpretation was codified as Section 530.409 of the Regulations).

b. <u>Mobil South Africa</u>

Overseas subsidiaries of United States firms are governed by the Regulations only if they are in Rhodesia. (In this aspect, the Regulations differ from other regulations, such as the Cuban Assets Control Regulations, administered by the Office of Foreign Assets Control.) Foreign subsidiaries located in other countries, such as Mobil South Africa, are not subject to the Rhodesian Regulations.

Although a South African subsidiary, as a corporate entity, is not subject to the Rhodesian Sanctions Regulations, United States citizens are subject to the Regulations. Such persons may commit violations of the Regulations through their directorship and management of the foreign corporation, even though that corporation itself is not directly governed by the Regulations.

The United States policy of not applying the Regulations to subsidiaries located in third countries other than Rhodesia is consistent with the practice of other U.N. member states under the U.N. sanctions resolutions. In this regard, the United Kingdom was the sponsor of the U.N. sanctions resolutions, in its capacity as sovereign over what was then the colony of Rhodesia. After passage of the sanctions resolution of December 1966, Treasury ascertained that the United Kingdom did not apply its sanctions regulations to foreign subsidiaries of British firms, as a matter of principle.

Further, other major U.N. members also did not control foreign subsidiaries. Since the U.N. sanctions against Rhodesia are a multilateral undertaking, and since many countries object to so-called "extraterritorial" controls over subsidiaries of U.S. firms located in their countries, for the U.S. to unilaterally extend its controls beyond the level of controls adhered to by the sponsor of the sanctions resolutions, and by other major U.N. members did not appear appropriate. If the U.N. sanctions were in fact fully enforced by all U.N. members, U.S. subsidiaries abroad would be prevented from dealing with Rhodesia by the laws of the countries in which they operate. However, this is not uniformly the case and South Africa does not adhere to the embargo at all.

The United Kingdom does apply its sanctions controls to its nationals who are officers or directors of British firms located in third countries. The Treasury Regulations were similarly extended to officers and directors of American subsidiaries in third countries. This restriction has the practical effect in many cases (although not in all) of preventing American subsidiaries in third countries from trading with Rhodesia, even though the subsidiaries themselves are not directly subject to the Regulations.

Finally, the United Kingdom sanctions regulations did apply to British persons and firms in Rhodesia itself, even though they did not apply to British subsidiaries in other countries. The rationale was that persons and firms in Rhodesia are British subjects by virtue of their residence in the "colony" of Rhodesia. Somewhat anomalously, the U.S. decided to follow the British lead and extend the Treasury regulations to U.S. subsidiaries in Rhodesia, even though the same rationale was not present.

In sum, the foregoing shows that the Treasury Regulations would not necessarily be violated simply by virtue of an export from Mobil South Africa to Mobil Rhodesia. However, the Regulations would be violated if U.S. persons, for example officials of Mobil, participated in the transaction. Also, Commerce Department regulations might be violated if U.S. products were involved. As a consequence, the Treasury investigation focused on these two aspects of the allegations against Mobil.

II
THE INVESTIGATION

A. Objectives

The Acting Director of the Office of Foreign Assets Control issued instructions to the Office's investigatory staff that an appropriate investigation be undertaken in order to determine whether:

a) Mobil South Africa had engaged directly or indirectly in the supply of Mobil products to Mobil Rhodesia.

b) Any officer of Mobil was aware of, or instrumental in, the alleged scheme to ship Mobil products to Mobil Rhodesia in violation of the Rhodesian Sanctions Regulations.

c) Mobil Rhodesia had engaged in the importation of diesel oil, gasoline, jet fuels, lubricants, or other petroleum products from Mobil South Africa.

B. Scope of the Investigation

The investigation was to be conducted in three phases. The first phase would involve obtaining documents from the offices of Mobil, Mobil South Africa, and Mobil Rhodesia; evaluating the documents; and, questioning appropriate company officials regarding their content. The second phase would involve interviews of U.S. citizens or residents who had served on Mobil South Africa's Board of Directors; any other relevant key officials of Mobil; and, other persons who had resided in South Africa on or since July 29, 1968, while employed by Mobil. The third phase (which might be conducted concurrently with either of the others) would involve interviewing or seeking documents and sources outside Mobil; attempting to determine the authenticity of the Center documents; and, the pursuit of other avenues of investigation which might be developed, quite apart from the Center allegations and documents.

C. Conduct of the Investigation

1. First Phase--The Documentary Evidence

a. Production of Documents and Questioning of Company Officials Thereon

On June 30, 1976, an Administrative Order was served on Mr. George A. Birrell, General Counsel and Vice President of Mobil. The Treasury Order directed Mobil to: (a) furnish for examination all its records relative to transactions between Mobil Rhodesia and Mobil South Africa involving the purchase and supply of oil products to Rhodesia and (b) furnish all records from the files of Mobil Rhodesia and Mobil South Africa relative to the purchase/sale and supply of oil products to Rhodesia. Mobil officials agreed to provide the information as promptly as possible given the fact that the records were not centrally located but probably were scattered throughout the Mobil worldwide organization, including Mobil South Africa, Mobil Rhodesia, and Mobil Refining Company South Africa. Mr. J. Edward Fowler, Generàl Counsel of Mobil's International Division, would coordinate the task. Mobil officials also informed FAC personnel that it was conducting its own investigation of the allegations.

On July 2, 1976, officials of Mobil U.S. furnished material from its U.S. files in response to the Administrative Order. The items of greatest relevance fell primarily in two categories:

(i) Minutes of the meetings of the board of directors of Mobil South Africa, Mobil Refining Company of South Africa, and Mobil Rhodesia.

(ii) Summary profit and loss statements and balance sheets of Mobil South Africa, Mobil Refining Company of South Africa, and Mobil Rhodesia.

(1) Role of U.S. Citizens on the Board of Directors of Mobil South Africa.

Examination of the minutes disclosed the following items of relevant information: 1) that United States citizens were board members of Mobil South Africa from July 29, 1968, to date; 2) that a United States citizen served as a director of Mobil Rhodesia from July 29, 1968, to December 15, 1969; 3) that United States citizens have served on the board of Mobil Refining from July 29, 1969, to January 1976; 4) that William F. de la H. Beck, a South African national, served at all relevant times as chairman of the board for both Mobil South Africa and Mobil Rhodesia.

In order to determine whether U.S. citizen employees of Mobil serving on the board of Mobil South Africa might have been involved in, or known about, alleged violations of the embargo by Mobil South Africa, FAC personnel sought to pin down their roles and scope of responsibility. Mr. Fowler was asked: (a) the functions of the American officers of Mobil who had served on the Mobil South Africa board; (b) whether the American directors attended Mobil South Africa's board meetings, and if so, how often; and (c) the reason why the South African national (Mr. Beck) who was Chairman of Mobil South Africa, had continued to serve as Chairman of the Board of Mobil Rhodesia after July 29, 1968. (In the latter connection, Mr. Fowler had previously told Treasury officials that, following the imposition of sanctions against Rhodesia, both Mobil itself and Mobil South Africa, to whom Mobil Rhodesia had formerly reported, had no longer been able to exercise any control over Mobil Rhodesia.)

In response to these inquiries, Mr. Fowler stated that it was his understanding that the American member of the Mobil South Africa board never attended board meetings or participated in board decisions. The function of the American member of the Mobil South Africa board (who was also Executive Vice President of Mobil's International Division and nominally responsible for all foreign operations and affiliates) was to serve as a liaison and point of contact between Mobil and Mobil South Africa, and to effectuate and transmit Mobil's overall decisions and policies regarding financial and other general matters. He did not know why the South African national who was chairman of Mobil South Africa (Mr. Beck) had continued to serve as chairman of the board of Mobil Rhodesia.

(2) Analysis of Financial Information Furnished by Mobil

A very careful study of the financial documents furnished from the U.S. files of Mobil was conducted to ascertain whether entries in such documents might contain evidence, direct or indirect, of international transactions in petroleum products between Mobil South Africa and Mobil Rhodesia. Such evidence could, if obtained, lend credence to the allegations of the

Center Report. Accordingly, evaluation of financial information centered on the following areas:

1. Certain intercompany payables.

2. Gains or losses on foreign exchange.

3. Payment of import and customs duties outside the United States.

4. Relationship of South Africa's internal production/consumption figures for petroleum products to import/export figures.

The results derived from the documents and interviews with company personnel were as follows:

(a) Intercompany payables. The U.S. files of records of Mobil Rhodesia disclosed relatively small sums listed as "intercompany payables" to Mobil South Africa and to other affiliates outside Rhodesia. The FAC investigators asked whether these accounts payable were derived from, and were thus evidence of, direct petroleum import transactions by Mobil Rhodesia. Officials of Mobil explained that these were sums owing for routine intercompany administrative services, and had no relation to imports or exports. For example, Mobil South Africa's computer processing facilities were used to prepare monthly pension accounts, payrolls, etc. for Mobil Rhodesia, and this service was carried on the books of Mobil Rhodesia as an intercompany account payable.

(b) Gains or Loss on Exchange. The U.S. files for Mobil Rhodesia records showed realized gains or losses on exchange. Again, the foreign exchange transactions might conceivably have been related to import activities by Mobil Rhodesia. However, Mobil officials explained that these entries primarily reflected normal operations such as settlement of service charges involving Mobil South Africa and Mobil Malawi for the "intercompany payables" above; the gain or loss resulting from transactions in Certificates of Deposit purchased locally, but denominated in foreign currencies; and, translation of local currency balance sheet accounts into U.S. dollars. Treasury officials found that the amounts gained or lost were consistent with such limited activities, and did not reflect sizeable foreign exchange operations, such as might result from petroleum imports.

(c) Payment of Import and Customs Duties by Mobil Rhodesia. The U.S. files of Mobil Rhodesia records also showed sizeable amounts paid for customs duties. This could have meant that Mobil Rhodesia had engaged in extensive imports of unspecified commodities (presumably petroleum products) for which customs duties were paid.

The explanation of Mobil officials is that, whether a Mobil subsidiary was the importer or not, if import and customs duties were passed on to and thus absorbed by it, even if another entity (e.g. GENTA) was the actual importer, then company policy required that such items be reflected in financial accounting records of the subsidiary. Accordingly, the assumption was that when GENTA transferred some of its oil imports to Mobil Rhodesia, Mobil Rhodesia included in its own records customs and import duties included in the total cost of the petroleum products purchased by Mobil Rhodesia from GENTA.

There is no apparent way to either verify or refute this explanation other than by physical examination of the records in Rhodesia, a course of action that has not proved to be possible for either Mobil or FAC (See pp. 13-16 of this report).

(d) Relationship of Internal Production/Consumption to Imports/Exports. FAC officials thought that an examination of Mobil's U.S. file records of production in South Africa, local consumption, and exports to African countries other than Rhodesia, might show a discrepancy between production and listed consumption. If such a discrepancy were found, it would tend to indicate that not all of Mobil South Africa's production had been accounted for, and the discrepancy presumably consisted of exports to Rhodesia.

Accordingly, FAC personnel requested detailed information to conduct this analysis, including reports on the following: (a) imports into South Africa by the Mobil subsidiaries of crude oil and refined oil products from 1968 to June 30, 1976; (b) output of Mobil's South African refinery of refined products from imported crude from 1968 to June 30, 1976; (c) domestic sales and in-house consumption of the Mobil South African subsidiaries from 1968 to June 30, 1976; (d) export sales of refined oil products (to Mobil's Southern African group of affiliates in Botswana, Lesotho, Swaziland, Mosambique, and Namibia) from 1968 to June 30, 1976; and (e) a summary input-output analysis of the Mobil refinery in South Africa from 1968 to June 30, 1976. Analysis of the reports did not disclose discrepencies that would suggest that products had been diverted from South Africa to Rhodesia. However, the category of local sales for consumption in South Africa could conceivably include products reexported by the buyers to Rhodesia. If such an activity existed, it could not be detected by this examination of gross statistics.

In this connection, FAC Officials learned from the U.S. Embassy in South Africa, a company doing business in South Africa is obligated under a policy enforced by the Government of South Africa to sell its products to any willing buyer. The seller cannot compel the buyer to furnish any information as to the use or destination of the product involved. As a result, a South African company (e.g. Mobil South Africa) selling petroleum products to a domestic buyer would not necessarily be able to determine whether those products were destined for resale to Rhodesia, nor to prevent that occurrence.

The Center Report contained an allegation that SASOL, the South African Coal Oil and Gas Corporation, was one of the "paper chase" companies engaged in supplying petroleum products to Rhodesia with the collaboration of the American oil companies in South Africa. This may have been the case, but on the other hand, SASOL, under the aforementioned South African policy, could have purchased its requirements from the U.S. subsidiaries in South Africa without disclosing that the ultimate destination was Rhodesia. In addition, FAC personnel acquired information that would indicate that SASOL had independent internal production sources, overseas sources, and refinery capacity to supply Rhodesia without the participation of the oil companies.

Thus, there is a genuine possibility that the petroleum products found in Rhodesia all originated with SASOL. This is what Mobil officials claim, it is what the other oil companies claim, and there is no credible, authenticated evidence to the contrary.

b. Attempts to Obtain Information from South Africa and Rhodesia.

(1) Mobil's Attempt to Obtain Information from South Africa and Rhodesia.

As stated above (p. 8), FAC personnel realized at the outset of the investigation that the primary sources of evidence to establish or refute the allegations would be found in

South Africa and in Rhodesia. Substantial evidence would probably not be found at secondary sources such as Mobil U.S. Accordingly, the initial administrative subpoenas specified that relevant records of Mobil South Africa and Mobil Rhodesia were to be produced.

On August 18, 1976, at the request of Mobil officials, Mr. Fowler and an Associate General Counsel of Mobil's International Division briefed FAC officials on a trip to South Africa made in early August by senior Mobil officials. The senior officials of Mobil oil who visited South Africa were: Mr. Curtis M. Klaerner, President of the International Division; Mr. Everett S. Checkett, Executive Vice President of the International Division; and Mr. Fowler.

The visit was prompted by letters from Mobil South Africa and Mobil Rhodesia declining to furnish the documents sought by FAC personnel. Both subsidiaries cited prohibitions in the Official Secrets Acts of their respective countries. Accordingly, in order to attempt to obtain the information needed by FAC personnel (and by Mobil officials for its own investigation), the Mobil officials sought firsthand information as to whether the South Africa (and Rhodesia) Official Secrets Acts barred subsidiaries in those countries from furnishing the material.

Mr. Fowler advised FAC personnel that the officials had conferred with prominent South African legal counsel, the South African Secretary of Commerce, and the U.S. Ambassador. The firm opinion received from all sources was that the Official Secrets Act did indeed bar Mobil South Africa, or any person in South Africa, from any compliance with the U.S. Treasury Order. In fact, the members of the Mobil delegation were themselves advised that they would place their own freedom in jeopardy while in South Africa if they attempted to conduct any investigation into the matter. The sources expected the same situation to exist in Rhodesia.

(2) <u>Contacts by Mobil's General Counsel with Officials of Mobil South Africa and Mobil Rhodesia</u>.

On September 17, 1976, Mobil's Vice President and General Counsel, George A. Birrell, testified before the Subcommittee on African Affairs of the Senate Committee on Foreign Relations with regard to the allegations against Mobil. In the course of his testimony, Mr. Birrell discussed his attempts to obtain an explanation of one of the

Center documents (Document #16) from officials of Mobil South Africa and Mobil Rhodesia. [Mr. Birrell's testimony authenticated another document supplied by the Center, and is discussed hereafter in this report (p. 25)].

Mr. Birrell's general testimony emphasized that, for at least ten years, Mobil company policy has been to bar exports of petroleum products to Rhodesia. He stated that the policy applies to foreign subsidiaries as well as to the parent. Communications from Mobil South Africa to Mobil contained periodic reaffirmation that company policy regarding trade with Mobil Rhodesia, and Rhodesia generally, was being complied with. However, in response to a question as to where he thought Rhodesia "is getting its oil today?" Mr. Birrell replied: "Logically, it has to be coming through South Africa.

With regard to his attempts to obtain information from officials of Mobil South Africa and Mobil Rhodesia, Mr. Birrell testified that, following publication of the Center Report, he made telephone calls to several present and former employees of the firms. Among them were Mr. William F. de la Beck and Mr. R. H. Maskew of Mobil South Africa and Mr. Richard van Niekerk of Mobil Rhodesia. As has been noted above, Mr. Beck was and remains the Managing Director of Mobil South Africa and Chairman of the Boards of Directors of Mobil South Africa and Mobil Rhodesia. Mr. R. H. Maskew, an executive of Mobil South Africa, was the addressee of a letter (Center Document #16) purportedly from Mr. Niekerk, a Mobil Rhodesian employee, which apparently describes sales of petroleum from Mobil South Africa to GENTA and which contains references to the "paper chase" of intermediary companies, explicitly referred to in the letter as "our false trail being laid."

Mr. Birrell testified that Mr. Maskew would not discuss the supply of petroleum products to Rhodesia because of the Official Secrets Act. However, Mr. Maskew repeated "emphatically" several times that he would surely remember a piece of paper such as Center Document #16, that he had never received such a document, and had no knowledge of it. Mr. Niekerk, when contacted in Rhodesia, "simply declined to comment in any way because of the Official Secrets Act of Rhodesia."

(3) Investigation of the Effect of the Official Secrets Acts on the Investigation

Clearly, FAC personnel could not rely solely on these statements by a firm under investigation, even though there was no apparent reason to doubt their validity. Accordingly, the Department of State, acting through the U.S. Ambassador to South Africa was requested to (1) verify that the South African Officials Secrets Act actually prohibited Mobil South Africa or any other person in South Africa from supplying material such as Mobil requested from its South African subsidiary; (2) determine whether the South African Government could waive the Act to permit Mobil South Africa to supply the material, or, (3) determine whether the South African Government would be willing to obtain the documents from Mobil South Africa and make them available to FAC personnel on a government-to-government basis. On November 10, 1976, the U.S. Embassy reported to State and Treasury that the South African Government said that there was no possibility of securing such documents from Mobil South Africa.

The inability of either Mobil officials or FAC personnel to obtain information from South Africa or Rhodesia posed serious problems for the investigation. As will be discussed in further detail (p. 23), the best way to authenticate the Center documents would be to obtain the originals from the files of Mobil South Africa and Mobil Rhodesia. Were these firms located in the United States or somewhere within its enforcement jurisdiction, a subpoena could have been issued to acquire these documents, if they existed, as well as other relevant documents. But this was obviously not the case.

Further, were this an investigation of U.S. law with which the foreign governments in question were disposed to cooperate, FAC personnel might have been permitted to interview key personnel mentioned in the documents. Personnel such as Messrs. Beck, Gubb, and Maskew of Mobil South Africa and Messrs. Nicol and Niekerk of Mobil Rhodesia (all signers or addressees of Center documents) could have been questioned as to their knowledge of transactions in petroleum products between Mobil South Africa and Mobil Rhodesia. Further, many other avenues of investigation would have been possible to pursue, such as interviews of disinterested witnesses (employees at tank farms, railroads, port facilities, and the like) in both countries.

2. Second Phase--Interviews with Company Officials

Mobil was requested to make available for oral interview by FAC representatives Americans who had served on the board of Mobil South Africa while employed by Mobil.

a. Interviews with Messrs. Adams and Checkett.

The interviews with Messrs. Adams and Checkett did not result, in either case, in development of any evidence or information that would tend to show that either official had been aware of transactions in petroleum products between Mobil South Africa and Mobil Rhodesia after July 29, 1968. Both men expressed awareness of United States participation in the United Nations embargo of Rhodesia, of the Treasury Rhodesian Sanctions Regulations, and of Mobil's company policy that its foreign subsidiaries would act consistently with the United Nations embargo.

Messrs. Checkett and Adams had each made one trip to South Africa during the periods when they served as directors of Mobil South Africa. Each had been assured by Mr. William F. de la Beck, the Chairman of Mobil South Africa, that no trade transactions in oil were going on with Rhodesia. Neither ever attended any Mobil South Africa board meetings, or acted in any functional way other than as a liaison between the parent and the subsidiary. Neither had received financial and other reports of the South African subsidiaries--although they might have seen such reports on occasion. Neither knew why Mr. Beck continued as Chairman of the Board of Mobil Rhodesia after control of that subsidiary was lost following UDI and imposition of United Nations sanctions against Rhodesia.

The interviews with Messrs. Adams and Checkett focused on their roles as members of Mobil South Africa's board. Mr. Adams was later reinterviewed in detail as to the scope of his responsibility for the operations of Mobil South Africa in his capacity as President of Mobil South, Inc. (See p. 29)

b. The interview with Mr. Charles E. Solomon.

Mr. Solomon was born in South Africa and became a naturalized citizen of the United States in 1963. He was the Executive Vice President of the Mobil International

Division from 1968 to 1969, President from 1969 to 1972, and Executive Vice President and a Director of the Mobil Oil Corporation from 1969 until 1972. He retired in early 1973.

Mr. Solomon stated that, as Executive Vice President and President of the International Division, he had ultimate but not immediate responsibility for Mobil South Africa. He never had any responsibility, after July 1968, over Mobil Rhodesia. He never received reports concerning the operations of the South African subsidiaries, although he may have occasionally seen consolidated profit figures from the South African group.

Mr. Solomon has known the Chairman of Mobil South Africa, Mr. Beck, for approximately twenty years. Since becoming a Director of Mobil South Africa in 1972, he has visited South Africa every year at the subsidiary's expense. He described the purpose of the visits as to consult and advise Mobil South Africa on personnel matters.

Although he is a board member, Mr. Solomon insisted that he never receives reports on board meetings and decisions or on financial or other matters. Moreover, he insisted that on his annual trips, only one to two weeks are devoted to company matters, the remaining time being spent as vacation.

c. Interviews with other personnel of Mobil South Africa.

In addition to interviews with company policy officials directly concerned with the operations of Mobil South Africa and Mobil Rhodesia, Mobil officials who were not in policy-making positions but who were present in South Africa during the period in question, and who might have been aware of any Mobil South Africa dealings with Rhodesia, were interviewed.

On August 25, 1976, two Mobil employees who had resided in South Africa while on special assignment with Mobil South Africa (or with the Mobil Refinery in South Africa) were interviewed. Neither of those individuals was involved in pertinent decision-making roles which allowed him to gain any detailed knowledge regarding operations of Mobil South Africa or the Mobil Refinery Company. Moreover, they neither observed nor obtained any information which would have supported a belief that the Mobil subsidiaries in South Africa were supplying oil or refined petroleum products to Mobil Rhodesia, or to the Rhodesian regime.

3. Investigation of Possible Presence of Mobil Products in Rhodesia

As was pointed out at the beginning of this report, Rhodesia is acquiring petroleum products from some source(s) in quantities sufficient to meet its needs. This much, and the fact that the country's supplies probably are being imported from South Africa, are conceded by Mobil. Since many petroleum products such as aviation gas are transported and sold in bulk without brand identification, identification of those petroleum products with any particular supplier would be difficult.

On the other hand, many specialized petroleum products, such as oils and greases, are packaged at the refinery and sold in small containers with clear brand identification. Some of these branded products are specialized to the point where a similar product of another manufacturer will not serve for a given end use. Specifically, jet engine oil is not readily substitutable, so that aircraft which normally use Mobil jet engine oil, and which might need additional supplies en route, could not readily use a substitute brand if that were all that were available in Rhodesia.

Accordingly, two avenues of investigation were pursued:

(a) Personnel of Mobil and persons connected with airlines servicing Rhodesia (South African Airways (SAA) and the Portuguese National Airlines (TAP)), as well as other sources, were contacted to ascertain whether airlines servicing Rhodesia, and which use only specified Mobil oils and greases, were supplied with either of those products while in Rhodesia;

(b) Persons who had been in Rhodesia since the embargo were contacted to ascertain if they had purchased at retail branded Mobil products, such as automative motor oil, or observed such products being retailed during their residence in Rhodesia.

a. Investigation of Possible Supply of Jet Oil to Rhodesia

(1) Interview with Mr. Burgeson, Mobil Aviation Department.

One of the documents furnished by Mobil officials from its U.S. files was a December 12, 1973, telegram, stamped "confidential", from Mr. W. Beck to Mr. F. Adams which read as follows:

> Confirm as of December 11 we have discontinued supply and refueling of SAA/Aircraft at Salisbury and Bulawayo Airports. We have no

> alternative but to discontinue services to TAP as airport refueling services are scheduled for immediate closure. Burgeson Aviation Department New York has been advised accordingly. In circumstances we request your assistance in bringing this matter to immediate finality.

On the basis of the telegram, the involvement in, and awareness of, Mobil Rhodesia's operational aviation activities by Mr. Beck and officials of the parent firm were pursued further with Mobil officials. Mobil officials had told FAC personnel that neither the parent company nor Mobil South Africa had been able to exercise any control over, or have any involvement in, the management and operation of Mobil Rhodesia since a time shortly after UDI. However, the message would seem to indicate that Mr. Adams, and Mr. Burgeson of Mobil Aviation, were familiar with operational aviation matters of Mobil Rhodesia and were aware that Mr. Beck was involved to some extent with them. Therefore, another interview with Mr. Adams was sought. Upon being informed that Mr. Adams had been transferred to a new assignment in Japan, Mr. Burgeson, Manager of the Mobil Oil Corporation Aviation Department, was interviewed.

The interview of Mr. Burgeson was conducted on September 14, 1976. At that interview, Mr. Fowler provided an explanation, which he later made available in writing, of the meaning of the telegram of December 12, 1973.

> Reference to refueling at Salisbury is, we understand, to an arrangement where by Mobil Rhodesia was engaged by South Africa Airways to perform intoplane refueling services, loading fuel owned by SAA at Salisbury which SAA had obtained from other sources (not Mobil Rhodesia). Beck uses the word "we"; this was careless shorthand. He obviously meant and should have said Mobil Rhodesia, in reference to the Salisbury servicing arrangement.

Mr. Fowler added that Mobil Rhodesia no longer supplies or refuels aircraft in Rhodesia, all such services having been terminated in December 1973 because of the lack of insurance coverage in connection therewith.

Mr. Burgeson informed FAC personnel that he was responsible for operational standards for fueling and servicing aircraft in the United States and elsewhere. In addition, all aircraft fueling and servicing contracts were required to be approved by him. Prior to December 1973, Mobil Rhodesia had fueled and serviced aircraft of SAA and TAP.

Mr. Burgeson further stated that, during the period up to December 1973, when Mobil Rhodesia was servicing SAA and TAP, those airlines were using Boeing aircraft whose Pratt & Whitney engines required a brand of Mobil Oil known as "Mobil Jet Oil II" which is only produced in Mobil's United States plant at Edison, New Jersey. However, since an engine normally would not require more than a quart of oil at a service point, SAA and TAP had in all probability obtained necessary Jet Oil II in South Africa or Portugal which they then carried on board for use as needed, rather than being supplied in Rhodesia. Mr. Burgeson stated that he had never had direct contact with Mobil Rhodesia, and that all matters regarding proper maintenance or servicing by that subsidiary had been passed on to him by Mobil South Africa. Further, Mr. Burgeson stated that he had never visited Mobil Rhodesia and had no knowledge or information concerning that subsidiary's sources of supply of petroleum products.

During a January 9, 1977, reinterview of Mr. Adams, he indicated that he couldn't recall exactly what he did upon receipt of the Beck telegram. His recollection was that he would have had to call the Aviation Department and tell them the contract was being terminated. He did not recall if he acted personally or told someone else to do it. If he had done it, he said that he would have told the Aviation Department that Mobil Rhodesia would no longer be furnishing fuels to SAA in Salisbury. When asked if the discontinuation of service would extend to the engine oil that was used as well, Mr. Adams stated that he was unaware that Mobil Rhodesia possessed Jet Oil II, a Mobil aircraft engine lubricant. When asked Mobil Rhodesia's source of jet fuel, he replied that he believed at the time, and still believed, that Mobil Rhodesia had purchased it from GENTA.

(2) Inquiries of Airlines Servicing Salisbury, Rhodesia.

The information that Mobil Rhodesia was servicing international aircraft at Salisbury Airport raised certain questions. As already mentioned, aircraft use specialized engine lubricants, not ordinary automotive products. Therefore technical advice was sought as to whether there were any peculiarities about such products which might help to identify their origin. However, as ascertained from several sources, aircraft jet fuel is not in any way unique, and is usually completely interchangeable.

In contrast, jet engine oil is unique. In fact, once a particular brand of jet oil is used for Pratt and Whitney engines of Boeing 707, 727, or 747 aircraft, introduction of any other brand of engine oil may only be done for emergency reasons. Special engine flushing procedures are required to be performed at the earliest possible moment, with replacement of the substitute oil by the standard oil used in the aircraft.

Since Mobil's Jet Oil II is the normal oil used to service TAP and SAA aircraft worldwide, the substitution of some other brand at Salisbury Airport, were it necessary to add oil there would be extremely unlikely. Furthermore, aircraft engine oil is normally made available directly at the airports by the oil companies themselves, not by independent dealers. If TAP and SAA aircrafts received engine oil at Salisbury, they most likely received Mobil Jet Oil II. The acquisition of Jet Oil II in quantity for Rhodesian needs from any source other than Mobil South Africa would have been unlikely. In turn, the exclusive source of Mobil Jet Oil II is the refinery where it is produced in the United States.

This line of investigation appeared to offer a promising avenue to determine whether Mobil products were entering Rhodesia as alleged in the Center Report. Therefore, both airlines mentioned in the December 12, 1973 telegram from Mr. William F. de la Beck to Mr. Fanueil Adams regarding Mobil refueling services were contacted. The two airlines were TAP and SAA.

(a) The TAP Inquiry

Officials of TAP's New York office were contacted to ascertain if any useful information could be obtained from that office or from the parent corporation in Lisbon. The officials of the New York office cooperated by sending a telex message to Lisbon on September 2, 1976, requesting copies of all contracts with Mobil Rhodesia since July 1968 and asking:

> . . . whether our aircraft 707 which were fueled and serviced at Salisbury Rhodesia by Mobil prior to 1974 received Mobil Jet Oil II and Mobil Grease 28 from local stocks during this period. If not, how were the aircraft supplied with these items at Salisbury?

Lisbon's reply read, in pertinent part, as follows:

> . . . we inform that in period July 1, 1972, to June 30, 1974, we had a contract with Mobil Lisbon to furnish Mobil Jet Oil II in Salisbury.

> Our maintenance service informs us not being able to ascertain whether minor supplies were made in Salisbury by Mobil Rhodesia or through Mobil at JNB [presumably this is Johannesburg]. Concerning Mobil Grease 28 we do not have any contract, only very seldom we supply this product in Lisbon. (emphasis added)

The reply from TAP officials in Lisbon neither provides any evidence that Mobil Jet Oil II was furnished to TAP planes at Salisbury Airport nor does it clearly refute the possibility.

(b) The SAA Inquiry

The New York offices of SAA were visited and certain information was requested from its head office in Johannesburg. On the basis of information that SAA had worldwide contracts with Mobil to supply jet fuel and engine oil and grease to SAA aircraft, and that SAA aircraft normally used Mobil Jet Oil II, SAA officials were requested to check Boeing 720, 727, 737, and 747 aircraft maintenance records of SAA and advise of all instances during 1975 and 1976 when any flight received any jet engine oil other than Mobil Jet Oil II, at any airport outside the U.S. SAA officials replied that only Mobil Jet Oil II was used (except during a brief test period of twelve months when Shell Jet Oil was used on engines of one Boeing 727).

FAC personnel then inquired whether, since such SAA aircraft used only Mobil Jet Oil II, was SAA supplied with Jet Oil II at Salisbury. The following reply was received via SAA's New York office from the South African Government Railways and Airways Procurement Office:

> Further to your visit to this office on December 3, 1976, please be advised that Jet Oil II uplifted by South African Airways Aircraft at Salisbury is purchased in Johannesburg and carried aboard S.A.A. Aircraft for their exclusive use.
>
> South African Airways does not have any contract for the supply neither do they purchase Mobil Jet Oil II in Salisbury.

In this instance the reply of SAA officials denies that Mobil Jet Oil II was acquired at Salisbury Airport.

Technical advice was then sought from engineering personnel of a domestic airline to determine if a Boeing 707, 727, or 747 flight could feasibly originate at London, stop at Salisbury, and then continue on to its final destination at Johannesburg without adding engine oil en route (i.e. at Salisbury). The technical advice received was that the oil tanks for the Pratt and Whitney engines in the Boeing planes contained 6-7 quarts of engine oil per engine at origin depending on the equipment (707 or 747). For such engines to use more than 1-2 quarts per engine during a flight of 6824 miles (London to Johannesburg) would be abnormal and oil would not be added at an intermediate stop such as Salisbury.

From this advice replies from TAP and SAA officials were plausible, and this line of investigation could not be used to establish the presence of Mobil specialized lubricants at the Salisbury Airport.

b. <u>Inquiries of U.S. Persons who had lived in Rhodesia</u>

An effort was made to determine whether other branded Mobil products such as automative engine oils were being retailed at Mobil stations in Rhodesia. If this were the case, the oils in their branded containers could presumably have originated at the Mobil refinery in South Africa.

Accordingly, the files of FAC were checked to compile a random list of Americans who had formerly resided in Rhodesia, and who might recall whether Mobil branded products were being sold during the embargo period. Such persons were asked if they had observed quart-sized containers of Mobil brand motor oils or lubricants at service stations while residing in Rhodesia. None of the persons contacted had in fact observed such Mobil products in Rhodesia. (Many of them had no recollection at all in this regard).

4. <u>Evaluation of the Center Documents</u>

a. <u>Authenticity of the Documents</u>

The Center documents all conceivably could be authentic and, if so, they would constitute convincing evidence of the truth of the allegations that Mobil South Africa was supplying Mobil Rhodesia through several intermediary companies. On the other hand, all of the documents could conceivably be forgeries intended to promote a tightening of the Rhodesian embargo, embarass the oil companies, or advance other objectives. The best way to establish their authenticity would be to produce and examine the originals from company files. As explained in this report (p. 15), this proved to be impossible due to the secrecy laws of South Africa and Rhodesia.

Another way to establish the authenticity of the documents would be to have a witness testify under oath to their origins. However, the documents are reproductions of documents purportedly taken (or copied) from company files by anonymous members of a claimed secret organization called OKHELA. There is no witness available to testify as to how the originals were obtained, who copied them, when and where they were copied, or how they reached Center custody.

If the account of their origin given in the Center Report is true, the reasons for the lack of witnesses is understandable. On the other hand, the account may be false--the documents may be forgeries--there is no way to know. In the absence of some corroborative evidence upon which to substantiate the validity of the Center documents, the documents could not be used as the basis for a criminal case. Therefore, other ways of testing the genuineness of the documents themselves were sought.

(1) Handwriting Analysis of Center Documents

One possible way to authenticate the Center documents would be by expert analysis of the signatures, if any. Most of the reproductions published in the Center Report were unsigned. However, one of the reproductions, Document # 2 contained the full signature of "N.H.W. Gubb", an employee of Mobil South Africa. For purposes of authentication of the Center documents, Center officials were asked to supply the originals of the reproductions published in the Center Report and any other documents or information which had not been published.

Center officials were not in possession of any of the originals, but did furnish a copy of Document # 2. That document is in actuality a four-page letter, only about one page of which (page 1) had been published in the Center Report. In that publication, the signature block had been cut from page 4 and juxtaposed at the bottom on Page 1. In addition, Center personnel furnished an unpublished OKHELA document. This is a June 25, 1974 letter addressed to "Mr. J. B. Nicol, Salisbury" (the manager of Mobil Rhodesia). The letter was signed "Bill" over typed initials "WFB/nd". In addition, the name "W.F. de la H. Beck" was stamped on the top of the first page. The letter specifically discusses the supply of Mobil brand products in Malawi but contains the following references to Rhodesia:

> "I do not think it is necessary for me to repeat what I have often said, and that is that I do not approve of personal correspondence. On a matter such as this, which does not have any security implications which might attach to Rhodesia, it is essential that the matter be raised in officials correspondence."

The U.S. Secret Service was asked to furnish an opinion as to the genuineness of the signature of "N. H. W. Gubb" on Document #2 and of the abbreviated signature "Bill" on the unpublished letter of June 25, 1974. For this purpose, genuine documents bearing the original signatures of Mr. N. H. W. Gubb and Mr. W. F. de la H. Beck were obtained from Mobil officials and made available to the Secret Service as a basis for comparison.

With respect to Document #2, upon completion of its analysis, the Secret Service provided FAC personnel with a report which concluded in pertinent part:

> . . . all of the evidence that is present is consistent with . . . (Document #2) being a reproduction of a four-page letter that was prepared continuously and signed by Mr. Gubb.

With respect to the June 25, 1974 letter, the Secret Service also reported that the handwriting in the short signature "Bill" was consistent with the full signature of Mr. W. F. de la H. Beck in the genuine document provided by Mobil for comparison purposes.

(2) <u>Testimony of Mobil's General Counsel Regarding Authenticity of the Documents</u>

In his testimony before Congress on September 17, 1976 Mr. Birrell, Mobil's General Counsel, verified the authenticity of the June 25, 1974 letter purporting to be correspondence between Mr. William F. de la Beck and Mr. J. Berwick Nicol. Mr. Birrell's testimony regarding his conversation with Mr. Beck as to the significance of certain statements in the letter is discussed below (p. 26).

In response to a specific question as to whether "you do verify the authenticity of the memorandum, the Beck memorandum," Mr. Birrell replied: "Yes sir. I might say that it is not a piece of private correspondence. That is official correspondence."

(3) Summary

To sum up the evidence as to the authenticity of the Center documents, the testimony given by Mr. Birrell authenticated one document obtained by the Center. Treasury officials also authenticated this same document by handwriting analysis. Document #2 was also authenticated in the same manner.

Had one or more of the documents subjected to Treasury analysis proved to be a forgery, this would have cast serious doubt on the authenticity of the entire group of documents. By the same token, the fact that two documents obtained by the Center were authenticated tends to lend some limited credence to the authenticity of the rest of the documents. However, the possible inference that all the documents are authentic is substantially weakened by the fact that one of the two authenticated documents is not on its face incriminating and the one that was clearly incriminating (Document #2) was signed by a lower level official of Mobil South Africa. Obviously, an inference of overall authenticity would have been much stronger if a document more central to the Center's case, such as Document #16, had been authenticated.

b. Discussion of the Substance of the Authenticated Documents

(1) The June 25, 1975 letter signed by Mr. Beck

In his testimony Mr. Birrell stated that, with a facsimile copy of the letter in hand, he had contacted Mr. Beck by telephone in Johannesburg. Mr. Birrell read the first paragraph of the letter to Mr. Beck and asked if he could explain the phrase "security implications which attach to Rhodesia."

Mr. Birrell stated that Mr. Beck's response was: "I remember the letter very well. It was written because, as it indicates, one of the people in Rhodesia wrote to somebody in Mobil South Africa on a personal basis about the subject of price and supply policy in Malawi." According to Mr. Birrell's testimony, Mr. Beck claimed that such personal correspondence was contrary to company policy and that the one subject on which he would not tolerate unofficial correspondence was one having security implications. In Mr. Beck's words:

"My chief responsibility is to attempt to preserve and protect the physical assets of Mobil Rhodesia. Only if you want to tell me something about threats of vandalism, riots, plans to destroy our physical property in Rhodesia which you may not want to put into official correspondence which is seen by a number of people, can you use personal and confidential channels. Otherwise, all subjects are to be covered in official correspondence."

Mr. Birrell testified that Mr. Beck had assured him that the document in question had "nothing to do with petroleum products supply." The June 25 letter does appear, however, to discuss an operational matter regarding fuel supply (apparently for Mobil Malawi) as follows:

> Our answer, therefore, in regard to Lube Oils and Greases is that we shall naturally be willing to sell our branded products at normal list prices. This will at least ensure that Malawi does not run short of these products.
>
> In regard to refined fuels, we definitely do not wish to take any lead in discussions with Oilcom. Colin--in the event of being approached on this matter--should merely state that he is not in a position to give any answer and that the matter will have to be referred to Cape Town who control Mobil's Durban refinery.

As previously noted, Mobil U.S. claimed that Mobil Rhodesia operated under "mandate" and neither Mobil U.S. nor Mobil South Africa had any operational control over the Rhodesian subsidiary. This seems somewhat contradictory to the operational instructions given by Mobil South Africa to Mobil Rhodesia in the above-quoted letter of June 25.

Mr. Birrell's own explanation of the correspondence between Mr. Beck and Mr. Nicol, concerning Malawi, was that Mobil Oil Malawi (a separately incorporated company) was not a subsidiary of Mobil Oil Rhodesia, and is supplied from South Africa. However, since Mobil Oil Malawi has limited personnel, sales advice and coordination historically were furnished by the manager of Mobil Rhodesia, and that was "the reason Mr. Beck was writing Mr. Nicol on that subject."

Mr. Birrell's explanation of the subject matter of the document cannot be independently verified. However, the possibility cannot be excluded that Mobil South Africa consulted with Mobil Rhodesia regarding operational matters of

Mobil Malawi without at the same time exercising any operational control over Mobil Rhodesia itself.

On the other hand, Mr. Fanueil Adams, President of Mobil South, which encompassed the Mobil subsidiaries in all three of the above countries, explicitly states that Mobil South Africa had operational responsibility for Mobil subsidiaries in Malawi and some of the other small African countries. Mr. Adams was specifically asked whether Mobil Rhodesia had any responsibility for operations in any of these countries and he said, "No. No." This is in direct contradiction to the explanation offered by Mr. Birrell.

(2) Document #2 signed by Mr. N. H. W. Gubb

Document #2 is a letter from Mr. N. H. W. Gubb of Mobil South Africa to Mr. W. J. R. Jackson, ostensibly of Mobil Rhodesia, with the title "Hexane". The letter, dated 3 December 1973, contains explicit and detailed discussion of Mobil South Africa's plans to supply hexane to Mobil Rhodesia in the following months and throughout 1974. Among other matters, the letter refers to plans to cover part of Rhodesia's requirements from a "US Gulf source".

Senior officials of Mobil U.S. who were questioned by FAC personnel regarding the position of Mr. Gubb in Mobil South Africa had no knowledge of him. However, another letter signed by Mr. Gubb on behalf of Mr. W. F. de la Beck (the Chairman of Mobil South Africa) was furnished to FAC personnel by officials of Mobil U.S. for purposes of the handwriting analysis. This letter was addressed to a Mobil U.S. employee, with copies to be sent to three other persons in Mobil U.S. One of the latter, Mr. Kolinger, Commercial Marketing Manager of the International Division of Mobil, was able to provide information on Mr. Gubb's position with the South African affiliate.

Mr. Kolinger advised that from early 1973 to sometime in 1975 (he believed the end of 1975), Mr. Gubb was Special Products Manager of Mobil South Africa. In this position, he held one of seven staff advisor positions which report to the Commercial Sales Manager of Mobil South Africa, who in turn reports to the General Manager of Mobil South Africa, Mr. Beck.

Mr. Gubb's job was described as a specialist in waxes, solvents, and chemicals. His duties and responsibilities are to develop technical information on those product lines and provide such information to the line operating organization. Mr. Kolinger believed that Mr. Gubb, in his position, would not have any authority to make sales because sales are a function of the line organization.

Mr. Kolinger advised that sometime toward the end of 1975, Mr. Gubb's job was changed to Regional Commercial Manager (one of several such positions with Mobil South Africa), and he believes that Mr. Gubb is in this position now.

Mr. Kolinger did not know, but doubts, that Mobil South Africa's Chairman, Mr. Beck, had any specific or direct knowledge of Mr. Gubb's actions because Mr. Gubb is three steps removed from Mr. Beck in the management chain. Mr. Kolinger stated that it is normal procedure for all correspondence from a foreign affiliate, such as Mobil South Africa, to headquarters in New York, to go out in the name of the general manager, such as Mr. Beck, and to be signed for him by a person at a subordinate level, without the general manager approving or directing the particular action. Mr. Kolinger also indicated that Mr. Gubb would not be regarded as being at the senior management level of Mobil South Africa, but would be more like an intermediate-level technical staff assistant.

Mr. Kolinger's explanation of Mr. Gubb's position in Mobil South Africa, and his relationship to the Chairman (and general manager) Beck, is consistent with the content of the January 16, 1975 letter by Mr. Gubb. At first glance, the fact that Mr. Gubb signed the letter for the general manager, would seem to indicate that Mr. Gubb might have the power to act for the general manager, and would support an inference that Mr. Beck knew Mr. Gubb and his activities very thoroughly. On the other hand, the letter concerns a trivial matter (a request for free laboratory aids offered by a chemical company) that would not require the general manager's attention.

In contrast, however, the role of Mr. Gubb which is disclosed by Center Document #2 is sharply at odds with the role of Mr. Gubb as described by Mr. Kolinger. Although the incriminating Center Document #2 does deal with Mr. Gubb's specialty, namely solvents, it shows that Mr. Gubb, in corresponding about the supply of hexane to Rhodesia, wrote as if he were a line marketing official, which Mr. Kolinger claims was not then the case.

5. Reinterview of Mr. Fanueil Adams

On January 9, 1977, FAC officials reinterviewed Mr. Faneuil Adams, Jr. at FAC offices in Washington. Mr. Adams was serving at that time as General Manager of Mobil Sekiyu, Tokyo, Japan and made a special trip to Washington solely for purposes of the interview. Mr. Adams was questioned about various matters within the scope of his responsibility in his prior positions as President of Mobil South from 1972 to 1975.

In his position as President of Mobil South, Mr. Adams had "general responsibility for the overall operations of numerous affiliates" (approximately 40) including all of those in Africa except in the former French possessions. His responsibilities included general supervision over both Mobil South Africa and Mobil Rhodesia. Mr. Adams explained that he had visited Southern Africa in December 1972 and listened to a fairly complete explanation of the overall operations of Mobil South Africa and the other countries for which it had some responsibility. The Chairman and General Manager, Mr. Beck, attended that meeting as did some of his principal associates. In other words, the Managing Director of Mobil South Africa and his three senior managerial associates were present at this meeting with the parent company's representative.

Mr. Adams stated that at this meeting he became specifically aware of the Mobil company policy against supplying petroleum products to Rhodesia and continued to be aware of the policy subsequently. Admittedly, he had had a general awareness of the existence of the embargo before that time from the press. In response to a question as to what specific measures Mr. Adams took as President of Mobil South to implement company policy against trade with Southern Rhodesia, Mr. Adams simply replied that he was convinced from everything he heard from Mr. Beck and his associates that company policy was being followed.

When Mr. Adams asked General Manager Beck how Rhodesia was being supplied with petroleum products, Mr. Beck stated on each occasion that it (Mobil Rhodesia) was purchasing its needs from a Rhodesian Government agency. Mr. Adams never asked the General Manager the specific question of whether Mobil South Africa was in fact supplying products to Mobil Rhodesia. However, Mr. Adams stated that he became convinced, from the tenor of his conversations with the General Manager, that officials of Mobil South Africa understood the policy against supplying Rhodesia and were following it. In reply to questioning, Mr. Adams stated that his major source of information with regard to affairs of Mobil Rhodesia was the General Manager, who communicated important matters to him through a monthly management letter and various *ad hoc* communications.

It will be recalled that Center Document #2, discussed above, dealt with the supply by Mobil South Africa of Mobil Rhodesia's 1974 hexane requirements. Such supply did not necessarily violate U.S. regulations--that would depend on the state of knowledge of the transaction by any U.S. citizens, such as Mr. Adams, who were principal managerial personnel responsible for Mobil South Africa.

The questioning of Mr. Adams was directed at two basic points:

(a) What was his actual knowledge; and

(b) What standard of conduct did he follow?

Mr. Adams, in reply to questioning, stated that he was not personally acquainted with Mr. N. H. W. Gubb the signer of that letter. Mr. Adams stated that he did not know of the man by any means, either direct or indirect. He did not know what the man's position and role in Mobil organization were, and did not know, or did not recall if he ever knew, Mr. Gubb's relationship to General Manager Beck in Mobil South Africa. Mr. Adams indicated that the personnel whom he met with in South Africa in 1972 were the next tier of managers below General Manager Beck and that Mr. Gub was not one of these.

Mr. Adams was asked whether he would assume that, as General Manager of Mobil South Africa, Mr. Beck would be expected to be fully aware of all matters or actions of his staff, insofar as they related to major aspects of company policy. Mr. Adams stated that "I really don't know how the details of the organization in Mobil Southern Africa work." Mr. Adams was asked whether he or the General Manager would be informed of major matters, matters involving a deviation from company policy. Would members of the General Manager's staff advise him if they were deviating from company policy? Mr. Adams stated, "I guess it would depend on whether they wanted to keep it a secret from Mr. Beck or not."

Mr. Adams was further asked whether, if someone in Mobil South Africa had agreed to sell or had engaged in selling a product such as hexane to Rhodesia, would the General Manager have learned of it. To this, Mr. Adams replied "Well, if, as I believe, this would be violation of company policy, and if somebody did this in violation of company policy, I think they would probably try to keep it a secret from Mr. Beck." Mr. Adams was also asked what the General Manager would do if he learned of such a violation. Mr. Adams replied that he certainly would have stopped the sale but "whether he would have reported to me that he stopped the sale or not, I am not sure--in my opinion."

Mr. Adams, and his counsel present at the interview, felt that it was too speculative for Mr. Adams to give an opinion on whether, if the General Manager had failed to report such information, it would have been a violation of company policy. Mr. Adams stated that the General Manager never made any representations as to his personal convictions about company policy. Mr. Adams simply said that the "whole series of assumptions underlying the conversation made it so clear that we both understood what the policy was and believed that officials of Mobil Oil Southern Africa were following that policy. So that we never felt it was necessary to specifically say: 'Are you following the policy, Mr. Beck?'"

Mr. Adams was further questioned as to whether, if the General Manager knew about an improper activity such as the shipment of hexane to Rhodesia, would he not be in breach of his obligation to Mr. Adams as his supervisor if he didn't bring the transactions to his attention? Mr. Adams replied that the General Manager would certainly know that he would like to be informed to the matter, But when asked whether a subordinate in that position would bring the matter to his attention, Mr. Adams replied that normally he would, but in South Africa, with the restrictions of the Official Secrets Act and the like, he was not sure how Mr. Beck would react.

With respect to the hexane letter signed by Mr. Gubb, Mr. Adams was asked whether the General Manager would have learned of this category of correspondence, in view of its policy significance, without regard to Mr. Gubb's status in Mobil South Africa. Based on the content of the letter, and the amount and types of products involved, did Mr. Adams think that the General Manager would in the ordinary course of business, have learned of this? After looking at a copy of the document, Mr. Adams stated, "I cannot really say. I don't really know."

At the conclusion of the interview, in response to a suggestion by counsel for Mobil, Mr. Adams gave his opinion as to whether there was any basis for an assumption that hexane or any other product was sold by Mobil South Africa to Mobil Rhodesia or that the General Manager had knowledge of any such activities. Mr. Adams stated that he had no reason to believe such an assumption and had always believed that it was not so.

In this connection, Mr. Adams relied very heavily on the General Manager of Mobil South Africa. However, he stated that he believed that the General Manager might have concealed known violations of company policy from him. He also stated that subordinate officials might not have been telling the General Manager the whole truth about their activities with respect to Rhodesian trade.

The standard of conduct expected by the Treasury of U.S. persons who are officers or directors of a foreign corporation is that they must exercise their best efforts to prevent the corporation from dealing with Rhodesia.

III
CONCLUSIONS

A. Primary Evidence

(1) The primary source of evidence to establish the true facts as to whether Mobil did or did not deliver petroleum products to Rhodesia exists in the files of the companies in South Africa. This source of evidence was denied to the Treasury investigators by virtue of the South African secrecy laws. The investigators were thus forced to seek secondary evidence.

B. Secondary Evidence

(1) The analysis of production vs. consumption data was inconclusive.

(2) The attempt to establish whether or not Mobil Jet Oil II was being stocked in Rhodesia was inconclusive.

(3) The attempt to establish whether Mobil branded products were being sold at filling stations in Rhodesia was also inconclusive.

C. Documentary Evidence

(1) The "Center" documents (with two exceptions) could not be authenticated. In the absence of authentication, each document is no more than a written statement or communication which may either be what it purports to be or may, in fact, be a forgery.

(2) One authenticated document (Center Document #2) does relate to the supply by Mobil South Africa of hexane (a petroleum product) to Mobil Rhodesia. Here again, the fact does not by itself establish a violation of United States law.

Note: The possibility that Mobil South Africa supplied hexane to Rhodesia from a U.S. source (p. 28) has been referred to the Department of Commerce, Office of Export Administration, for investigation.

Appendix A

Index of Personalities

Faneuil Adams, Jr.

Currently a Vice President of the Mobil Oil Corporation's International division, and head of Mobil operations in Japan and the Far East. From 1972 to early 1976 he was President of Mobil South, Inc., and a member of the boards of the South African subsidiaries, Mobil South Africa and Mobil Refining Company.

George A. Birrell

A Vice President and the General Counsel of the Mobil Oil Corporation. Mr. Birrell was the initial contact within the company for the FAC investigation of Mobil. He also was the principal Mobil witness at the September 17, 1976, hearings held by the Senate Foreign Relations Committee's Subcommittee on African Affairs.

Everett S. Checkett

From 1971 to 1972 Mr. Checkett was President of Mobil South, Inc. From 1972 to date he has been Executive Vice President of the Mobil Oil Corporation's International Division. He has also been a Vice President of the Mobil Oil Corporation since 1975.

William F. de la Beck

Mr. Beck is Chairman of the boards of directors of Mobil Oil South Africa, Mobil Refining Company, and Mobil Rhodesia. He has held such positions from a time predating the Treasury's Rhodesian Sanctions Regulations. Mr. Beck is a Republic of South Africa national.

J. Edward Fowler

General Counsel of the Mobil Oil Corporation's International Division. The International Division is the umbrella for all of Mobil's foreign operations and subsidiaries. Mr. Fowler served as the Mobil official responsible for Mobil's compliance with the Treasury Administrative Order issued during the investigation and served as the company's contact point with FAC.

N. H. W. Gubb

A Republic of South Africa national and an employee of Mobil South Africa. Mr. Gubb's signature appears on a December 3, 1973, letter (Center Document #2) to a Mobil Rhodesia employee which discussed supplying of Hexane to Mobil Rhodesia.

Curtis M. Klaerner

He also serves as a member of the Mobil Oil Corporation's Board of Directors, President of the Mobil Oil Corporation's International Division, Executive Vice President, and member of the Executive Committee.

R. H. Maskew

A Republic of South Africa national and former executive (now retired) of Mobil South Africa. Mr. Maskew was the addressee of Center Document #16, a letter from an employee of Mobil Rhodesia which outlined and discussed the overall plan for clandestine supplying of Mobil Rhodesia's petroleum needs.

J. Berwick Nicol

A Rhodesian national, Mr. Nicol has been the Managing Director of Mobil Rhodesia from a date prior in time to promulgation of the Rhodesian Sanctions Regulations.

Richard Van Niekerk

A Rhodesian national and former employee (now retired) of Mobil Rhodesia whose name is shown as author of the September 1968 letter to R. H. Maskew (Center Document #16) which outlined and discussed the overall plan for clandestine supplying of Mobil Rhodesia's petroleum needs.

Charles E. Solomon

Executive Vice President of the Mobil Oil Corporation International Division from 1968 to 1969; President of the International Division and a Mobil Oil Corporation Director from 1969 to 1972; and a Mobil Oil Southern Africa Director from 1972 to the present. He is a naturalized citizen, originally from South Africa.

Appendix B

Index of Organizations

Center for Social Action

An activity of the United Church of Christ, a United States religious organization.

Genta

Reportedly a separately incorporated company which is 100% owned and staffed by the Rhodesian Government, which is responsible for the importation of oil into Rhodesia.

Mobil Oil Corporation

A United States Corporation whose stock is traded on the New York Stock Exchange. It is among the ten largest United States companies, and has extensive foreign operations.

Mobil Oil Corporation, Aviation Department

The Aviation Department of the Mobil Oil Corporation is a sub-unit of the International Division.

Mobil Oil Corporation, International Division

The International Division is the part of the Mobil Oil Corporation which has responsibility for all Mobil foreign operations.

Mobil Oil Malawi

Separately incorporated Mobil subsidiary in Malawi.

Mobil Oil South Africa

A wholly-owned Mobil subsidiary which is incorporated under the laws of the Republic of South Africa. This subsidiary has several subsidiaries of its own within South Africa, and is also responsible for other Mobil subsidiaries in Malawi, Zambia, Mozambique, Lesotho, and other nearby countries in South Africa.

Mobil Refining Company Southern Africa

A wholly-owned Mobil subsidiary incorporated under the laws of the Republic of South Africa. This company refines imported crude oil for distribution and marketing in Southern Africa by Mobil Oil South Africa.

Mobil Rhodesia

A wholly-owned Mobil subsidiary which is incorporated under the laws of Southern Rhodesia. Operating results are included in those of Mobil South Africa.

Mobil South, Inc.

Mobil South, Inc., is a separately incorporated United States subsidiary of the Mobil Oil Corporation. It is an umbrella regional organization with responsibility over most of Southern Africa. Mobil South, Inc., is directly responsible to and is under the direction of the International Division.

OKHELA

Reportedly a clandestine Republic of South Africa organization whose stated mission is to actively oppose fascist apartheid, settler colonialism, and imperialism.

Transportes Aereos Portuguesa, SARL (TAP)

A Republic of Portugal air-carrier.

South African Airways (SAA)

A South African air carrier.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 18, 1977

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $1,501 million of $3,827 million of tenders received from the public for the 2-year notes, Series Q-1979, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.20% 1/
Highest yield	6.25%
Average yield	6.23%

The interest rate on the notes will be 6-1/8%. At the 6-1/8% rate, the above yields result in the following prices:

Low-yield price	99.861
High-yield price	99.768
Average-yield price	99.805

The $1,501 million of accepted tenders includes $260 million of noncompetitive tenders and $1,141 million of competitive tenders (including 30% of the amount of notes bid for at the high yield) from private investors. It also includes $100 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition, $570 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing May 31, 1977, ($190 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($380 million).

1/ Excepting 1 tender of $30,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

STATEMENT OF DONALD C. LUBICK
DEPUTY ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)
BEFORE THE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
THURSDAY, MAY 19, 1977, 9:30 a.m.

Mr. Chairman and Members of the Committee:

I am pleased to appear before this Committee to present the Treasury's views on S.1471.

S.1471 would add to the existing tax credit for political contributions, an additional credit for 75 percent of all political contributions to candidates for nomination or election to the United States Senate up to certain specified maximums.

To understand S.1471 it is necessary first to describe the tax law deductions and credits for political contributions under present law as a base upon which S.1471 builds.

Under present law, a taxpayer who makes political contributions to qualified political candidates or committees, whether national, state or local, may elect to deduct his contributions as an itemized deduction in arriving at his taxable income, or he may elect to claim a credit against his tax liability for one-half of his contributions. The maximum deduction is $100, or $200 in the case of a joint return. The maximum credit is $25, or $50 in the case of a joint return. The deduction and credit are mutually exclusive alternatives--the taxpayer must elect one or the other and may not combine their use.

A taxpayer whose income is taxed in a high marginal bracket would find it to his advantage to claim the deduction. At the 70 percent top bracket, $200 of contribution deductions will give him $140 of tax reduction. At a 14 percent bracket, $200 of contribution deductions will give a benefit of only

$28. The taxpayer in the 14 percent bracket would prefer the use of the credit, which would allow $50 of tax reduction. For $100 of contributions, a taxpayer in the 50 percent bracket will break even, whether he elects the deduction or the credit, aside from state income tax factors.

The deduction alternative is available in practice only to a taxpayer who itemizes his deductions. A taxpayer claiming the standard deduction, which will be 75 percent of all taxpayers, would necessarily be able to claim only the credit, and would have a maximum tax reduction of $50.

For the first year of the credit-or-deduction option, 1972, the percentage of voting-age persons making campaign contributions remained at the 12 percent level it was at in 1960 and 1964. For the 1972 Presidential election year, 2.3 percent of all returns claimed the credit and 1.2 percent claimed the deduction. In 1975, the percentages were even less: 1.9 percent claimed the credit and less than 1 percent claimed the deduction. The estimated revenue loss as a tax expenditure of the present deduction and credit is $84 million in a Presidential election year, $74 million in a Congressional election year, and $58 million in a year between national elections.

S.1471

S. 1471 would add to the existing credit mechanism, but not to the deduction allowable, in the case of contributions to campaigns for nomination or election to the United States Senate. It would allow, in the case of Senate campaigns only, a credit of 75 percent of contributions, in lieu of the 50 percent limit applicable to contributions generally. In the case of Senate contributions, the maximum allowable credit is raised by $75 above the existing $25 maximum, for a total of $100. In the case of a joint return, the existing $50 maximum is raised by $150, for a total of $200. The excess credits over the existing $25 and $50 are allowable only for contributions to Senate campaigns. The lower limits are retained for other national office campaigns and for contributions at the state and local levels.

Apparently if one uses the new Senate contribution credit, he is barred from using even the general deduction of $100 for contributions to other campaigns.

Senator Packwood has stated that S.1471 was introduced to provide an alternative to S.926, which provides for public financing of Senate campaigns under the existing check-off system. Under the check-off system, taxpayers may designate on their tax returns that $1, or $2 in the case of a joint return, be transferred to a Presidental campaign fund. The fund is distributed to Presidential candidates who have demonstrated substantial public support.

The check-off system does not require any outlay of contributions by a taxpayer; it is, consequently, unlike the credit or deduction in that it is simply a mechanism to appropriate public financing of campaign expenses.

The Treasury is opposed to S.1471.

ADMINISTRATION POSITION ON CAMPAIGN FINANCING

On March 22, 1977, President Carter sent a message to the Congress which included recommendations on campaign financing. He urged the extension of the system of financing Presidential campaigns to Congressional campaigns, pointing out that public financing "not only minimizes even the appearance of obligation to special interest contributors, but also provides an opportunity for qualified persons who lack funds to seek public office."

He urged that the check-off system be used to allocate funds necessary to support Congressional candidates.

The President set forth four principles which should be part of any plan of Congressional campaign finance:

First, the plan should require that candidates demonstrate substantial public support before they receive public funds to help finance their campaigns. S.1471 violates this principle. It provides public financing through a tax expenditure--and the revenue foregone through the tax credit is as much an expenditure of public funds as a direct appropriation--to any candidate, however frivolous.

Second, the plan should not provide an excessively low limit on overall expenditures so as to prevent an adequate presentation of candidates and their platforms to the people. S.1471 does not deal with this problem.

Third, candidates who accept public financing should not be placed at a serious disadvantage in competing with opponents who have extraordinarily abundant private funds. S.1471 leaves fund raising as at present but gives credits for individual contributions. The likely effect of the tax credit approach of S.1471 is to give an advantage to the candidate currently supported by wealthy contributors, without giving any assurance of adequate overall minimum financing, as does the check-off system.

The fourth principle urges public financing of primaries as well as general elections, and S.1471 is consistent with this principle.

ANALYSIS OF S.1471

As drafted, S.1471 is hopelessly complex, difficult to administer, and almost totally unworkable as a device to broaden support. Taxpayers would have to evaluate a general credit, a special Senatorial credit and a deduction. Many taxpayers are now unaware of the tax incentives in this area. It is unlikely that the two levels of credit and the option between two levels of credit versus one level of deduction would be understood by other than a small group of taxpayers. This type of complexity impairs any incentive value to the credit. It increases the windfall effect of the credit, while complicating the tax return.

I know that Senator Packwood has recognized the illogic of a special credit for Senatorial campaigns only, and therefore assume that the question he poses is the more general one of use of the tax system to subsidize political contributions, versus public financing by direct appropriations.

More importantly, S.1471 is undesirable even if broadened to include all national, state and local contributions as under present law, but with an increased limit. As such it would simply subsidize giving by higher income taxpayers.

First, converting the credit of S.1471 to a deduction would not help. In terms of one man - one vote - one dollar, it would be highly inequitable. For every $100 of contributions, the 70-percent bracket taxpayer would buy $70 of subsidy for his candidate. The 14-percent bracket taxpayer's same $100 would buy him only $14 of subsidy.

A deduction would enable the higher income taxpayer to make his or her contribution more cheaply than a lower income taxpayer. All other taxpayers then would subsidize this funding of the high income taxpayer's relatively cheap political contribution.

Second, although a credit is more equitable than a deduction, in that it spreads the tax benefit more evenly, it too operates imperfectly. It is unavailable to the 18 million eligible low-income voters who pay no taxes.

A tax credit's incentive effect is diminished in the case of a low-income taxpayer. Such a taxpayer must pay out the full amount of the contribution and then wait until his or her tax return is filed to receive one-half of that amount in return.

In the past, the credit and deduction have been claimed more than 25 times as often by taxpayers with adjusted gross incomes of $20,000 or more as by those with incomes under $5,000. Yet these higher-income taxpayers have been only nine times as likely to make political contributions as the lowest income taxpayers. Two experts in the field of campaign financing have stated, "the tax benefit is just a minor windfall received for doing what political contributors would do anyway." 1/

Those who have examined the various incentive systems are convinced that the tax credit and especially the deduction are much less effective and efficient means of public support for political campaigns than direct expenditures would be.

Instead of spreading the tax benefits to a wide spectrum of candidates, the credit/deduction system encourages contributions to those who seek the first deductible or creditable dollars from a taxpayer. There is no attempt to spread the tax funds evenly. No candidate is guaranteed a floor, or minimum amount, or even a pro rated share of the tax expenditure that will be spent because of the credit and deduction. The check-off system assures minimum support for viable candidates without spending public dollars on frivolous candidates.

In contrast to the credit and deduction, the check-off system requires both a decision on the part of the taxpayer to participate and a demonstration of meaningful public support. The current check-off system requires candidates for Presidential nomination to collect a minimum of contributions before they are eligible for matching public funds. S.1471 makes no attempt to impose such a requirement.

Those who support the extension of the credit and deduction--in contrast to the check-off or another broad-based system--also contend that a person should not contribute to a fund which will distribute money to a candidate who may

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1/ D.W. Adamany & G.E. Agree, Political Money, at 125-26 (1975).

be repugnant to the taxpayer. This contention ignores the fact that the burden of tax expenditures is borne by all taxpayers. Political tax credits and deductions are a form of tax expenditure, shifting the burden of the tax system to those who do not claim these benefits. Therefore, under the tax credit and deduction system, more than 96 percent of all taxpayers are subsidizing the slightly over 3 percent who claim the tax benefits in their choice of candidates.

The supporters of a credit/deduction system also claim it is superior because it does not require an elaborate enforcement mechanism. In fact, campaign contributions are coming under close scrutiny because of their lack of regulation. Furthermore, the Internal Revenue Service is responsible for enforcing the legitimacy of credits and deductions. Complex regulations have been proposed to govern the verification of contributions and the form of receipts. The IRS must investigate the activities of political committees to make sure they are within the permissible limits of the statute. The IRS is introduced into the business of regulating the expenditure activities of political candidates and committees. The enforcement mechanisms in the case of credits and deductions are, at the same time, less effective and less visible than under the check-off or any other broader public financing system.

The check-off--in contrast to the credit/deduction--is being used by lower-income taxpayers. Surveys by the Twentieth Century Fund and others indicate that the check-off plan will continue to gain in popularity. As it does, these surveys indicate it will be used by persons in all classes, and in proportion to their numbers in the classes. Because of the widespread use of the check-off, and because all taxpayers contribute the same amount-one dollar, one taxpayer, one vote--the amounts allocated and the number of participants will be proportionate to each income group's percentage of the population. In a check-off system, high-income persons are less than half again as likely to participate as are low-income persons. Under the credit/deduction system, high-income contributors participate at a rate three times that of low-income contributors.

The check-off system and a direct grant system, therefore, do not shift the tax burden of campaign contributions to those who traditionally have not participated in the political process or to low-income taxpayers, as do the credit and deduction.

Finally, the check-off and grant are fairer means of accomplishing the goals of those who favor campaign financing reform, because they encourage broader participation in the election of public officials and a lessening of the impact of special interest contributors. The check-off and grant provide the necessary funds to encourage the candidacies of qualified persons who would not otherwise seek public office.

For these reasons, the Treasury Department is opposed to S.1471.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 19, 1977

USE OF ENGRAVED CERTIFICATES TO BE DISCONTINUED FOR 26-WEEK TREASURY BILLS

The second phase of the program to eliminate engraved certificates in favor of book-entry securities will begin on June 2, 1977, with the issue of 26-week bills in book-entry form only. All subsequent 26-week bill issues will be in book-entry form. The Treasury will announce the terms of the June 2 issue on Friday, May 20, and auction the bills on Friday, May 27, since the normal Monday auction date will be a holiday.

In the book-entry system, the securities are recorded in the accounts of the Treasury or a Federal Reserve Bank, or in the accounts of banks or other financial institutions acting as custodians for investors. Instead of an engraved certificate, the purchaser is given a receipt as evidence of the purchase.

On December 2, 1976, the Treasury announced the first step in a phased program to eliminate engraved certificates in new Treasury bill offerings. The 52-week bill issue of December 14, 1976, was offered in book-entry form only, with a limited exception. There have now been six 52-week bill issues in this form, without any significant problems.

The next phase of the program will begin with the 13-week bills to be issued on September 1, 1977. This and subsequent 13-week issues will complete the transition of bill issues to the total book-entry system.

A limited exception to the total book-entry offering of Treasury bills will be continued for those institutional investors required by law or regulation to hold securities in definitive form. Definitive bills in the $100,000 denomination will be available to such investors for all issues through December 1978.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 19, 1977

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,400 million, or thereabouts, of 364-day Treasury bills to be dated May 31, 1977, and to mature May 30, 1978 (CUSIP No. 912793 M7 8). The bills, with a limited exception, will be available in book-entry form only, and will be issued for cash and in exchange for Treasury bills maturing May 31, 1977.

This issue will provide for a net pay-down for the Treasury of about $521 million as the maturing issue is outstanding in the amount of $2,921 million, of which $1,957 million is held by the public and $964 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 noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, this series of bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 25, 1977. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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.

B-244

(OVER)

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.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities, for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for definitive bills, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

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 for bills to be maintained on the records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on May 31, 1977, in cash or other immediately available funds or in Treasury bills maturing May 31, 1977. 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 a 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 Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY
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WASHINGTON, D.C. 20220
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Statement by Helen B. Junz
Deputy Assistant Secretary of the Treasury
for Energy, Raw Materials and Oceans Policy
Before the House Committee on Merchant Marine and Fisheries
Subcommittee on Oceanography

I am very pleased to appear before you today to discuss the Treasury Department's views on deep seabed mining legislation. Over the decades to come the wealth of resources at the bottom of the sea will need to be employed productively if our aspirations for increased standards of living world-wide are to be realized. Therefore, it is vitally important that we provide an international and national climate that will ensure that deep sea resources are indeed developed productively, efficiently and to the benefit of the world community. The interest the Treasury Department has in the current Law of the Sea negotiations is how they relate to the overall economic objectives of the United States, as is the bill you wish to discuss with us today. I believe, as I know Ambassador Richardson believes, that it is vitally important that the

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Congress and the Executive Branch work together as closely as possible on these very difficult and extremely complex issues.

I want, however, to say at the outset that I shall not be able to answer most of the specific questions that you have raised in your invitation with regard to the probable tax treatment of revenues and expenditures associated with deep-sea mining beyond the national economic boundaries. These matters are currently under review, so that more likely I shall take away with me more from our discussion today than I may be able to give you. However, I look forward to future more balanced contacts with you and I want you to know that I and my staff at Treasury are prepared to provide whatever assistance we can to help you in your deliberations.

As I noted earlier, Treasury's interest in the Law of the Sea Conference is confined to the areas of economic interest and, therefore, our attention has been focussed largely on the principles that would govern access to and exploitation of the deep seabed resources. Earlier in these hearings, Ambassador Richardson explained the major objectives the United States has in concluding a successful and equitable Treaty on the Law of the Sea. At that time, he expressed to you the whole range of national interests that would be covered by such a Treaty. I can, of course, comment only on the economic concerns.

Treasury shares the Committee's concern that there is a need to obtain a comprehensive treaty which includes a stable legal framework for deep ocean mining. Such a stable legal framework would create an investment climate that would allow mining consortia to make rational decisions with regard to committing risk capital in seabed mining.

In order to achieve such a stable framework the principle of assured access for seabed mining firms must be a main element in any sound seabed mining regime. Such a regime will encourage state and private firms to undertake the substantial economic risks of exploring the seabed and of developing the new technology needed to eventually exploit these new resources for the world market. The Treasury Department believes that assured access to the seabeds for states and their nationals will lead to the most efficient allocation of resources as well as the most rapid development of the seabed resources to the ultimate benefit of both the United States and the world economy.

The Administration believes that a successful seabeds negotiation within a comprehensive Law of the Sea Treaty would promote the objectives mentioned above. We must recognize, however, the distinct possibility that despite our best efforts and the efforts of those countries which, like us, are sincerely seeking a reasonable treaty, it may not be possible to conclude the negotiations successfully in a time frame which would allow companies to maintain their current development schedule. And we recognize that the ultimate effect of indefinite delay will likely be a loss in output of a potentially important new industry, a loss of an innovative new technology, inflationary pressures resulting from supply constraints in mineral production and the loss to the developing countries of the benefits we hope they will obtain from a viable seabed regime.

Despite these very real concerns and the difficulties inherent in the issues and attitudes which confront us in the next session of the New York Conference, it is not appropriate for the Administration to support deep seabed mining legislation at the same time that it sends Ambassador Richardson to the Law of the Sea Conference to negotiate a comprehensive Treaty. Indeed, support for legislation at this time might well have a negative impact on the Conference.

However, should Ambassador Richardson's efforts meet with no meaningful response, then the Administration would have to reconsider its views on legislation regulating the exploitation of the deep seabeds. In that case, we would be prepared to discuss more fully our views on these issues.

Today, I would like to comment briefly on some of the major economic provisions that have been put forward in legislative proposals. Given the uncertainties regarding the negotiations, it is clear that any seabed legislation should be interim in nature and be compatible with likely provisions that would be part of a future internationally ratified ocean mining regime.

Investment Protection

A major uncertainty for miners currently prepared to proceed with a seabed mining venture is the risk that a future treaty or an International Seabed Authority might in some way interfere with or change their established mode of operation. Such changes might range from the imposition of onerous conditions to the actual shut-down of operations. Industry sources have stated that the risks involved and the capital to be committed are too great to allow them to go forward with major investments without some kind of insurance or guarantee of their investment in the event a future treaty makes operations uneconomic.

In this context, one could think of two basic types of investment protection: (1) an investment guarantee program, and (2) provision of a basic right to sue the Federal Government in the event adequate grandfather rights are not included in a treaty and a firm's investment is thereby diminished in value.

While it is possible to reduce the U.S. Government liability under any such programs, it could still be very large. For example, if full coverage were to be provided and we assume four operations are in place prior to the conclusion of a treaty, the potential U.S. liability could amount to $2 billion in 1976 dollars. Even if the guarantee were limited to prototype operations the government's liability could reach approximately $300 to $600 million in 1976 dollars. I do not think there is any point at this time in entering into debates about what the actual costs to the taxpayer might be because these would be purely notional.

In support of the Government's assuming liability, industry spokesmen have argued that the Government incurs a responsibility if U.S. nationals are injured as a result of activities entered into on the basis of official views on international law and/or legislation. In essence, they argue that U.S. agreement to a treaty that impinges on prior rights of U.S. investors should be accompanied by appropriate compensation.

While the government, of course, will seek to protect the interests of U.S. investors in any treaty we do not feel that the risk that these investments may be impaired by U.S. accession to a treaty obligates the government to assume, in effect, part of the overall investment risk by providing investment guarantees. Indeed, Government decisions often dramatically affect an industry's profitability yet there is no concomitant obligation of the government to compensate those firms which are adversely affected. The Administration has concluded that the situation of the deep sea mining consortia is not sufficiently unique to justify government intervention in the investment decision process; nor does it find that an economic case can be made, in terms of our national interest, for providing the international mining consortia with investment guarantees. It is clear the United States economy will ultimately benefit from the existence of a viable and productive seabed mineral industy, but we find arguments in favor of preferential treatment of seabed devlopment neither convincing nor equitable. Therefore, we could not support diversion of official financial resources into increased seabed production and away from competing claims for Federal funds.

Because of these considerations, Treasury opposes the government guarantees provided in section 13 of H.R. 3350. Instead, Treasury proposes negotiation of a grandfather clause in the treaty to ensure that seabed investments made prior to a treaty are not impaired.

Negotiation of these rights would be facilitated if legislation anticipates various aspects of an eventual treaty, such as the treaty provisions for benefits for the international community. Therefore, Treasury recommends that any legislation provide that some benefits for the international community be set aside pending agreement on a treaty. This particular recommendation is based on three factors. First, it allows firms to make investment decisions and operate in an investment climate reasonably similar to that which would obtain after the conclusion of a treaty. Thus, firms would not be faced with a reduction in profitability of their operations by a sudden change in the conditions on which their investment decisions were based as a result of U.S. accession to a treaty.

Second, it would signal to other nations that we fully intend to conclude a treaty which protects the interest of all countries in the deep seabed and that our legislature is aware and supportive of this effort.

Third, providing benefits for the international community has been a constant theme of this nation's oceans policy. The U.S. has repeatedly emphasized its commitment to the principle of some type of revenue sharing from deep ocean mining. This commitment to provide benefits for the international community is a recognition of (a) the concept of the common heritage of mankind, and (b) the commitment to help improve the standard of living in the developing world.

The Administration is currently conducting an extensive review of how such sharing might actually be realized. Consequently, I will limit my comments to a few general observations. A first principle is that U.S. corporations engaging in seabed mining should receive the same U.S. treatment and operate under the same obligations as do corporations engaged in foreign land-based mining. This principle must govern any revenue sharing arrangements. Second, revenue sharing obligations should, to the maximum extent possible be compatible with the legislative provisions other states are likely to adopt.

With regard to revenue sharing, the Law of the Sea Conference is considering three possible types of payment seabed miners might be obligated to make to the International

Seabed Authority, (1) front-end fees, (2) fixed royalties, and (3) charges (or taxes) on net income. All of these charges would be linked to activities in the seabed area beyond the limits of national jurisdiction. The front-end fees and fixed royalties place a greater burden than a charge on net income of companies, as they require fixed payments at the outset regardless of actual profitability.

Domestic legislation could provide for similar benefits to the international community to be held in escrow and to be based on payments equivalent to fees, fixed royalties, or taxes such as might eventually be authorized by a treaty. We are currently considering both the best mix of these payments and the mechanics by which they might be collected. We hope to develop a position in this respect in the next several weeks.

After the next session of the LOS Conference and further consultations with the other prospective ocean mining countries, we will be in a better position to work with Congress in developing an appropriate package of benefits for international community if we need to enact interim legislation.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
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STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE JOINT ECONOMIC COMMITTEE
FRIDAY, MAY 20, 1977

Mr. Chairman and members of this distnguished Committee:

It is my privilege this morning to appear before you to discuss the President's National Energy Plan. This program is one of the most important undertakings of our time, involving as it does major adjustments in fundamental aspects of our economic system: the rate at which our society consumes energy and in the sources from which we extract energy. It is entirely fitting, therefore, that this program be subject to the most careful scrutiny of the Congress.

The plan has as its objective conservation and substitution--conservation of increasingly scarce resources through a reduction in the rate of growth in energy consumption, and substitution by conversion from energy sources which are limited and variable in supply to those which are domestically more abundant.

The principal mechanism for achieving these objectives is the use of the tax system, through a combination of tax penalties and tax incentives. The plan has been designed so that, for the economy as a whole, the revenues collected under the proposed tax penalties will be recycled to finance related elements of the energy conservation program.

I would like to review with the Committee the major tax elements in the plan, the function each tax is intended to perform, the orders of magnitude of the expected tax receipts, and the procedures through which the receipts will be recycled to the economy.

Crude Oil and Gas Equalization Tax and Credits

One of the principles of our energy policy is a rational pricing policy for scarce energy sources to reflect world prices. This is necessary to assure that our scarce natural resources reflect the price which represents their true cost. The crude oil equalization tax is intended to bring the domestic refiner price of crude oil up to the world market price over a 3-year period without providing an unjustified windfall to producers of existing oil wells.

Under the crude oil equalization tax, domestic crude oil will be subject to an excise tax equal to the difference between the current controlled price and the world market price. The tax will be brought into effect in three stages, beginning in 1978. The full tax will be in effect by 1980.

This tax assures that all consumers of petroleum pay prices that reflect the true marginal cost of foreign imports. These prices should provide incentives both to reduce consumption and, where possible, to switch to alternative fuels. This tax also assures that consumers of relatively inexpensive oil will not gain an undue advantage over other consumers.

Both from the standpoint of fairness and to assure that the tax will not have an effect on the economy, the net revenues derived from this tax will be recycled to users of oil. First, a refund of the tax is made to sellers of residential heating oil. But for this to be available the rebate must be flowed through to home heating oil customers. The balance of the revenues, less administrative costs and tax benefits derived from business deduction of the tax, are to be returned to virtually all consumers on a per capita basis. All income taxpayers, including those receiving the earned income tax credit, would receive the per capita credit. The same per capita amount would be made available to those not paying tax but receiving social security payments, to those receiving SSI payments, railroad retirement payments and those on the AFDC program.

The gross crude oil equalization tax collections are estimated to amount to about $2.8 billion in 1978, rising quite rapidly to $11.9 billion in 1980 and then rising to $12.3 billion by 1985. Out of these gross tax receipts there will be paid tax refunds to jobbers to compensate them for the cost of residential heating oil exemptions. These are expected to amount to $48 million in 1978, rising to $966 million in 1981 and then staying at about that level thereafter. The remainder of the receipts are either estimated as reductions in income tax receipts or paid out on a per capita basis to income taxpayers and to those on social security, AFDC or similar programs. The estimated amount going to income taxpayers in 1978 is $1.9 billion, rising to $7.5 billion in 1985. The amount going to those on social security, AFDC or similar programs on this same per capita basis is estimated at about $500 million in 1978, rising to $1.9 billion in 1985.

Residential and Business Conservation

To provide a further stimulus to energy conservation, we have also proposed a series of residential conservation and business energy tax credits. These credits will provide individuals and businesses the incentives they need to make necessary efficiency improvements in their homes, factories, and business establishments.

The residential energy credit consists of the energy conservation credit--that is, the credit for insulation--and the solar energy equipment credit. The energy conservation credit provides a credit against income tax to the individual taxpayer of 25 percent of the first $800 of expenditures of this type plus 15 percent of the next $1,400 of these expenditures (up to a maximum cumulative credit per taxpayer of $410). The expenditures for energy-saving equipment are those for wall and ceiling insulation, storm windows, clock thermostats and energy-saving furnace modifications. Expenditures for caulking and weather stripping qualify only if made in connection with other energy-saving expenditures. This incentive will go a long way towards achieving the President's goal of making as many as possible of the nation's homes thermally efficient.

In addition, we propose a significant incentive be provided for homeowners to tap our only nondepletable resource--the sun. We will provide in 1978, for example, a solar energy equipment credit of 40 percent, on the first $1,000 of solar equipment expenditures and 25 percent on additional expenditures (up to a maximum credit of $2,000). This covers both solar hot water and solar space heating installations. After 2 years, lower levels of the credit will apply through 1984. This kind of credit will enable many Americans to look beyond fossil fuels as the primary way of heating their homes and will enable them to employ the new solar heating technologies that are emerging.

We have proposed a similar program of tax credits which expand the present investment tax credit provisions for business investment in certain energy-saving equipment such as insulation, double glazed windows, energy control systems and efficient heat exchangers. These investments will be eligible for an additional 10-percent business energy property credit on top of the regular investment credit.

Solar heating equipment for commercial and industrial application and cogeneration property also would be eligible for this additional 10-percent credit. Cogeneration is the process by which waste heat generated in the process of making electricity is recycled and used in an industrial application, or vice versa. Cogeneration used to be fairly common, but today only 5 percent of total electrical generation capacity has this capability. This is an area where a tax incentive can make a significant contribution towards helping the nation conserve our energy supplies.

We estimate the cost of these credits to be $754 million in 1978 and to be $616 million in 1985. Most of this--$666 million in 1978 and $517 million in 1985--is attributable to thermal efficiency. Cogeneration accounts for most of the remainder--$52 million in 1978. (The program has expired by 1985.)

Transportation Taxes

The two primary proposals designed to encourage improved fuel use in transportation are the automobile fuel inefficiency tax and rebate and the standby gasoline tax and per capita credit.

The automobile fuel inefficiency tax (commonly referred to as the "gas guzzler tax") and rebate mechanism will supplement existing law and regulation in this area, which already provide standards of fuel economy in the years ahead and civil penalties on the automobile companies if they are not complied with. The tax and rebate should result in a higher average fuel efficiency of new cars than that achievable under the EPCA standards alone. We believe the existing mechanism alone will not achieve the level of conservation we have established as a national goal.

The fuel efficiency tax and rebate is geared to a specific fuel efficiency standard already promulgated for new cars each year. For the 1978 model year, for example, the target level of automobile fuel efficiency is 18 miles per gallon. Cars just achieving that standard would pay no tax and would not be eligible for a rebate. Cars surpassing that standard would be eligible for a rebate based on their gasoline efficiency as determined by EPA testing. In 1978 cars with an average efficiency of 25 mpg, for example, would get a rebate which is five times the amount that cars achieving only 20 mpg would be eligible for. Conversely, cars not achieving the target efficiency would pay a tax of up to $450, depending on how far below the standard they rank. The standard is increased gradually so that for the 1985 model the standard is 27.5 miles per gallon.

No net effect is expected on the budget surplus or deficit from the gas guzzler tax and rebate because the taxes collected on inefficient automobiles will be returned as rebates for efficient vehicles. The program is structured this way to help and encourage the automobile industry to convert from gas guzzlers to efficient small cars. The intent is to provide an incentive to purchase fuel efficient automobiles, not to collect tax revenues. The rebate mechanism will also minimize the inflationary impact of the program by reducing the net cost of fuel efficient vehicles to balance off the increases in cost of the fuel inefficient cars. The gas guzzler tax is expected to bring in receipts of $500 million in 1978, increasing to $1.9 billion by 1985. This, however, will be offset by expenditures of like amounts to cover the rebates in these same years.

Rebates will be made to foreign manufacturers only under the terms of executive agreements designed to take into account the impact of the U.S. tax and rebate program on the automobile industry of the particular country in question.

The standby gasoline tax in no event will go into effect before 1979 and in no year can amount to more than a 5-cent increase. It is keyed to a series of targets as to consumption of gasoline which allow for continued increases through 1980 to a level of 7.45 million barrels a day. The present level is between 6.7 and 7.0 million barrels a day. After 1980 the targets assume that the energy program generally will result in economies in the use of gasoline and, thus, in subsequent years the consumption targets will gradually decrease to a level of 6.5 million barrels a day by 1987.

In 1979 or any subsequent year, the tax would go into effect if gasoline consumption in the preceding year exceeded the target by at least 1 percent. The amount of the tax would equal 5 cents for each percent that gasoline consumption exceeded the target in the preceding year. The tax could be reduced by 5 cents a year based on the formula in the legislation. The tax could not increase or decrease more than 5 cents per year and it could never exceed 50 cents.

In 1979, the standby gasoline tax, if imposed, would bring in revenues of $4.1 billion. This would be rebated in its entirety either to income taxpayers or those on the various social security and related programs. By 1985, if every increase possible were provided, this could amount to $39.8 billion in that year; but again it would all be rebated to income taxpayers or those covered under social security or similar programs.

Two other lesser elements of the program concerned with transportation are the repeal of excise tax on buses and an increase in fuel excises paid by general aviation and motorboats.

The repeal of the 10-percent excise tax on buses is a step forward in promoting the use of this efficient mode of transportation. The higher excises on general aviation (increased by 4 cents per gallon) and motorboats (repeal of a 2 cents per gallon rebate) should achieve reductions in the use of fuel by these relatively inefficient and often nonessential modes of transportation. These higher excises will only apply to noncommercial uses of aircraft and motorboats; commercial fishermen and airlines will be exempt from the increased tax.

Since the automobile efficiency taxes and the standby gasoline taxes are designed to collect no net revenue, the budgetary impact of these transportation programs is quite small. The net impact of these latter two taxes is a gain of $32 million in fiscal 1978, and the impact in 1985 is estimated to be a gain of $71 million.

<u>Oil and Gas Consumption Tax</u>

The oil and gas consumption tax is designed to encourage industrial and utility users of oil and gas to convert to coal and other desirable fuels. Oil and gas consumption taxes would be imposed beginning in 1979 for industrial use and in 1983 for utility use of oil and gas. The tax on nonutility use is phased in gradually through 1985. The oil and gas consumption tax is intended to be a permanent tax.

These taxes would be rebated, however, to the extent that oil and gas users in the same year convert their plants to fuels other than oil or gas. This rebate will take the form of a dollar-for-dollar offset of conversion expenditures against the taxpayer's oil and gas consumption tax liability. We expect a large percentage (over 50 percent in some years) of the taxes to be rebated because of the combined effect of both the higher price which users will have to pay for fuel, and the reduced price to them of conversion.

In order not to penalize small oil and gas users for whom it is not economically feasible to convert their boilers, we have provided a small business exemption. The exemption from tax is for the first 500 billion BTUs a year. For an average user, this amounts to about $1.5 million in fuel costs per year. This provision will insure that many businesses that have no real opportunity to convert from oil and gas will be exempt from the oil and gas consumption taxes. We have also provided an exemption from these taxes for refineries, aircraft, railroads, ships, farming and use of oil or gas in the production of fertilizer.

The expected net cost of these programs after all rebates is estimated at $1.4 billion in 1978 and about $11.9 billion in 1985.

<u>Energy Development Incentives</u>

Finally, we propose to provide two incentives to insure the future supply of oil, gas and geothermal resources. In regard to oil and gas intangible drilling expenses, we propose limiting the application of the minimum tax to those individuals sheltering other income through oil and gas losses. We would exempt from the minimum tax the many independent oil and gas drillers whose investments generate oil and gas income. Our amendment accomplishes this by restricting the minimum tax to intangible drilling expenses which exceed a taxpayer's oil and gas income.

In addition, we propose to provide an incentive that will aid in the development of our largely untapped geothermal resources. This is a relatively new industry, and because of this we believe that providing the industry with the opportunity to expense its intangible drilling costs will provide a needed stimulus to development. These expansed costs will be subject to the minimum tax to the extent that they exceed income from geothermal operations.

The revenue cost of these two initiatives is $24 million in 1978 and $128 million by 1985.

There has been criticism that the President's program has stressed energy conservation at the expense of development. This is not based on a close analysis of the program. Not only are there the two supply incentives just discussed, but we have what in the free enterprise system should be viewed as the most important incentive of all: a free price. Newly found oil is free to reach the world price, something like $14 a barrel. One remembers that crude oil sold for $3 a barrel only a few years back. This should be a great incentive. It is true that already existing discoveries will not get such a price. We see no reason for allowing windfall profits in this area.

It should be clear from this description of the major tax and revenue recycling components of the program that every effort has been made to minimize the impact of the program on the nation's output and prices, as well as on the Federal Budget. It is estimated that, over the period out to 1985, additional Budget outlays associated with the National Energy Plan would aggregate some $50 billion, while revenues raised by new energy-related taxes (net of credits and certain rebates) would sum to about $51 billion.

Thus, the net dollar impact on Federal finances, at a first approximation, would be less than $1 billion. Even the flows on each side of the Budget of some $50 billion, cumulated over the period to 1985, are small relative to an economy as large as ours.

In the near term there would be a measurable budgetary impact. In FY 1978, the increase in outlays under the program would exceed the increase in revenues, thereby adding about $1-1/2 billion to the Budget deficit. However, this is a relatively small addition, particularly so in light of the national benefits that will accrue from a prompt start on our conservation objectives. Nor will it detract from achieving our goal of a balanced budget by FY 1981.

As for the impact on real output, the efforts to preserve consumers' real incomes by recycling taxes should result in little effect on consumer spending. Perhaps the gasoline tax, if triggered, might result in a reduction in consumer spending for autos not compensated by increased spending on other goods and services, but there are expenditure offsets, such as the response to the incentives offered consumers to insulate and otherwise improve the thermal efficiency of their homes. Moreover, the incentives to business to invest in new equipment that utilizes more abundant energy sources, and utilizes it more efficiently, will be a net stimulus to investment. Our overall assessment, with which a number of other analysts concur, is that real GNP in total will differ little from the path it would otherwise have followed in the absence of the energy program. Accordingly, we see little overall effect of the program on the course of unemployment.

Prices, however, will undoubtedly be somewhat higher. There is no reason to assume that other prices will fall just because petroleum prices rise. And rise they must if we are to remove the present subsidy under which domestic users are encouraged to use petroleum products because the domestic price is constrained below the world price. By raising U. S. prices to the world level--in stages--we will be encouraging conservation measures.

The effect of the program on the course of prices is apparently a matter of greater debate among economists than is the effect of the program on economic activity in real terms. Some of the differences between our estimates and those of other observers is the result of differing assumptions as to the extent to which certain of the taxes will be passed through to consumers, and as to the likelihood that the standby gasoline tax will be triggered.

When the assumptions are reconciled, some differences in estimate remain, but are for the most part relatively small. Our view is that as a result of the program, the incremental rise in prices will likely be some .3 to .4 percent for the next two years, principally as the crude oil equalization tax brings domestic oil prices to the world price level. After that, the rise in prices would be much smaller, on the order of .1 to .3 percent. If the standby gasoline tax were to be triggered, beginning in 1979, that would add .2 to .3 percent to the price increment.

Let me note that some degree of uncertainty must apply to these estimates, as they do to any economic forecast extending out four to eight years. We are dealing here with the prospect--the necessity--of a major change in life styles, which even in the absence of changes in real incomes could result in significant shifts in propensities to spend and to invest. It is impossible to forecast whether such shifts will occur, or if they should, which direction they might take. Finally, there can be distributive effects difficult to factor into estimates of future behavior; for example, whether financial constraints such as debt/equity ratios will permit some companies to make full use of the various investment incentives available in the plan. Therefore, the estimates cited earlier convey, perhaps a pseudo-precision to which I do not subscribe. But what is clear is that the design of the plan is such as to result in relatively small changes in the basic economy.

There is less doubt that the plan will have significant and favorable effect on our balance of trade. It will be needed. For example, our total oil import bill this year may reach $43 billion, contrasting sharply with oil imports in 1970 of less than $3 billion, and contributing greatly to the deficit of over $20 billion expected in our whole international trade account.

Price increases alone do not account for the entire rise in our oil bill since 1973, for we have become increasingly dependent on oil imports for our energy. And historic projections suggest that we could be importing as much as 12-16 million barrels per day by 1985, with an oil bill as high as $75 billion in 1977 dollars. This would represent up to 30 percent of world demand for OPEC oil.

Under these circumstances, substantial upward market pressure would be placed on OPEC price levels, leading to additional strains on the world economy, in turn requiring new rounds of worldwide economic adjustments. Some countries that have already been particularly hard hit by the oil price rises to date, such as the non-oil developing countries and the smaller industrial countries, would face very serious economic and financial difficulties.

These countries have faced especially difficult economic problems over the last several years. Most of these difficulties have stemmed from the major oil price increases of

1973 and 1974, and the subsequent recession and inflation in developed nations. More recent oil price increases have only served to exacerbate the situation.

Over the long-term, the most effective way to moderate such upward market pressure on prices is to reduce world demand for oil, and encourage use of alternate energy sources. If successful, our energy plan could reduce U. S. 1985 oil imports from 12 million b/d to 6 million b/d, thus potentially reducing our demand for OPEC oil by 6 million b/d or roughly 50 percent. To put this in perspective, such a reduction in U. S. oil imports would be over two-thirds of the projected 1985 total oil demand by Japan, a country completely dependent on imports for its crude oil supply, and would amount to 50 percent of projected 1985 oil demand by the non-oil developing countries. Thus, considerable upward market pressure on world oil prices could be diffused by an effective U. S. energy program.

In addition, leadership initiative by the United States will lead to further reductions in the demand for oil by spurring similar conservation efforts on the part of our oil-consuming colleagues in the International Energy Agency. Through our energy program, we will be able to make our energy intentions clear and enhance international cooperative efforts.

In summing up, Mr. Chairman, let me emphasize that the President's energy plan is vital for our nation's future well-being and security, as well as for the restoration of equilibrium in the world economy. The problem is inescapable. The supply of convenient, easily accessible energy sources is finite, and the pace at which energy demands are rising brings the day of reckoning uncomfortably close. We have few options on how to deal with the problem, and no option on time. We must begin to address the issues now.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 1:00 P.M. May 20, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,100 million, to be issued June 2, 1977, as follows:

91-day bills (to maturity date) for approximately $2,000 million, representing an additional amount of bills dated March 3, 1977, and to mature September 1, 1977 (CUSIP No. 912793 J8 0), originally issued in the amount of $3,601 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,100 million to be dated June 2, 1977, and to mature December 1, 1977 (CUSIP No. 912793 L5 3). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing June 2, 1977. This offering will provide for a net pay-down for the Treasury of about $909 million as the maturing issues are outstanding in the amount of $6,009 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,898 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Friday, May 27, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on June 2, 1977, in cash or other immediately available funds or in Treasury bills maturing June 2, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 13, 1977

TREASURY ANNOUNCES NEW ADR STUDIES AND PUBLIC HEARING

The Office of Industrial Economics today announced the start of two new studies of guideline depreciation periods and repair allowance percentages for industry. The simultaneous studies will be of industrial steam and electric generation and/or distribution assets, and of waste reduction plants.

The results of the studies will be prescribed as guideline depreciation periods for Federal income tax purposes under the Class Life Asset Depreciation Range (CLADR) system. All persons interested in submitting relevant information for the studies are invited to attend a public hearing in Washington, D. C., on May 26, 1977. Details on the time, location, and agenda for the hearing may be secured by writing to the Office of Industrial Economics, Projects 00.4 & 39.0, P.O. Box 28018, Washington, D. C. 20005.

The Office of Industrial Economics also has under study at the present time assets used, (1) to manufacture chemicals and allied products, (2) primary ferrous metals, (3) electrical and electronic products, (4) professional, scientific and controlling instruments, (5) fabricated metal products, and assets used in contract construction, (6) wholesale and retail trade, and (7) personal and professional services.

OIE requests that any information or comments applicable to these studies be sent to the Office of Industrial Economics, P.O. Box 28018, Washington, D. C. 20005.

Notice of the new studies and the public hearing appears in the Federal Register of May 13, 1977 (Vol. 42, No 93).

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
THE DEPARTMENT OF THE TREASURY 1789

FOR IMMEDIATE RELEASE May 23, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,100 million of 13-week Treasury bills and for $3,200 million of 26-week Treasury bills, both series to be issued on May 26, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 25, 1977			26-week bills maturing November 25, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.704	5.127%	5.27%	97.285a/	5.341%	5.57%
Low	98.694	5.167%	5.31%	97.276	5.359%	5.59%
Average	98.700	5.143%	5.28%	97.279	5.353%	5.58%

a/ Excepting 1 tender of $860,000

Tenders at the low price for the 13-week bills were allotted 47%.
Tenders at the low price for the 26-week bills were allotted 72%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 34,835,000	$ 19,835,000	$ 30,075,000	$ 5,075,000
New York	3,278,455,000	1,711,955,000	5,131,315,000	2,478,780,000
Philadelphia	19,530,000	19,530,000	31,305,000	5,805,000
Cleveland	41,135,000	26,135,000	10,330,000	10,130,000
Richmond	23,465,000	21,935,000	17,200,000	10,300,000
Atlanta	31,525,000	29,325,000	8,670,000	8,670,000
Chicago	201,875,000	65,030,000	244,710,000	20,210,000
St. Louis	31,000,000	24,000,000	35,245,000	11,245,000
Minneapolis	16,650,000	16,120,000	38,140,000	2,140,000
Kansas City	37,745,000	36,245,000	29,315,000	18,130,000
Dallas	84,560,000	83,560,000	12,565,000	6,565,000
San Francisco	232,720,000	46,455,000	914,750,000	623,135,000
Treasury	30,000	30,000	75,000	75,000
TOTALS	$4,033,525,000	$2,100,155,000b/	$6,503,695,000	$3,200,260,000c/

b/Includes $310,650,000 noncompetitive tenders from the public.
c/Includes $136,085,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 23, 1977

EMIL M. SUNLEY APPOINTED
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY

Secretary of the Treasury W. Michael Blumenthal today announced the appointment of Emil M. Sunley, a Senior Fellow of the Brookings Institution since 1975, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. Sunley, 35, succeeds David F. Bradford, who has resigned to rejoin the faculty of Princeton University.

Mr. Sunley serves as deputy to Assistant Secretary Laurence N. Woodworth, who has principal responsibility for formulation and execution of United States domestic and international tax policies.

Mr. Sunley had been Associate Director of the Office of Tax Analysis of the Treasury Department from 1973-75, and had served as an economist in that Office from 1968-73. He has published numerous articles and been a frequent speaker on public finance and taxation.

A native of Denver, Colorado, Mr. Sunley earned his B.A. degree at Amherst College in 1964, and earned his advanced degrees in economics at the University of Michigan, receiving his M.A. degree in 1965 and his Ph.D. degree in 1968.

Mr. Sunley is married to the former Judith Steere of Birmingham, Michigan. They have three children and reside in Washington, D. C.

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6-3/4% TREASURY NOTES OF SERIES J-1981

DATE: 5-24-77

~~HIGHEST SINCE:~~ ____________

LAST ISSUE of 4-yr 1-mo. notes issued 3/8/77 - Coupon 6-7/8%

~~LOWEST SINCE:~~ ____________

TODAY: 6-3/4%

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 24, 1977

RESULTS OF AUCTION OF 4-YEAR 1-MONTH TREASURY NOTES

The Treasury has accepted $2,001 million of $4,264 million of tenders received from the public for the 4-year 1-month notes, Series J-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.75%
Highest yield	6.82%
Average yield	6.80%

The interest rate on the notes will be 6-3/4%. At the 6-3/4% rate, the above yields result in the following prices:

Low-yield price	99.984
High-yield price	99.738
Average-yield price	99.808

The $2,001 million of accepted tenders includes $ 244 million of noncompetitive tenders and $1,757 million of competitive tenders (including 33% of the amount of notes bid for at the high yield) from private investors.

In addition, $500 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 23, 1977

DONALD C. LUBICK APPOINTED
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY

Secretary of the Treasury W. Michael Blumenthal today announced the appointment of Donald C. Lubick of Buffalo, New York, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. Lubick, 51, replaces William M. Goldstein, who has resigned to enter the private practice of law.

Mr. Lubick serves as deputy to Assistant Secretary Laurence N. Woodworth, who has principal responsibility for formulation and execution of United States domestic and international tax policies.

Prior to joining the Treasury Department, Mr. Lubick was a partner with the Buffalo law firm of Hodgson, Russ, Andrews, Woods & Goodyear, with which firm he has been associated since 1950. From 1961-64, Mr. Lubick was Tax Legislative Counsel of the Treasury Department. He also has been a member of the faculty of the University of Buffalo Law School on a part-time basis, teaching courses in a variety of fields including Federal income taxation.

Mr. Lubick graduated magna cum laude from Harvard University receiving the J.D. degree in 1949, and also graduated summa cum laude from the University of Buffalo receiving the B.A. degree in 1945.

Mr. Lubick has published articles and has been a frequent lecturer and teacher in the field of Federal taxation. He has participated in the work of various bar associations, especially the New York State Bar Association Section on Taxation, and in 1959 he was Chairman of the Tax Revision Committee of the City of Buffalo.

Born in Buffalo, New York on April 29, 1926, Mr. Lubick is married to the former Susan Cohen of Buffalo. They have three children, and will reside in Chevy Chase, Maryland.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

EMBARGOED FOR RELEASE
UNTIL 11:00 P.M. E.D.T.
MAY 24, 1977

REMARKS BY
W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
INTERNATIONAL MONETARY CONFERENCE
TOYOKO, JAPAN
May 25, 1977

Toward International Equilibrium: A strategy for the Longer Pull

As we come to the closing session of this International Monetary Conference, I can well understand how your meetings have become an annual highlight for the world financial community. For me it has been a valuable opportunity to share thoughts on current international problems with this informed assembly. I am particularly honored that you have invited me to offer some ideas on how I think we should deal with these issues.

One encounters, these days, a good many uncertainties, doubts, even fears about our international financial prospects, and about our collective ability to resolve successfully the formidable difficulties that appear to lie ahead.

Central to these doubts is an apprehension over the capacity of our monetary system to finance -- for an extended period -- the world's future oil requirements. Can our system continue to handle successfully the financial consequences of massive OPEC surpluses, surpluses which cumulated to about $150 million during 1974 through 1976, which may amout to $45 billion this year and continue to be substantial for a good many years?

Is the international commercial banking system becoming dangerously exposed as a result of the recent sharp expansion in balance of payments lending? Are debt burdens becoming unbearable? Can we be sure that official lending resources will be adequate to the need? Are nations in danger of drifting into protectionism, losing confidence in their ability to correct maladjustments promptly by more acceptable means?

We are right to acknowledge these doubts and to face them squarely. Nevertheless, the United States Administration has full confidence that the international community, working together, can and will assure a stable financial environment and a smoothly functioning international payments system. I can assure you that the United States will do its part.

To begin with, we must acknowledge that large OPEC surpluses are not, as some thought, a short-term problem. They will exist for an extended period, and we must develop a strategy for the longer pull.

Such a strategy must have three facets. First, we must assure that our national governments follow the right policies. Second, we must assure that our international institutions have both the resources and the authority to fulfill their important responsibilities. Third, we must assure that our private financial markets are in a position to carry out their essential intermediary role safely and effectively. I would like today to examine with you what must and can be done in terms of each of these three groups: governments, international organizations, and private financial markets.

Responsibilities of Governments

Governments' policies are of key importance. There are several imperatives. For one thing, each nation must pursue a sound energy policy. There can be no permanent solution to the problem of OPEC financial surpluses until oil importing nations adopt more effective programs for conserving the use of oil and developing alternative supplies. The United States has had no comprehensive energy policy. Our fuel import bill has grown explosively -- from $5 billion in 1972 to $37 billion last year. This year it may reach $43 billion. Without corrective action, our oil imports would rise from less than 8 million barrels per day last year to 12 to 16 million barrels per day in 1985. The President has now put forth a National Energy Plan designed to reduce those imports to 6 million barrels per day by 1985. This reduction, supplemented by appropriate policies in other major nations, will materially assist in achieving a desirable world energy balance. OPEC, meanwhile, must recognize that a healthy world economy is in its own long run interest and must display responsible restraint on its pricing policy.

Sound energy policies will reduce the collective current account deficit of the non-OPEC states. A second imperative, however, is that governments collaborate to assure that the deficits which remain are distributed among countries in a pattern compatible with their ability to attract capital on a continuing basis. The present pattern does not achieve that balance. Substantial redistribution is required. That requires basic macro-economic policies and exchange rates for each nation appropriate to its own situation.

Countries in a weaker position, with major deficits, must pursue stabilization policies which will provide a basis for sustained domestic growth while reducing inflationary pressures and expectations. A number of countries have adopted such policies. Several others should.

Countries that are in current account surplus or that can readily attract capital must follow policies designed to insure maximum sustainable domestic growth consistent with a gradual reduction of inflation.

These policies, of course, must focus on domestic market demand rather than on exported growth which further adds to current account surpluses. The United States is following such a policy. Similarly, Germany and Japan have adopted expansionary growth targets for 1977, and we are all committed to adopt further policies if needed to achieve stated targets and to contribute to the adjustment of payments imbalances.

Flexibility in exchange rates is essential for both surplus and deficit countries. The U.S., Germany and Japan have made clear that they will not resist market pressures for appreciation. Countries which need to strengthen their competitive positions to reduce their deficits must be equally ready to accept depreciation.

Most importantly, all major countries are committed to reject protectionism and to pursue opportunities for expanding trade. Stronger countries should also increase their development aid. Finally, each nation -- industrial as well as developing -- should adopt policies to expand domestic investment. If borrowed funds are used for investment that expands productive capacity, the ability to service debt will grow as the debt increases.

The steps that have been taken are, in general, correct steps. Whether they are sufficient in all cases remains to be seen.

The current account position of the U.S. has already shifted dramatically, from a surplus of $11 billion in the recession year 1975 to a deficit this year of perhaps $10 to $12 billion. That shift is making a major contribution to the stability of the international monetary system.

We accept that shift. We can sustain it -- although we would not expect the deficit to continue at this level indefinitely. We receive substantial inflows of capital from OPEC and elsewhere and our overall position remains satisfyingly strong. The dollar exchange rate has not declined despite the very large current account deficit.

What is now required is a similar shift in the position of surplus countries such as Japan, Germany, Switzerland, and the Netherlands.

The Contribution of International Institutions

An important part of our strategy depends on the activities of international institutions -- most importantly the International Monetary Fund. The United States supports the view that the IMF's financing capability and its responsibilities for overseeing the monetary system must be strengthened. We believe that the Fund's role in preserving a sound international environment will be of great importance in the years ahead.

As a temporary arrangement, the Managing Director has proposed that lines of credit be negotiated. These would be available as needed to provide additional conditional financing for particular countries whose needs are very large relative to quotas. The IMF's Interim Committee recently recognized the need for such a supplementary credit arrangement, and the seven nations at the Summit have endorsed that concept. Exploratory talks are in progress. For the United States, I have told Mr. Witteveen that I would strongly favor U.S. participation, provided a well-designed plan can be agreed, with an appropriate balance between credits from OPEC countries and the industrial world. I am confident that Congress would also support such a plan.

After work is completed on the establishment of this supplementary credit, we must turn our full attention to a more permanent reinforcement of the IMF's conditional lending resources through another increase in IMF quotas.

An equally important task for the IMF is to determine in individual cases the form and degree of policy conditionality to go along with the financing. The IMF must work out specific adjustment programs and corrective measures to be adopted by particular borrowing countries. Conditionality must be applied in an appropriate manner -- neither too harsh nor too soft, enough to assure adequate adjustment but no more.

Mr. Witteveen's proposal explicitly recognizes the implications of the present situation for the pace of adjustment in calling for programs spanning a period longer than the one year involved in traditional standby arrangements. The IMF's past record in negotiating programs of adjustment is an excellent one, and I am confident that the organization will continue to perform this duty with equity, objectivity, and good sense.

Quite apart from its financing activities, the IMF will take up, under the amended IMF Articles, a major responsibility for surveillance of member countries' exchange rate policies. The Fund is approaching this task, wisely in my view, in a careful and cautious way, avoiding grandiose theoretical concepts. It is not trying to delineate detailed or rigid principles, but rather seeking to develop, on a case-by-case basis, a body of common law based on experience. We must all support and encourage the Fund in the development of this important tool for assuring that no nation will manipulate its exchange rate to prevent payments adjustment or to gain unfair competitive advantage over its partners.

Responsibilities of the Private Markets

The role of private capital has been enormously increased by the OPEC surpluses. Since OPEC's geographic placement of its surplus funds does not correspond to the distribution of current account deficits, intermediation is required. Over the past three years, about three-quarters of the deficits have been financed through the world's money and capital markets.

Concern has been expressed that the private market will not be able to continue this intermediation because of decline in the creditworthiness of borrowers and in some cases limits imposed by the banks' own capital. Although some banks are in fact approaching their legal limits on loans to a few governments, it does not appear likely that this limitation will present a major problem in the continued growth of aggregate bank loans either to foreign corporate customers or to foreign governments.

This issue is frequently posed as an "LDC debt problem." This is a misconception. The pressures on the private markets arise from the difficulties of a very few countries -- many of which are not normally regarded as LDCs. For some developing countries, financing continues to be largely a question of the level of available funds from foreign assistance sources. For the rest of the world -- developing, developed, and middle income countries -- there is no alternative to a continued central and predominant role for the private capital markets.

-- Only the private markets have the resources, expertise, and institutions in place to handle the large scale, highly complex intermediation function smoothly and efficiently;

-- Legislatures are not prepared to vote the massive amounts of official funds, or guarantees, required for a basic shift from reliance on private financing to reliance on official financing.

Clearly it is in the interests of all concerned -- the oil exporting countries which are the ultimate creditors, the money and capital markets which are intermediaries, and the borrowing countries -- that the flow of private capital continue. Countries which expect to borrow must therefore make sure that they retain their creditworthiness.

Some have asked whether proposals for increasing IMF lending resources were not mechanisms for bailing out the commercial banks, or taking over risky loans injudiciously contracted by the banks. But this is neither the intent nor the likely result. Uniquely, IMF lending is associated with policy conditions and adjustment programs tailored in each case to correct the problems which caused the need for financing. Thus IMF lending can, in a very meaningful way, enhance the creditworthiness of the borrower as viewed by commercial lenders. Bankers have long recognized this fact in their operations -- sometimes by directly requiring a nation to enter into an IMF program as a prior conditon to further bank credit.

The amount of credit provided through the IMF is small relative to private credit and will remain so. In the three years since oil prices increased, the IMF has financed only about six percent of the aggregate payments deficits, even though Fund lending has been at historic peaks. While the balance may shift toward a somewhat higher ratio of IMF to private financing, there will be no "takeover" of international lending by the IMF. The significance of IMF credit, and the value of expanding the IMF's lending capacity, is largely that it strengthens creditworthiness and reinforces the system.

I see no evidence that the system as a whole is overloaded. The problems -- and there are problems -- are found in a few individual nations which are approaching or have reached the boundaries of prudence.

The concern of private markets about increasing their exposure in particular countries is a matter of perceived risk -- of the degree to which particular borrowers, and their particular economies, appear to have the capacity to service debt. It is on this risk that private lenders -- and the bank regulators looking over their shoulders -- are quite properly focusing.

Basic to risk evaluation is information, and borrowers will find they are facing increasing demands for information about the "vital signs" of their economies. Lenders should be in a position to weigh on a reasonably current basis a country's relative performance in such areas as inflation rates, wage rates and productivity measures, the shares of investment and consumption in GDP trends, public sector deficits and trends of monetary aggregates. Chairman Burns has made the very sensible suggestion that the central banks agree on the kind of information which a borrowing country would normally be expected to supply.

For some borrowers, meeting these requirements will simply mean revealing information now held confidential. For others, it will require expansion and upgrading of their collection and processing effort so as to obtain more comprehensive, accurate and timely data. In some cases, this effort will require fundamental changes in the way governments view this aspect of their economic management. But the ability and willingness of countries to provide such data and analyses will increasingly constitute the price of admission to private capital markets -- because of the lenders' insistence in their own prudent self-interest, quite apart from any suggestions of the regulatory agencies.

Lenders, by the same token, will need to develop the capability of extracting the maximum benefit from this additional information. This will require that they refine their capability for country analyses. There is in process a change in the type of borrowers coming to market. Formerly, the bulk of international lending was to private, largely corporate borrowers. In many cases, such lending was for short term trade financing or related to a specific project -- and there was a balance sheet, a management with a known track record, a product and a market whose prospects could be analyzed according to reasonably well-developed criteria.

Increasingly, however, the prospective borrowers are governments or quasi-public entities. Their purpose in entering the market is likely to be much less clearly commercial than, for example, when a firm borrows to expand to service a new market. In some cases, loans are for general balance of payments support, and it is not immediately evident whether they will finance consumption or increase productive capacity.

In such situations, we enter the realm of what used to be called "political economy," a term that could well bear revival. In assessing the riskiness of a balance of payments loan -- or assessing the creditworthiness of a country -- a major question becomes the willingness and the ability of the government of the prospective borrower to implement the policies which will permit the service of the debt. A lender's assessment of the prospects may require an assessment of the possible changes in the political climate, as well as in the underlying economic situation.

It seems to me important, therefore, to give careful study to the possibilities of developing a closer interaction, a smoother transition, between financing through the private market and official financing through the IMF. There is a view that the private markets and the IMF may in some case be working at cross-purposes -- with private lenders increasing their exposure with growing unease and reluctance, while the IMF watches from the sidelines with increasing frustration while the underlying situation deteriorates. Countries in such cases may avoid recourse to the IMF -- and adoption of needed adjustment policies -- as long as access to private financing is more or less readily available. When the situation deteriorates to a critical point, it becomes evident to all, and there is sudden, discontinuous change. The question is whether there is legal and practical scope for earlier involvement by the IMF.

The resolution of this question may be the next needed step in the evolution of the framework of international monetary cooperation. We do now know, at this stage, whether there is a need for formal mechanisms, informal arrangements, or neither. Certainly we must recognize the limitations on the IMF's freedom of action. There would be great reluctance, for example, to have the IMF enter the field of credit-rating, not least because such action could undermine the confidential basis on which information is given to the Fund. Nevertheless, there may be ways in which closer private-official cooperation could be fashioned without putting the IMF in the credit rating business. To invite discussion, I will list several theoretical possibilities without endorsing any -- and I want to stress again that I do not feel we are yet in a position to make decisions in this area.

Perhaps the least dramatic step could involve IMF willingness to provide staff reports and country assessments to prospective lenders, on the basis of formal requests by the countries in question.

The IMF might publish reports based on its annual consultations with countries, again subject to the approval of the countries in question. There is precedent for this in the OECD's publication of annual reviews of member countries' economic situations.

A more overt IMF role might involve IMF staff participation in the development of policy conditions to be associated with private or largely private lending. Thus the Fund might make available its services to help design stablization programs, if requested by both prospective borrowers <u>and</u> lenders. As a variant on this approach, the banks might insist, as part of a negotiated loan package, that a country establish eligibility for borrowing from the Fund.

Among other suggestions, it has been proposed that the IMF might participate in the development of "mixed" financing packages, featuring a blend of official and private funds. Depending on the circumstances, the initiative might come from private lenders, the borrowers, or even the Fund itself. Arrangements in some cases might involve a "stretch-out" of debts to correct excessive "lumpiness" in the earlier maturities.

All of these proposals raise basic questions of how the IMF should operate and how it should relate both to its sovereign members and to the private sector. I do not suggest that the international community will in the end necessarily decide that it is wise to make such changes. But I do think that we should be willing to reexamine old premises, review old practices and consider innovations. Only in that way can we assure that our institutions grow and adapt to current conditions, and are used with the maximum effectiveness that the future will require.

Conclusion

To conclude, I am confident that the strategy I have outlined -- a strategy based on application of sensible government policies, reinforcement of our international institutions, and strengthening of private market mechanisms -- will be adequate to the test for the longer pull. My confidence is fortified by two facts:

-- First, the record of the past thirty-two years is on the whole, an excellent one. In the international monetary sphere, the world community has, time and again, faced new problems, new strains. On each occasion, it has found a cooperative and responsible solution. I am sure we can do so again.

-- Second, we have the advantage of a new, realistic, and flexible monetary system as a framework for our policies. That system is itself a product of international cooperation and will facilitate our progress.

This effort will require the best from all of us. The skill and determination which you in the international banking community, as well as we in national governments, apply in adapting to the situation we confront will largely determine our success.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Release for P.M. Papers,
Thursday, May 26, 1977

REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
AMERICAN IRON AND STEEL INSTITUTE
NEW YORK CITY, NEW YORK

THE U.S. TRADE BALANCE AND AMERICAN COMPETITIVENESS IN THE WORLD ECONOMY

In late April, the Commerce Department reported that the U.S. merchandise trade balance for the first quarter of 1977 showed a record deficit of $6.9 billion -- an annual rate of almost $28 billion. The deficit for the year as a whole may exceed $20 billion. These are stark numbers. Some commentators have expressed great concern about them. Some have voiced doubts about the competitive strength of the U.S. in the world economy.

In my view, such doubts are largely unwarranted. But the United States certainly faces some important trade problems. We must reduce our dependence on imported oil. We face a few sectoral problems which require direct attention. And we are experiencing an unprecendented merchandise trade deficit.

Several issues arising from this development must be considered carefully. What does the present deficit suggest about the competitive position of the United States in the world economy. Is the deficit sustainable? How does our position relate to the trade balances of other countries? What should the government do about it, if anything? In an effort to help answer these questions, my analysis today will focus on four key issues: the share in world trade of U.S. exports of manufactured goods, the effect of changes in oil prices on U.S. imports, the effects on the U.S. trade balance of differences in the economic cycle among the major trading nations, and the important implications for U.S. policy toward its current trade deficit of the continuing large surpluses being run by a few OPEC countries.

The U.S. Share of World Exports

One of the most widely used indicators of the competitiveness of U.S. products is the market share of world exports held by U.S. manufacturers. The U.S. market share -- defined as the exports of the fifteen major industrial countries, excluding sales to the United States itself -- declined during the latter 1960s, reflecting the declining competitiveness of U.S. products and reaching its historic low in 1972 (Table 1). The dollar became substantially overvalued in the late 1960s, sharply reducing the price competitiveness of our exports and some of our import-competing industries. The AFL-CIO and others, including the steel industry, were right to complain in the late 1960s and early 1970s that U.S. international economic policy had permitted the competitive position of the United States to deteriorate badly and intensify domestic unemployment. In retrospect, we can see that the policy errors of that period centered on the exchange rate of the dollar and inflation in the late 1960s -- not on policies directly affecting international trade or investment, as many thought at that time.

The effects of the exchange rate changes of the early 1970s began to be realized by U.S. exporters fairly quickly. The devaluations of 1971 and 1973, coupled with a more flexible exchange rate system since early 1973, have clearly benefited U.S. exporters (and import-competing industries). The data on U.S. trade shares in world markets since 1972 confirm the strengthening of U.S. competitiveness:

-- the U.S. share of total manufactured exports hit its low point of 19.2 percent in 1972, and rose to 21.3 percent in 1975 (before falling back to 20.5 percent in the first 3 quarters of 1976, the most recent period for which comparable data are available).

-- the U.S. share of chemical exports rose steadily from 18.7 percent in 1972 to 21.3 percent in 1976.

-- our <u>non-electrical machinery</u> share rose from the 1972 low of 25.1 percent to 27.6 percent in 1975 (before declining to 26.9 percent in 1976).

-- <u>electrical machinery</u> climbed steadily from its 1972 low of 20.9 percent to 23.3 percent in 1976.

-- <u>basic manufactures</u> rose from a 1972 low of 10.6 percent to 12.6 percent in 1975, and remained at 12.1 percent in 1976.

-- only in <u>transport equipment</u> is the U.S. share lower today, down to about 24 percent in 1976 from 26.4 percent in 1972; all of this decline came in 1976, after the U.S. share had risen to 29.2 percent in 1974 and stayed at 28.2 percent in 1975.

-- <u>all other manufactures</u> rose steadily from 15.9 percent in 1972 to 18 percent in 1976.

Other indicators, such as price relationships between the U.S. economy and other major trading countries, testify similarly to a sharp improvement in the U.S. competitive position after 1972 and a maintenance of those gains over the past year or so. We will be watching these indicators closely, to see if they continue to improve -- or at least maintain the gains of the past four years. Any renewed, sustained decline in them would lead us to take a close look at exchange rate relationships and other key factors underlying the economic relationship among nations. On the basis of the evolution of U.S. market shares over the past four years, however, we have no reason to doubt the international competitive position of U.S. industry.

Oil and the U.S. Trade Balance

Exports, however, are only one side of a country's trade. One must look at the entire picture to appraise the overall international position of a country at any point in time. In the case of the United States, recent swings in the trade balance have been dramatic.

In 1972, the U.S. trade balance was in deficit by \$6-1/2 billion (on the balance-of-payments definition). In 1975, only three years later, our merchandise trade registered a surplus of \$9 billion -- an improvement of over \$15 billion despite an increase of over \$22 billion in the cost of imported oil during those three years. But our trade account was in deficit again in 1976, by some \$9 billion -- an adverse swing of \$18 billion in a single year. This year, the deficit may exceed \$20 billion -- another swing of over \$10 billion.

Changes in the price of oil have dominated these changes in the U.S. trade balance. Our current forecast suggests that U.S. imports may reach nearly \$150 billion in 1977. Of this total, more then \$40 billion will be oil. In fact, it will take roughly 1/3 of our total exports to pay for oil imports alone.

In volume terms, U.S. oil imports have risen sharply over the last five years (Table 2). In 1972, the United States imported 5 million barrels a day (mb/d). In 1976, we imported about 7-3/4 mb/d. Our current estimate for 1977 is imports of about 8-1/2 mb/d -- an increase of 70 percent in five years. But this increase in volume, sizable though it is, would have raised U.S. oil import costs by less than $3-1/2 billion if the price of oil had not risen.

The price of a barrel of crude oil, however, increased from an average of about $2.53 in 1972 to an (estimated) average of about $13.25 this year -- a rise of over 500 percent (Table 2). Hence the dollar cost of U.S. oil imports has skyrocketed by some 870 percent, from $4.7 billion in 1972 to an estimated $40 billion this year. The increased price of oil accounts for more than $30 billion in increased U.S. import costs from 1972 through 1977.

Excluding these oil imports, our trade balance has shown a very large surplus ever since the exchange rate changes of 1971 and 1973 restored relative price relationships between the U.S. economy and the rest of the world. Non-oil trade was in deficit by $2 billion in 1972, but has been in strong surplus ever since. That surplus peaked at $36 billion in the recession year of 1975. It remains substantial, and is likely to approximate $20 billion this year.

To be sure, the increases in oil prices have had important effects on the price and volume of other traded goods. We have obviously been increasing our exports to OPEC countries at the same time that our oil import costs have been rising. But that export increase falls far short of the rise in the cost of oil imports. Our merchandise trade balance with the OPEC area, including indirect U.S. imports of OPEC crude via third-country refineries, shifted from a deficit of $1-1/2 billion in 1972 to an estimated deficit of about $21 billion in 1976 (Table 3). This year the trade deficit with OPEC could exceed $25 billion.

At the same time, our trade balance with the non-OPEC world has shown impressive strength. In 1972, we had a deficit with non-OPEC countries of $5 billion. In 1976, this had shifted to an estimated surplus of about $11-1/2 billion with those countries -- an improvement of $16-1/2 billion. This imporved trade position has occurred both vis-a-vis other developed countries (about $11 billion) and with the developing countries (roughly $5 billion). In 1977, we expect to remain in surplus with the non-OPEC world by several billion dollars. The strength of our position has in fact led many major countries -- including the European Community as a group (with which we ran a surplus of $7.7 billion in 1976), Spain and Brazil -- to complain frequently about the size of our bilateral <u>surpluses</u> with them.

It is thus apparent that the rise in oil prices has been the overwhelming cause of the shift into large deficit of the

U.S. trade balance. Even taking into account the "feedback" effects on U.S. exports of higher OPEC earnings, the price rise for oil has dominated the U.S. international accounts. Our position with the rest of the world remains quite positive, just as we saw from my earlier analysis of the U.S. share of world exports of manufactured goods that the overall competitive position of the United States in the world economy appears strong.

Cyclical Factors

A second key element in the recent swings in the U.S. trade balance is the differing pace of economic recovery among the major countries. This factor is far less important than the changes in the price of oil, but it is important nevertheless.

It seems reasonable to view 1974 as the most recent year in which cyclical conditions among the major countries were roughly parallel, and the last year in which most economies were operating at relatively full capacity levels. In 1975, the United States plunged more deeply into recession than did most of our major trading partners. Indeed, while the Gross National Product of the United States (in real terms) declined by 1.8 percent, Gross National Products rose by 0.6 percent in Canada and 2.1 percent in Japan. Because the U.S. economy has a higher income elasticity of demand for imports than our major trading partners, our imports are more sensitive to changes in income than are the imports of our trading partners and the effects on our trade balance of these differences in growth rates are magnified. U.S. non-fuel imports declined by $6-1/2 billion in 1975, while exports rose by about $9 billion. Our $9 billion trade surplus in 1975 can thus be largely accounted for by cyclical factors.

From 1975 through 1977, U.S. recovery has been fairly rapid. The economies of our major trading partners, notably Canada and Japan -- but also other industrial countries and a few major developing countries -- have not recovered as strongly. Comparing our expectations for 1977 with the "base year" of 1974, the trade balance may decline by more than $15 billion. Higher fuel costs account for perhaps $14 billion. Agricultural exports may have <u>risen</u> by $1-1/2 billion. The data in Table 1 suggest that the U.S. competitive position in trade in manufactured goods has not deteriorated. Thus some $3 billion or so of the 1977 deficit might be attributable to cyclical considerations. Combining this conclusion with our assessment of the effects of higher oil prices suggests an underlying U.S. non-oil trade balance which is in comfortable surplus.

The Implications of Continuing OPEC Surpluses

Finally, we must ask how the current trade position of the United States fits into the world economic picture. The key point here is that large trade deficits in the non-OPEC world are inevitable at the present, and for at least several more years, in view of the large surpluses being run by the OPEC countries themselves. In the interest of international economic and monetary stability, the deficits have to be carried by countries which have the ability to run a surplus on their international transactions in services and other invisibles, and/or attract capital on a continuing basis.

Very few countries can do both. Germany and Japan readily attract capital but, unlike the United States, run sizable deficits on international services -- in 1976, about $9 billion for Germany and $6 billion for Japan. They both also ran deficits on net private and government transfer payments, of about $3-1/2 and $1/2 billion respectively. Hence their <u>trade</u> balances will always be more "favorable" than their <u>current account</u> balances.

This is a situation precisely opposite to our own. The United States runs a sizable and growing surplus in its international transactions in services -- on balance, primarily income on U.S. investments abroad and foreign military sales. Our services surplus reached $13-1/2 billion in 1976. It is growing steadily, and may rise by another $2 billion this year.

This surplus means that the U.S. current account balance is far stronger than the trade balance alone. To be sure, the current account will also be in sizable deficit in 1977 -- but nowhere near the $20 billion or more deficit on trade alone. In addition, the United States has had no difficulty in attracting capital from abroad. As Secretary Blumenthal pointed out in Tokyo yesterday, the recent shift in the U.S. current account deficit is making a major contribution to the stability of the international monetary system.

Another important indicator of the underlying economic strength of a country is the value of its currency on the exchange markets -- which takes <u>all</u> of these factors into account. Exchange rate movements demonstrate the evaluation of the relative strength of national economies by private traders and investors throughout the world. On a trade-weighted basis, the exchange rate of the dollar -- relative to the currencies of other OECD countries -- has risen about 5 percent during the past 18 months, despite the adverse swing in the trade balance. During the first quarter, when our trade deficit was running at an annual rate of nearly $28 billion, the dollar moved <u>upward</u> against these OECD currencies. Since the oil crisis hit in late 1973, triggering the sharp <u>decline</u> in the U.S. trade balance, the dollar has <u>strengthened</u> by about 11 percent. To be sure, the changes in the average exchange rate of the dollar comprise appreciations against some currencies and depreciations against some others, but such differences are wholly proper in a world of flexible exchange rates in which the relationships between national economies are changing constantly. On the whole this indicator reinforces the picture of underlying strength of the United States in the world economy.

Conclusion

Several conclusions emerge from this analysis. First and foremost, it is time that this country adopted a policy to reduce its dependence on OPEC oil and the costs of that oil to our balance-of-payments. The President has proposed a wide-ranging program to reduce U.S. oil dependency. That program deserves the support of the Congress and of the American people. It is the answer to the current "problem" of the U.S. trade balance.

Second, there is no need for the United States Government to adopt other measures for balance-of-payments purposes at this time. We must watch closely such indicators as the U.S. share in world exports of manufactured goods, and any evidence that officials of other countries are resisting market forces tending to appreciate their exchange rates against the dollar. New developments in areas such as these could become cause for concern, but present indications suggest no need for policy action by the United States.

Finally,we can all take satisfaction in the continuing competitive strength of the United States in the world economy. To be sure, there are problems in particular sectors: the President has recently ordered that action be taken regarding some imports of shoes and color television sets, and the international problems faced by the steel industry are presently undergoing review both within the United States Government and internationally. But these sectoral problems do not indicate any general weakness of the international position of the United States. To the contrary, our overall national economic strength seems secure. It should be a source of confidence both at home and abroad in the months and years to come.

Table 1

U.S. Share of World Exports of Manufacture
(percentage shares)1/

	Chemicals	Nonelec. Mach.	Elec. Mach.	Transport Equip.	Basic Manu.	Misc. Manu. Articles	Total Manu.
1958	29.6	35.0	32.8	35.3			27.7
1959	29.1	33.8	30.6	32.0			25.6
1960	29.6	32.7	28.2	33.2			25.3
1961	28.2	31.1	27.0	30.5			24.1
1962	27.9	30.9	27.3	31.9			24.6
1963	26.9	30.2	26.8	28.2			23.6
1964	27.1	31.4	26.2	28.4			24.0
1965	24.7	30.9	24.0	28.4			22.8
1966	24.6	30.1	25.2	28.7			23.0
1967	23.7	30.2	25.8	31.8			23.3
1968	24.2	29.4	25.1	34.3			23.6
1969	21.9	28.8	24.4	32.4			22.5
1970	21.9	28.1	22.7	29.0			21.3
1971	20.0	25.6	21.0	29.8	10.8	16.3	20.0
1972	18.7	25.1	20.9	26.4	10.6	15.9	19.2
1973	19.0	25.1	21.6	27.0	11.4	16.0	19.5
1974	18.5	26.4	23.1	29.2	12.3	17.3	20.3
1975	20.3	27.6	22.6	28.2	12.6	17.6	21.3
1976 2/	21.3	26.9	23.3	23.9	12.1	18.0	20.5

Source: Deptartment of Commerce, Commerce America.

Note: Term "manufactures" refers to chemicals, machinery, transport equipment and other manufactures except mineral fuel products, processed food, fats, oils, firearms of war and ammunition. World markets are defined as exports, excluding shipments to United States, from 15 major industrial countries which account for approximately 80% of world exports of manufactures: United States, Austria, Belgium-Luxembourg, Canada, Denmark, France, Fed. Rep. of Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom and Japan.

1/ Shares are calculated from values of exports of the six commodity groups from each of the 15 countries. Beginning 1971 when exchange rates began to fluctuate widely, share calculation is based on export-weighted exchange rate indexes for each supplier, using official rates of exchange vis-a-vis 67 principal markets.

2/ Figures for 1975 are averages of first 3 quarters, the latest date for which these data are available.

Table 2

U.S. Imports of Petroleum and Products
(on balance of payments basis)

	Average Daily Volume	Import Unit Value	TOTAL VALUE
	(Mil. b/d)	($/Bbl.)	($ Bil.)
Annually:			
1970	3.60	2.23	2.9
1971	4.11	2.43	3.6
1972	5.02	2.53	4.7
1973	6.85	3.37	8.4
1974	6.62	11.01	26.6
1975	6.46	11.45	27.0
1976	7.79	12.14	34.6
First Quarter 1977 (Seasonally Adjusted)	9.39 (Est.)	12.93 (Est.)	11.1 (Est.)

Source: Department of Commerce, Bureau of Economic Analysis, Balance of Payments Division.

May 23, 1977

Table 3

Estimated Area Pattern of U.S. Trade Balances, 1971-1976
(on APPROXIMATE balance-of-payments basis; in $billion, rounded)

	PUBLISHED Worldwide Balance	of which, ESTIMATED balances with:			
		OPEC Countries*	Total Other*	of which: Industrial	of which: LDC's
1971	-2.3	- 1	- 1	- 3	2
1972	-6.4	- 1 1/2	- 5	- 6	1
1973	0.9	- 4	5	- 1/2	5 1/2
1974	-5.4	-17 1/2	12	3 1/2	8 1/2
1975	9.0	-14	23	10 1/2	12 1/2
1976	-9.2	-21	11 1/2	5 1/2	6

Source: Treasury estimates, derived from Census data.

*Note estimates for OPEC Countries include, and Other areas exclude, estimated U.S. imports of OPEC crude as petroleum products from third-area refineries.

May 23, 1977

52-WEEK BILL RATES

DATE: May 25, 1977

HIGHEST SINCE

9/21/76

5.561%

LAST MONTH

5.163%

LOWEST SINCE

TODAY

5.403%

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 25, 1977

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2,402 million of 52-week Treasury bills to be dated May 31, 1977, and to mature May 30, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High	94.540	5.400%	5.71%
Low	94.529	5.411%	5.72%
Average	94.537	5.403%	5.71%

Tenders at the low price were allotted 1%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted
Boston	$ 39,915,000	$ 1,915,000
New York	4,209,110,000	2,290,890,000
Philadelphia	1,840,000	1,840,000
Cleveland	1,455,000	1,455,000
Richmond	9,155,000	1,155,000
Atlanta	4,560,000	2,810,000
Chicago	216,050,000	10,550,000
St. Louis	23,560,000	4,560,000
Minneapolis	36,625,000	3,625,000
Kansas City	6,680,000	6,680,000
Dallas	3,730,000	1,730,000
San Francisco	366,695,000	75,195,000
Treasury	40,000	40,000
TOTAL	$4,919,415,000	$2,402,445,000

The $2,402 million of accepted tenders includes $ 52 million of noncompetitive tenders from the public and $ 788 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.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

NOTE TO CORRESPONDENTS: May 26, 1977

Secretary Blumenthal's testimony of May 16, 1977 before the House Ways and Means Committee contained three tables. The two tables showing crude oil estimates have been revised to reflect updated Federal Energy Administration projections of crude oil production and prices. The two revised tables are attached and dated May 26, 1977.

Attachments:

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Estimated Revenue Impact of the Energy Program on Fiscal Year Receipts

($ millions)

	Fiscal Years								1978-1985
	1978	1979	1980	1981	1982	1983	1984	1985	
1. Auto efficiency tax (effective September 1, 1977)	500 1/	500 1/	500 1/	700 1/	900 1/	1,200 1/	1,500 1/	1,900 1/	7,700 1/
2. Crude oil equalization tax net of rebates (effective January 1, 1978)	499 2/	1,177 2/	1,914 2/	2,108 2/	2,053 2/	1,986 2/	1,919 2/	1,860 2/	13,516 2/
3. Standby gasoline tax (effective January 1, 1979)	3/	3/	3/	3/	3/	3/	3/	3/	3/
4. Residential energy credits (effective April 20, 1977 through December 31, 1984):									
a. Thermal efficiency (insulation, etc.) 4/	-360	-445	-469	-494	-520	-550	-581	-517	-3,936
b. Solar energy	-32	-68	-75	-59	-68	-66	-81	-99	-548
5. Business energy credits (effective April 20, 1977 through December 31, 1982):									
a. Thermal efficiency	-306	-307	-349	-428	-488	-317	--	--	-2,195
b. Cogeneration 5/	-52	-62	-106	-157	-214	-139	--	--	-730
c. Alternative energy 6/	-4	-9	-19	-33	-46	-28	--	--	-139
6. Oil and natural gas consumption taxes -- rebate for investment in alternative energy facilities:									
a. Tax, net of rebate: electric utilities (effective January 1, 1983)	--	--	--	--	--	86	123	101	310
b. Tax, net of rebate: other businesses (effective January 1, 1979)	--	1,403	3,444	4,169	4,918	6,529	8,278	11,862	40,603
7. Tax incentives for certain energy resource supplies (effective April 20, 1977):									
a. Expensing of intangible drilling costs, geothermal discovery and development	-5	-10	-17	-21	-20	-20	-32	-54	-179
b. Limitation of minimum tax on intangible drilling costs to amount in excess of net related income	-19 7/	-32	-37	-42	-48	-56	-65	-74	-373
8. Aviation fuels tax revision (effective October 1, 1977)	44	47	50	55	61	66	71	76	470
9. Revision of tax on gasoline for use in motorboats (effective October 1, 1977)	1	4	4	4	4	4	4	4	29
10. Repeal excise tax on buses (April 20, 1977)	-13	-9	-9	-9	-9	-9	-9	-9	-76
Total, excluding standby gasoline taxes	253	2,189	4,831	5,793	6,523	8,686	11,127	15,050	54,452

Office of the Secretary of the Treasury, Office of Tax Analysis

May 26, 1977

1/ Taxes shown will be fully rebated on the expenditure side of the budget.
2/ Taxes shown are net of refunds and income tax rebates and offsets and will be fully rebated on the expenditures side of the budget.
3/ Tax collected, if any, will be fully rebated. Collections after income tax rebate each year will range between zero and the following maximum allowable amounts: 1979, $0.9 billion; 1980, $2.0 billion; 1981, $3.2 billion; 1982, $4.4 billion; 1983, $5.6 billion; 1984, $6.8 billion; and 1985, $8.0 billion.
4/ In order to achieve the desired level of conservation, it may prove necessary to have mandatory standards affecting homes sold. The absence of any experience with the insulation incentives provided by this bill makes it difficult to estimate the level of insulation investment. The estimates presented here are relatively conservative. It is assumed that mandatory standards, effective January 1, 1980, would give rise to the following tax loss:

	Fiscal Years						1980-1985
	1980	1981	1982	1983	1984	1985	
Additional revenue effect	-43	-302	-395	-532	-835	-835	-2,942

5/ Includes effects of elimination of declining block rates.
6/ Coal conversion and solar equipment.
7/ For calendar year 1977, or fiscal year 1978, this provision is included in "The Tax Reduction and Simplification Act of 1977."

Crude Oil Equalization Tax

Relationship of Gross Excise to Energy Credits and Payments

($millions)

	Fiscal Years								1978-1985
	1978	1979	1980	1981	1982	1983	1984	1985	
Gross crude oil equalization tax collections	2,833	7,199	11,866	13,539	13,193	12,770	12,337	11,956	85,693
Refund for residential heating oil ..	-48	-362	-667	-957	-937	-909	-878	-849	-5,607
Reduced refiners' income tax 1/	-306	-968	-1,651	-2,038	-1,989	-1,927	-1,862	-1,803	-12,544
Estimated per capita energy credits .	-1,980	-4,692	-7,634	-8,436	-8,214	-7,948	-7,678	-7,444	-54,026
Net effect on receipts	499	1,177	1,914	2,108	2,053	1,986	1,919	1,860	13,516
Amount available for energy payments (outlays)	499	1,177	1,914	2,108	2,053	1,986	1,919	1,860	13,516

Office of the Secretary of the Treasury
Office of Tax Analysis

May 26, 1977

1/ Results from less than full pass-through of tax to prices.

Department of the TREASURY
WASHINGTON, D.C. 20220
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NEWS
THE DEPARTMENT OF THE TREASURY 1789

FOR RELEASE UPON DELIVERY

ADDRESS BY THE HONORABLE DANIEL H. BRILL
ASSISTANT SECRETARY FOR ECONOMIC POLICY
AT THE SPRING 1977 FORECASTING SEMINAR
SPONSORED BY
THE NATIONAL ECONOMISTS CLUB
MAY 25, 1977

TINSTAAFL

It is more than just a mere formality for me to express my pleasure at participating with you in this outlook session. I have a long affiliation with the National Economists Club, dating back about a decade, when a half-dozen venturesome souls met for innumerable lunches and dinners to discuss the issue of whether there was a need for an economist's club in Washington. After all, there were two organizations in town then with extensive membership of economists--the Cosmos Club and the International Club--and each possessed the great advantage of owned physical facilities. Moreover, there were many other groups that met with some frequency to discuss economic problems, such as the local chapter of the NABE, the Washington chapter of the American Statistical Association and several others.

It wasn't at all clear that there was the need for another formal discussion group. We debated the issue almost endlessly, and then resolved it in classic fashion: we conducted a scientific survey of potential market demand. That is, each of us called a half a dozen friends to see whether they would be interested in joining such a club.

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Surprisingly, there was a majority of favorable responses. Thus emboldened, we took the fateful step of launching the NEC. I am proud of the growth of the Club since then--it's probably the best forecast I've ever made--and of the service the Club renders to the economics community in Washington through the weekly lecture series and the semi-annual forecasting sessions such as this one today.

I have looked forward, then, to this opportunity to exchange views with the enlarged membership of the Club. I must admit, however, to being somewhat surprised by the reaction to the title I chose for my talk. Some of my friends have actually called to ask what the acronymn stood for. In my innocence, I was sure that all of us were well aware of the only universal and eternal truth in economics: "There is no such thing as a free lunch--TINSTAAFL". Perhaps, some of you know this principal better in its reduced form, "TANFL", which translates freely as "There ain't no free lunch". Either way, it's an absolute verity.

Some of my friends argued that I couldn't use the title because I <u>am</u> getting a free lunch. Let me disavow this immediately. Having taken the vows of poverty and chastity required of all members of the Carter Administration, I cannot accept a free lunch. Thank you for this late breakfast.

Some others of my friends have expressed surprise at my apparent conversion to Friedmanism. I guess I hadn't realized that the University of Chicago had cornered the market on marginal utility analysis. I always thought that our discipline was all about the allocation of resources at the margin, that this function could be approached in a Keynesian, monetarist, institutionalist, or any other theoretical framework, and that it wasn't the personal preserve of the good Professor Friedman. For the record at least, I'll have to decline the honor of joining the honorable mid-Western monotheist, even though I am using a title he has usurped.

Finally, some of my friends have asked more bluntly what has this got to do with forecasting? After all, this is an outlook session and why am I belaboring the subject with talks about no free lunch?

It seems to me that the subject lies at the heart of economic forecasting. We are in the business of forecasting the economic choices our society will be making in a host of important areas. Underlying these choices are implicit or explicit cost/benefit analyses. By and large, people know what they're paying for lunch. Decisions on spending or saving, expanding capacity or sticking with present facilities, wage demands and price schedules--all rest on some rational calculus, at least rational to the decision maker. Thank heaven, for if the choices were random, there'd be no point to economic research.

The problem, as I see it, is that cost/benefit relationships as we perceive them at the aggregate level may or may not coincide with the assessments of costs and benefits at the micro level. That's an involved and polite way of saying that we still don't have a good handle on economic motivation, and as a result we're doing a lousy job of macroeconomic forecasting.

I've been away from the forecasting business for some eight years, and on my return find our forecasting fraternity hassling the same issues, with the same kinds of tools, with about the same lack of success. Show me the investment function that called the P and E numbers right in 1976, when all the conventional variables suggested an investment boom that never materialized. Show me the consumption function that anticipated the resurgence in consumer spending in QIV 76. Show me the inventory equation that's right even half of the time. And lest my friends of the Chicago school persuasion get off too lightly, show me the monetarist model that predicted declining interest rates in the context of an 11 percent rise in nominal GNP and a 5 percent rise in M_1. This is not an inspiring record.

It's not my purpose here to run down our profession in public. After all, I have to feed my family too, and I can't depend on free lunches for my required caloric intake.

But I do think we have to go back to the drawing boards, particularly since we are confronting several major issues in which economists' assessment of the costs and benefits of alternative policy courses can make a great contribution -- or tragically mislead policy makers. Energy, inflation, investment incentives, to tick off just some of the most important.

Let me venture to suggest that our contemporary forecasting methodology -- formally quantitative or informally judgmental -- does not take into account adequately a learning process which cumulates experience, particularly adverse experience, into new behavior patterns. It seems to me that the increased frequency and amplitude of cyclical fluctuations are conditioning responses of businessmen and consumers toward greater risk aversion. The severity of the 1974-75 recession is captured adequately in the numbers, but perhaps we tend to overlook the impact of so severe a recession on the subsequent decision-making process because some of the recession symptoms were, fortunately, mitigated by the insurance and welfare systems created earlier.

But just because ten million unemployed did not riot in the streets does not mean that we could expect an immediate return to earlier response patterns in consumption and investment as the economy climbed out of the trough. The memory of lay-offs, even in executive suites, has been all too fresh.

The violent adjustments in financial markets, imposed to stem the inflationary momentum, also contributed to greater caution on the recovery leg of the cycle. A 12 percent prime rate is not easily forgotten, neither by the industrial executive faced with the problem of financing a rebuilding of inventories or expansion of plant facilities, nor by the financial institution manager who has narrowly escaped fatal hemorrhaging of his deposits.

We have moved from a go-go era of the Sixties to a go-slow era in the mid-Seventies, in both industry and finance, and I don't think the lessons of the recent recession have yet worn off. To put it in the framework of a cost/benefit analysis, the costs of the risks involved in new investment weigh substantially heavier today, and this must be factored into our forecasts, as well as in our policy advice on how to get to desired levels of private investment. Nor should we overlook the greater risks in international business transactions, as businessmen learn--often painfully--the true costs of operating in a regime of floating exchange rates.

It is simple enough for an economist to suggest that if the risks of doing business increase, then prices must be raised to compensate for the higher risk. In the long run, that may indeed be the adjustment process. In the shorter-run, however, the adjustment is not that easy; it may be that such risks are avoided completely. There are some risks to which the current generation of businessmen will probably never again expose themselves. Forming an REIT, for example, or issuing commercial paper without adequate bank-line coverage. And after suffering from the shock of seeing apparently filled order books melt away rapidly, it is understandable that industrial executives are exceptionally cautious in expanding production and facilities in response to early signs of rejuvenated customer demands.

Certainly, inflation and its aftermath have wrought changes in business and consumer response patterns. I used to entertain the notion that consumers behaved with a peculiar rationality--when prices went up and threatened to go up further, the consumer sniffed, concluded it "T'ain't worth it", and didn't buy. Perhaps one could dignify this hypothesis as the desire to preserve the real value of financial assets, but I doubt whether the explanation is really that elegant. In contrast, I had assumed the business response to inflation and inflation prospects was to accelerate spending plans: get those materials into stock before prices go up, start that plant before construction costs soar.

Now the response patterns seem to be reversed. Consumers spend with sufficient profligacy as to reduce personal savings rates to the lowest levels in a quarter century, despite double-digit inflation with little prospect of surcease. But businesses keep inventories trim in relation to sales and are slow to undertake plant expansion.

I have no adequate explanation for this change in response to inflation prospects. Perhaps it is but a fleeting pattern, and we will once again return to the "beat the inflation" syndrome in business and the "t'aint worth it" response by consumers. Or perhaps it is more enduring, with businessmen permanently convinced that inflation is bad for business -- not just because it is nice rhetoric, but because of actual painful business experience. The thesis might run as follows: inflation breeds government counteraction which, given the poverty and inaccuracy of stabilization tools, breeds recession, which in turn means that by the time the plant started now comes on stream the expected market demand has evaporated. So don't invest, and don't let inventories get out of hand.

If the thesis has validity, there are a number of consequences for forecasting, as well as for economic policy formulation. In its extreme application, it says that inflation and/or inflation prospects cause unemployment, not that there is a trade-off. It raises questions about the validity of forecasts resting on the assumption of a rapid and sustained rise in business investment even in the absence of forces that can reverse inflationary expectations.

I am not positing a new set of behavior relations, partly because I haven't done the requisite research to support this and partly because I suspect that the scars suffered from the recent recession and recent and current inflation will heal in time. There are dynamics in the investment process that tend to override economic considerations; growth is a desired characteristic of American entrepreneurship. Paraphrasing Barnum, there's a risk taker born every minute. There will come a time when a new generation of businessmen will ascend, a generation for whom 1974-75 is as dim a memory as the 1930's were to the go-go leaders of the 1960's. But until this new era arrives, we will have to take into account, in our fore-casting, the heightened degree of caution injected into the private decision-making process resulting from the failure of stabilization policies over the past decade.

This in part related to another element in the investment process where I feel that our forecasting methodology lets us down. It seems to me that the pace of technological advance is an important determinant of investment incentives. The truly innovative product or process has a reward potential far greater than a mere improvement or enhancement of existing technology. For reasons partly economic, I am sure, but also partly unfathomable, I suspect we are in a lull in technological development. Perhaps it is related to the decline in government funding of R and D in recent years, perhaps the process is in some Schumpeterian sense essentially lumpy, and we lack the tools for evening it out.

Whatever the cause, I don't observe developments in technology equivalent to the stunning impact of jet aircraft and computers in past decades. Forecasts of investment based on relationships pertaining to an earlier, technologically more innovative era are therefore somewhat suspect. Perhaps growing perception of the gravity of the energy situation will provide the stimulus to renewed rapid technological advance of wide applicability. But there's no assurance that this will have any more throw-off than did the space program, unless we work hard at the development of new technologies, the dissemination of information about them, and the development of incentives for application of technology in the production process. It's awfully difficult to factor these into a macro-forecast, yet I have the gnawing concern that we're missing an important element in our medium-term forecasting.

I apologize for having painted what is undoubtedly an overly grim picture of the state of the forecasting art, and for stipulating improvements difficult, if not impossible, to achieve. But I am struck by the fact that the responsibility resting on our efforts is greater than ever. For good and sufficient reasons, decision-makers, both public and private, are paying more attention to economists' forecasts. The financial success of the many commercialized forecasting services is testimony to the fact that we have a more attentive audience, willing to pay for the output of our profession. This imposes a greater burden on us to be worthy of our hire.

Department of the TREASURY NEWS
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STATEMENT OF THE HONORABLE LAURENCE N. WOODWORTH
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE SUBCOMMITTEE ON ENERGY AND POWER
WASHINGTON, D.C.

Mr. Chairman and members of this subcommittee, I am before you today to discuss one of the most important aspects of the National Energy Plan: the coal and alternative energy conversion program.

Description of the Program

Let me begin by describing the major aspects of the oil and gas consumption taxes and associated rebates. The program calls for excise taxes to be imposed (beginning in 1979 for industrial use and in 1983 for utilities) on business use of oil and natural gas. Oil will be taxed at a rate that will start at a relatively low level and will increase gradually until 1985. For industries generally it starts at $1.90 a barrel in 1979 (in current dollars) and goes to $5.15 a barrel in 1985. For utilities it is $2.30 a barrel starting in 1983 and increases to $2.58 by 1985.

The tax on natural gas also will start at a low rate and gradually increase. The tax on natural gas will be geared to the difference between the user's average cost of natural gas and the price of number 2 distillate oil. When the tax is fully phased in in 1985, the effect will be to make the industrial cost of natural gas equivalent to the cost per BTU of number 2 distillate oil not including the oil conservation tax. Thus, the tax will (1) eliminate the sometimes artificially low price of gas relative to oil and (2) gradually make both oil and gas more expensive relative to coal and other energy sources.

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An integral part of the coal conversion program is the rebate of taxes on coal conversion investment. To encourage conversion to nonoil and gas fuels and also to lessen the economic impact of the oil and gas consumption tax, a business may offset investment in specified energy property--such as coal-fired boilers--against the oil and gas consumption taxes paid during the year. In effect this treats the taxpayer's investment in the specified energy property as a payment of his oil and gas consumption taxes for the year. The amount of investment treated as a payment of oil or gas consumption taxes may not exceed the taxes imposed for the calendar year. However, any excess investment not applied to offset taxes may be carried over and used to offset taxes in the next year.

As an alternative to the rebate, an industrial taxpayer may choose an additional 10-percent tax credit on his investment.

Rationale for the Program

The basic rationale for the program is to provide an incentive for business users of oil and gas to switch to more plentiful energy sources such as coal. This will free up oil and gas for residential use where economic and environmental considerations often preclude conversions away from oil or gas use.

At the time the decision was made to impose the oil and gas taxes and rebates, it was recognized that the program would present problems for many taxpayers. As a result, first we have designed a program that will take effect gradually and mitigate any adverse effects. Second, we have provided a generous plan for the return of the taxes to the extent of investment in conversion equipment.

Third, we have provided a number of exemptions from the tax in the case of businesses that we feel will not be able to convert to more plentiful fuels. One of the exemptions provides that no tax will be collected for taxpayers using less than 500 billion BTUs of oil and gas per year, and the full tax is not levied until 1,500 BTUs per year are used.

A second exemption is provided for gasoline or lubricating oil. Another is provided for fuel supplies for vessels or commercial aircraft. A fourth exemption is provided for taxes imposed on farming, or the production of ammonia for fertilizer. Finally, no tax is applied to the use of oil and gas in the production of refined petroleum products except when used as a fuel.

Revenue Cost

We estimate the net effect on receipts of the program to be a cumulative revenue gain (1979-1985) of $40.9 billion. This figure is net of rebates ($44.2 billion) and reduced income tax liability due to the deductibility of the excise taxes ($5.4 billion).

Economic Impact of Program

I have been asked to comment on the economic impact of the coal conversion program and on its impact on specific industries. Secretary Blumenthal in his May 16 testimony before the Ways and Means Committee commented on the price impact of the program on various regions and industries. At that time he indicated the price impact on the six most energy intensive industries: paper, 1.7-2.6 percent; chemicals, 3.6-5.4 percent; petrochemicals, 6.2-9.3 percent; petroleum, 1.7-2.5 percent; aluminum, 4.7-7.0 percent; and steel, 1.7-2.6 percent. He also mentioned the impact on prices in the Northeast to be 1.0-1.5 percent and in the Southwest as 3.6-5.4 percent.

This material was supplied to the Treasury Department by the White House Energy Policy and Planning staff and by FEA.

It is not really possible to separate out the macroeconomic effects of the coal conversion program from the other elements of the National Energy Plan. We estimate that the plan as a whole will have no significant effects on Gross National Product or employment. The price effects of the plan are estimated as .3-.4 percent in 1978 and 1979 without the standby gasoline tax and .1-.3 percent in 1980 and 1981 on the same basis. The gasoline tax would add an additional .2-.3 percent to the rate of inflation.

That the oil and gas consumption taxes and rebate are significant elements in the National Energy Plan can be shown by the effect on imports. Of the 4.5 million barrels of oil per day saved by the entire energy program in 1985, 2.8 million barrels per day are directly attributable to the oil and gas consumption taxes and rebate.

Thus, the coal conversion program goes a long way towards achieving our goals of a less than 2-percent annual growth in energy demand by 1985, and a reduction of crude oil imports.

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Estimated Revenue Impact of the Energy Program on Fiscal Year Receipts

($ millions)

		Fiscal Years 1978	1979	1980	1981	1982	1983	1984	1985	1978-1985
1.	Auto efficiency tax (effective September 1, 1977)	500 1/	500 1/	500 1/	700 1/	900 1/	1,200 1/	1,500 1/	1,900 1/	7,700 1/
2.	Crude oil equalization tax net of rebates (effective January 1, 1978)	499 2/	1,177 2/	1,914 2/	2,108 2/	2,053 2/	1,986 2/	1,919 2/	1,860 2/	13,516 2/
3.	Standby gasoline tax (effective January 1, 1979)	3/	3/	3/	3/	3/	3/	3/	3/	3/
4.	Residential energy credits (effective April 20, 1977 through December 31, 1984):									
	a. Thermal efficiency (insulation, etc.) 4/	-360	-445	-469	-494	-520	-550	-581	-517	-3,936
	b. Solar energy	-32	-68	-75	-59	-68	-66	-81	-99	-548
5.	Business energy credits (effective April 20, 1977 through December 31, 1982):									
	a. Thermal efficiency	-306	-307	-349	-428	-488	-317	--	--	-2,195
	b. Cogeneration 5/	-52	-62	-106	-157	-214	-139	--	--	-730
	c. Alternative energy 6/	-4	-9	-19	-33	-46	-28	--	—	-139
6.	Oil and natural gas consumption taxes -- rebate for investment in alternative energy facilities:									
	a. Tax, net of rebate: electric utilities (effective January 1, 1983)	--	--	--	--	--	86	123	101	310
	b. Tax, net of rebate: other businesses (effective January 1, 1979)	--	1,403	3,444	4,169	4,918	6,529	8,278	11,862	40,603
7.	Tax incentives for certain energy resource supplies (effective April 20, 1977):									
	a. Expensing of intangible drilling costs, geothermal discovery and development	-5	-10	-17	-21	-20	-20	-32	-54	-179
	b. Limitation of minimum tax on intangible drilling costs to amount in excess of net related income	-19 7/	-32	-37	-42	-48	-56	-65	-74	-373
8.	Aviation fuels tax revision (effective October 1, 1977)	44	47	50	55	61	66	71	76	470
9.	Revision of tax on gasoline for use in motorboats (effective October 1, 1977)	1	4	4	4	4	4	4	4	29
10.	Repeal excise tax on buses (April 20, 1977)	-13	-9	-9	-9	-9	-9	-9	-9	-76
	Total, excluding standby gasoline taxes	253	2,189	4,831	5,793	6,523	8,686	11,127	15,050	54,452

Office of the Secretary of the Treasury, Office of Tax Analysis

May 26, 1977

1/ Taxes shown will be fully rebated on the expenditure side of the budget.
2/ Taxes shown are net of refunds and income tax rebates and offsets and will be fully rebated on the expenditures side of the budget.
3/ Tax collected, if any, will be fully rebated. Collections after income tax rebate each year will range between zero and the following maximum allowable amounts: 1979, $0.9 billion; 1980, $2.0 billion; 1981, $3.2 billion; 1982, $4.4 billion; 1983, $5.6 billion; 1984, $6.8 billion; and 1985, $8.0 billion.
4/ In order to achieve the desired level of conservation, it may prove necessary to have mandatory standards affecting homes sold. The absence of any experience with the insulation incentives provided by this bill makes it difficult to estimate the level of insulation investment. The estimates presented here are relatively conservative. It is assumed that mandatory standards, effective January 1, 1980, would give rise to the following tax loss:

	Fiscal Years 1980	1981	1982	1983	1984	1985	1980-1985
Additional revenue effect	-43	-302	-395	-532	-835	-835	-2,942

5/ Includes effects of elimination of declining block rates.
6/ Coal conversion and solar equipment.
7/ For calendar year 1977, or fiscal year 1978, this provision is included in "The Tax Reduction and Simplification Act of 1977."

Oil and Natural Gas Consumption Taxes 1/

Relationship of Tax without Investment Rebate to Final Tax

($ millions)

	Fiscal Years							1979-1985
	1979	1980	1981	1982	1983	1984	1985	
Tax without rebate for qualified investment	2,745	7,555	10,499	12,467	16,467	19,235	21,566	90,534
Qualified investment rebate	-1,201	-3,675	-5,736	-6,880	-8,974	-9,700	-8,040	-44,206
Reduced industry income tax 2/	-141	-436	-594	-669	-878	-1,134	-1,563	-5,415
Net effect on receipts	1,403	3,444	4,169	4,918	6,615	8,401	11,963	40,913

Office of the Secretary of the Treasury
Office of Tax Analysis

May 13, 1977

1/ Industry and utility taxes.

2/ Results from less than full pass-through of tax to prices.

Crude Oil Equalization Tax

Relationship of Gross Excise to Energy Credits and Payments

($millions)

	Fiscal Years								1978-
	1978	1979	1980	1981	1982	1983	1984	1985	1985
Gross crude oil equalization tax collections	2,833	7,199	11,866	13,539	13,193	12,770	12,337	11,956	85,693
Refund for residential heating oil ..	-48	-362	-667	-957	-937	-909	-878	-849	-5,607
Reduced refiners' income tax 1/	-306	-968	-1,651	-2,038	-1,989	-1,927	-1,862	-1,803	-12,544
Estimated per capita energy credits .	-1,980	-4,692	-7,634	-8,436	-8,214	-7,948	-7,678	-7,444	-54,026
Net effect on receipts	499	1,177	1,914	2,108	2,053	1,986	1,919	1,860	13,516
Amount available for energy payments (outlays)	499	1,177	1,914	2,108	2,053	1,986	1,919	1,860	13,516

Office of the Secretary of the Treasury
Office of Tax Analysis

May 26, 1977

1/ Results from less than full pass-through of tax to prices.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE May 27, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 2,001 million of 13-week Treasury bills and for $ 3,101 million of 26-week Treasury bills, both series to be issued on June 2, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 1, 1977			26-week bills maturing December 1, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.746	4.961%	5.09%	97.387	5.169%	5.38%
Low	98.733	5.012%	5.15%	97.370	5.202%	5.42%
Average	98.738	4.993%	5.13%	97.375	5.192%	5.41%

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 86%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 34,115,000	$ 29,115,000	$ 18,600,000	$ 12,900,000
New York	3,179,235,000	1,532,435,000	4,634,560,000	2,691,620,000
Philadelphia	17,620,000	17,620,000	8,950,000	8,950,000
Cleveland	26,820,000	26,820,000	8,040,000	8,040,000
Richmond	35,235,000	32,235,000	10,020,000	8,020,000
Atlanta	30,065,000	30,065,000	15,975,000	13,835,000
Chicago	245,340,000	98,340,000	224,225,000	50,225,000
St. Louis	49,530,000	33,530,000	25,770,000	8,770,000
Minneapolis	12,630,000	6,630,000	13,150,000	10,150,000
Kansas City	38,590,000	33,590,000	13,085,000	13,085,000
Dallas	73,895,000	73,895,000	20,285,000	19,285,000
San Francisco	309,220,000	86,700,000	492,920,000	255,720,000
Treasury	190,000	190,000	10,000	10,000
TOTALS	$4,052,485,000	$2,001,165,000 a/	$5,485,590,000	$3,100,610,000 b/

a/ Includes $ 310,855,000 noncompetitive tenders from the public.
b/ Includes $ 110,155,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
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REMARKS OF UNDER SECRETARY ANDERSON
TO THE U.S. SAVINGS BONDS
NATIONAL AWARDS CONTEST WINNERS

It is a great pleasure to be here with you today. Since we in the Treasury always seem to be selling something -- whether it's Savings Bonds or economic programs -- I am fascinated by any group with the editorial means of reaching and influencing a lot of people. And certainly the 20,000 company publications of this country do communicate to a huge audience. But I know you are here today not because of quantity but because of quality -- outstanding quality in the stories and editorials, in the photos and posters and exhibits and in all the other messages you create and produce.

We are here to take official notice of the superb job that each of you did last year in support of the Savings Bond program. In doing so, I would like also to express my appreciation, on behalf of the Treasury Department, to all your colleagues who devoted their efforts and abilities to our campaign. The fact that you faced the keen competition of so many skilled communicators only adds distinction to the awards you are to receive.

If you wonder why we make such a fuss over you, let me remind you of a few facts.

Payroll savings are the backbone of the Savings Bond sales effort. They account for 60 per cent of all bond sales. About 9.5 million employees buy Series E bonds regularly that way. Last year, bonds bought through payroll savings totaled more than $4.5 billion. And the trend so far this year is up.

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It has taken many years to reach this high level and we hope to do even better. Twenty-seven years ago, when company communicators were first recognized for reaching employees with internal payroll savings promotions, the proportion of bonds bought through payroll savings was only 27 per cent of the total sold. The rest were over-the-counter sales, which are much less predictable.

You deserve credit for the growth of payroll savings in the past because, as we are well aware, you are the Treasury's most direct link with the individual employee.

Now let me talk about the future. We intend to expand our sales of Savings Bonds through payroll deductions and over-the-counter sales for several very important reasons. First, achievement of our goal of sustained non-inflationary growth requires a substantial increase in national savings and investment. We must improve our self-reliance in energy. We must meet the needs of our government programs and add to the economy's stock of productive plant and equipment. To do this, we as a nation need to save more and consume less. One of the best ways of doing that is through a stable long-term consumer savings program such as the purchase of U.S. Savings Bonds.

Second, increased Savings Bond purchases are important in helping us to manage the Federal debt. At the beginning of this year, the public debt totaled more than $653.5 billion. About $244 billion of that was held by Federal Reserve banks and government trust accounts, such as social security and unemployment trust funds. That part of the debt is stable and presents no problem. It's the remaining $409 billion that worries us. This is in private hands, and includes nearly $308 billion in marketable securities, such as Treasury bills and notes. Another $29 billion is in the form of nonmarketable securities, and $72 billion is in Series E and H bonds and savings notes.

That $72 billion is now just under 18 per cent of the privately held portion of the public debt. Only two years ago, Savings Bonds and notes represented 23-1/2 per cent. We must reverse this trend.

Savings Bonds broaden and stabilize the government's debt base. Past experience indicates that the average Savings Bond sold today will not be redeemed for nearly six years--more than twice as long as marketable issues the Treasury sells. Only about one dollar in every ten invested in Savings Bonds is cashed in every year.

As you can see, Savings Bonds are critically important to responsible debt management.

Third, Savings Bonds are a good investment. No other system enables most people to save as little as a few dollars every payday safely and systematically with automatic deductions that wage earners almost never miss. Also, the payment of taxes on the interest on these savings can be deferred. Such small savings are what build nest eggs that guarantee personal security or can be invested later on to build America. For most Americans, including sophisticated investors, this is an excellent way to develop financial independence.

With help from such investments--investments in our country, investments that will help build the massive amounts of capital that we need to cope with all of our current and future economic problems--we will be able to continue to insure our <u>nation's</u> financial stability and independence.

So you can see how important it is to persuade the nation's wage earners to sign up for, or increase their purchases of, Savings Bonds through payroll deductions. The country's economic stability depends on them; we simply cannot do without them. But then, if you didn't already know that, you would not have been able to continue to do the splendid job of friendly persuasion that you have. You are and always will be our key to the nation's labor force.

<u>That's</u> why we make such a fuss over you.

There is just one more thing I want to say. It was reported, the other week, that the average American's personal income rose over 9 per cent last year--well above the inflation rate. At the risk of sounding like an overanxious prospector, it seems to me that we have another golden opportunity before us--us at Treasury, you back home--to get those already enrolled in the program to increase their purchases of Savings Bonds (especially since we expect the Administration's economic policies to make even further gains in raising the net income of the average American). Sometimes those previously worked mines yield additional bonanzas.

For example, once the White House staff remembered the value of payroll savings, it increased its participation from 38 per cent on April 1 to 88 per cent by mid-May--a 49 per cent gain in only six weeks. President Carter himself strongly supports the program.

Once again, on behalf of everyone here at Treasury, let me thank you for your extraordinary achievements in communicating the virtues of the Savings Bond program. In using your media and your talent so effectively, you are serving both your community and your country. I congratulate you as winners of the 1977 Savings Bond National Awards.

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TRANSCRIPT OF PRESS CONFERENCE OF
TREASURY SECRETARY W. MICHAEL BLUMENTHAL AT THE
JAPAN PRESS CLUB, TOKYO, JAPAN
May 25, 1977

MR. BLUMENTHAL: I might just say by way of introduction, that it has been a great pleasure to be able to come back to Japan. I have visited Japan many times on different assignments but this is the first visit that I am making in my new assignment as the Secretary of the Treasury. I appreciated the opportunity to visit with and speak to the members of the International Monetary Conference and I also had an opportunity to visit Prime Minister Fukuda and bring him a message of greeting from President Carter, as well as to meet with other members of the Japanese Cabinet including the Minister of Foreign Affairs, the Minister of Finance and the Minister of Miti. I have appreciated the opportunity of being here and I have learned a great deal.

MR. HARA: (ASHAI SHIMBUN) At the International Monetary Conference Mr. Secretary, you told the audience that Japan as the United States, should be prepared to go into deficit on current account. Did you say that after and because you had obtained some impression after your meeting with Prime Minister Fukuda and others, that Japan would be ready to go into that position or did you say it because you did not obtain such impression?

MR. BLUMENTHAL: The statement which I made in my speech has nothing to do with my visit with Prime Minister Fukuda. The statement in my speech is a reflection of the agreement which was obtained at the London Summit. At the London Summit, the seven heads of governments all agreed that the economically strong advanced countries, including the United States, Japan and Germany, to cite some, should and must make a contribution to provide financial stability by reflating their economies and helping to absorb the deficits of the weaker countries, and the weaker countries should actively pursue programs of stabilization so as to reduce if not eliminate their current account deficits. It was that agreement which I had in mind when making my statement, at the International Monetary Conference.

MR. UAMANOUCHI: (NHK) According to a survey by Senator Humphrey, the American commercial banks like Chase and City Bank have extended a large amount of credit to countries like Mexico, Brazil, Argentina which are now bad risks. Do you think that the bad risk involved and the inability to service these borrowings, may trigger a 1930-like instability. That is question number one, sir.

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Question number two refers to the Witteveen Scheme. Have countries like Saudi Arabia, Kuwait and Arab Emirates agreed to make financial contributions to this scheme?

MR. BLUMENTHAL: On the first question it is my impression that the lending of U.S. commercial banks to various foreign countries including the ones that you mentioned in the question, has not up to this point resulted in any over-extension by these banks. Clearly some countries are closer to the limit of their borrowing capacity than others, but up to this point, the loans of American commercial banks are not excessive and the situation is quite sound. I would also not wish to accept the explicit or perhaps implicit part of your question which indicates that a country like Brazil or Argentina is a bad lending risk. Clearly, these are large countries with many resources, there have been virtually, there have been really no defaults that I can think of with regard to any of these countries. We have had more defaults on loans inside the United States on some domestic lenders, many, many more than we have had from foreign lenders, so I do not really think that there is a dangerous situation. Of course the banks must be careful so that as more loans are required they carefully evaluate the situation. Today in my speech I suggested ways in which we can all work together to make sure that they are careful in the future.

Now, as to the second question, the Saudi Arabian Government has indicated to us their intention to participate in the so-called Witteveen facility. We do not yet, at least at the time I left Washington, we did not yet have any official information as to the size of their contribution. As you know, we are hoping that the Witteveen facility will be based on the principle of a fifty-fifty participation from the OPEC surplus countries on the one hand and the advanced industralized countries on the other. So we do know that Saudi Arabia will participate but we do not yet know the amount. We hope that Kuwait and the Arab Emirates will follow along in the wake of Saudi Arabia, but again their contribution will depend, I am sure, on the contribution of Saudi Arabia. We have some indications that other strong OPEC countries, financially strong OPEC countries such as Venezuela and Iran and probably one or two others will be making some contribution.

MR. WOOD: (DEPTHNEWS) In your speech you applied the term "political economy" to the problem of the balance of payments. I wonder if you think that IMF's increasing role in deciding how balance of payments will finally be distributed and the conditions that will be attached to it, means that the IMF is developing into a sort of World Government and if so, whether you think it is a good idea or not.

MR. BLUMENTHAL: If I recall correctly, I applied the term "political economy" not in relation to the IMF, but in describing the problems that private lenders face and in my view, may increasingly face in making decisions on loans to various entities in foreign countries, entities which may not always be entirely private but may be semi-governmental or even governmental agencies, and I made the point that the assessment of the risk, therefore, involves not only economic considerations but also a judgment as to the general, political stability within that country because clearly that is a part of the overall risk.

As to the IMF's role in this whole process, I certainly do not believe that there the slightest risk of anything happening along the world government lines that you asked about. The IMF's task, and that is very carefully watched over by the member countries and by the executive directors who represent those countries, is to provide temporary financial assistance and to help in the planning of stabilization programs and that is done purely from an economic point of view. The IMF must get involved, as I understand it, in any way in any political considerations, but looks purely at the stabilization policies that are required in order to achieve certain goals, economic goals. It stays strictly out of politics and we certainly hope that it will continue to do so.

MR. (INAUDIBLE): In a world in which there are necessarily some countries running deficits in order to counter-balance the surpluses being run by other countries, isn't there necessarily some activity or perhaps some policy in the question of what level of deficit is appropriate for any individual country?

MR. BLUMENTHAL: Well, each country decides its own economic policies and what is considered appropriate. That clearly is a matter of judgment and subjective to that extent. Different observers might recommend different policies and it is the government of that country that must make that decision.

The political part of your question, similarly involves a government making a decision about what is politically acceptable in a given situation. And it means a balancing of many factors in that regard. That is true in all countries. So, yes, for each individual country the judgment is both subjective and political as well as economic. That is clear.

MR. (INAUDIBLE): Mr. Secretary, during your speech at the luncheon of the Japan Society, you said that Japan needs to demonstrate to the world that it wants to increase imports, (question inaudible)
Can you tell us, if in your talks formal or informal, whether you have received any indication of assurance from the Japanese Government on such a ruling?

Secondly, whatever the case, what personally you think would be tangible or positive evidence of such a role by Japan?

MR. BLUMENTHAL: Well, both at the meetings which took place in Washington at the time of the visit of Prime Minister Fukuda to Mr. Carter, as well as at the London conference, the basic principles, that involve stronger countries like Japan and the United States making a special effort in order to help the world economic environment, were strongly endorsed by the Japanese leaders as well as by President Carter and we are very happy that there is such a wide measure of agreement between us on this point and that agreement was shared by the seven heads of state at London.

During my visit here, I did have an exchange of views with various of our Japanese friends, as well as the ministers on the general problem and I know that they are very concerned to do what they can so that Japan makes a contribution toward the recovery of the world economic system. And we are in full agreement on this point. I was assured that a real effort in that direction would be made. Of course these things take time, but there is no intention to restrict the role which Japan will play in that regard.

The evidence that would demonstrate that is very clear. It would be, if the current account position of Japan were in balance or in deficit, as a result of the various factors that influence it, including the trade balance. Obviously the trade balance is likely to be positive but there are other things that come into play. If the current account balance would move in the direction of balance of deficit, that would be a very good indication that things are working out as we all hope and plan.

MR. WEEKS: Question inaudible.

MR. BLUMENTHAL: On the first question, the answer is that I was not told that hope has been given up on achieving the current account target.

On the second question, I don't know how the impression could have arisen, and I want to correct it if it did, that there is implied in it something other than a fifty-fifty split, between the OPEC surplus countries on the one hand and the advanced industrialized countries on the other. We do hope that the Witteveen facility will be established on that basis and can be established on that basis.

On the third question on conditionality, what I had in mind, primarily, is on the one hand to emphasize that the conditionality in the IMF lending is very important in a sense that it helps countries re-establish financial stability which they need in order to manage to operate on their own. On the other hand, there are various degrees of conditionality. The first tranche is almost automatic, and the second, third and fourth tranches have more conditionality attached to them and I was merely indicating that some prudence has to the exercised in determining how much conditionality is required particularly for countries that may be in a great deal of difficulty. So there are variations and the amount of conditionality has to be appropriate to the circumstances. They should be applied with flexibility.

MR. HEIL SCHER: Mr. Secretary, in the process of trying to stabilize the situation, what role do you think the strong currency, in particular, the yen and the mark, should play in the process, especially in the short term of next year or so. Are you fairly satisfied with the current state of float, that is the point of which it has gone, or do you expect or hope that it should continue on a not too steep but still on a trend in the future? (USIS TOKYO)

MR. BLUMENTHAL: Well, exchange rate policy and exchange rate developments are very important in the adjustment process. We are operating in a world of freely floating exchange rates and it is therefore important that the currencies of the stronger countries and the yen and the deutschemark fit that category -- reflect the reality of the extermal position of those countries. I am satisfied to see that has occurred in the sense that these currencies have tended to appreciate, which is as it should be. I would certainly think that is a freely floating system, if the external conditions continue very strong, there could be some further appreciation of these currencies and in that way they would make their contribution toward correcting, helping to correct some of the unbalances that exist.

MR. WELLS: Mr. Secretary, how long can the United States carry the burden of a trade deficit of twenty to twenty-three billion dollars without causing disruptions on the foreign exchange market?

MR. BLUMENTHAL: As I mentioned in my speech, the position of the dollar is remaining relatively strong because I think it is generally recognized that the present situation is a temporary one and that is understandable to most people on the basis of the present situation. In the first place, the trade deficit is so high in 1977 because of the unusually heavy demand for energy in the early part of the year because of the unusually bad weather.

Secondly, the trade balance, the deficit is so great because the American economy is ahead of the other economies in terms of its recovery. The growth rate of the U.S. economy at the moment, is larger than other economies so that there is more import demand and there is less export demand for American products, than will be the case when other countries catch up in their economic growth and development. These are two factors that will certainly correct themselves in succeeding years. When they do, it will also mean that the current account deficit will be smaller or it will be eliminated. Therefore, we don't foresee this as a permanent situation.

MR. KUNIMASA: Japan's large surplus in her trade balance has been the target for much criticism but Japan as a country needs large trade surpluses to finance its balance of payments deficits, current account deficits, which is structural. But even then, even with that argument, the balance of trade surplus sounds too big and it has been said that it is impossible to reduce this surplus. But again, may I ask, do you really believe that it is possible for Japan to reduce the current account surplus?

Secondly, what do you think are the factors contributing to the massive magnitude of balance of trade surplus of Japan?

MR. BLUMENTHAL: I certainly agree that Japan may run a surplus on trade accounts and still have a satisfactory current account situation because some of the surplus is needed to finance the invisibles. I agree with that, and I understand that.

Secondly, to the first question, yes, I do believe that it is possible for the current account not to be in substantial surplus. For that to happen, the stimulation of domestic demand in Japan would have to take effect so that the growth of the Japanese economy would come about because of added consumption within Japan and not primarily because of export-led growth. That would be one reason.

Secondly, there are other possible ways in which the current account surplus could be reduced. It is quite possible that there could be further appreciation of the yen and that would have an effect.

Third, there might well be other steps including foreign aid which would have a way of reducing the current account surplus. There are a number of others, but I have just mentioned several.

As to the other question as to what causes the large surplus on trade account? It is of course, the strong, competitiveness of Japanese products in world markets. It is their good quality and their attractive price and the fact that they are well adapted to the markets that they seek to serve and it is a great tribute to the strength and ingenuity of the Japanese manufacturers that their products are so much in demand and are so competitive in the world markets and that causes so many foreign sales to occur.

MR. JAMESON: Mr. Secretary, would it be helpful, you think, that the yen be used as a currency in global trading and if you do think so, do you think that the Japanese Government is proceeding along those lines?

MR. BLUMENTHAL: In regards to the first part of your question, I think it is only natural and normal and to be expected, that as the importance of Japan on the international economic scene and in world trade grows, the yen will be an increasingly important currency of world significance and will be used more extensively. I think that is to be expected and quite proper.

As to the second part of your question, I have no criticism in regard to the Japanese Government policies in that area.

MR. FORBES: Mr. Secretary, not too long ago, when countries had large balances of payments or deficits, and currencies were strong or weak, interest rates were used for the adjustment process, at least in part. I haven't heard anyone referring to interest rate movement. Is that no longer an important field of policy?

MR. BLUMENTHAL: Well, in the first place in a system in which the exchange rates are floating freely, the relative demand and supply for an individual currency should bring about the needed correction of imbalances. Perhaps this has been made somewhat more difficult because of the rapid rise of the price of energy which has brought about imbalances that are not so easy to correct. But even in the present situation, and that deals with the second part of your question, in the present situation, the commitments which the governments have undertaken, which involve for the strong governments -- whenever I use the word strong, I mean economically strong governments -- to stimulate their economies and for the economically, temporarily not so strong governments to bring about stabilization policies, clearly imply that in their domestic policy they will be following fiscal and monetary policies, that are still suitable to stimulation or stabilization. An interest rate policy forms an important part of that. Therefore, I would not say that even under the present system, the role of interest rates in the setting of domestic policy, which has impacts on the international adjustment process, has by any means been ignored.

MS. (INAUDIBLE): Mr. Secretary, you talk about flexibility in exchange rates and surplus of advanced countries. I wonder if you could name names as far as flexibility of exchange rates is concerned. (Question inaudible)

MR. BLUMENTHAL: I don't think it would be useful if I went into individual country cases and analyze them from that point of view, I don't think that will be a useful thing to do.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 31, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,000 million, to be issued June 9, 1977, as follows:

91-day bills (to maturity date) for approximately $2,000 million, representing an additional amount of bills dated March 10, 1977, and to mature September 8, 1977 (CUSIP No. 912793 J9 8), originally issued in the amount of $3,403 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,000 million to be dated June 9, 1977, and to mature December 8, 1977 (CUSIP No. 912793 L6 1). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing June 9, 1977. This offering will provide for a net pay-down for the Treasury of about $706 million as the maturing issues are outstanding in the amount of $5,706 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,800 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, June 6, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on June 9, 1977, in cash or other immediately available funds or in Treasury bills maturing June 9, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

OPTIONAL FORM NO. 10 5010-106
MAY 1962 EDITION
GSA GEN. REG. NO. 27

UNITED STATES GOVERNMENT

Memorandum

TREASURY DEPARTMENT
Washington, D.C.

TO : MEMORANDUM FOR THE PRESS

DATE: May 31, 1977

FROM : Treasury Public Affairs

SUBJECT:

Secretary Blumenthal will hold a general news conference at 10:30 a.m. Thursday, June 2, 1977, in Room 4121, Main Treasury.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE

Contact: L.F. Potts
Extension: 2951
May 31, 1977

TREASURY ANNOUNCES FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE ON PRESSURE SENSITIVE PLASTIC TAPE FROM ITALY

The Treasury Department announced today that "pressure sensitive plastic tape measuring over one and three-eighths inches in width and not exceeding four mils in thickness," from Italy (except tape manufactured by Plasturopa SIPA S.a.S.)is being sold at less than fair value within the meaning of the Antidumping Act. Sales at less than fair value generally occur when the price of the merchandise sold for export to the United States is less than the price of comparable merchandise sold in the home market. Interested persons were offered the opportunity to present oral and written views prior to this determination.

Treasury's investigation in this case revealed sales at less than fair value by all Italian firms investigated except one, Plasturopa. That firm was found to have had no sales at less than fair value and is therefore excluded from this determination.

The case, under the Antidumping Act, has been referred to the U.S. International Trade Commission which must determine within three months whether a U.S. industry is being, or is likely to be, injured by the imports. Dumping occurs only when both sales at less than fair value and injury have been determined.

If the Commission finds injury, a "Finding of Dumping" will be issued and dumping duties will be assessed on an entry-by-entry basis.

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Imports of pressure sensitive plastic tape from Italy during the period December 1975 through June 1976 were valued at roughly $2.1 million.

Notice of this action will be published in the <u>Federal Register</u> of May 31, 1977.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. May 31, 1977

TREASURY OFFERS $2,000 MILLION OF 9-DAY BILLS

The Department of the Treasury, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 9-day Treasury bills to be issued June 7, 1977, representing an additional amount of bills dated December 16, 1976, maturing June 16, 1977 (CUSIP No. 912793 G7 5).

The bills will be issued on a discount basis under 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 all Federal Reserve Banks and Branches up to 1:30 p.m., Eastern Daylight Saving time, Friday, June 3, 1977. Tenders will not be received at the Department of the Treasury, Washington. Wire and telephone tenders may be received at the discretion of each Federal Reserve Bank or Branch. Tenders must be for a minimum of $10,000,000. Tenders over $10,000,000 must be in multiples of $1,000,000. The price on tenders 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 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. Settlement for accepted tenders in accordance with the bids must be made at the Federal Reserve Bank or Branch on June 7, 1977, in immediately available funds.

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 upon sale or redemption at maturity during the taxable year for which the return is made.

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

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 1, 1977

CHARLES I. KINGSON APPOINTED
INTERNATIONAL TAX COUNSEL

Secretary of the Treasury W. Michael Blumenthal today announced the appointment of Charles I. Kingson as International Tax Counsel and Director of the Office of International Tax Affairs.

Mr. Kingson, 39, has been Deputy International Tax Counsel since September 1976. Prior to joining Treasury, he had been a partner in the New York law firm of Willkie Farr & Gallagher. Mr. Kingson succeeds David S. Foster, who has resigned as International Tax Counsel and is currently a consultant to the Treasury Department for international tax matters.

As International Tax Counsel, Mr. Kingson will be the principal legal advisor to Assistant Secretary for Tax Policy Laurence N. Woodworth 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. The Office of International Tax Counsel is one of four major units under the Assistant Secretary for Tax Policy. The other units are the Office of Tax Legislative Counsel, which has similar responsibilities for domestic tax matters; the Office of Tax Analysis; and the Office of Industrial Economics.

As Director of the Office of International Tax Affairs, Mr. Kingson will be responsible for the Treasury Department's income and estate tax treaty program and for the participation of the Treasury Department in the activities of the Committee on Fiscal Affairs of the Organization for Economic Cooperation and Development (OECD). The Office of International Tax Affairs was established in March 1976 to provide

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a focal point for the handling of international tax matters. Personnel for the Office consist of lawyers in the Office of International Tax Counsel and international economists in the Office of Tax Analysis.

A native of New York City, Mr. Kingson received the A.B. degree from Harvard College in 1959 and the LL.B. degree from Harvard Law School in 1963. He is married to the former Nancy Ellen Sharf. They have a daughter, Jennifer.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: R.B. Self
Extension: -8585
June 2, 1977

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES TWO ACTIONS UNDER COUNTERVAILING DUTY LAW ON IMPORTS OF HANDBAGS FROM KOREA AND THE REPUBLIC OF CHINA

The Treasury Department announced today its final determination to impose countervailing duties on imports of handbags from certain manufacturers in the Republic of Korea and the Republic of China, but for a majority of exporters no such duties would be imposed.

Notice to this effect will be published in the Federal Register of June 3, 1977.

Under the Countervailing Duty Law the Treasury is required to assess an additional Customs duty that is equal to a "bounty or grant" (subsidy) found to be paid on imported merchandise.

The investigation revealed that three manufacturers in the Republic of China (Taiwan) benefited from preferential financing and income tax holiday programs. Countervailing duties will be collected on handbag shipments from those manufacturers. Other Taiwanese handbag exporters received benefits in connection with these programs, but the subsidy was too inconsequential to have any meaningful impact on the value of the imports.

In the Korean case, Treasury found that 28 Korean handbag manufacturers benefited from certain tax and preferential financing subsidies. Countervailing duties will be collected on handbag shipments from those manufacturers. All other Korean manufacturers received benefits in an amount considered to be too inconsequential to merit countervailing duties.

Imports of handbags from the Republic of China during 1975 were valued at roughly $17.5 million. During the same period imports of handbags from Korea were valued at approximately $28.5 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Marjory E. Searing
Ext. 566-2611

FOR IMMEDIATE RELEASE June 3, 1977

Trade and commercial discussions between the United States and the Soviet Union will get underway in Washington June 6 and continue into the following week of June 13.

The meetings involve government-to-government discussions during the first week, including the Sixth Session of the Joint U.S.-U.S.S.R. Commercial Commission co-chaired by Secretary of the Treasury W. Michael Blumenthal and Soviet Minister of Foreign Trade Nicolai S. Patolichev. Secretary of Commerce Juanita Kreps is vice chairperson of the U.S. delegation.

Representatives of United States private business and Soviet foreign trade organizations -- the U.S.-U.S.S.R. Trade and Economic Council -- meet June 13, with Secretary Blumenthal, who is an honorary director, addressing the Council at its opening session.

The Commercial Commission was established in 1972 to promote mutually beneficial commercial relations between the United States and the Soviet Union. The Council was established in 1973 to improve trade relations. It has more than 200 U.S. corporations and 115 Soviet foreign trade organizations as members.

The U.S.-Soviet Working Group of Experts meets June 6 and 7 at the Department of the Treasury to exchange information and forecasts of basic economic, industrial, and commercial trends, and to develop plans for further exchanges. Treasury Under Secretary for Monetary Affairs Anthony M. Solomon and Soviet Deputy Minister of Foreign Trade Aleksey N. Manzhulo are co-chairmen. The Working Group of Experts was established in 1974 under the Long-Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation.

The U.S.-U.S.S.R. Commercial Commission opens its session at 9:30 a.m., Thursday, June 9, at the Department of Commerce, with Secretary Blumenthal presiding. Following statements by Secretary Blumenthal and Minister Patolichev, Secretary of Commerce Kreps will review the present status of Soviet-American trade and economic relations. Subsequently, a report of the activities of the U.S.-U.S.S.R. Trade and Economic Council will be given by the Council's President Harold Scott.

Working units will meet in the afternoon of June 9 and the morning of June 10. One of these groups will discuss measures to facilitate efforts of American businessmen in the Soviet Union and Soviet commercial representatives in the United States. Another group will discuss major industrial projects, including projects in the Soviet Union involving the participation of U.S. firms, and the related problems of financing and long-term industrial and technical cooperation.

The meeting of the Commission on Friday morning, June 10, will include a report by the Working Group of Experts. Later, Secretaries Blumenthal and Kreps will hold a press conference scheduled at 3:00 p.m., at the Department of the Treasury.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 3, 1977

RESULTS OF TREASURY'S 9-DAY BILL AUCTION

Tenders for $2,002 million of 9-day Treasury bills to be issued on June 7, 1977, and to mature June 16, 1977, were accepted at the Federal Reserve Banks today. The details are as follows:

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

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	99.870	5.200%	5.28%
Low -	99.869	5.240%	5.32%
Average -	99.869	5.240%	5.32%

Tenders at the low price were allotted 99%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

Location	Received	Accepted
Boston	$ 70,000,000	$ 59,400,000
New York	7,435,000,000	1,570,150,000
Philadelphia	---	---
Cleveland	50,000,000	49,700,000
Richmond	50,000,000	9,900,000
Atlanta	---	---
Chicago	1,300,000,000	168,800,000
St. Louis	70,000,000	29,800,000
Minneapolis	10,000,000	---
Kansas City	40,000,000	30,000,000
Dallas	---	---
San Francisco	435,000,000	84,500,000
TOTAL	$9,460,000,000	$2,002,250,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 10:00 A.M.
June 6, 1977

STATEMENT OF DAVID MOSSO
FISCAL ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS ON H.R. 5675

Mr. Chairman, I am happy to appear before this Committee to present the Treasury Department's views on H.R. 5675 which would authorize the Treasury to invest, for cash management purposes, in obligations of Treasury tax and loan depositaries and in obligations of the United States. The bill also provides expanded authority for the Treasury to use savings and loan associations as depositaries.

For the past two and one-half years the Treasury has actively sought authority to invest its operating cash on a short-term basis. We fully support the bill under consideration.

Need for Investment Authority

H.R. 5675 would give the Treasury an option already generally available to state and local governments, to corporations, and to other institutions -- the option to invest temporarily excess operating cash. The Treasury has no present authority to invest surplus cash except in time deposits, and the 30-day minimum maturity for such deposits makes that course impracticable.

A Treasury study completed in 1974 concluded that the Government was losing some $260 million of potential earnings annually on tax and loan accounts. As a result of that study, the Treasury proposed legislation to permit the direct investment of operating balances. As an interim procedure pending enactment of the proposed investment authority, the Treasury adopted a stop-gap, indirect way of recouping some of the potential earnings on its balances.

Indirectly, earnings are achieved (1) by keeping as much cash as is feasible in the Federal Reserve Banks where it is invested by those banks in the normal course of their operations and returned to the Treasury in the form of Federal Reserve System earnings, and (2) through the imputed value of services provided by commercial banks maintaining tax and loan accounts (those services consist of handling tax deposits and issuing and redeeming savings bonds).

Exhibit 1 shows the change that has taken place, since this policy was adopted in 1974, in the distribution of cash between the Treasury tax and loan accounts at commercial banks and the Treasury accounts at Federal Reserve Banks. Before 1974, an average of about 80 percent of Treasury operating cash was held in tax and loan accounts and 20 percent in Federal Reserve Banks. Since 1974, the proportion has just about reversed.

Indirect Earnings Procedures

Let me explain what the present procedures have gained for the Treasury by way of indirect earnings.

During calendar year 1976, Treasury operating cash balances averaged $8.8 billion, consisting of $7.3 billion at the twelve Federal Reserve Banks and $1.5 billion at 14,000 commercial banks in tax and loan accounts.

Indirect earnings generated by Treasury balances at Federal Reserve Banks during 1976 are estimated to be $365 million. This is based upon a rate of 5 percent, the average rate during 1976 on repurchase agreements which are the principal instruments of Federal Reserve open market operations.

Indirect earnings on tax and loan balances at commercial banks in 1976 were $64 million, the estimated value of services rendered by banks without a fee. This translates to a rate of 4.2 percent when computed on balances as recorded on the books of the Treasury. However, there is estimated to be an average of over $1.0 billion of tax deposit advices in transit, for more than the normal one-day delivery time, between commercial banks and Federal Reserve Banks. When that is figured into the calculation, the rate of return on tax and loan balances is reduced to about 2.3 percent.

Disadvantages of Current Procedures

Now let me explain what the Government is giving up because of the absence of the investment authority.

The first consequence is that we have lost a significant monetary tool. The present stop-gap cash management procedures have subverted one of the basic purposes of the tax and loan account system -- to insulate the nation's monetary system from the impact of irregular Treasury cash flows.

Treasury cash flows affect the level of bank reserves to the extent that the Treasury balance at the Federal Reserve Banks changes -- an increase in the Treasury balance lowers bank reserves and a decrease raises reserves. The original objective of the tax and loan system was to keep a small, stable Federal Reserve balance and to let the volatile swings in Treasury cash flows fall in the tax and loan balance. This eliminated the whipsawing effect on bank reserves of fluctuating Treasury cash flows. Current procedures have transferred those fluctuations directly to the Federal Reserve balance and, therefore, to bank reserves.

To minimize the disruptive effects of these induced swings in bank reserves, the Federal Reserve is forced to compensate through open market operations. Exhibit 2 shows, by quarter, swings in Treasury operating cash since 1970. As you can see, before 1974 the amplitude of fluctuations was concentrated mostly in the tax and loan accounts. After 1974, it has been concentrated in the Federal Reserve balance.

A second consequence of our inability to invest directly is that our stop-gap procedures have caused confusion and uncertainty in the money markets, put unnecessary pressures on the Government securities market, and made it considerably more difficult for the Federal Reserve System to achieve its monetary objectives. Although there is no way to measure the impact, it is clear that a toll has been exacted in the form of higher interest rates, higher transaction costs, and a generally adverse impact on the nation's economy.

A third consequence is that the method of compensation for services performed for the Treasury by commercial banks is inequitable to individual banks. These compensable services are the processing of tax deposits and the issue and redemption of savings bonds. Although the Treasury attempts to keep bank costs and benefits in an equitable relationship on an aggregate basis, it is impossible under current procedures to compensate each bank in direct proportion to the volume of services it provides to the Treasury. Some banks may make excessive profits while others may lose money. In addition, non-bank providers of services are inequitably treated. While commercial banks receive compensation through tax and loan accounts for handling savings bonds on behalf of the Treasury, other institutions, such as savings and loan associations, do not receive compensation for this service because they do not have tax and loan accounts.

A fourth consequence is that the present indirect manner of generating earnings fails to achieve maximum realizable earnings. This is because:

(1) It is impossible under all market conditions to transfer money from the tax and loan accounts into Treasury

accounts at the Federal Reserve as fast as might be desirable for earnings purposes without being unduly disruptive of Federal Reserve monetary policy. At times, the Treasury must ease off on transfers, leaving more money in tax and loan accounts than would otherwise be the case.

(2) There is no way at the present time to tap the earnings potential of tax deposits for which advices are in transit between the commercial banks and the Federal Reserve Banks. In the absence of investment authority, the in-transit balance cannot be converted to an earning asset.

(3) Finally, a reduction of the level of tax and loan account balances to the break-even point (where the total earnings value of the balances would equal the total value of services rendered) would push many banks into a net loss position with respect to tax and loan accounts. The hardest hit would be those banks that provide the most services to the Treasury relative to the size of their tax and loan balances. They would tend to drop out of the system. That would jeopardize another major purpose of the tax and loan system -- to provide a simple and efficient tax collection mechanism, convenient for the taxpayer and expeditious for the Treasury.

For the foregoing reasons of monetary policy, equity, and operational feasibility, we estimate that between $50 and $100 million of net earnings are being lost per year.

Investment Authority

The investment authority embodied in H.R. 5675 would authorize the Secretary of the Treasury to invest Treasury operating cash directly with each tax and loan depositary. This would be in lieu of calling the balances immediately into the Federal Reserve Banks and, together with the payment of fees for services, would solve the basic problems inherent in the present system. The Treasury already has authority to pay fees for the services involved and has requested appropriations for that purpose contingent upon enactment of investment authority.

H.R. 5675 would also permit the Treasury to invest directly in Government securities if, at times, that would be more advantageous than direct investment with tax and loan depositaries. On occasions when cash management, debt management, and monetary policy objectives were conducive, the Treasury could exercise this authority and use excess operating cash to purchase Treasury securities in the market.

Impact on Minority Banks

Mr. Chairman, the Treasury has one concern about the immediate effect of the proposed legislation. That is the disproportionate impact it would have on banks in the minority bank deposit program. We are proposing a transitional arrangement whereby we would stretch out the impact on minority banks over a five year period. We do not feel, however, that we could adopt such a procedure without a clear indication in the law or the legislative history that such an arrangement reflects the intent of the Congress. The report of the House Committee on Banking, Finance and Urban Affairs on H.R. 5675 endorses the Treasury's proposed transitional arrangement.

Interest-Bearing Public Unit Accounts

In requesting my testimony, you specifically asked for my views on the question of direct payment of interest on public demand accounts or, alternatively, public unit NOW accounts as a means of providing a fair return to the Federal Government and to State and local governments on deposits held in demand accounts.

As you know, our basic reservation about the concept of interest on public unit accounts is that it is an inseparable part of a sensitive and potentially controversial issue. The investment authority embodied in H.R. 5675, on the other hand, is completely non-controversial. We do not think that the two proposals should be joined.

As a separate issue, the matter of permitting payment of interest on public unit accounts is being considered by the Administration along with other financial institutions issues. A position has not yet been firmed up; therefore, I cannot answer your question from an administration policy point of view.

I can, however, offer an assessment strictly in terms of potential cash management impact, apart from the other potential impacts that have to be considered in arriving at a policy position.

Strictly as a cash management tool, the payment of interest on public demand deposits is very unlikely to be as advantageous for the Federal Government as the investment authority in H.R. 5675. If, for example, the Congress were to provide for a ceiling on rates, as is presently the case with NOW accounts in the New England States, the Treasury would have difficulty in balancing rates, fees, deposit levels and other variables in a way that would achieve maximum earnings with equity to individual banks. H.R. 5675 gives the Treasury the ability to set rates in relation to prevailing market conditions, and to determine fees and other factors with the flexibility that is essential if we are to realize the full earnings potential of Treasury balances while dealing with nearly 20,000 institutions with fairness and administrative simplicity.

I cannot speak authoritatively about the impact on State and local governments, but my impression is that interest-bearing accounts would provide additional net revenues for at least some of them who are not in a position to obtain the equivalent of interest through services performed by the banks. From that standpoint alone, interest-bearing accounts would be beneficial to some State and local governments. I cannot assess, however, the trade-off that might be exacted through other changes in the financial system.

Concluding Remarks

In order to keep my opening remarks brief this morning, the details of the minority bank transitional arrangement, a number of technical comments on H.R. 5675, and a fuller explanation of the tax and loan system have been incorporated into a separate statement which with your permission, Mr. Chairman, I will submit for the record as Exhibit 3.

However, I would like to make one technical comment. Section 2(c) of H.R. 5675 would permit the Secretary of the Treasury to designate banks and savings and loan associations which are insured by a state or an agency thereof, or by a corporation chartered pursuant to the laws of any State, to act as depositaries of public money and as fiscal agents of the United States. The Treasury has not had an opportunity to research adequately the significance of the expansion of eligibility to these institutions. Federal insurance provides for loss recoupment through large premium reserves and stand-by borrowing authority, and for loss prevention through regulations and periodic examination. We are not aware of the details of the several non-Federal insurance arrangements and do not know if they provide comparable protection. We do not object to being given the authority to use institutions that are not covered by Federal insurance, but the Congress should be aware that the Treasury would not expect to exercise such authority automatically without imposing regulatory safeguards. We would use institutions covered by a particular insurance plan only after satisfying ourselves that the risks were within reasonable bounds.

In conclusion, Mr. Chairman, the Treasury fully supports the enactment of investment authority as in H.R. 5675. That authority is vitally needed and I urge its prompt passage. The bill passed the House by a vote of 384 to 0, convincing evidence that both its objective and method have wide support. Enactment of the authority to invest excess operating cash would not only give the Treasury a cash management tool that most institutions already have -- and in this regard, it breaks no new ground -- but it would also enable the Treasury to cease its disruptive influence on the money markets and to forestall the loss of significant earnings.

That concludes my statement, Mr. Chairman. I will be happy to answer questions.

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EXHIBIT 1

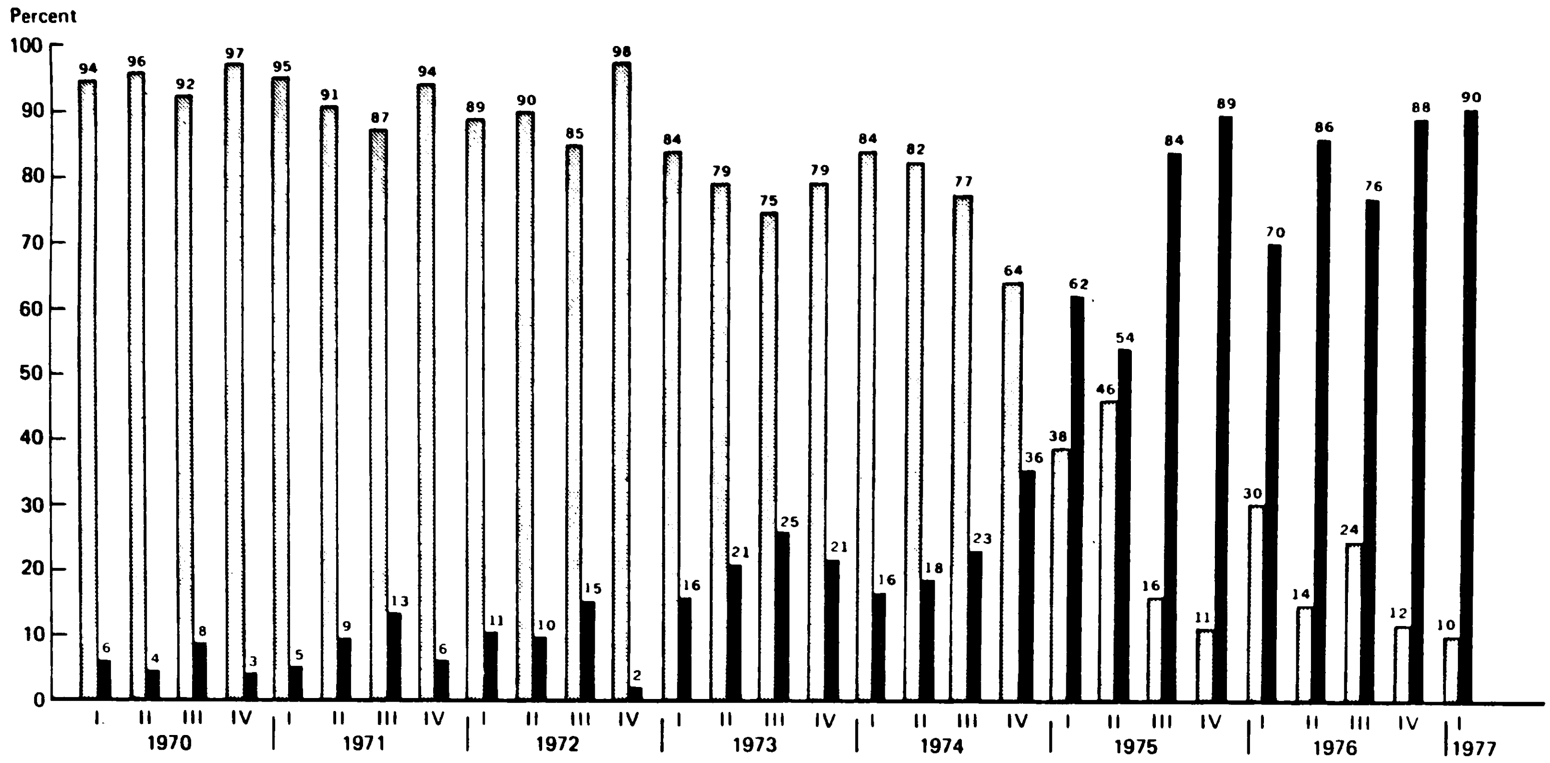
DISTRIBUTION OF TREASURY OPERATING CASH BETWEEN TAX AND LOAN ACCOUNTS AND TREASURY ACCOUNTS AT FEDERAL RESERVE BANKS
(In Billions of Dollars)

Calendar Year	Average Treasury Tax and Loan Account Balances		Average Treasury Balances at Federal Reserve Banks		Total
1964	$4.9	84%	$ .9	16%	$5.8
1965	5.3	85	.9	15	6.2
1966	3.9	85	.7	15	4.6
1967	3.9	83	.8	17	4.7
1968	4.2	82	.9	18	5.1
1969	4.1	84	.8	16	4.9
1970	4.9	82	1.1	18	6.0
1971	5.0	79	1.3	21	6.3
1972	5.5	74	1.9	26	7.4
1973	4.9	66	2.5	34	7.4
1974	3.6	60	2.4	40	6.0
1975	1.4	29	3.4	71	4.8
1976	1.5	17	7.3	83	8.8

EXHIBIT 2

Exhibit 2

Range Between Highs and Lows in Treasury Tax and Loan Account Balances at Commercial Banks and Treasury Balances at Federal Reserve Banks by Quarter 1/



☐ Treasury Balances in Treasury Tax and Loan Accounts at Commercial Banks

■ Treasury Balances at Federal Reserve Banks

1/ Quarterly figures based on averages of monthly figures of the range between the high and low levels of Treasury total operating cash balance and the distribution of that range between tax and loan account balances at commercial banks and Treasury balances at Federal Reserve Banks.

EXHIBIT 3

THE TAX AND LOAN SYSTEM -- THE NEED FOR INVESTMENT AUTHORITY AND TECHNICAL COMMENTS ON H.R. 5675

Background

There are approximately 14,000 banks throughout the country which maintain Treasury tax and loan accounts. In FY 1976, over $228 billion, approximately 70 percent of the Government's gross budget receipts, was collected through the tax and loan account system.

The tax and loan account system has two essential purposes: to insulate the nation's monetary system from the whipsawing impact of irregular Treasury cash flows, and to provide a simple and efficient tax collection mechanism. A corollary of the first purpose is that tax deposits remain in local communities until such time as the funds are needed at Federal Reserve Banks to cover the Government's disbursements.

In brief, the system functions as follows: As taxes are deposited by business firms at local banks, the funds are transferred on each bank's books from the taxpayer's account to the Treasury's tax and loan account. The Treasury then calls the tax and loan balances as it needs funds in its accounts at Federal Reserve Banks to cover disbursements. The flow of collections into the Federal Reserve Banks can be regulated vis-a-vis the flow of payments so that any potentially disruptive effects upon bank reserves can be avoided.

1974 TT&L Study and the Absence of a Short-Term Investment Authority

In June 1974, the Treasury completed a report on a study of the Treasury tax and loan account system. That report concluded that the implicit costs to the Treasury of tax and loan accounts had risen substantially beyond the value to the Treasury of the services associated with such accounts. The report recommended that for reasons of monetary management, the tax and loan account system be retained, but that means be developed for (1) employing a portion of the funds in ways that would provide adequate returns to the Treasury, and (2) compensating banks, for a limited number of services performed, from appropriated funds.

The Treasury has no present authority to invest temporarily surplus cash except in time deposits, and the 30-day minimum maturity for such deposits makes that course impracticable. It is essential that legislative authority be obtained to make possible the most efficient temporary employment of Treasury cash in interest-bearing assets.

This authority, if enacted, would give the Treasury an option already generally available to, and widely used by, Treasurers of state and local governments, corporations and others, namely, the investment on a short-term basis of excess operating balances.

Present Administration of the Tax and Loan System

Since October 1974, pending enactment of proposed investment authority, the Treasury has developed a stop-gap procedure by calling tax and loan accounts at a rate which more nearly equalizes the aggregate earnings value of the average tax and loan balance, on the one hand, and the aggregate value of the compensable services rendered by the banks, on the other. During that time, the average daily callable tax and loan balance has been maintained at approximately $1.5 billion and the average daily balance at the Federal Reserve Banks has been $5 billion. This compares with approximately $6 billion in tax and loan accounts and $2 billion at Federal Reserve Banks at the time of Treasury's tax and loan study. In this way, the Treasury has captured more earnings on its operating balances because balances at the Federal Reserve Banks increase the profits of the Federal Reserve System and those profits are paid to the Treasury.

The use of this stop-gap procedure has, however, thwarted one of the basic purposes of the tax and loan system -- to insulate the nation's monetary system from the impact of irregular cash flows. By quickly calling tax and loan deposits into the Treasury's accounts at the Federal Reserve Banks, the Federal Reserve System has been forced to compensate through open-market operations for the large swings in Treasury cash flows. This has caused confusion and uncertainty in the money market, put unnecessary pressures on the Government securities market, and made it more difficult for the Federal Reserve System to achieve its monetary objectives. There is no way to measure the toll that this has taken in the form of higher interest rates or the adverse impact it has had on the nation's economy. But it is a well-established phenomenon that uncertainty has a bearish influence on economic activity.

Furthermore, it is not feasible under the present stop-gap procedure to attain the full amount of potentially realizable earnings. First, it is impossible under some market conditions to maintain a tax and loan call schedule simply based upon Treasury's cash needs without being unduly disruptive of Federal Reserve monetary policy. In response to the needs of the Federal Reserve System, the Treasury may change its scheduled calls leaving more or less money in tax and loan accounts than otherwise would be the case. Second, it is impossible to reduce the level of tax and loan balances maintained by commercial banks to the break-even point (where the earnings value of the balances equals the value of services rendered) without creating substantial inequities among banks and jeopardizing the second purpose of the tax and loan system; that is, to provide a simple and efficient tax collection mechanism. This is because the volume of tax deposits handled by an individual bank bears no relationship to the volume of services rendered by that bank and also because banks vary significantly in the time it takes to transmit tax deposit information to the Federal Reserve Banks.

In order to compensate banks equitably for services provided, each bank should be reimbursed in direct relation to the value of services provided by that bank. Currently, the Treasury has no feasible means available to selectively reimburse banks on an individual basis. Consequently, the current policy -- which treats banks on an aggregate basis -- could result in significant inequitable reimbursements of banks (overcompensation to banks providing a relatively small volume of services and undercompensation to banks providing a relatively high volume of services). If that were allowed to happen, many banks would be motivated to drop out of the tax collection system.

This result has been forestalled by leaving the total average tax and loan balance, including funds in transit between commercial banks and Federal Reserve Banks, above the point needed to adequately compensate banks in the aggregate. This assures that most banks are adequately compensated individually, but the Treasury loses potential earnings.

A condition that contributes to the inequity of the present procedure and also effectively limits the Treasury's ability to tap, even on an aggregate basis, the full earnings potential of the tax and loan accounts is the fact that tax deposits for which advices are in transit between commercial banks and Federal Reserve Banks cannot be called. The in-transit amount is estimated to be between one and two billion dollars on the average. There is no way, in the absence of investment authority, to effectively convert the in-transit balance to an earning asset. Furthermore, there are practical limitations on how low the callable tax and loan balance (the amount that has been reported to the Federal Reserve Banks) can be held on a continuing basis because of the time it takes to give notice of calls.

Although the present procedures do not yield precise measures of several key variables, the Treasury estimates that under current procedures, between $50 million and $100 million of earnings value is being lost per year at current interest rate levels in the absence of the investment authority.

Administration of the Tax and Loan System Under the Investment Authority

If the Congress enacts authority to invest Treasury cash as provided for in the draft bill, the Treasury would exercise the authority so as to achieve a balance between maximizing yield on investments and minimizing disruptions of the money markets. The system would be designed to provide an incentive for depositaries to continue being a part of the collection system. It would not motivate them to decline to accept tax deposits from their customers on the grounds that their investable funds would be reduced simply by being part of the tax and loan system.

It is contemplated that the objectives of the tax and loan system would best be accomplished in most circumstances by lending to each depositary maintaining a tax and loan account any balance in excess of our operating needs. These loans would be secured by a pledge of collateral. Our current thinking is that the loans would bear interest at rates reflective both of the nature of the transaction, a collateralized loan of Federal funds, and of alternative sources of collateralized borrowing generally available to banks. In this respect, the rate could be related to the Federal funds rate or the rate on repurchase agreements in Government securities transacted by the Federal Reserve System. In this way, the Treasury would not actually be entering the market and the impact on money market rates would be virtually eliminated.

Alternative Investment Opportunity

Lending to depositaries might not at all times or for the full amount of investable funds be the best way of accomplishing the stated goals. It is desirable, therefore, to provide for the other investment authority, i.e., United States securities, as stipulated in the draft bill.

Depending upon the interest rate structure, the return on investments in obligations of the tax and loan depositaries could be lower than the market yield on Government securities. It would then be advantageous for the Treasury to buy its own securities. The availability of this authority would also add a dimension of flexibility to the Treasury's debt managment, as well as to its cash management. However, the maximum short-run return on the investment of tax and loan deposits will not be our sole overriding objective. One of the basic purposes of the tax and loan account system, to help assure stable financial market conditions, will influence the form and timing of investments.

Reimbursement for Services

The investment of Treasury cash in earning assets will necessitate providing direct compensation to banks and other agents for certain services performed. These services are the handling of the tax and loan account, acceptance of Federal tax deposits for credit to such accounts, and the issuance and redemption of savings bonds. Banks and other agents will be compensated by the payment of fees from appropriated funds, and budget requests for the Treasury's Bureau of Government Financial Operations and the Bureau of the Public Debt will, therefore, include additional amounts to cover the payments.

Effect on Minority Banks

During hearings concerning H.R. 3035 of the 94th Congress, and related tax and loan account legislation before the House Subcommittee on Domestic Monetary Policy, the National Bankers Association provided persuasive testimony on the potentially adverse impact of the proposed legislation on minority-owned banks. The Government has actively encouraged the utilization of minority banks both by the public and private sectors. The Department is concerned that the immediate impact of the legislation would be detrimental to the objective assisting minority banks to achieve competitive equality and would be inconsistent with our ongoing activities in this area.

Therefore, Treasury proposes to soften the impact of the legislation in this respect by placing with each minority bank participating in the minority bank deposit program a special Treasury demand deposit subject to call by the Treasury on seven days' notice. The average daily amount of deposit with each bank would be related to the bank's average daily tax and loan balance during the calendar year prior to enactment of the investment authority as reflected on the books of the Federal Reserve Bank of its district.

We would establish the initial balance at the time the investment authority is utilized and in an amount equal to the average tax and loan balance during that calendar year, less the imputed balance that would be required to provide income equivalent to the fees each minority bank would receive under the Treasury proposal to pay banks fees for the performance of certain services after enactment of the bill. The amount of such balance would be reduced each year in equal amounts so that at the end of five years, it will be entirely withdrawn. However, the Department does not feel that we could adopt such a procedure without a clear indication in the statute or the legislative history that such an arrangement reflects the intent of the Congress. Senate Report 94-1150 at page 9 and House Report 95-159 (Part 1) at page 3 provide such an indication with reference to H.R. 3035 and H.R. 5675, respectively.

Comments on Certain Technical Details of H.R. 5675

The wording of the first section of the bill preceding the first proviso is identical to the proposed legislation which the Treasury forwarded to the 95th Congress on January 17, 1977, and would authorize the temporary investment of any portion of the Treasury's operating cash in specific types of obligations. The Treasury continues to support the investment of its excess operating cash as provided in this section of the bill.

The two provisos to the first section of the bill were introduced during the 94th Congress by members of the Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Currency and Housing. The first proviso would construe the section as not requiring the investment of the cash balance in any particular account. The Department does not see the need for including this proviso as the authority provided therein seems implicit in the basic authority of the bill. However, the Treasury has no objection to it.

The second proviso states that the section shall not be construed as permitting the Secretary of the Treasury to require the sale of obligations eligible for investment by any particular person, dealer or financial institution. We would construe this to mean that the Department would retain the ability to make the following options available to banks that wish to continue handling tax deposits for their customers.

1. Banks agreeing to sell their obligations to the Treasury would be permitted to continue to accept tax deposits as heretofore.

2. Banks not willing to agree to sell obligations to the Treasury would be permitted to continue to accept tax deposits if (a) their annual volume of deposits is less than a specified amount, e.g., $1.5 million, or (b) if the volume is in excess of such amount, the bank can arrange to deliver advices of credit to the Federal Reserve Bank of its district on the business day following the date it receives the tax deposits from its customers.

The reason for this limitation is that under the proposed investment of the Treasury's cash in obligations of depositaries, it is planned that the investment will be made as of the business day following the date the depositary accepts a tax payment from its customer. The mail time for many banks to the Federal Reserve Bank of their district is more than one business day. If Treasury permitted banks with a large volume of tax deposits to remit by mail without selling obligations to us, there would be a substantial loss of revenues to the Treasury and a windfall to the banks because of the deposits in transit to the Federal Reserve Banks. We assume that what we are proposing is not in conflict with the second proviso.

Section 2(c) of H.R. 5675 permits the Secretary of the Treasury to designate banks and savings and loan associations which are insured by a state or agency thereof, or corporation chartered pursuant to the laws of any State to act as depositaries of public money and as fiscal agents of the United States. The Treasury has not had an opportunity to adequately research the significance of the expansion of eligibility to these institutions. In addition to the insurance coverage, the Federal insurance program provides for loss recoupment through large premium reserves and standby borrowing authority, and for loss prevention through Federal regulations and examinations. We are not aware of the details of the several non-Federal insurance funds so that we are dealing at this time with an unknown area. The Congress should be aware that the Treasury would not expect to automatically exercise the authority embodied in Section 2(c) of H.R. 5675 without imposing regulatory safeguards to satisfy ourselves that the risks were within reasonable bounds.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 6, 1977

SECRETARY BLUMENTHAL ANNOUNCES REORGANIZATION AND REALIGNMENT OF FUNCTIONS OF THE OFFICE OF THE SECRETARY OF THE TREASURY

Treasury Secretary W. Michael Blumenthal has approved a reorganization of his office to improve efficiency and to give top officials of the Department closer access to the Secretary.

Highlights of the reorganization are:

- The position of Assistant Secretary (Capital Markets and Debt Management) has been retitled Assistant Secretary (Domestic Finance). The function of that office is to serve as principal advisor to the Secretary, Deputy Secretary, and the Under Secretary for Monetary Affairs on debt management, federal financing affairs, the financing of non-federal sectors of the economy, general capital markets policy and state/local financing affairs. On debt management matters the Assistant Secretary (Domestic Finance) will report through the Under Secretary for Monetary Affairs. The Assistant Secretary (Domestic Finance) will have three Deputies, for Capital Markets, for Debt Mangement and for State and Local Finance. The Secretary also approved organization of an Office of Urban Economics to conduct research and analysis on the degree of need for and possible forms of federal financing assistance for urban areas. The Office of Urban Economics and the Office of the Deputy to the Assistant Secretary for New York Finance have been placed under the supervision of the Deputy Assistant Secretary for State and Local Finance.

- Secretary Blumenthal directed a reorganization of the Executive Secretariat with an eye to improving the coordination and quality of the Department's staff work and to assure timely response to communications.

- The Public Affairs activities of the Department have been strengthened by establishing and filling the position of Assistant Secretary (Public Affairs). Previously, this responsibility was filled by a Special Assistant to the Secretary.

- The Congress will be asked to approve legislation to establish an additional position of Assistant Secretary (Enforcement and Operations.) Meanwhile, a Chief Deputy to the Under Secretary will carry out Departmental functions in the enforcement and operations area.

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- The responsibility of the Assistant Secretary (Economic Policy) to advise the Secretary and other senior Treasury officials on economic matters -- domestic and international -- has been enlarged by the transfer to him of certain research and planning functions formerly supervised by the Deputy Assistant Secretary (Research and Planning) in the Office of the Assistant Secretary (International Affairs). This position is retitled Deputy Assistant Secretary for International Economic Analysis. In addition, the responsibility for economic analysis relating to energy developments and programs has been assigned to the Office of the Assistant Secretary for Economic Policy.

- The Treasurer of the United States will report directly to the Under Secretary. Since 1974, the Treasurer has also served as National Director of the Savings Bonds Division and this will continue. Pending completion of an internal reorganization study, the Bureau of Mint will also report through the Treasurer to the Under Secretary.

- The Director of Revenue Sharing now reports to the Assistant Secretary (Domestic Finance) rather than directly to the Under Secretary.

- The Office of National Security has been disestablished. The Office of the Assistant Secretary (International Affairs) assumes responsibility for certain national security issues such as the Department's interests in security assistance, foreign military sales programs, all substantive work with the National Security Council, and other defense related matters. A newly established Office of Intelligence Support, which reports through the Executive Secretariat, will provide day-to-day intelligence support to the Secretary, contribute to daily summaries prepared by the Executive Secretariat, and review arrangements between the Department and other intelligence agencies.

- Responsiblity for administering the countervailing duty law and the anti-dumping act has been transferred from the Under Secretary to the General Counsel to strengthen the office in the light of the increased litigation content of the work in this area.

Attachments:
Treasury Order No. 190, May 17, 1977
Organizational Charts, March 27, 1976 (old)
May 17, 1977 (new)

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DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER NO. 190

(Revision 13)

Supervision of Bureaus and Offices, Delegation of Certain Authority, and Order of Succession in the Treasury Department

1. The Deputy Secretary shall be under the direct supervision of the Secretary.

2. The following officials shall be under the supervision of the Secretary, and shall report to him through the Deputy Secretary:

Under Secretary for Monetary Affairs

Under Secretary

General Counsel

Assistant Secretary (Tax Policy)

Commissioner, Internal Revenue Service

Comptroller of the Currency

Assistant Secretary (Legislative Affairs)

Assistant Secretary (Economic Policy)

Assistant Secretary (Domestic Finance)

Assistant Secretary (Public Affairs)

Executive Secretary

3. The following officials shall be under the supervision of the Under Secretary for Monetary Affairs, and shall exercise supervision over

those officers and organizational entities indicated thereunder:

Assistant Secretary (International Affairs)

Deputy Assistant Secretary for Trade and Investment Policy

Deputy Assistant Secretary for Commodities and Raw Materials

Deputy Assistant Secretary for International Monetary Affairs

Deputy Assistant Secretary for Developing Nations

Deputy to the Assistant Secretary for Saudi Arabian Affairs

Deputy to the Assistant Secretary and Secretary of International Monetary Group

Inspector General for International Finance

(The Assistant Secretary (Domestic Finance) reports through the Under Secretary for Monetary Affairs for debt management purposes.)

Fiscal Assistant Secretary

4. The following officials shall be under the supervision of the Under Secretary, and shall exercise supervision over those officers and organizational entities indicated thereunder:

Assistant Secretary (Administration)

Deputy Assistant Secretary

Office of Administrative Programs

Office of Audit

Office of Budget and Program Analysis

Office of Computer Science

Office of Equal Opportunity Program

Office of Management and Organization

Office of Personnel

Chief Deputy to the Under Secretary (Enforcement and Operations)

United States Secret Service

Bureau of Alcohol, Tobacco and Firearms

Federal Law Enforcement Training Center

United States Customs Service

Bureau of Engraving and Printing

Office of Foreign Assets Control

Treasurer of the United States

United States Savings Bond Division

Bureau of the Mint

5. The following officials shall exercise supervision over those officers and organizational entities indicated thereunder:

General Counsel

Deputy General Counsel

Legal Division

Office of Director of Practice

Office of Tariff Affairs

Assistant Secretary (Tax Policy)

Deputy Assistant Secretary for Tax Legislation

Deputy Assistant Secretary for Tax Policy Economics

Office of Tax Analysis

Office of Tax Legislative Counsel (also part of
Legal Division)

Office of International Tax Counsel (also part of
Legal Division)

Office of Industrial Economics

Assistant Secretary (Legislative Affairs)

Deputy Assistant Secretary (Legislative Affairs)

Office of Legislative Affairs

Assistant Secretary (Economic Policy)

Deputy Assistant Secretary for Domestic Economic Analysis

Office of Financial Analysis

Deputy Assistant Secretary for International Economic
Analysis

Assistant Secretary (Domestic Finance)

(Also reports to Under Secretary for Monetary Affairs
for debt management purposes.)

Deputy Assistant Secretary for Capital Markets Policy

Office of Securities Market Policies

Office of Capital Markets Legislation

Deputy Assistant Secretary for Urban Finance

Office of Municipal Finance

Office of New York City Finance

Office of Urban Economics

Deputy Assistant Secretary for Debt Financing

Senior Adviser (Debt Research)

Office of Government Financing

Office of Agency Finance and Market Policies

Office of Revenue Sharing

Assistant Secretary (Public Affairs)

Deputy Assistant Secretary (Public Affairs)

Office of Public Affairs

Fiscal Assistant Secretary

Deputy Fiscal Assistant Secretary

Bureau of Government Financial Operations

Bureau of the Public Debt

Commissioner of Internal Revenue

Deputy Commissioner

Internal Revenue Service

Comptroller of the Currency

First Deputy Comptroller

Office of the Comptroller of the Currency

6. The Deputy Secretary, the Under Secretary for Monetary Affairs, the Under Secretary, the General Counsel, and the Assistant Secretaries are authorized to perform any functions the Secretary is authorized to perform. Each of these officials shall perform functions under this authority in his own capacity and under his own title and shall be responsible for referring to the Secretary any matter on which actions should appropriately be taken by the Secretary. Each of these officials will ordinarily perform under this authority only functions which arise out of, relate to, or concern the activities or functions of or the laws administered by or relating to the bureaus, offices, or other organizational

units over which he has supervision. Any action heretofore taken by any of these officials in his own capacity and under his own title is hereby affirmed and ratified as the action of the Secretary.

7. The following officers shall, in the order of succession indicated, act as Secretary of the Treasury in case of the death, resignation, absence, or sickness of the Secretary and other officers succeeding him, until a successor is appointed, or until the absence or sickness shall cease:

A. Deputy Secretary

B. Under Secretary for Monetary Affairs

C. Under Secretary

D. General Counsel

E. Assistant Secretaries, or Deputy Under Secretaries, appointed by the President with Senate confirmation, in the order in which they took the oath of office as Assistant Secretary, or Deputy Under Secretary.

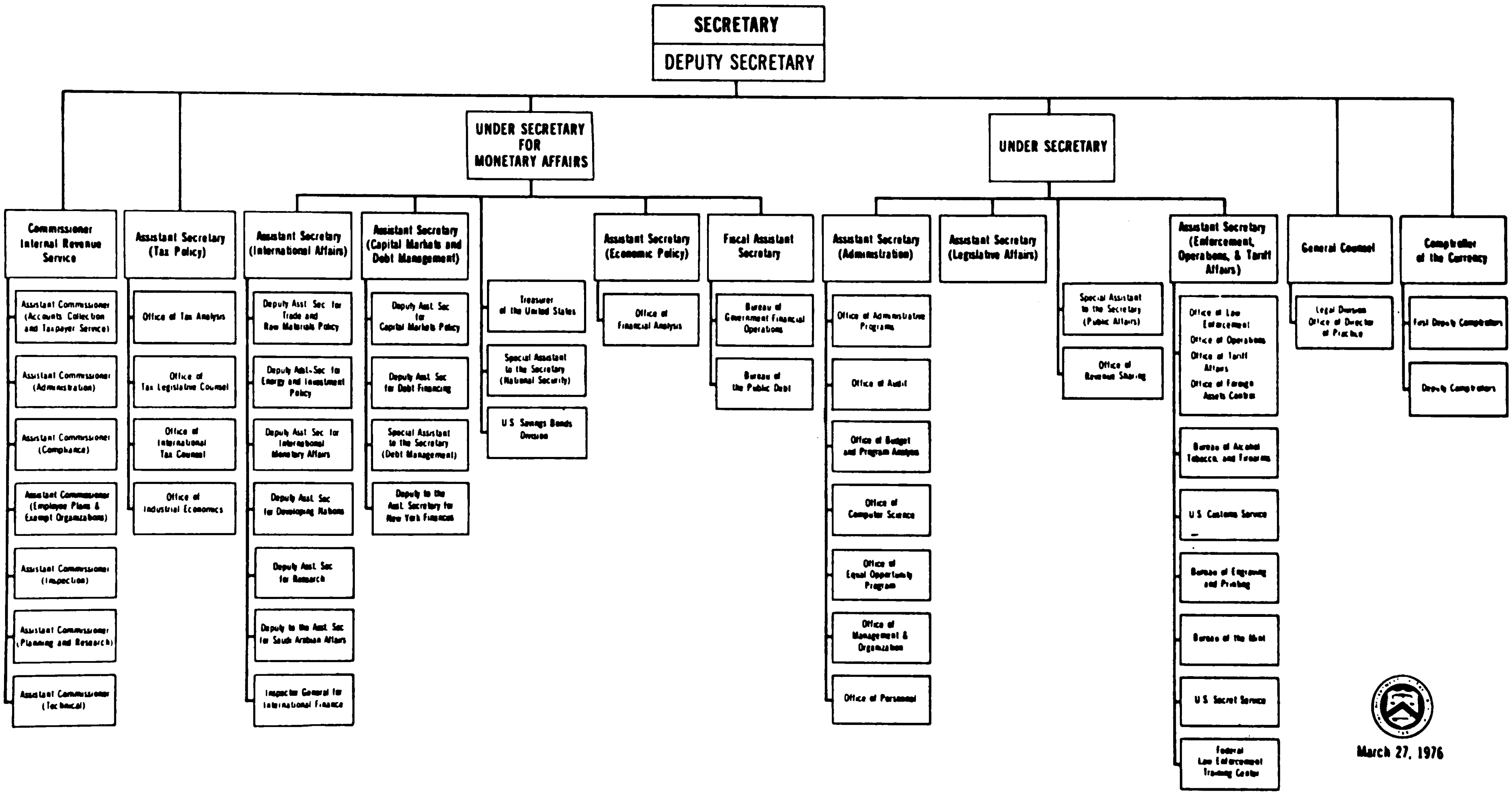
8. Treasury Department Order No. 190 (Revision 12) is rescinded, effective this date.

W. Michael Blumenthal

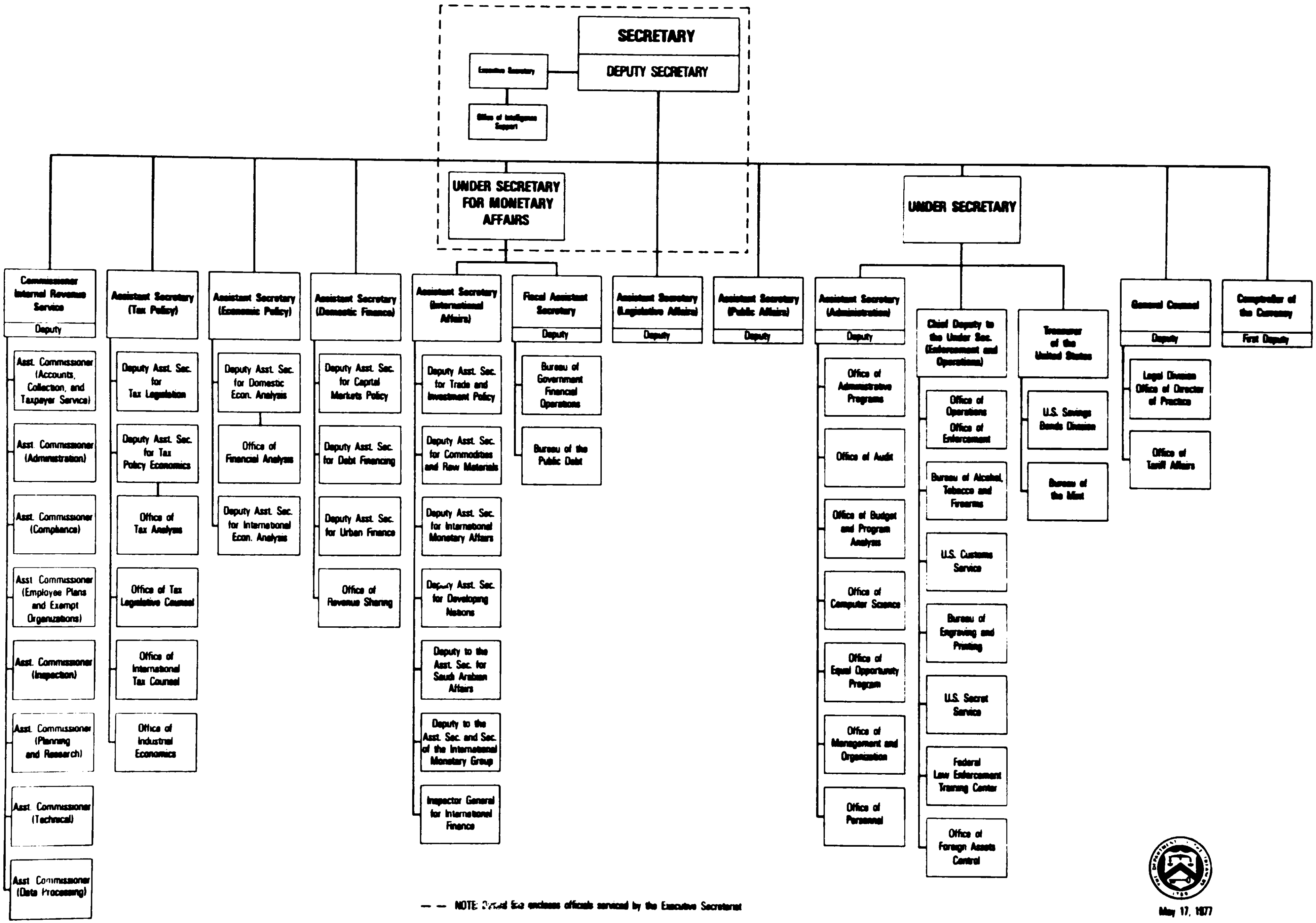
W. Michael Blumenthal
Secretary of the Treasury

DATE: May 17, 1977

ORGANIZATION OF THE DEPARTMENT OF THE TREASURY



ORGANIZATION OF THE DEPARTMENT OF THE TREASURY



— — NOTE: Dotted line encloses officials serviced by the Executive Secretariat

May 17, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 6, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,001 million of 13-week Treasury bills and for $3,001 million of 26-week Treasury bills, both series to be issued on June 9, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 8, 1977			26-week bills maturing December 8, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.731	5.020%	5.16%	97.361	5.220%	5.44%
Low	98.722	5.056%	5.19%	97.350	5.242%	5.46%
Average	98.724	5.048%	5.18%	97.354	5.234%	5.45%

Tenders at the low price for the 13-week bills were allotted 36%.
Tenders at the low price for the 26-week bills were allotted 24%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 33,000,000	$ 19,800,000	$ 30,655,000	$ 10,655,000
New York	3,177,205,000	1,522,165,000	4,954,560,000	2,185,260,000
Philadelphia	22,130,000	22,130,000	33,265,000	7,885,000
Cleveland	41,040,000	41,040,000	30,920,000	10,920,000
Richmond	20,430,000	19,430,000	18,440,000	6,440,000
Atlanta	27,240,000	26,600,000	21,345,000	15,310,000
Chicago	323,385,000	165,105,000	239,835,000	62,835,000
St. Louis	37,810,000	21,530,000	29,195,000	13,195,000
Minneapolis	26,970,000	8,770,000	25,915,000	5,915,000
Kansas City	31,315,000	31,315,000	15,890,000	15,405,000
Dallas	21,735,000	19,735,000	9,940,000	7,440,000
San Francisco	247,825,000	102,825,000	925,635,000	659,475,000
Treasury	60,000	60,000	---	---
TOTALS	$4,010,145,000	$2,000,505,000 a/	$6,335,595,000	$3,000,735,000 b/

a/ Includes $ 341,110,000 noncompetitive tenders from the public.
b/ Includes $126,285,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-271

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 8, 1977

TREASURY DEPARTMENT ANNOUNCES TWO ACTIONS
UNDER ANTIDUMPING ACT
ON IMPORTS OF SACCHARIN

The Treasury Department announced today two opposite, tentative decisions under the Antidumping Act with respect to imports of saccharin, one involving the Republic of Korea and the other Japan.

In the case of saccharin from the Republic of Korea, appraisement is being suspended until a final determination is reached. Treasury must determine by September 8, 1977 whether saccharin from the Republic of Korea is being sold at less than fair value within the meaning of the Antidumping Act.

In the case of saccharin from Japan, a tentative determination of "No Sales at Less Than Fair Value" is being issued. A final determination in this case must also be made by September 8.

Notice of these actions were published in the Federal Register of June 8, 1977.

Under the Antidumping Act, the Secretary of the Treasury is required to withhold appraisement whenever he has reasonable cause to believe or suspect that sales at less than fair value are taking place. Sales at less than fair value generally occur when the price of merchandise sold for exportation to the United States is less than the price of such or similar merchandise sold in the home market or to third countries.

If a determination of "Sales at Less Than Fair Value" is made, then the case must be referred to the U.S. International Trade Commission, which would consider whether an American industry was being injured. Both "Sales at Less Than Fair Value" and injury must be shown to justify a finding of dumping under the law. Upon a finding of dumping, a special duty is assessed.

For purposes of these notices, the term "saccharin" means sodium saccharin in soluble granular and soluble powder forms.

Imports of saccharin from the Republic of Korea and Japan were valued at $1.2 million and $5.1 million, respectively, during calendar year 1976.

* * *

B-272

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. June 7, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,000 million, to be issued June 16, 1977, as follows:

91-day bills (to maturity date) for approximately $2,000 million, representing an additional amount of bills dated March 17, 1977, and to mature September 15, 1977 (CUSIP No. 912793 K2 1), originally issued in the amount of $3,103 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,000 million to be dated June 16, 1977, and to mature December 15, 1977 (CUSIP No. 912793 L7 9). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing June 16, 1977. This offering will provide for a net pay-down for the Treasury of about $2,314 million as the maturing issues are outstanding in the amount of $7,314 million ($2,002 million of which represent 9-day bills issued June 7, 1977). Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,786 million of the maturing issues. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

B-273

Tenders will be received at Federal Reserve Banks and branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, June 13, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on June 16, 1977, in cash or other immediately available funds or in Treasury bills maturing June 16, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 10:00 A.M.
JUNE 8, 1977

STATEMENT OF THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON ECONOMIC STABILIZATION
HOUSE COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS

The Policy of the United States Toward International Commodity Agreements

The Issue

When President Carter presented his anti-inflation program on April 15, he made prominent reference to international commodity trade and the potential role of international commodity agreements in contributing to the battle against inflation in the United States:

> "When prices of raw materials and food fluctuate upward, the effects tend to spread throughout the economy, raising prices and wages generally.... Reducing fluctuations in commodity prices, therefore, helps to reduce inflation.... My Administration will enter into negotiations for international agreements for grains and sugar to reduce fluctuations in prices. We will also consider with an open mind other commodity agreements that concentrate on moderating price fluctuations."

Inflation and unemployment are the most worrisome economic problems in the United States, and in the world, today. Sharp fluctuations in the prices of primary commodities, both agricultural products and industrial raw materials, have been an important factor in triggering and sustaining inflation. Inflation, in turn, has triggered increased unemployment. There are two reasons why commodity price instability has added significantly to these problems.

First, excessive <u>rises</u> in commodity prices, even when they are temporary, induce economy-wide price increases beyond the direct impact of the commodity prices themselves. This is because producers of manufactured goods and food processors often justify additional increases in their prices on the basis of cost increases stemming from rising prices for their raw materials. However, these increases are not likely to be withdrawn when raw material prices subsequently recede. The effect is a ratcheting up of the general consumer price index, which in turn provides justification for higher wage increases. As inflation spreads, for this as well as other reasons, inflationary expectations then generate additional demand for business inventories and create fears of impending shortages, provoking protective purchases and forcing raw material prices up even further in a spiral which, as we saw particularly in 1973-1974, can be devastating.

Second, excessive price <u>declines</u> for commodities can also, paradoxically, fuel inflation. When such declines are precipitate and extended in time, they can deter investment in new productive capacity at both the primary and processing stages. Supply may then become inadequate to meet the normal growth of demand in future years, pushing prices up at that time.

These two occurrences are peculiar to some, though not all, of the commodity markets because prices in those markets fluctuate much more sharply than do prices of industrial products or of services. Hence unique policies are called for with respect to these markets, to support our national effort to reduce overall price instability.

A number of such policies are possible. For example, we have decided to support special efforts to promote investment in the production of commodities where shortages seem possible in the years ahead. One step to this end is increased lending for such purposes by the international financial institutions, including the World Bank, the International Finance Corporation and perhaps the International Development Association and the regional development banks. Another is through increased support of private investment for development of natural resources by our own Overseas Private Investment Corporation (OPIC), working on some occasions with its counterpart institutions in other industrialized countries.

Today, however, I wish to focus on a different set of policies -- international commodity agreements. Such agreements have been sought in recent years by a number of producing countries, mainly in the developing world. Our interest in such agreements will thus promote U.S. foreign policy objectives. However, our primary purpose in pursuing them is to reduce the risk of inflationary pressures in the United States. Indeed, we will sign no commodity agreement unless we are convinced that it will promote that objective. Let me turn directly to the issue of commodity price instability, and how international agreements can in some cases help to moderate it.

Commodity Price Instability: The Evidence

Prices of primary commodities tend to be much more volatile than prices of manufactured goods or services. Table 1 shows that the prices of primary commodities for which the United States is a major importer or exporter are, without exception, more volatile than the prices of manufactured or processed goods produced and consumed in the United States.

This instability tends to come mainly from the supply side for agricultural commodities, largely due to weather. It comes largely from the demand side for minerals, through fluctuations in the business cycle in industrial countries. The effects of both types of shifts are severely aggravated, however, by the fact that supply and demand for many primary commodities are price inelastic. Relatively small changes in supply and demand can create sizable increases or decreases in price. Conversely, even very large price changes induce little response in supply and demand, at least in the short run.

Table 1 also reveals a sharp increase in the degree of price instability over the last five to six years. Much of this is due to the 1972-1975 commodity boom, when commodity prices rose more rapidly than at any previous time during this century, and to the subsequent plummeting of many of those same prices. Unfortunately, the data simply do not cover a sufficient period to enable us to determine whether the recent price instability will be a continuing factor.

However, there are several reasons to believe that significant commodity price instability will continue throughout the remainder of the 1970s and possibly beyond:

-- Fear of impending shortages, inflationary expectations for which commodities offer some hedge, and the uncertainties created by flexible exchange rates have increased the likelihood of protective purchases and commodity speculation.

-- There has been a sharp increase in investors' perceptions of risks, both economic and political, in many countries which possess the most economic opportunities for new production of industrial raw materials. This pushes new production into less economic areas, raising costs and reducing still further the elasticity of supply of such products.

-- Cartel or cartel-like action remains possible for some commodities. Producing countries have hardly forgotten the success of OPEC or the lesser, but significant, success of the International Bauxite Association. Their efforts have waned during the past two years because the world recession weakened the markets for their products, and because the expressed willingness of the United States to consider producer-consumer agreements after September 1975 provided an alternative to action by producers alone. Such efforts would certainly resume, however, once world markets rebounded -- as they have for many commodities -- <u>if</u> the United States were once more to reject the possibility of negotiated arrangements among producers and consumers alike.

International Commodity Agreements

Hence we believe that it is in the national economic interest of the United States to attempt to negotiate international commodity agreements where they can help to stabilize prices around market trends. We reject any thought of agreements which would raise prices above their market trends. And any such agreements should retain sizable latitude for the play of market forces, by leaving ample room between the floor and ceiling ranges which would trigger official intervention.

But price stabilizing agreements, if properly constructed, would check undue price rises. They would also check undue price declines, thereby spurring continued investment in new production and avoiding longer run supply shortages. Both results would bring benefits to producing and consuming countries alike; indeed, the United States is interested in agreements both for commodities which we export (e.g., wheat) and for commodities which we import (e.g., tin and sugar).

The private markets cannot be expected to deal with these problems satisfactorily in all cases. Individual buyers and sellers respond solely to <u>their own</u> returns from such transactions. They do not take account of the effects on society, particularly inflation, of their activities; these "externalities" must be the responsibility of governments. In particular, the likelihood of government intervention to check sharp price increases, especially in the most sensitive and important commodities, makes it unlikely that the private sector will hold adequate stocks to check such rises when they do occur.

To meet the needs of importing countries, commodity agreements should operate to the maximum extent possible through buffer stocks as opposed to supply controls. Buffer stocks, accumulated at an agreed price floor and sold at an agreed ceiling -- and thereby making a profit for their sponsors, are available to check price rises when that ceiling is approached or reached. In addition, such stocks allow price to perform its function of allocating resources to the most efficient producers.

By contrast, production controls can only reduce supplies and raise prices. They force producers with low marginal costs to cut back output along with producers with high marginal costs, thereby locking industry into inefficient patterns of production. Production controls and export quotas also tend to freeze existing market patterns, since they are usually allocated on the basis of some past average of market shares, barring entry of efficient new producers.

For products which we import, it is thus in the interest of the United States to support buffer stocks -- and to support buffer stocks which are larger rather than smaller. The previous Administration was inconsistent, for example, in joining the International Tin Agreement but refusing to contribute to its buffer stock. It is for this reason that Secretary Vance announced in Paris last week that this Administration would seek Congressional approval for such a U.S. contribution.

Most of the commodity arrangements proposed by producing countries include supply controls as "back-up measures" to buffer stocks. Such controls are advocated to help the buffer stock defend the floor price, and to permit a smaller buffer stock in order to reduce costs. The price of such additional protection at the floor, however, is a limitation on the size of the buffer stock and thus on its ability to protect the ceiling. If production or export controls force producers to cutback output significantly, or drive out marginal producers, they may in and of themselves lead to rapid price rebounds -- destabilizing the markets, and adversely affecting the interests of importing countries.

This is indeed the history of the International Tin Agreement (ITA), the only commodity agreement which has ever functioned over a long period of time. The ITA has had a small buffer stock, of roughly 10 percent of annual tin production and trade. It has relied on export controls to support buffer stock operations. As a result, it has had only limited success in stabilizing tin prices.

Since 1956, the buffer stock has been called on to stem major price declines on four occasions. In each case the International Tin Council decided, after sizable purchases of tin, that the buffer stock was in danger of being depleted of funds. It then resorted to export controls. These controls were successful in protecting the floor. But, in each instance, the imposition of export controls was quickly followed by cutbacks in tin production by private producers, who were unwilling to stockpile excess supplies which they could not export. The result was tin shortages, accompanied by rapid price increases that sales from an inadequate buffer stock were simply unable to moderate. The higher prices led the Council to raise the price range, thereby racheting up support levels which it would later be forced to defend again through export controls.

If the buffer stock had been larger on these four occasions, it might have been successful in absorbing the surplus production and export controls would have been unnecessary. Under such circumstances, the buffer stock might also have been capable of meeting later surges in demand for tin, which have repeatedly occurred following periods of slack demand.

Currently, the market price of tin is about 10 percent above the ceiling price. The buffer stock is exhausted, and thus powerless to reduce current high prices. The only way to create an effective Tin Agreement, which will operate in the U.S. interest in the future by stemming price rises and reducing reliance on export controls, seems to be a considerable enlargement of the buffer stock. Hence it would be in the U.S. interest to make a sizable contribution to the tin buffer stock, and to encourage other consuming countries to do likewise.

It is, of course, important to accumulate a buffer stock at the proper time. Purchases boost prices in the short run, and are thus best undertaken when overall demand is weak. The ideal moment to build such stocks was in 1975, when commodity prices had collapsed from their earlier peaks -- but the previous Administration rejected all advice to that effect. Nevertheless, purchases at the present time would be acceptable for some commodities, such as sugar. In tin, the United States could make a sizable contribution from the strategic stockpile without affecting the market prices. Accumulations would have to be timed carefully, however, to avoid undue price effects in the short run.

For some commodities, an export quota arrangement can also promote greater price stability if it induces producing countries to stock production which cannot be exported when quotas are in effect, and to release those stocks once prices begin to rise. The current Coffee Agreement takes this approach. Producers are given credit, in the annual reallocation of country export quotas, for national stocks being held. This encourages producing countries not to cut back production, but to build up stocks to protect consumers if market conditions should suddenly turn tight. For some commodities, where technical expertise and well-established techniques already exist at the national level, it may be better to build stocks in individual countries rather than create international buffer stocks, and to coordinate accumulation and release through the export quota mechanism. We would not support production controls, however, because they could only raise prices.

A frequent problem of export quota agreements is that they may misallocate resources by basing quota levels on historical market shares, disadvantaging lower cost producers and freezing out new market entrants. The 1976 Coffee Agreement improves on earlier quota agreements, in this regard, by providing for annual resetting of country quotas. As a result, the agreement encourages plantings for efficient producers who wish to increase their market share in future years.

The latest Coffee Agreement will probably not be tested before 1980 due to the Brazilian frost, but it appears to have features which benefit consumers through greater price stability and inducements to investment. When buffer stocks are not feasible, but an agreement nevertheless seems appropriate, the United States will be willing to look at an export quota arrangement which promotes stocking in order to protect against high prices and encourages investment through a flexible reallocation system.

This mention of coffee is a reminder that no commodity agreement can, or should be expected to, protect consumers against drastic changes in underlying supply and demand situations. No buffer stock, or other international arrangement, could have checked the rise in coffee prices stemming from Brazilian frosts and supply disruptions in southern Africa. One wonders, however, whether an effective agreement might have at least moderated the sharp run-up in sugar prices in 1974, and subsequent collapse in 1976, whose causes remain obscure. And it may even be that an international agreement for oil, which provided more revenue for the producing countries in earlier years, would have obviated the development of the most effective producers' cartel in world history.

Conclusion

This Administration believes that international commodity agreements which rely primarily on the operation of sizable buffer stocks to stabilize prices effectively around market trends can help moderate inflation in the United States. Such agreements can also be of benefit to commodity producers, including those in the United States, by preventing dramatic price declines and in some cases helping to stabilize export receipts.

Our work is cut out for us in the months, and probably years, ahead in terms of analyzing the technical aspects of individual commodities, tailoring agreements to the characteristics of each, structuring the agreements to assure they are truly effective in stabilizing prices, and assuring adequate financing for them. We will reject agreements which do not promote our economic interests, as indeed we rejected just last month the <u>type</u> of sugar agreement proposed by a number of producing countries. And there are not too many commodities where effective agreements are likely to prove feasible. It will be a long, complex process. If we are successful, however, I believe that our domestic economy -- as well as our relations with our trading partners in both the industrialized and developing worlds -- will be greatly improved as a result.

o 0 o

Table 1

Price Instability in Commodities of Import and Export Interest to U.S.

	Coefficient of Variation[1]	
	1955 - 74	1971 - 76
Raw Materials		
Bananas[2]	.10	.13
Beef[3]	.16	.25
Cocoa[4]	.21	.38
Coffee[5]	.21	.30
Copper[6]	.26	.36
Cotton[7]	.10	.19
Phosphate Rock[8]	.16	.69
Rice[9]	.14	.58
Rubber[10]	.28	.29
Soybeans[11]	.14	.26
Sugar[12]	.16	.71
Wheat[13]	.10	.45
Zinc[14]	.24	.52
Average	.17	.39
Manufactured/Processed Goods		
New Cars	--	.07
Household Durables	--	.04
Apparel[15]	--	.05
Cereals and Bakery Products	--	.07

Notes

1 The standard deviation of variations about a three year moving average of constant 1973 dollars as a percent of the mean for the period indicated.
2 Ecuadorian fresh, c.i.f., Hamburg
3 Argentine chilled boneless, wholesale price, London
4 Cocoa beans, Accra, spot N.Y.
5 Guatemalan, prime washed, spot N.Y.
6 LME
7 Mexican SM 1-1/16", c.i.f., N. Europe
8 75% BPL, f.a.s., Casablanca
9 Thai, Milled 5% broken f.o.b. Bangkok
10 RSS 1, spot, N.Y.
11 U.S. c.i.f. Rotterdam
12 1955-74, Weighted average of U.S. preferential, Commonwealth Sugar Agreement, and ISA daily price--f.o.b.
13 No. 1 Canadian Western Red Spring, in store
14 LME
15 excludes footwear

Sources

To determine commodities of import and export interest to the U.S., the IBRD list of thirty-four commodities in Price Forecasts for Major Primary Commodities, Report No. 814 (IBRD: July, 1975), was selected as the basis. For each of these commodities, U.S. export and import values during the first nine months of 1976 were found in FT-410, U.S. Exports, Schedule B, Commodity by Country (Dept. of Commerce: Sept. 1976), and FT-135, U.S. General Imports, Schedule A, Commodity by Country (Dept. of Commerce: Sept. 1976). Those U.S. imports and exports with the highest dollar values were included in the present analysis.

Coefficients of variation for 1955-74 for each of these commodities are published in Price Forecasts for Major Primary Commodities, Report No. 814, July 1975, IBRD.

Coefficients of variation for 1971-76 for the raw materials in the table were computed by Treasury Department staff from price data in Commodity Trade and Price Trends (1975 edition), Report No. EC-166/75, August 1975, IBRD and from April 22, 1977 Commodity Price Data sheet published monthly by IBRD. These data were converted into constant 1973 dollars with developed country GNP deflator published in Price Forecasts for Major Primary Commodities, Report No. 814, July 1975, IBRD.

Coefficients of variation for manufactured/processed goods for 1971-76 computed by Treasury Department staff from price indices published in December issues of CPI Detailed Report, U.S. Department of Labor, Bureau of Labor Statistics, during 1968-76. These indices were converted to constant 1967 dollars with the overall consumer price index published in those issues.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 9, 1977

TREASURY ANNOUNCES FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE ON PRESSURE SENSITIVE PLASTIC TAPE FROM WEST GERMANY

The Treasury Department announced today that pressure sensitive plastic tape measuring over one and three-eights inches in width and not exceeding four mils in thickness, is being sold at less than fair value within the meaning of the Antidumping Act by one of three West Germany firms investigated.

Sales at less than fair value generally occur when the price of the merchandise sold for export to the United States is less than the price of comparable mechandise sold in the home market. Interested persons were offered the opportunity to present oral and written views prior to this determination.

Treasury's investigation in this case revealed sales at less than fair value by Braas & Co. GMBH. With respect to sales of the other two companies, Nopi GMBH and Beiersdorf A.G., the margins found were determined to be minimal in relation to total sales. Because of minimal margins and because the two companies provided assurances that all future sales will not be at less than fair value, the investigation is being discontinued insofar as they are concerned.

The case has been referred to the U.S. International Trade Commission which must determine within three months whether a U.S. industry is being, or is likely to be, injured by the imports sold at less than fair value. Dumping occurs only when both sales at less than fair value and injury have been determined.

If the Commission finds injury, a "Finding of Dumping" will be issued and dumping duties will be assessed on an entry-by-entry basis.

Imports of pressure sensitive plastic tape from West Germany were valued at approximately $7 million during calendar year 1976.

Notice of this action will be published in the Federal Register of June 9, 1977.

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B-275

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 9, 1977

EVERARD MUNSEY OF ARLINGTON, VA., NAMED DEPUTY ASSISTANT SECRETARY FOR PUBLIC AFFAIRS AT THE TREASURY DEPARTMENT

Everard Munsey of Arlington, Va., a former Chairman of the Arlington County Board whose career includes experience as a legislative assistant on Capitol Hill, the executive vice presidency of a planning association, and five years as a Washington newspaper reporter, has been named Deputy Assistant Secretary for Public Affairs, Treasury Secretary W. Michael Blumenthal announced today.

Born in Washington, D.C. in 1933, Mr. Munsey received his undergraduate degree in political science at Yale University and graduate degree in public administration at Harvard University. Until his appointment to his Treasury post, Mr. Munsey held a number of positions at the National Planning Association, most recently that of Executive Vice President. NPA is a non-profit organization which undertakes economic research and develops analyses and recommendations on public policy issues.

During military service from 1955 to 1957, Mr. Munsey was assigned to duty with the Central Intelligence Agency. Mr. Munsey was a reporter for the Washington Post from 1958 to 1963. He served as a Legislative Assistant to Representative Henry S. Reuss of Wisconsin from 1963 to 1968. In 1968 he was Assistant Director of Public Affairs for the Democratic National Committee and Information Director of United Democrats for Humphrey.

Mr. Munsey was elected Chairman of the Arlington County Democratic Party in 1967, a position he held until 1969. In 1972 he was elected by Arlington voters to the County Board where he served until 1975, including one year terms as Chairman and Vice Chairman. During these years he also served as Chairman and Vice Chairman of the Northern Virginia Transportation Commission and was a Director, in 1975, of the Washington Metropolitan Area Transit Authority (METRO).

Mr. Munsey married Bernice Ann Wilson of Alexandria, Virginia. She is now Director of the Foreign Service Educational and Counseling Center in Washington. They have four children. He is the son of Mr. and Mrs. Virdell E. Munsey of Weston, Massachusetts.

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B-276

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

TRANSCRIPT OF PRESS CONFERENCE OF
TREASURY SECRETARY W. MICHAEL BLUMENTHAL
GUATEMALA CITY, GUATEMALA
May 31, 1977

CARLOS CONDE: This is a press conference of the Secretary of the Treasury Michael Blumenthal. I am going to present Mr. Joseph Laitin, Assistant Secretary for Public Affairs, and he will introduce Secretary Blumenthal.

MR. LAITIN: Thank you very much, Carlos. Sorry we had to keep you waiting a few minutes. Secretary Blumenthal will make a few observations on the conference and then he will be available to answer your questions. I'd like to suggest you keep your questions short so the Secretary can make his answers a little longer. We have a limited amount of time, so I will now turn the microphone over to Secretary Blumenthal.

SECRETARY BLUMENTHAL: Well, I would merely like to apologize for keeping you waiting. I was in another meeting which was supposed to end before 13:00 o'clock but it did not end until just a moment ago. I really do not have much to say by way of introduction other than that I am happy to be able to participate in this important meeting of the Inter-American Development Bank. The new Administration in Washington and the personal interest of President Carter goes very much in the direction of working closely with all of the Latin American countries to collaborate with them in the economic development efforts of all the countries. It is based on the philosophy that there are considerable needs and opportunities; and situations of individual countries differ; and that these differences have to be taken into account; and different policies have to be followed for each case. Secondly, it is based on the principle of giving maximum support to international financial institutions and, of course, in the case of this hemisphere the Inter-American Development Bank is the principal financial institution through which we seek to work. We are making a major effort in providing maximum amount of resources to help in the work of the bank and we're all personally involved in working with our Congress to secure these funds. We want to be sure that those funds are used for good purposes, that they meet the needs of the people, and that they provide an opportunity for countries to achieve the kind of development that will allow them to give a better life to their people, and to move forward on their own. A third element of our policy is to cooperate on a world-wide scale, not only in the promotion and collaboration in other international organizations, such as the World Bank and International Monetary Fund, but also in working together with developed and developing countries to make sure that the world economic system is an open one and that maximum trade can flow, trade both for primary products as well as for manufactured products. In the case of primary products we have indicated that we are prepared to participate in the negotiations of commodity agreements looking at each on a case-by-case basis so that the instability of the commodity prices can be moderated and, if possible, eliminated. We have also indicated that we are agreeable to the idea that there should be a common fund which might link the buffer stock arrangements that possibly are negotiated in individual commodity cases. We don't underestimate the problems in doing that, but we want to cooperate openly and constructively to bring that about. So both in the way of promoting trade, in the way of helping to stabilize prices for commodities, in keeping our markets and the markets of other countries, developed countries, open as much as possible to manufactured exports and in providing assistance by working with international financial institutions as well as through some bilateral aid, we want to play our part in a constructive, peaceful economic development throughout the world and of course, very much in this part of the world. For this reason, I came down personally to participate in this meeting, and I'm going back to report to President Carter, and I will be able to tell him that I'm quite satisfied that the work of the IDB is progressing well and the opportunities for making improvements and for working collaboratively are very good. I'll be glad to answer any questions anyone may have.

QUESTION: The Governor of Peru pointed out in his presentation yesterday the requirement that the United States modify its privileged position with respect to the power of its vote.

ANSWER: You're speaking of the vote in the IDB. The question of the voting is not a new question. That has come up before. We are by far the largest contributor to the IDB. We work very constructively with other executive directors of the countries. We do not have, in the ordinary deliberations of the IDB activities, we do not have a veto. We cannot act alone. It has to be done on the basis of the viewpoints of other countries and the votes of other countries, and we really feel that the present system is an adequate one. We have not, moreover, felt any great additional viewpoints from most of the other countries in the same direction, so I consider that to be a viewpoint of a particular country which is, of course, important; but our viewpoint in the present situation is a fair one, given the importance of our country in the overall context of the IDB.

QUESTION: Sir, What's the view of the United States about this meeting of governors?

ANSWER: I just didn't understand the one word.

QUESTION: Yes sir: What is the reaction of the United States concerning this meeting of the Governors of the Inter-American Development bank at which a terrorist action results in the reading of a message highly critical of the North American and international financial systems as well as the systems represented by all the Governors of the Bank?

ANSWER: I obviously greatly regret that a situation has arisen of this kind. I don't think I'm in a position to comment in detail on it. I feel that we have to all work together to pursue the purposes of this bank. This is not a political organization; it is an economic organization; it is devoted to the economic development of the countries that are its members and that receive its support. We feel strongly that the political situation of all people will improve as the economic situation improves, and it is toward that end that we want to work; and it is on that kind of subject that I feel strongly about the question of human rights. President Carter has spoken about the feelings of the American people that in all countries human rights should be observed, that these are as important as economic rights, and they can not really be separated; and, of course, we also feel that a human right is that you are free from attack; and, therefore, we feel sorry that these things happen. But our work here is devoted toward economic development and toward securing economic and human rights for the people.

QUESTION: Mr. Blumenthal, the governments of several countries have stated on a number of occasions that the U.S. initiative with respect to human relations is interference in their internal affairs. What is your response to this?

ANSWER: Well, our viewpoint on human rights is not directed against any one country, nor is it intended in any way to interfere in the internal affairs of any country. We do feel that the right to have enough to eat and the right to have a roof over your head and the right to have a shirt on your back is intimately linked to the right to be free from arbitrary persecution outside the law and the right of all people to live with a certain degree of security in their personal lives for themselves and for their families. We think we have an obligation to say so, openly and that's all we're doing; and we feel that in giving our support to devoting our funds for particular purposes we have to see, to an extent, that these funds are used in circumstances which will really benefit the people. And, therefore, to us there is an important connection. At the same time our Congress, which has to provide those funds so that we can spend them, feels that way; and that represents the viewpoint of all our people, because that Congress represents our people. So when they tell us that we have to take that into consideration when we cast our vote, expressing our viewpoint, they reflect the viewpoint of all our people. We have said that we are, of course, understanding and flexible about different situations in different countries and that we want to have the advice, the support of all the countries and people in promoting human rights, and in my speech I asked for the understanding and the advices of other countries in this regard, but we feel that when we speak up as a strong and big country that we are saying things and doing things that the people in all countries, including all countries of Latin America, agree with and that we will be less than honest if we do not have the courage to say so. So we don't do that with interfering, we don't do that directed against any country, we don't do it arbitrarily, but we say it and we do it because we feel it is a part of the total development of all countries.

QUESTION: Mr. Blumenthal, the President of Guatemala noted shortly after the U.S. rejected a request for arms sales that this embargo had its roots in the adjudication of the Belize dispute in favor of the United Kingdom. What's the story?

ANSWER: Any position that we have taken with regard to the human rights question has been related totally to that issue, and not to any other question.

QUESTION: In connection with your announcement yesterday that you would collaborate in the establishment of markets for primary materials, doesn't this represent a radical change in U.S. policy?

ANSWER: I think it represents a change, an important change. Until recently, certainly until the beginning of the new administration of President Carter in Washington, the U.S. took a much more reserved, if not negative, position with regard to the negotiation of commodity agreements; but more importantly the U.S. took a rather negative position with regard to the idea of seeking to negotiate commodity agreements that included buffer stocks, buffer stocks that could be financed with the important participation of the consuming countries like the U.S. And also we took a completely negative position with regard to the idea that these buffer stocks could be linked into a common fund which would be available to all the different commodity agreements that would be negotiated. Now here I stated that not only is the U.S. now willing to enter in good faith into negotiations on individual commodities; but secondly, also, that we are willing to negotiate agreements that contain buffer stock agreements that would involve the participation in the funding by developed countries like the U.S.; and thirdly, also, that we recognize and accept that these should be a common fund, and that we're willing to explore ways and means of creating one. So that is an important change.

QUESTION: Secretary Blumenthal, in your remarks to the Assembly, you particularly mentioned the nature of the financial support you have given. What is the view of the United States and the international financial organizations to which you belong concerning the type of assistance -- public or private -- that should be provided Mexico to accelerate its development of petroleum resources? Will it benefit the Third World as well as the U.S.?

ANSWER: We are a very...we enjoy very close and very friendly relations with Mexico. President Lopez Portillo and President Carter had a very good and understanding visit when the President of Mexico visited him in Washington; and there was considerable agreement that a maximum should be done to help Mexico in its own development. A part of that development clearly is the exploitation of the considerable petroleum resources that the country has, and that's particularly important in view of the great increase in proved reserved which has now come to light. We had indicated our desire to help, in every way we can, so that Mexico can exploit these resources; and certainly any financing that would be required we would be sympathetic to, and would give our support to it. I think that financing has to be partly from international organizations and partly from private organizations. And we would support these efforts in any way we can.

QUESTION: Mexico is one of the countries which received the first loans from the Bank for tourism. In your speech you asked why the Bank was making loans for education and tourism when there were other matters more important. Why do you take this position against investments in tourism when tourism in many countries is the primary source of income?

ANSWER: I think that may be a misunderstanding. We...I did not mean to say in my statement that we are opposed to the development of tourism. We recognize that that is a very important earner of foreign exchange for many countries and is an important industry that can be and should be developed in many countries. I was referring to the fact that the resources of the bank are necessarily limited, and that a certain system of priority has to be observed, and that in connection with setting some priorities there are certain basic industries and basic infra-structure items that may have a higher priority. And not that tourism is not developed at all, but rather it might not be assigned the highest priority compared for example (going to the previous question that you mentioned) to something that had to do with the development of basic natural resources like petroleum. So it was only a manner of indicating that, in setting priorities, it might be better in many instances not to put all your resources, or most of your resources, or the highest priority for your resources into the tourist sector.

QUESTION: The question relates to the United State's interest in stabilizing the prices of primary raw materials. Considering that the great majority of countries in development are countries that depend upon their earnings from primary materials, I think that to equalize the balance there must be some mechanism to stabilize the costs of manufactured products. Also the question relates to the position taken by the Peruvian delegate yesterday when he noted the United States uses a language, well, that appears to be imperialistic when you talk of aid, notwithstanding that it deals with investments and fulfillment of your promises. Finally, I pose the question, isn't it time that the U.S. introduce in its thought and idealogy changes that recognize the reality that Latin America isn't the same as it was 50 years ago?

ANSWER: I think that we understand that very well, and I think that the speech which President Carter gave before the OAS indicates the fact that we understand it very well. We do understand that there are many countries in Latin America: that they have very different situations, both economic, political, and social, and that each of them has to be understood for what they are; and that we want to work with all of the Latin American countries in a world context. We urged to speak of a special relationship; and to some people, rightly or wrongly, a special relationship meant domination by the United States. We no longer speak of that because we have seen many Latin American countries develop in every way and play their own role in the world context, and we want to work with them as equals and as partners in that way. Other countries in Latin America still have not yet developed, or do not have the potential to develop, in quite the same way or quite as rapidly. But in any case we have certainly changed. There has been an evolution in our attitude, and I would reject in a very firm way any notion that the policy, the foreign policy of the United States, toward the Latin American countries is based on any kind of imperialist objectives in the amount of aid that we provide, the facility that we provide to American private investments (and banking institutions provide resources for the development of Latin America), in the trade policies that we follow to keep our market open as much as possible when frequently American jobs are involved either American workers who depend--Northern American workers --on their livelihood, who have to compete with all the political pressures that we have in our country. That's not a question of imperialism; that's a question of political reality in all countries; and yet we try. Our President has been very courageous to take the political risks to reject the Congress's enacting restrictions on manufactured goods. We try to keep the market open as much as possible. The example of the case of shoes, which I believe I cited in my speech, is a very important one, for here not only the Congress but the International Trade Commission was putting very strong pressures on the Government for quotas and restrictions, and yet we were able to find a formula; and President Carter rejected that approach. So we keep the market open for manufacture goods. We are the major force to work for successful trade negotiations in Geneva so that other countries will do the same. We are collaborating for commodity agreements; we have said that we will contribute to buffer stocks; and we do expect and observe the national sovereignty and individuality of all the Latin American countries. I think that is a change over the last fifty years, and anyone who doesn't recognize it, in my opinion, is blind.

QUESTION: Mr. Secretary, Latin America, in reality, is very complicated. Can you tell me the view of the Carter Administration with respect to the Conference of Plata, the human rights question, especially your view concerning Argentina?

(A taping problem occurred at this juncture, and Blumenthal's voice is not discernible; the simultaneous translation, however, was taped in Spanish, as follows.)

ANSWER: Well, our policy concerning human rights is not directed to any specific country. All I can say to be more precise is that our policy is directed to all countries, and as I said earlier, our policy is based on the idea that economic rights and human rights that are narrowly related are part of the same question. We do not believe in the philosophy of using terrorist methods to fight against terrorism, or methods extra-judicial or extra legal to deal with these people that are outside law. It is policy that will succeed in the long run, and we are also of the opinion that in all countries all people are always equal and have the same feelings and wish to be treated as equals. We also understand that there are individual countries in which progress will be made little-by-little and in no instance do we wish in anyway to interfere with the manner in which these governments manage their affairs. It's up to the governments to decide what they are going to do, but in voting in international organizations, we have to take into account, and will take into account in the case of Argentina, as in the case of any country, the degree to which we think the money will be used for constructive purposes to benefit the people and to benefit the people in a way that helps increase and maintain the economic and the human rights. And we will make that judgment when a loan comes up with regard to Argentina just as much as it does with regard to any other country. We hope that we will have the flexibility from our Congress, that we can work with individual countries before these problems arise, before the votes are taken, so that we can fully understand the progress that is being made, the commitment that the Government has to moving in the right direction, the steps that are being taken to implement a particular policy; and we want to be as helpful as we can, working with as many countries as possible to see events move in that direction. That applies to Argentina as it does to all other countries. But I certainly don't want to comment in particular on the Argentine situation, because that is really outside the framework of my responsibility.

QUESTION: Sir, at the last interparliamentary meeting between the United States and Mexico, Senator Bentsen said, after being informed of Mexico's oil reserves, he wished to be a client of his "rich neighbor to the South." He also asked for sincere cooperation of the Mexican government in setting prices. My question is: Is the U.S. willing to abide by OPEC prices now being charged for Mexican oil when the U.S. now will be one of the largest and secondly, can you agree to these prices when you consider the savings in transporting oil from Mexico.

ANSWER: Certainly, we will be very happy to see Mexico develop the petroleum resources and Senator Bentsen is quite right when he says that he expects us to be an important customer. I am sure he is also right when he says to you that he hopes you will treat an important customer well. By the same token, we also - I have no illusions that whatever is exported by Mexico, in the way of petroleum resources, will be sold at the best possible price, that is only natural - and we do consider the price, that is, the world price for petroleum, to be very high; but we are paying it for what we are importing; and I don't really think that we are likely to get to have the advantage to buy petroleum anywhere, including from Mexico, at a price that gives special benefit to the United States that other countries do not enjoy, unless it is in return for certain benefits that we provide. As regards the question of constructing facilities for the transport, if there are projects that are commercially viable and resources and funds are required, I see no reason why both from private and from official sources the United States would not be interested in collaborating with Mexico, that is if Mexico wishes, in order to help in the investment requirement, which will be very large, to bring about the construction of these facilities.

LAITIN: Can we have just one more question please. Somebody who has not asked yet. OK.

QUESTION: Mr. Blumenthal, in your speech yesterday, you said that it was indispensable that the operation of the Bank must be accomplished in an efficient manner with respect to costs. Should we consider the administration expensive and inefficient?

ANSWER: It is a question of degree. It can be less costly and more efficient....

You know, it is a matter of degree. Of course, I was amongst other things, referring to the need that international organizations practice the same economy that all governments should practice, there should not be more staff than is needed, and the staff should be paid adequately, but not excessively. We have had the feeling at times that some international organizations may have had too many people on their staff, and the amount of money that they were paid was very much in excess of what would be necessary to attract good people. The international financial organizations that are located in Washington pay their people much better not only than we are paid, but than, I would suspect, any civil servant in Guatemala, Mexico, Argentina or in any other country is paid, several times as much; and I don't think that can be because they have to go to Washington, because Washington is not the Sahara desert. It's not such an awful place to live, but you have to pay somebody three or four times as much to go there. So when I refer to efficient management, I was referring to some of these things which could be improved. I am not saying that they are totally inefficient or bad in every way. I am saying that improvement is possible. Improvement is always possible, but in this case I think there is something that all the member countries should consider.

LAITIN: One more can be answered in English.

QUESTION: I have two short questions. In the case of coffee, the U.S. attitude is that it is dealing with a cartel when the cause of increasing prices can be attributed to a meterological phenomenon. Secondly, can you indicate generally your policies concerning primary materials in connection with the proceedings that have been established by SELA?

ANSWER: Your first question refers to a question that I know very well, because sixteen years ago I was in charge of the U.S. delegation negotiating the first Convention on Coffee and I understand very well the coffee problem. It is very clear to me that the very high prices we have world-wide is the result of actions not by governments, but it results from conditions you have characterized as meteorological. It is clear when sometime in the future when prices reach a more normal level, not as low as before, but more normal, it seems to me important that if we don't want these large fluctuations, it is necessary to avoid not only very low prices as well as very high prices. It seems to me this is in the interest of the producing countries because very high prices over a long period of time result in lower consumption. And experience has demonstrated, that once consumption has gone, it is very difficult to change it. Then, it seems to me that normal prices, not low, but normal, will be better not only for the consuming countries, but also for coffee producing countries. What is the second question?

QUESTION: It was on SELA, what do you think of the SELA recommendations?

ANSWER: We have not opposed any efforts by various countries to come together to discuss and negotiate prices or to coordinate or integrate their economics, either in Central American economic integration efforts or in efforts to discuss prices for particular commodities in which they have an interest. So to the extent to which a country wishes to do that we don't have any objection to it.

LAITIN: Secretary Blumenthal must return to Washington this afternoon. While the airplane will wait for him, he doesn't like to keep airplanes waiting so, thank you very much.

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

June 9, 1977

Dear Mr. President:

There is enclosed a draft bill, "To provide improved consumer deposit services; to promote competitive balance among financial institutions; and to enhance the effectiveness of the Federal Reserve System," together with a detailed analysis thereof.

Title I of the draft bill provides that, on a nationwide basis, federally insured commercial banks, mutual savings banks, savings and loan associations, and credit unions may offer negotiable order of withdrawal (NOW) accounts. It would also permit share draft accounts (which are similar to NOW accounts) for credit unions. The authority to offer such accounts would be effective one year after enactment of this bill.

A NOW account or share draft account is an interest earning account on which checks may be drawn. These accounts would be available under the proposed legislation to individuals. At present, NOW accounts are offered only in the six New England States. NOW accounts and share draft accounts would be regulated in a uniform manner and in coordination by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration. These regulatory authorities would be authorized for three years (1) to fix uniform reserves that all depository institutions would be required to maintain against NOW accounts and share draft accounts, and (2) to set a uniform, maximum interest rate that might be paid on such accounts. Institutions in New England would receive special treatment.

Title II of the draft bill would authorize the Federal Reserve to pay interest on the reserves that its members are required to maintain. The amount of interest payable would be limited, as provided in the draft bill. Banks have been withdrawing from the Federal Reserve System at a growing rate because it is costly for them to hold their reserves in non-interest earning form as required by existing law. The Board of Governors of the Federal Reserve System is concerned that this loss of membership will weaken the soundness of our banking system and the System's ability to conduct monetary policy. The Board believes the proposal in title II would reduce the cost burden for members and help to stem membership loss. The Administration supports the effort of the Board to maintain membership in the System.

Title III of the draft bill would extend the flexible authority to prescribe interest rate ceilings on time deposits (Regulation Q) until December 15, 1979. This would allow the Administration sufficient time to study the impact of (1) Regulation Q on financial intermediaries, consumers, and the mortgage market, and (2) the elimination of unnecessary Federal regulatory constraints.

In summary, the Department believes that the draft bill would have a net beneficial economic impact by (1) providing consumers with an attractive alternative to savings and checking accounts, (2) improving competition among financial institutions seeking to attract deposits, and (3) enhancing the ability of the Federal Reserve effectively to conduct monetary policy by preserving its bank membership base. We urge its prompt enactment.

It would be appreciated if you would lay the draft bill before the Senate. An identical proposal has been sent to the Speaker of the House of Representatives.

The Department has been advised by the Office of Management and Budget that the proposed legislation is consistent with the Administration's objectives.

Sincerely,

W Michael Blumenthal

W. Michael Blumenthal

The Honorable
Walter F. Mondale
President of the Senate
Washington, D. C. 20510

Enclosures - 2

Section by Section Analysis

TITLE I

Section 101 provides that Federally insured commercial banks, mutual savings banks, savings and loan associations, and credit unions, may offer NOW accounts. It also provides that Federally insured credit unions may offer share draft accounts. It defines NOW accounts and share draft accounts, and limits their use to individuals.

Section 102 defines depository institution, NOW account and share draft account in the Federal Reserve Act.

Section 103 authorizes the Federal depository regulatory agencies to determine by similar regulation that any deposit account on which interest may be paid that is used to provide funds directly or indirectly for the purpose of making payments or transfers is a NOW account or share draft account.

Section 104(a) authorizes the Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and National Credit Union Administration jointly as a committee, with the Federal Reserve as Chairman, to prescribe interest rate limitations on NOW accounts and share draft accounts for a period of three years after the effective date, with standby authority to prescribe rates for the following three years. It requires uniform rates on NOW's and share draft accounts and requires a rate less than that set by the Board for savings deposits of member banks. If the agencies are unable to reach a majority decision on the rate within six months of enactment, the Federal Reserve will set the initial rate. Any subsequent change must be determined by majority vote of the agencies.

<u>Section 104(b)</u> grandfathers the rate being paid on the enactment date by depository institutions on NOW's and share drafts, and permits continuation of authority to offer these accounts to the same depositor having accounts at the date of enactment. This grandfathering is effective for three years after the effective date for institutions offering NOW accounts prior to the enactment date. It also provides that, if an institution lowers its rate after the effective date, it may not thereafter raise the rate to exceed that set under the procedure set out in Section 104(a).

TITLE II

<u>Section 201</u> imposes reserve requirements on all depository institutions for NOW's and share drafts at levels prescribed by the Board, and sets ranges for reserve ratios on these accounts and on the demand deposits of member banks. It provides for a three-year phase-in for required reserves on outstanding NOW's and share draft accounts of non-member depository institutions.

<u>Section 202</u> provides for maintenance of reserve balances on NOW accounts or share draft accounts at Federal Reserve Banks or in vault cash, the requirements being identicle for all depository institutions. Permits reserves on NOW and share drafts to be maintained at Federal Reserve Banks directly by all institutions or indirectly by non-member depository institutions in the form of deposits in Federal Home Loan Banks or member banks that are redeposited in Federal Reserve Banks. The section authorizes payment of interest on reserve balances, but limits the amounts that may be paid on reserve balances to no more than 10 percent of Federal Reserve net earnings in the previous year.

<u>Section 203</u> authorizes NOW's for Federal savings and loans and requires all Federally insured savings and loans to maintain reserves on their NOW's.

<u>Section 204</u> requires all Federally insured credit unions to maintain reserves on share draft accounts and NOW accounts.

<u>Section 205</u> amends the Federal Reserve Act to authorize Federal Reserve Banks to provide clearing services for all depository institutions.

<u>Section 206</u> provides that this Act is effective one year after enactment.

TITLE III

Section 301 extends flexible authority to prescribe interest rates on deposits (popularly known as Regulation Q) for two years from its present expiration date of December 15, 1977.

A BILL

To provide improved consumer deposit services; to promote competitive balance among financial institutions; and to enhance the effectiveness of the Federal Reserve System.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, TITLE I

PAYMENT OF INTEREST ON DEPOSITS OR ACCOUNTS

SEC. 101. Section 2 of the Act of August 16, 1973, (Public Law 93-100) as amended (12 U.S.C. 1832), is further amended to read as follows:

"(a) A depository institution may permit depositors or account holders to maintain negotiable order of withdrawal accounts or share draft accounts.

"(b) The term 'depository institution' means --

"(1) any insured bank as defined in section 3 of the Federal Deposit Insurance Act;

"(2) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act;

"(3) any savings bank as defined in section 3 of the Federal Deposit Insurance Act;

"(4) any insured credit union as defined in section 101 of the Federal Credit Union Act;

"(5) any member as defined in section 2 of the Federal Home Loan Bank Act; and

"(6) any insured institution as defined in section 401 of the National Housing Act.

"(c) The term 'negotiable order of withdrawal account' means a deposit or account (1) on which payment of interest or dividends may be made, (2) with respect to which the depository institution may require the depositor or account holder to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, and (3) on which the depositor or account holder is allowed to make withdrawals by negotiable or transferable instrument or other similar item for the purpose of making payments to third persons or others. Such deposit or account shall consist solely of funds in which the entire beneficial interest is held by one or more individuals.

"(d) The term 'share draft account' means a share account established at a credit union for an individual who is a credit union member (1) using negotiable or non-negotiable drafts or other orders which are used to withdraw shares, (2) which earns dividend credit, and (3) with respect to which the credit union may require the account holder to give notice of an intended withdrawal not less than 30 days before the withdrawal is made."

SEC. 102. (a) The first section of the Federal Reserve Act, as amended (12 U.S.C. 221), is amended by adding at the end thereof the following new paragraphs:

"The term 'depository institution' means --

"(1) any insured bank as defined in section 3 of the Federal Deposit Insurance Act;

"(2) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act;

"(3) any savings bank as defined in section 3 of the Federal Deposit Insurance Act;

"(4) any insured credit union as defined in section 101 of the Federal Credit Union Act;

"(5) any member as defined in section 2 of the Federal Home Loan Bank Act; and

"(6) any insured institution as defined in section 401 of the National Housing Act.

"The term 'negotiable order of withdrawal account' means a deposit or account (1) on which payment of interest or dividends may be made, (2) with respect to which the depository institution may require the depositor or account holder to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, and (3) on which the depositor or account holder is allowed to make withdrawals by negotiable or transferable instrument or other similar item for the purpose of making payments to third persons or others. Such deposit or account shall consist solely of funds in which the entire beneficial interest is held by one or more individuals.

"The term 'share draft account' means a share account established at a credit union for an individual who is a credit union member (1) using negotiable or non-negotiable drafts or other orders which are payable through a bank and are used to withdraw shares, (2) which earns dividend credit, and (3) with respect to which the credit union may require the account holder to give notice of an intended withdrawal not less than 30 days before the withdrawal is made."

(b) Section 2(a) of the Act of June 16, 1933 (Public Law 73-66) as amended (12 U.S.C. 221a(a)), is further amended by striking "and" and inserting after the words "reserve bank" the following:

", depository institution, negotiable order of withdrawal account and share draft account".

SEC. 103. Section 19(a) of the Federal Reserve Act, as amended (12 U.S.C. 461), is amended to add at the end thereof the following:

"In order to prevent evasions of the interest rate limitations and reserve requirements imposed by this Act, after consultation, the Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Administrator of the National Credit Union Administration, are further authorized to determine by similar regulation or order that an account or deposit on which the payment of interest or dividends may be made is a negotiable order of withdrawal account or share draft account where such account or deposit may be used to provide funds directly or indirectly for the purpose of making payments or transfers to third persons or others."

SEC. 104. (a) Section 19(j) of the Federal Reserve Act, (12 U.S.C. 371b), both as it appears in the Act of June 16, 1933, c. 89, §11(b), 48 Stat. 182, as amended, and in the amendment made by section 2(c) of the Act of September 21, 1966 (Public Law 89-597), is amended by striking out the period at the end of the first sentence and inserti in lieu thereof a comma, and adding the following:

"and negotiable order of withdrawal accounts and share draft accounts, provided that the interest rates on negotiable order of withdrawal accounts and share draft accounts shall be prescribed in consultation with a committee, the chairman of which shall be the Chairman of the Board, or his designee, and the other members of which shall be the Chairman of the Federal Deposit Insurance Corporation, the Chairman of the Federal Home Loan Bank Board, and the Administrator of the National Credit Union Administration or their designees. The rate ceiling established shall be uniform for all depository institutions and shall be at a lower rate than the rate prescribed for savings deposits at member banks. In the event that the members of the aforesaid committee are unable to reach a majority decision on the rate ceiling for negotiable order of withdrawal accounts or share draft accounts within six months of enactment, the initial rate shall be determined by the Board. The rate shall be changed thereafter from time to time only by majority vote of the Board, the FDIC, Federal Home Loan Bank Board and the National Credit Union Administration. In prescribing the maximum rate of interest and dividends that may be paid on negotiable order of withdrawal accounts and share draft accounts, the agencies shall give due consideration to such factors as monetary needs, benefits to consumers, safety and soundness of depository institutions, and competitive balance among depository institutions. Authority to prescribe limitations on the rate of interest or dividends that may be paid by depository institutions on negotiable order of withdrawal accounts and share draft accounts shall expire three years after the effective date of this title. For a period of three years after such expiration date, however, the agencies shall be authorized only for that period of time to prescribe limitations on the rate of interest or dividends that may be paid by depository institutions on negotiable order of withdrawal accounts and share draft accounts in accordance with the provisions of this paragraph if a majority of the agencies determines that continuation or reimposition of such limitations is warranted by the aforesaid factors used to determine the interest rate ceiling."

(b) Section 19(j) of the Federal Reserve Act, (12 U.S.C. 371b), both as it appears in the Act of June 16, 1933, c. 89, §11(b), 48 Stat. 182, as amended, and in the amendment made by section 2(c) of the Act of September 21, 1966 (Public Law 89-597), is further amended by adding after the sixth sentence the following:

> "However, for a period of three years after the effective date of this Act, depository institutions which are offering negotiable order of withdrawal accounts and share draft accounts prior to the date of enactment of this Act may pay interest on such accounts at the rate the institutions paid on these accounts at that time and may continue to offer these accounts to the same depositors having accounts at the date of enactment: Provided, however that if, after the effective date, any such institution lowers the rate of payment on these accounts, it may not thereafter increase the rate to a higher rate than the uniform rate set by the Board of Governors of the Federal Reserve System, the Federal

Deposit Insurance Corporation, the Federal Home Loan Bank Board and the National Credit Union Administration pursuant to this Act."

(c) Section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)), both as it appears in the Act of September 21, 1950, c. 967, §2 [18(g)], 64 Stat. 893, as amended, and in the amendment made by section 3 of the Act of September 21, 1966 (Public Law 89-597), is amended by striking out the period at the end of the second sentence and inserting in lieu thereof a semi-colon, and adding the following:

"except limitations on the rate of interest that may be paid by insured nonmember banks (including insured mutual savings banks) on negotiable order of withdrawal accounts as defined in section 1 of the Federal Reserve Act (12 U.S.C. 221) shall be determined as provided in section 19(j) of the Federal Reserve Act (12 U.S.C. 371b)."

(d) Section 4 of the Act of September 21, 1966 (Public Law 89-597) as amended (Section 5B(a) of the Federal Home Loan Bank Act, 12 U.S.C. 1425b(a)), is further amended by striking out the period at the end of the first sentence and inserting in lieu thereof a semi-colon, and adding the following:

"except limitations on the rate of interest or dividends that may be paid on negotiable order of withdrawal accounts as defined in section 1 of the Federal Reserve Act (12 U.S.C. 221) shall be determined as provided in section 19(j) of the Federal Reserve Act (12 U.S.C. 371b)."

(e) Section 117 of the Federal Credit Union Act, as amended (12 U.S.C. 1763), is amended --

(1) by re-designating Sec. 117 as Sec. 117(a); and

(2) by adding at the end thereof the following new subsectio

"(b) The Administrator may from time to time after consulting with the Board of Governors of the Federal Reserve System the Federal Home Loan Bank Board, and the Board of Directors of the Federal Deposit Insurance Corporation, prescribe rules governing the payment and advertisement of interest or dividends on negotiable order of withdrawal accounts or share draft accounts, including limitations on the rate of interest or dividends, and this rate shall be determined as provided in section 19(j) of the Federal Reserve Act (12 U.S.C. 371b)."

TITLE II

RESERVE REQUIREMENTS AND EXPANDED DEPOSIT POWERS

SEC. 201. (a) The last sentence of subsection (b) of section 19 of the Federal Reserve Act (12 U.S.C. 461) is designated as paragraph (5) and that part of subsection (b) that precedes that sentence is amended to read as follows:

"(b)(1) Every member bank shall maintain reserves against its demand deposits in such average ratio, not less than 5 per centum nor more than 22 per centum, as shall be determined by the Board: Provided, however, that in no event shall the reserve requirement on any demand deposit be less than 7 per cent for any member bank with net demand deposits of more than $15 million.

"(2) Every depository institution shall maintain reserves which shall be at the same level for all depository institutions against its negotiable order of withdrawal accounts and its share draft accounts in such average ratio, not less than 3 per centum nor more than 12 per centum, as shall be determined by the Board.

"(3) Every member bank shall maintain reserves against its time and savings deposits (other than negotiable order of withdrawal accounts) in such average ratio, not less than 3 per centum nor more than 10 per centum, as shall be determined by the Board.

"(4) Every depository institution that maintains reserves pursuant to this section shall make reports concerning its deposit liabilities and required reserves at such times and in such manner and form as the Board may require."

(b) With respect to any depository institution that is not a member of the Federal Reserve System on June 1, 1977, the required reserves imposed pursuant to section 201 of the Act against its negotiable order of withdrawal accounts or share draft accounts on the effective date of this Act shall be reduced by 75 per centum during the first year that begins after the effective date, 50 per centum during the second year, and 25 per centum during the third year.

SEC. 202. (a) Section 19(c) of the Federal Reserve Act, (as amended (12 U.S.C. 461(c)), is amended by changing "subsection" to "subsections"; by inserting "(1) and (b)(3)" after "(b)"; and adding at the end thereof the following:

"Reserves held by any depository institution to meet the requirements against its negotiable order of withdrawal accounts and its share draft accounts imposed pursuant to subsection (b)(2) of this section shall be in the form of --

(1) balances maintained for such purposes by

such depository institution in the Federal Reserve Bank of which it is a member or at which it maintains an account. However, the Board may by regulation permit depository institutions to maintain all or a portion of their reserves against their negotiable order of withdrawal accounts or share draft accounts in the form of vault cash provided that such proportion shall be identical for all depository institutions; and

(2) balances maintained by a nonmember depository institution in a member bank or in a Federal Home Loan Bank provided that such member bank or Federal Home Loan Bank maintains such funds in the form of balances in a Federal Reserve Bank of which it is a member or at which it maintains an account. Balances received by a member bank from another depository institution that are used to satisfy the reserve requirements imposed on such depository institution by this section shall not be subject to the reserve requirements of this section imposed on such member bank and shall not be subject to assessment imposed on such member bank pursuant to §2 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1817)."

(b) Section 19(c) is further amended by adding at the end thereof the following: "Interest may be paid on required reserve balances maintained at Federal Reserve Banks. The Board may establish the manner in which interest may be paid on required reserve balances maintained at Federal Reserve Banks, including limitations on the rates of interest that may be paid, provided that the aggregate interest that may be paid in any year on required reserve balances may not exceed 10 per cent of the net earnings in the previous year of the Federal Reserve Banks before payment of interest on required reserve balances. In establishing such rates the Board shall give due consideration to such factors as the effect on revenues of the Treasury of the United States, monetary and financial conditions, safety and soundness of depository institutions, competitive balance, benefits and costs of membership in the Federal Reserve System, the likelihood of membership attrition, and other circumstances surrounding depository institutions."

(c) Section 19(f) of the Federal Reserve Act, as amended, (12 U.S.C. 464), is amended by deleting "member bank" and inserting in lieu thereof "depository institution".

SEC. 203. (a) Section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464), is further amended by deleting "savings" at each place it appears before "account" or "accounts".

(b) Section 5(b)(1) of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464(b)(1)), is amended by deleting the last sentence thereof and substituting the following: "An association may permit withdrawal or transfer of deposits or accounts by negotiable order of withdrawal as defined in section 2 of the Act of August 16, 1973, as amended (12 U.S.C. 1832) and the Board may by regulation provide for withdrawal or transfer of savings accounts upon nontransferable order or authorization."

(c) Section 5A of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1425a), is amended by redesignating subsection (f) as subsection (g) and by inserting before such subsection, as redesignated, the following new subsection:

"(f) Every institution which is a member or is an insured institution as defined in section 401(a) of Title IV of the National Housing Act (12 U.S.C. 1724(a)) shall maintain reserves against its negotiable order of withdrawal accounts as defined in section 1 of the Federal Reserve Act (12 U.S.C. 221a) in accordance with the provisions of section 19 of the Federal Reserve Act (12 U.S.C. 461) in amounts not less than such percentages of its aggregate amounts of such deposits or accounts as may be prescribed under section 19(b) of the Federal Reserve Act (12 U.S.C. 461) by the Board of Governors of the Federal Reserve System."

SEC. 204. Section 116 of the Federal Credit Union Act, as amended (12 U.S.C. 1762), is amended by adding at the end thereof the following new subsection:

"(c) Each insured credit union shall maintain reserves against its negotiable order of withdrawal accounts and share draft accounts as defined in section 1 of the Federal Reserve Act (12 U.S.C. 221a) in accordance with the provisions of section 19 of the Federal Reserve Act (12 U.S.C. 461) in amounts not less than such percentages of its aggregate amounts of such deposits or accounts as may be prescribed under section 19(b) of the Federal Reserve Act (12 U.S.C. 461) by the Board of Governors of the Federal Reserve System."

SEC. 205. (a) The first paragraph of section 13 of the Federal Reserv Act (12 U.S.C. 342) is amended as follows:

(1) by inserting after the words "member banks" the words "or other depository institutions".

(2) by inserting after the words "payable upon presentation" the first and third times they appear, the words "or other items, including negotiable orders of withdrawal or share drafts".

(3) by inserting after the words "payable upon presentation within its district," the words "or other items, including negotiable orders of withdrawal or share drafts".

(4) by inserting after the words "nonmember bank or trust company," wherever they appear the words "or other depository institution".

(5) by striking the words "sufficient to offset the items in transit held for its account by the Federal reserve bank" and inserting in lieu thereof the words "in such amount as the Board determines taking into account items in transit, services provided by the Federal reserve bank, and other factors as the Board may deem appropriate".

(6) by inserting after the words "nonmember bank" after the second colon the words "or other depository institution".

(b) The thirteenth paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 360) is amended as follows:

(1) by striking out the words "member banks" wherever they appear and inserting in lieu thereof "depository institutions".

(2) by striking out the words "member bank" wherever they appear and inserting in lieu thereof "depository institution".

(3) by inserting after the word "checks" wherever it appears the words "and other items, including negotiable orders of withdrawal and share drafts".

(c) The fourteenth paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 248(o)) is amended by striking out "its member banks" and inserting in lieu thereof "depository institutions".

SEC. 206. The provisions of this Act shall become effective one year after date of enactment.

TITLE III

EXTENSION OF FLEXIBLE AUTHORITY TO IMPOSE INTEREST RATE CEILINGS ON DEPOSITS

SEC. 301. Section 7 of the Act of September 21, 1966 (Public Law 89-597) is amended by striking out "December 15, 1977" and inserting in lieu thereof "December 15, 1979".

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AN ADDRESS BY THE HONORABLE DANIEL H. BRILL
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
TO THE 14th ANNUAL ECONOMIC OUTLOOK CONFERENCE
CHICAGO, ILLINOIS

LESSONS OF THE SEVENTIES

I realize that it's presumptuous at this point, only three-quarters of the way through the decade, to claim the insights that would permit such a profound title as "Lessons of the Seventies". The justification--if there is one--for the pomposity of this title is my confidence in the economy's performance over the balance of the decade. I happen to think we are going to do quite well over the next several years.

This confidence is based on my observation that policy makers, both public and private, show clearly that at least some of the lessons of the seventies have indeed already been learned.

The principal lesson is caution. If stagflation has any redeeming quality, it is the humility it has induced among economic policy makers. This is evident in the more widespread realization that the business cycle is not dead. This is evident in the more widespread realization that economic shortfalls are not remedied simply by throwing money at them. This is evident in the equally widespread realization that economic excesses are not cured by depriving the economy of money or lengthening the unemployment lines. This is evident in the more widespread realization that inflation is not simply a question of excess demand in the United States and the increasing awareness that world demand and supply constraints are also important variables impacting upon U.S. prices. Moreover, economists have come to know that fear of inflation can be as great a danger as actual inflation. They have also learned--relearned--that inflation cannot be outlawed by fiat, or permanently suppressed by controls.

Economists have also come to realize that steady productivity growth, which in the past has been a buffer against increasing wage costs, is not a foregone and inevitable conclusion, that clean air and clean water, a safe and healthy work environment, and decreasing dependence on foreign energy sources are not free goods, and that attainment of these goals will of necessity impose some costs on our economy.

All of these realizations are healthy, because they lead to the conclusion that we still have a lot to learn about economic stabilization, that neither complete dependence on the marketplace nor overly ambitious fine-tuning provide adequate or socially acceptable solutions to the economic problems of our times.

This is not a conclusion of intellectual dispair. With apologies to my hosts, I must emphasize that I do not share the nihilism that underlies the economic philosophy usually identified with this city--that of the so-called Chicago school of economics. I believe in both the perfectability of man, and of his intellectual achievements. But I don't feel that this state of perfection was reached in either the General Theory or in the Monetary History of the United States. Neither provides us with adequate answers for the complex problems of the day.

Of all the lessons of the seventies, perhaps the most critical lesson is that neither a high unemployment rate nor a low utilization rate are sufficient to stop inflation, and that causes other than demand-pull are becoming increasingly important determinants of inflation.

This point can best be illustrated by contrasting the behavior of prices in the current business cycle with the behavior in previous cycles. A recent paper by Geoffrey Moore notes that in the earlier post-war cycles the rate of inflation (as reflected in the CPI) not only decelerated during contractions, but showed actual declines. Thus, while a peak inflation rate (measured as changes over a 6-month span) of +13.5 percent was achieved in October 1947, a trough rate of -4.2 percent was reached in November 1948. This was a peak to trough drop of almost 18 percent over only a 13-month span.

This record of sensitivity of prices to downward demand pressures was never again achieved in subsequent post-war cycles, with the record showing progressively smaller declines in price movements during periods of contraction. According to the analysis of Moore, the low point in the present price cycle was reached in April 1976, when the change in the Consumer Price Index (measured over a 6-month span) averaged +4.7 percent, a far cry from the minus 3/10 of a percent average for the other post-war troughs in prices. And this change represented a drop of only 8 percent from previous peak levels.

There is no simple explanation of the apparent reduction in the cyclical sensitivity of prices. Clearly market structure must be a factor, and to some extent it is related to a similar development in wages, which appear to be responding less to cyclical upturns in unemployment.

But this is only part of the price story. The reduced price sensitivity, particularly on the downward side, is undoubtedly related to the changed behavior of productivity. In the early post-war years thru 1968, fluctuations in productivity in the private business economy hovered around an average rate considerably above the zero line, rarely dipping into negative rates. In other words, even during economic downturns, productivity growth occurred, although at reduced rates. After 1968, however, fluctuations in productivity not only have shown a more pronounced cyclical pattern, but have frequently dipped below the zero line.

How does this all contribute to greater price rigidity? Lower levels of productivity during recent economic downturns, in addition to smaller downside reaction of wages to increases in unemployment, add up to less cyclical decline in unit labor costs. These developments, along with other factors discussed below, have imparted an inflationary bias to the economy, and are major reasons for caution in formulating policies, both public and private. In other words, in calculating the risk/reward ratio, the social costs of overshooting in a situation calling for economic stimulation have increased. And the chances of success in compensating for an overshoot through a reversal of macro-economic policies has diminished. Perhaps that is why the recent episodes of fierce monetary restraint have taken a stremendous social toll but still haven't succeeded fully in reversing inflation or inflation expectations.

Perhaps, also, we've been fighting the wrong war with the wrong tools. Granted that the economy seems more resistant to the macro policies traditionally used in defusing excess demand, the problem has not been excess demand as much as inadequate supply.

Certainly, we've suffered from a sequence of events limiting supply, particularly in the food and energy areas. Starting with the famous "anchovy disappearance" in 72 and continuing through several weather disasters and political upheavals, the world food, feed, and fuel situation has been plagued by supply constraints. The oil situation is too well known to be recounted here. And shortage of capacity in basic materials processing industries was an important contributory factor to the price developments of 73-74.

Supply problems are not amenable to the conventional tools of demand management. One can screw down as hard as one wishes on M_1, without adding one bushel of soybeans or one barrel of oil or one drop of rain to parched fields in Kansas. It seems to me one of the policy mistakes of recent years was in treating inflation resulting, in large measure, from supply shortages with tools designed to cope only with excess demand.

That is why I'm more confident about the years ahead. It seems to me that the choice of policy instruments used to cope with such problems will be influenced by the lessons learned from the earlier 70's. The energy program is one example, with its incentives to substitute

more abundant sources of energy, which can be developed under our own control, for diminishing resources controlled by a foreign cartel. It will undoubtedly involve much smaller social and economic costs than a policy of trying to offset price rises that could be invoked by an unchallenged monopoly by the throttling down of all demands.

The agricultural program, which will build up reserve stocks to meet unforeseeable, uncontrollable effects of adverse weather, is another example. In both the energy and agricultural areas, it seems to me we are trying to fit the right tools to the problem. I'm not defending every last provision of either program, but the approach is clearly preferable to dealing with the underlying problems through blunderbus policies.

And where macro programs are appropriate, government policies also seem to be exhibiting the right degree of caution. The withdrawal of the tax rebates was a difficult decision. Yet it was made in recognition of the dangers of overstimulation. I am fully aware of the cynics who would like to attribute all sorts of political motivation to the action, because it has not been customary for Administrations to have the candor to admit that the economic scene changed sufficiently in three or four months to warrant withdrawing an announced policy recommendation. I am willing to accept the action at face value, and am pleased to see the prompt vindication of this governmental prudence and caution in the current flow of economic statistics.

Let me also acknowledge the increased prudence and caution of the consumer sector and the business community. Despite the fact that the economy has made a significant recovery from the low point in March 1975, with industrial production, real GNP, and employment all exceeding their previous peak levels, the expansion in business fixed and inventory investment has been quite modest and restrained. Except for a brief rise during the economic pause of mid-1976, the inventory/sales ratio has been declining steadily from the swollen levels of early 1975. Business fixed investment, while recovering steadily from its trough in the third quarter of 1975, is still considerably below its 1974 peak.

All of this caution is not surprising if one traces through the impact on profits of the sluggish adjustments in unit labor costs and other costs, particularly the cost of raw materials whose prices have been dominated by erratic supply factors. Although aggregate corporate profits have made a good recovery from the depressed levels of mid-1974, and recently equalled their 1972 peak levels (even after an allowance for inventory and capital consumption valuation adjustments), the same cannot be said for profit rates, or the profit share of GNP. This share is considerably below the 1972 level and substantially lower than the halcyon days of the mid-60's. In view of these facts, businessmen have learned that increased growth does not necessarily mean increased profitability.

To generalize a bit, it seems to me that the increased frequency and amplitude of cyclical fluctuations have conditioned responses of businessmen and consumers toward greater risk aversion. The severity of the 1974-75 recession is captured adequately in the numbers, but perhaps we forecasters tend to overlook the impact of so severe a recession on the subsequent decision-making process, just because some of the recession symptoms were, fortunately, mitigated by the insurance and welfare systems created earlier.

But just because ten million unemployed did not riot in the streets does not mean that we should have expected an immediate return to earlier response patterns in consumption and investment as the economy climbed out of the trough. The memory of lay-offs, even in executive suites, has been all too fresh.

The violent adjustments in financial markets, imposed to stem the inflationary momentum, also contributed to greater caution on the recovery leg of the cycle. A 12 percent prime rate is not easily forgotten, neither by the industrial executive faced with the problem of financing a rebuilding of inventories or expansion of plant facilities, nor by the financial institution manager who has narrowly escaped fatal hemorrhaging of his deposits.

We have moved from a go-go era of the Sixties to a go-slow era in the mid-Seventies, in both industry and finance, and I don't think the lessons of the recent recession have worn off. To put it in the framework of a cost/benefit analysis, the costs of the risks involved in new investment weigh substantially heavier today, and this must be factored into our forecasts, as well as in our policy advice on how to get to desired levels of private investment. Nor should we overlook the greater risks in international business transactions, as businessmen learn--often painfully--the true costs of operating in a regime of floating exchange rates.

It is simple enough for an economist to suggest that if the risks of doing business increase, then prices must be raised to compensate for the higher risk. In the long run, that may indeed be the adjustment process. In the shorter-run, however, the adjustment is not that easy; it may be that such risks are avoided completely.

After suffering from the shock of seeing apparently filled order books melt away rapidly, it is understandable that industrial executives are exceptionally cautious in expanding production and facilities in response to early signs of rejuvenated customer demands.

That is why I am neither surprised--nor overly disappointed--in the latest Department of Commerce survey of business plans for capital spending this year. Admittedly, it is somewhat below the 9 to 10 percent range of increase we feel necessary to attain to achieve our medium term objectives for budget balance, unemployment and inflation. But it is still a respectable pace, strong enough to add support to the economy in the months ahead without raising any specter of runaway expansion and inflation. I expect similar prudence in business additions to inventories.

In conclusion, let me reiterate that my optimism over the future course of the U.S. economy stems from a belief that business and government have learned the lessons of the seventies well. I'm glad that everyone is cautious and concerned; the danger occurs when everyone is convinced there are no pitfalls to pell-mell expansion.

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STATEMENT BY TREASURY SECRETARY W. MICHAEL BLUMENTHAL

Before inviting your questions, I would like to make a brief background statement, after which Secretary of Commerce Kreps may wish to make some observations.

The Joint U.S.-U.S.S.R. Commercial Commission was established in 1972 in accordance with an agreement reached at the Summit meeting in May of that year. Its purpose is to promote mutually beneficial commercial relations and to work out specific economic and trade arrangements between the United States and the Soviet Union.

Among other things, the Commission studies possible U.S.-U.S.S.R. participation in the development and sale of natural resource materials and the manufacture and sale of other products. It also monitors the spectrum of U.S.-U.S.S.R. commercial and economic relations, identifying and, when possible, resolving issues of interest to both parties.

The first meeting of the Commission was held in Moscow in July 1972. The meeting we have just concluded is the sixth in the series of meetings held alternately in Moscow and in Washington.

In this sixth session, the Commission continued the tradition established in earlier sessions of friendly, frank, and constructive discussion of problems related to expanding U.S.-Soviet trade and intensifying our economic relationships.

Secretary Kreps, who is Vice Chairman of the U.S. Delegation, discussed the current status of Soviet-American trade and economic relations.

The activities of the U.S.-U.S.S.R. Trade and Economic Council were reported by its President, Harold Scott.

We received a report from the Working Group of Experts headed by Deputy Minister of Trade Manzhulo and Treasury Under Secretary Solomon on its program of exchange of information related to trade development.

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We also received reports from working groups concerned with facilitating the work of U.S. and Soviet businessmen in each other's countries, and with major industrial projects in the Soviet Union involving U.S. firms' participation.

I believe that our talks have been highly useful and constructive. They mark a significant step in our continuing effort to promote trade and to foster the mutual understanding which is so important for good relations not only in the economic field, but for our relations in general.

I would like to turn the microphone over to Secretary Kreps to offer her observations; then we will take your questions.

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THE SIXTH SESSION OF THE U.S.-U.S.S.R. COMMERCIAL COMMISSION JOINT COMMUNIQUE

The Joint U.S.-U.S.S.R. Commercial Commission, established during the summit meeting in May 1972, today concluded its Sixth Session. The session, which took place in Washington, D. C. on June 9-10, was chaired by W. Michael Blumenthal, U.S. Secretary of the Treasury and Chairman of the U.S. Section of the Commission. The Soviet Delegation was led by N. S. Patolichev, Minister of Foreign Trade of the U.S.S.R. and Chairman of the Soviet Section of the Commission.

Other U.S. members of the Commission taking part in the Sixth Session were Secretary of Commerce Juanita M. Kreps, Vice Chairman; Under Secretary of the Treasury for Monetary Affairs Anthony M. Solomon; Under Secretary of State for Economic Affairs Richard N. Cooper; Deputy Assistant Secretary of Commerce for East-West Trade Alan A. Reich; Acting Deputy Legal Adviser of the Department of State Phillip R. Trimble, Counsel. Ambassador Malcolm Toon, U.S. Ambassador to the U.S.S.R., and Daniel H. Brill, Assistant Secretary of the Treasury for Economic Policy, also participated in the talks.

The Ambassador of the U.S.S.R. to the U.S.A., A. F. Dobrynin, participated in the talks. Members of the Soviet Delegation included V. S. Alkhimov, Chairman, U.S.S.R. State Bank; N. N. Inozemtsev, Deputy Chairman of GOSPLAN of the U.S.S.R.; A. N. Manzhulo, Deputy Minister of Foreign Trade; V. N. Sushkov, Deputy Minister of Foreign Trade; S. A. Mkrtumov, Trade Representative of the U.S.S.R. in the U.S.A.; V. I. Klochek, Head, Main Planning and Economic Administration, Ministry of Foreign Trade, Member of the Board of the Ministry; N. S. Dyakonov, Department Chief, GOSPLAN of the U.S.S.R., N. V. Zinov'yev, Head, Department for Trade with the Countries of America, Ministry of Foreign Trade; N. N. Stakhursky, Head of Secretariat, Ministry of Foreign Trade, Assistant to the Minister; R. G. Gorbunov, Executive Secretary of the Soviet Section of the Commission.

At its plenary sessions, the Joint Commission reviewed the status of trade and economic relations between the U.S. and the U.S.S.R. since the Fifth Session of the Commission in Moscow in 1975.

It was noted that the volume of trade in the past two years reached record levels, indicating the potential of U.S.-Soviet trade for the future. At over $4.5 billion, total two-way trade for 1975 and 1976 exceeded by more than 50 percent the total for the previous three-year period.

At the same time, it was noted that it has not yet been possible to bring into force the Agreement Regarding Trade between the U.S. and U.S.S.R. dated October 18, 1972, and that this has complicated the development of trade and economic relations between the two countries.

The U.S. Section affirmed that the new Administration is continuing to work for the normalization of trade and financial relations between the U.S. and U.S.S.R. on a nondiscriminatory basis.

The Commission reviewed the progress of the Long-term Agreement between the U.S.S.R. and the U.S.A. dated June 29, 1974, in the context of its purpose, which is to assist the appropriate organizations, enterprises, and firms of both countries in identifying areas of cooperation most likely to provide the basis for mutually beneficial contracts. The Commission noted with satisfaction that the Working Group of Experts, established under the Long-term Agreement to exchange information and forecasts of basic economic, industrial, and commercial trends, in order to achieve these purposes, held its second meeting in Washington June 6-7, 1977, and continued the information exchange.

As suggested at the second meeting of the Working Group of Experts, the parties concurred in the program of information exchange. Both sides will implement a program of information exchange for the coming twelve-month period that would include the following specific areas under which exchanges would be continued:

1. Exchange of economic, industrial and foreign trade data including information on general economic forecasts, production, and other data, and the way in which these data are compiled and disseminated.
2. Conducting one or two seminars. The subject for the first seminar, to be held in Washington, will be "The Ways and Methods of Promoting Foreign Trade in the U.S.A. and U.S.S.R." The two sides will identify at their earliest convenience a topic for the second seminar, to be held in Moscow.

The Commission noted also that the third meeting of the Working Group of Experts would be held in Moscow in the first half of 1978.

The Commission received reports and exchanged views on the current status of a number of major projects under negotiation between U.S. firms and Soviet foreign trade organizations.

The U.S. Section encouraged the continuing use of American commercial bank financing for U.S.-U.S.S.R. trade and explained the U.S. federal banking law on the legal lending limit.

The Commission noted with satisfaction the successful functioning of the organizational mechanisms, established in the U.S.S.R. and the U.S.A. in recent years to assist mutual trade and exchanged views regarding improving them. At present, twenty-five (25) U.S. companies have been authorized to open offices in Moscow.

The Commission heard a report on the progress of the U.S.-U.S.S.R. Trade and Economic Council from its President, which emphasized that the business community in both countries actively supports the normalization and further development of trade and economic relations between the U.S.S.R. and the U.S.A.

The Commission expressed satisfaction with the results of the Sixth Session, considering the discussions a further step in the constructive development of solid, long-term, mutually advantageous trade relations. It decided to convene the Seventh Session in Moscow in 1978.

The members of the Soviet Delegation expressed their appreciation for the hospitality extended to them by their American hosts during the Delegation's stay in the United States.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 13, 1977

WILLIAM J. BECKHAM, JR. SWORN IN
AS ASSISTANT SECRETARY FOR ADMINISTRATION

William J. Beckham, Jr., of Detroit, Michigan, was sworn in today as Assistant Secretary for Administration by Treasury Secretary W. Michael Blumenthal. Beckham was nominated by President Carter on March 18, 1977 and confirmed by the Senate on April 29.

Prior to his Treasury appointment, Beckham was Deputy Mayor and Chief Executive Assistant of the city of Detroit. He had responsibility for managing the executive branch of the city government, coordinating its functions and developing its $1 billion budget. He also served as Acting Mayor during the absence of the Mayor. He was appointed to the dual post under Detroit's new city charter of 1974.

Previously he directed the Mayor-elect's transition staff and the organization of the city government.

In 1973, Beckham was director of the Equal Opportunities Subcommittee of the House Education and Labor Committee, which had jurisdiction over OEO, ACTION and EEOC, juvenile delinquency and full employment legislation.

From 1964 to January 1973 he was associated with the late Senator Philip Hart, beginning as a campaign assistant, working up to administrative aide and finally staff assistant to the Senator. In that capacity, he worked on legislative and agency actions of labor, education, housing, hunger and malnutrition. He also coordinated the activities of the Senator's Michigan offices and supervised constituent services.

Born in Cincinnati on November 7, 1940, Beckham attended the Detroit Institute of Technology, Wayne State University, the American University in Washington, and the University of Maryland, majoring in political science.

He and his wife, Mattie, have a young son, William Jeffrey. He has three sons, William III, Eric and Jonathan by a previous marriage.

In his Treasury post, Beckham will have responsibility for the Departmental budget, personnel, equal employment opportunity, computer services, audit, management and organization and administrative programs.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 13, 1977

ROBERT CARSWELL SWORN IN
AS DEPUTY SECRETARY OF THE TREASURY

Robert Carswell was sworn in today as Deputy Secretary of the Treasury by W. Michael Blumenthal, Secretary of the Treasury. As Deputy Secretary and second-ranking official of the Treasury Department, Mr. Carswell is responsible for the general supervision of all day-to-day functions of the Department and acts for the Secretary in his absence, sickness, or unavailability.

Mr. Carswell was nominated to the position by President Jimmy Carter on March 23, 1977 and confirmed by the Senate on April 29, 1977.

Prior to becoming Deputy Secretary, Mr. Carswell was a partner in the New York law firm of Shearman & Sterling since 1965. He served as Special Assistant to the Secretary of the Treasury from 1962 to 1965. Mr. Carswell first joined Shearman & Sterling in 1956 as an associate. He served in the U.S. Navy from 1952 to 1955, mainly in the Far East, as a Lieutenant (j.g.), U.S.N.R., and an agent in the Office of Naval Intelligence.

Mr. Carswell previously served as Vice President and former Treasurer of the Association of the Bar of New York City; Director of New York Lawyers for the Public Interest; and Director of Caledonian Hospital of the city of New York.

He also served as Director and member of the Executive Committee of the Private Export Funding Corporation; Director and Chairman of the audit committee of the Graniteville Company; and Director of Aiken Industries, Inc.

Mr. Carswell was born on November 25, 1928 in Brooklyn, New York. He received an A.B. degree from Harvard College in 1949 and an LL.B. from Harvard Law School in 1952.

He is married to the former Mary Killeen Wilde. They have two children and have resided in New York City.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 13, 1977

ROGER C. ALTMAN SWORN IN AS
ASSISTANT SECRETARY FOR DOMESTIC FINANCE

Roger C. Altman was sworn in today as Assistant Secretary of the Treasury for Domestic Finance by W. Michael Blumenthal, Secretary of the Treasury. Mr. Altman was nominated for the position by President Jimmy Carter on March 18, 1977 and confirmed by the Senate on April 29, 1977.

Prior to joining the Treasury Department, Mr. Altman was a general banking partner for the international banking firm of Lehman Brothers in New York City. Joining Lehman Brothers in 1969, he became, in 1974, the youngest partner in Lehman Brothers' post World War II history. He received the Institutional Investor Award as one of the ten outstanding investment bankers in the United States in 1975. Mr. Altman was a member of the Carey Select Commission on New York State Public Authorities in 1974 and 1975. He was also a member of the Carter-Mondale Transition Staff.

As Assistant Secretary, Mr. Altman is responsible for all domestic financial market matters and is principal advisor to the Secretary, Deputy Secretary, and Under Secretary for Monetary Affairs on debt management, general capital markets policy, and Treasury's activities in state and local finance. In addition, he is directly responsible for Treasury functions under the New York State City Seasonal Financing Act of 1975.

Mr. Altman was born in Boston, Massachusetts on April 2, 1945. He received an A.B. degree from Georgetown University in 1967 and an M.B.A. from the University of Chicago Graduate School of Business in 1969.

He and his wife, the former Barbara Watt, have no children and retain their permanent residence in Manhattan.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 13, 1977

DANIEL H. BRILL SWORN IN
AS ASSISTANT SECRETARY FOR ECONOMIC POLICY

Daniel H. Brill was sworn in today as Assistant Secretary of the Treasury for Economic Policy by Secretary of the Treasury W. Michael Blumenthal. Mr. Brill will direct the economic policy staff and have over-all responsibility at Treasury in the areas of economic and financial analysis.

Mr. Brill was nominated by President Carter on March 14, 1977 and confirmed by the Senate on April 29, 1977.

Prior to this position, Mr. Brill served as Executive Vice President of Commercial Credit Company, a wholly-owned subsidiary of Control Data Corporation. At Commercial Credit, Mr. Brill launched international operations, including joint business ventures in Japan, Spain, and Israel, and negotiated the acquisition of a bank in France. He was also responsible for development of Control Data's economic and technological services.

From 1947 to 1969, Mr. Brill was with the Federal Reserve System. He held the positions of Senior Advisor to the Board, chief economist to the Federal Open Market Committee, and Director of the Division of Research and Statistics at the time of his departure in 1969. During the years 1937 to 1946, he worked as an economist for the Bureau of Labor Statistics and the Securities and Exchange Commission. He served in the U.S. Army from 1943 to 1946.

He previously was a member of the Board of Directors of several Dreyfus mutual funds and also a member of the Brookings Institution Panel on Economic Activity.

Mr. Brill was the recipient of a Rockefeller Public Service Award in 1954, and is a Fellow of the American Statistical Association.

He was born in New York City on April 23, 1918. He received his B.A. degree from New York University in 1936 and M.A. degree from Columbia in 1937.

He is married to the former Charlotte Lobel. They have two children and reside in Silver Spring, Maryland.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 13, 1977

JOSEPH LAITIN SWORN IN AS ASSISTANT SECRETARY FOR PUBLIC AFFAIRS

Joseph Laitin was sworn in today as Assistant Secretary of the Treasury for Public Affairs by Secretary of the Treasury W. Michael Blumenthal. Mr. Laitin was nominated for the position by President Jimmy Carter on March 31, 1977 and confirmed by the Senate on April 29, 1977.

As Assistant Secretary, Mr. Laitin is responsible for the public affairs activities of the Secretary and management of all the public affairs policies, plans and programs of the Treasury Department.

Before joining the Treasury Department, Mr. Laitin served as Assistant Administrator for Public Affairs with the Federal Aviation Administration since December 1975, and for the year prior to this, he was Assistant Secretary of Defense for Public Affairs. From 1963 to 1975, Mr. Laitin was Assistant to the Director for Public Affairs in the Office of Management and Budget, in the Executive Office of the President. In 1965-1966 he was detailed to the White House Press Office as Deputy Press Secretary.

During the time Mr. Laitin was at the Office of Management and Budget (prior to 1970, known as the Bureau of the Budget) he served on various Presidential Commissions, including the National Commission on the Causes and Prevention of Violence. In 1975, he received the Medal for Distinguished Public Service from the Department of Defense.

From 1953 to 1963, Mr. Laitin was self-employed as a free lance writer, an instructor at the Art Center School in Los Angeles, and a broadcaster for CBS and ABC. He wrote, narrated, and produced the CBS award-winning documentary "The Changing Face of Hollywood." Mr. Laitin was Chief Correspondent for the Research Institute of America in Washington, D.C. from 1950 to 1952.

Before World War II, Mr. Laitin was with the Brooklyn Daily Eagle. During World War II he was head of the United Press staff in Washington, D.C., reporting on the economic events connected with the war effort, and later went to the Pacific Theater as a war correspondent for Reuters.

He was born October 2, 1914, in Brooklyn, New York. Mr. Laitin and his wife, the former Christine Houdayer of Paris have two children and reside in Bethesda, Maryland.

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DEPARTMENT OF THE TREASURY

PRESS CONFERENCE

WITH

SECRETARY JUANITA KREPS

AND

SECRETARY W. MICHAEL BLUMENTHAL

FRIDAY, JUNE 10, 1977

3:10 p.m. Washington, D.C.

MR. LAITIN: Ladies, gentlemen, Secretary Blumenthal and Secretary Kreps will each have a few observations to make and then will be open to questions.

Secretary Blumenthal.

SECRETARY BLUMENTHAL: Thank you very much. Afternoon, ladies and gentlemen.

Before asking and taking your questions, I would like to make a brief background statement and then Secretary Kreps will do the same.

The Joint U.S.-U.S.S.R. Commercial Commission was established in 1972 in accordance with an agreement reached at the Summit meeting in May of that year. Its purpose is to promote mutually beneficial commercial relations and to work out specific economic and trade arrangements between the United States and the Soviet Union.

Among other things, the Commission studies possible U.S.-U.S.S.R. participation in the development and sale of natural resource materials and the manufacture and sale of other products. It also monitors the spectrum of U.S.-U.S.S.R. commercial and economic relations, identifying and, when possible, resolving issues of interest to both parties.

The first meeting of the Commission was held in Moscow in July 1972. The meeting we have just concluded is the sixth in the series of meetings held alternately in Moscow and in Washington.

In this sixth session, the Commission continued the tradition established in earlier sessions of friendly, frank and constructive discussions of problems related to expanding U.S.-Soviet trade and intensifying our economic relationships.

Secretary Kreps, who is Vice Chairman of the U.S. Delegation, discussed the current status of Soviet-American trade and economic relations.

The activities of the U.S.-U.S.S.R. Trade and Economic Council were reported by its President, Harold Scott.

We received a report from the Working Group of Experts headed by Deputy Minister of Trade Manzhulo and Treasury Under Secretary Solomon on its program of exchange of information related to trade development.

We also received reports from working groups concerned with facilitating the work of U.S. and Soviet businessmen in each other's countries, and with major industrial projects in the Soviet Union involving U.S. firms' participation.

I believe that our talks have been highly useful and constructive. They mark a significant step in our continuing effort to promote trade and to foster the mutual understanding which is so important for good relations not only in the economic field, but for our relations in general.

At this time I would like to turn the microphone over to Secretary Kreps to offer her observations. Then we will take your questions.

SECRETARY KREPS: It has been a pleasure to serve on this Commission with Secretary Blumenthal and to get to know Minister Polochev (phonetic).

Trade between our two countries in the last two years has reached record levels. This testifies to the committment of the American businessman and to both governments, as well as to the potential strength of American-Soviet trade in the future.

At the same time, United Stated non-agricultural exports will drop partly this year and next as well from the current annual level by $800 million.

We are concerned, of course, that the U.S. share of Soviet orders from this is not a larger one, just as the U.S.S.R. is concerned over its continuing large imbalance in trade with us.

For our part, we are continuing fully our programs of promoting this growth of our commerce and economic ties, and we consider these ties a vital element to strengthening of our bilateral relations.

It is of great importance to us to move ahead in all areas of commercial relations. The tenor of our talks this week lead me to believe the possible promotion for improvements in Soviet and American relations.

QUESTION: I'd like to ask two related questions about Title IV of the Trade Act and the related provision in the export-import; both providing grain limitations on U.S.-Soviet trade.

First, to what extent were these discussed, and second, has this Administration come up with any means of alleviating the hurdles of those two provisions, either through legislative proposals or diplomatic type negotiations?

SECRETARY BLUMENTHAL: While these items were not formally on the agenda, it is clear that in the course of the meetings that have been held here they did come up.

Specifically, the negotiations on the extension of MFA entry into the Soviet Union as well as for credit, official credits.

The Soviet side did indicate its interest in seeing these hurdles removed. We are now prepared to indicate that we did want to say "expanded trade" and economic and commercial relations between the two countries; that we hoped it would be possible to remove these restrictions, but that we felt this has to be seen in an overall context of U.S.-Soviet relations and that we hope in time these would improve in a way that would make it possible for us to secure some change from the Congress.

QUESTION: Mr. Blumenthal, Mrs. Kreps' statement is really that what she didn't read: Is that the Soviets themselves say they are going to cut back buying, according --

this is according to information provided by the Soviets prior to the meeting.

Now, did the Soviets say that we want most favored national treatment or we are going to cut back buying from the U.S.?

That is what it implied.

SECRETARY BLUMENTHAL: They did not.

QUESTION: Why are they cutting back, and where are they cutting back?

Where are they cutting back, are they purchases from this country and in what particular products are they going to cut back?

SECRETARY KREPS: Well, I don't know where they are going to cut back. They haven't told us they are going to cut.

The reduction unit has to do with the fact they had to --

QUESTION: Non-agriculture. What is the anticipated amounts that are cut from it, to what --

SECRETARY KREPS: We don't have a figure. They have simply said they expected the total volume of non-agriculture to be reduced and they refer in that connection to constraints on credit.

That was the extent of the conversation.

QUESTION: Also on MFA?

SECRETARY KREPS: No, that was not part of that report.

QUESTION: What are the current trade figures?

SECRETARY KREPS: For '76, 2.3 billion.

QUESTION: Is that volume?

SECRETARY KREPS: That is total. I'm sorry. 2.5 in total.

QUESTION: Both ways?

SECRETARY KREPS: Right.

QUESTION: Export and import?

SECRETARY KREPS: Yes. The first figure was our export figure, 2.3. Their imports were 221 million.

QUESTION: How much of that was non-agricultural export?

SECRETARY KREPS: Agriculture accounted for about two-thirds.

QUESTION: Is it correct that you are saying that we exported 2.3 billion to them last year and they exported 221 million to us?

SECRETARY KREPS: Yes, a very severe imbalance.

QUESTION: Thank you.

QUESTION: Secretary -- Madam Secretary, the second part of my question was not answered.

Two years ago your predecessor, Secretary Simon and also Secretary Kissinger told Congress that they would come up with their Administration's proposals to get rid of this problem.

Does this Administration have any legislative proposals in that regard?

SECRETARY BLUMENTHAL: We do not at this point have any proposals.

QUESTION: Do you know what the total anticipated trade for '77 will be?

SECRETARY KREPS: We don't have an estimate of that yet.

QUESTION: Except they are going to cut back?

SECRETARY KREPS: The expression was not that they would cut back but total volume was being reduced.

SECRETARY BLUMENTHAL: I think in that regard it is worth while to mention that it is our impression that their total volume is also being reduced because they have a pretty severe imbalance and some reduction -- on foreign exchange viability.

There was no specific statemend said, indicating they are cutting back from the U.S. particularly, because of lack --

QUESTION: Are there any indications that they are cutting back in Japan and Western Europe, that is, other Western European countries?

SECRETARY BLUMENTHAL: They did not mention any particular countries.

QUESTION: Was there some reference on the Soviet side to the Human Rights dispute?

SECRETARY BLUMENTHAL: No, there was no reference to that on the Soviet side.

We did mention, in the course of our discussions with them, that this was an issue that was of considerable importance to the American people and to this Administration, and that certainly, as we looked towards the improved relations between our two countries, and improved atmosphere which we have made progress on economic fronts as possible; this was an important aspect of the problem.

QUESTION: What was their response to that?

SECRETARY BLUMENTHAL: Their response -- I think you ought to ask them what their response is.

Generally speaking, they understand our situation and our views on this, and they have their own views which generally boil down to their felling that these matters ought to be dealt with sepearately and that economic and commercial relations should stand on their own.

QUESTION: Under the grain agreement, they are obligated to buy apparently six million tons of grain from the U.S. each year for a five year period.

Was there any discussion of this in view of the two bumper years they have had?

SECRETARY BLUMENTHAL: No, there was not.

SECRETARY KREPS: No, there was no discussion of any cutbacks in that at all.

QUESTION: You leave us at a loss as to why the prospects for improvements in Soviet trade relations appear to be very good.

SECRETARY KREPS: Well, I think we are reflecting here not so much a prospect as a spirit into which we brought into this discussion, and a hope on the part of both the Soviets and the United States that this will in time increase the volume of trade.

SECRETARY BLUMENTHAL: I think also, I might just add, Secretary Kreps, that the two sides did discuss in working groups a whole series of specific projects in which the Soviet Union is engaged and where U.S. firms, American firms in some way are currently engaged in negotiations for very substantial amounts, which involve up to $6 billion dollars.

Silicone, Steel plants, aluminum, smelting technology, petrochemical products, and other things. So, looking at this and to other identified interests on their part in various other industries, there clearly is opportunity.

QUESTION: Secretary Kreps, did the subject of the Cyborg '76 Computer come up?

SECRETARY KREPS: Not in my discussions.

Mike?

SECRETARY BLUMENTHAL: No.

QUESTION: Could you fill us in on the status of that? Can you say whether you plan to provide a license for the export of that?

SECRETARY BLUMENTHAL: That decision has not been made.

As you know, it is an inter-agency decision, and we have had a task force considering the question of whether we have safe-guards that could be built into the export of the Cyborg '76.

That inter-agency task force has made a report, but there has been no final decision on releasing or exporting the Cyborg '76 Computer.

QUESTION: Mrs. Kreps, will you consult the President on that matter?

SECRETARY KREPS: Well, I would ultimately, yes. We certainly would consult Defense.

QUESTION: Is there any way you can amplify at all whether this meeting was marked by a cooler atmosphere than has been the case int he past U.S.-Soviet trade exchnages?

SECRETARY BLUMENTHAL: Well, it is hard for Secretary Kreps and I to do a comparative analysis since it is the first one that she or I have had any responsibility for or indeed have attended.

I would say that based on -- that the spirit and general atmosphere were by no means cool. It was very warm and the fact that it was warm was repeatedly noted and emphasized by both sides.

Based on my own experience as a -- prior experience as a business executive and prior experience as a government official in analogus type meetings, I would say it was extremely -- quite warm and friendly.

QUESTION: Was it warm enough for you to invite any of the Russian Delegates to attend this press conference?

SECRETARY BLUMENTHAL: We did.

QUESTION: But they did not attend.

SECRETARY BLUMENTHAL: They prefer to deal with the press in their own way. We did tell them that we would be happy to have them come.

QUESTION: Did they give you any explanation why they did not attend?

SECRETARY BLUMENTHAL: They did not.

MR. LAITON: Thank you very much.

(Whereupon at 3:[illegible]0 p.m., the press conference was concluded.)

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 13, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,000 million of 13-week Treasury bills and for $3,000 million of 26-week Treasury bills, both series to be issued on June 16, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 15, 1977			26-week bills maturing December 15, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.740	4.985%	5.12%	97.397	5.149%	5.36%
Low	98.733	5.012%	5.15%	97.383	5.176%	5.39%
Average	98.736	5.000%	5.13%	97.388	5.167%	5.38%

Tenders at the low price for the 13-week bills were allotted 64%.
Tenders at the low price for the 26-week bills were allotted 59%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 28,045,000	$ 16,245,000	$ 46,625,000	$ 31,625,000
New York	3,213,355,000	1,711,230,000	4,229,775,000	2,575,475,000
Philadelphia	18,330,000	17,970,000	6,505,000	6,505,000
Cleveland	33,600,000	33,300,000	19,385,000	15,285,000
Richmond	20,400,000	15,960,000	20,095,000	19,095,000
Atlanta	39,190,000	36,315,000	17,305,000	17,305,000
Chicago	251,790,000	61,465,000	229,585,000	82,585,000
St. Louis	44,390,000	27,775,000	51,980,000	40,980,000
Minneapolis	36,425,000	11,425,000	45,450,000	30,450,000
Kansas City	39,560,000	32,260,000	17,680,000	17,680,000
Dallas	18,725,000	17,365,000	10,520,000	9,520,000
San Francisco	313,025,000	19,025,000	509,810,000	153,660,000
Treasury	40,000	40,000	10,000	10,000
TOTALS	$4,056,875,000	$2,000,375,000 a/	$5,204,725,000	$3,000,175,000 b/

a/Includes $324,615,000 noncompetitive tenders from the public.
b/Includes $125,190,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
NEWS

FOR RELEASE AT 4:00 P.M. June 14, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,000 million, to be issued June 23, 1977, as follows:

91-day bills (to maturity date) for approximately $2,000 million, representing an additional amount of bills dated March 24, 1977, and to mature September 22, 1977 (CUSIP No. 912793 K3 9), originally issued in the amount of $3,104 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,000 million to be dated June 23, 1977, and to mature December 22, 1977 (CUSIP No. 912793 L8 7). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing June 23, 1977. This offering will provide for a net pay-down for the Treasury of about $210 million as the maturing issues are outstanding in the amount of $5,210 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,675 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, June 20, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on June 23, 1977, in cash or other immediately available funds or in Treasury bills maturing June 23, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: George Ross
566-5985

FOR IMMEDIATE RELEASE June 14, 1977

Secretary of the Treasury W. Michael Blumenthal today will start a series of informal meetings to hear a cross-section of views on tax reform.

Invited to meet with Secretary Blumenthal are representatives of small business, big business, public interest groups, minorities, labor, academics, technical tax experts and State and local government representatives. They will come from different geographical sections of the country. The six meetings are scheduled from June 14 through June 21.

"It is my intention to seek the ideas of a diversified group on what they believe constitutes true tax reform," stated Secretary Blumenthal. "The meetings are to be informal. We are looking for their original thoughts, ideas, and suggestions so that we can build on them in preparing the options for the President."

Secretary Blumenthal said he hoped for substantial contributions from those he has invited to the meetings. He added that these will not be the only consultative meetings held. "The views of others have been and will also continue to be solicited," Secretary Blumenthal said.

"As President Carter has stated, we are trying to develop a tax reform program that will simplify the tax system for as many people as possible, eliminate the loop-holes so all people pay a fair share of the tax burden, and offer incentives to individuals and business to produce more and thereby create more jobs," Secretary Blumenthal said.

In inviting people to meet with him, Secretary Blumenthal said they should feel free to raise any ideas or concerns they may have in the tax area. He described the meeting as "informal and off the record."

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

FOR IMMEDIATE RELEASE June 14, 1977

SUMMARY OF FEDERAL FINANCING BANK HOLDINGS

April 1-April 30, 1977

Federal Financing Bank activity for the month of April, 1977, was announced as follows by Roland H. Cook, Secretary:

On April 1, the National Rail Passenger Service (Amtrak) repurchased the following principal amounts originally to mature on April 30, 1977:

Note #	Face Amount	Repurchase Price	Effective Rate
8	$96,972,000	$96,985,556.04	4.646%
9	$45,028,000	$45,034,513.90	4.646%

Amtrak also made the following drawings guaranteed by the Department of Transportation:

Date	Note #	Amount	Maturity	Interest Rate
4/18	8	$13,000,000	4/30/77	4.727%
4/18	11	935,699	6/13/77	4.727%
4/25	8	12,000,000	4/30/77	4.747%

The FFB purchased certificates from the General Services Administration in the following amounts:

Date	Series	Amount	Maturity	Interest Rate
4/4	M	$6,689,252.26	7/31/03	7.942%
4/13	L	1,892,734.75	11/15/04	7.893%

On April 1, the FFB purchased from the Department of Health, Education and Welfare (HEW) Series F notes in the amount of $3.7 million. HEW had previously acquired these notes from various public agencies under the Medical Facilities Loan Program. The notes, which are guaranteed by HEW, mature July 1, 2001 and bear interest at a rate of 7.779%.

B-289

federal financing bank NEWS
WASHINGTON, D.C. 20220
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FOR IMMEDIATE RELEASE June 14, 1977

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On April 1, the FFB purchased from the Department of Health, Education and Welfare (HEW) Series F notes in the amount of $3.7 million. HEW had previously acquired these notes from various public agencies under the Medical Facilities Loan Program. The notes, which are guaranteed by HEW, mature July 1, 2001 and bear interest at a rate of 7.779%.

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On April 29, the Federal Financing Bank purchased from HEW principal and accrued interest on a series of Health Maintenance Organization notes in the amount of $14,426,258.25. The Federal Financing Bank will make payments to HEW in accordance with a delayed payment schedule. The effective interest rate is 7.53%. On April 14, HEW also made a drawing in the amount of $1,804,776.29 against notes of Health Maintenance Organizations guaranteed and sold by HEW to the FFB on September 30, 1976. The effective interest rate on this advance is 7.933%.

The Student Loan Marketing Association (SLMA) issued notes to the FFB in the following principal amounts:

Date	Amount	Maturity	Interest Rate
4/5	$25,000,000	7/05/77	4.828%
4/12	5,000,000	7/12/77	4.803%
4/12	10,000,000	4/11/78	5.535%
4/19	15,000,000	7/19/77	4.734%
4/26	20,000,000	7/26/77	4.758%

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

The U. S. Railway Association (USRA) made the following drawings against Note #8 guaranteed by the Department of Transportation:

Date	Amount	Maturity	Interest Rate
4/12	$ 2,813,400	4/30/79	6.180%
4/19	10,975,600	4/30/79	5.992%

On April 20, the FFB advanced $5.5 million to the Western Union Space Communications. The advance matures on October 1, 1989 and bears interest at a rate of 7.465% on an annual basis. Western Union borrowings from the Bank are guaranteed by the National Aeronautics and Space Administration.

On April 14, the Bank advanced $882,184 to the Chicago, Rock Island and Pacific Railroad at a rate of 7.685%. The note, which is guaranteed by the Department of Transportation, matures June 21, 1991.

The Bank purchased notes in the following amounts from utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Maturity	Interest Rate
4/1	Oglethorpe Electric Membership	$ 6,202,000	12/31/11	7.852%
4/1	East Ascension Tele.	200,000	12/31/11	7.852%
4/7	Big River Elect. Corp.	250,000	12/31/11	7.841%
4/8	Sierra Telephone Co.	48,000	4/01/79	6.148%
4/8	East Kentucky Power Coop.	2,494,000	12/31/11	7.824%
4/8	Western Farmers Electric Coop.	5,000,000	12/31/11	7.824%
4/11	Seminole Elect. Coop.	90,000	12/31/11	7.824%
4/12	Corn Belt Power Coop.	1,285,000	12/31/11	7.820%
4/13	Big River Elect. Corp.	1,740,000	12/31/11	7.818%
4/13	Colorado-Ute Electric Assn.	3,100,000	12/31/11	7.818%
4/13	Tri-State Generation & Transmission Assn.	2,629,000	12/31/11	7.818%
4/15	United Power Assn.	8,000,000	12/31/11	7.690%
4/18	South Mississippi Elect. Power Assn.	750,000	4/18/77	5.911%
4/19	Associated Elect. Coop.	1,400,000	12/31/11	7.697%
4/19	Gulf Telephone Co.	292,000	12/31/11	7.697%
4/19	Cooperative Power Assn.	6,000,000	12/31/11	7.697%
4/21	South Mississippi Elect. Power Assn.	2,618,000	4/23/79	6.079%
4/25	East Kentucky Power Coop.	2,908,000	12/31/11	7.793%
4/26	Alabama Elect. Coop	12,100,000	12/31/11	7.814%
4/28	Eastern Iowa Power and Light	3,000,000	12/31/11	7.805%
4/29	Southern Illinois Pwr.	2,705,000	4/29/79	6.158%
4/29	Cajun Elect. Pwr. Coop.	66,868,000	12/31/11	7.806%

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

The Federal Financing Bank made the following advances to borrowers guaranteed by the Department of Defense under the Arms Export Control Act:

Borrower	Date	Amount	Maturity	Interest Rate
Argentina	4/4	$ 22,762.01	4/30/83	6.835%
	4/4	131,103.77	6/30/83	6.849%
	4/8	1,907,978.00	6/30/83	6.851%
	4/15	25,817.71	4/30/83	6.486%
Brazil	4/13	34,431.00	10/01/83	6.851%
	4/13	62,824.00	6/30/83	6.798%
China	4/20	572,985.00	12/31/82	6.496%
Ecuador	4/5	76,500.00	6/30/83	6.856%
	4/15	244,808.43	6/30/83	6.500%
	4/25	34,630.00	6/30/83	6.750%
	4/27	59,749.57	6/30/83	6.715%
Jordan	4/12	9,419,127.64	6/30/85	7.003%
Kenya	4/25	102,600.00	6/30/86	7.092%
Korea	4/19	5,972,015.03	6/30/84	6.693%
	4/28	749,738.80	3/31/84	6.818%
Malaysia	4/8	746,872.94	6/30/82	6.814%
	4/13	2,769,809.60	12/31/82	6.681%
Nicaragua	4/15	124,979.50	6/30/80	5.940%
Paraguay	4/20	5,165.08	6/30/81	6.277%
	4/26	63,248.75	6/30/81	6.464%
Philippines	4/20	762,532.20	6/30/82	6.464%
Tunisia	4/4	228,406.80	6/30/84	6.975%
Uruguay	4/29	3,395.97	6/30/83	6.752%

The Tennessee Valley Authority (TVA) issued short-term notes to the FFB in the following amounts:

Date	Note #	Amount	Maturity	Interest Rate
4/15	54	$ 40,000,000	7/29/77	4.745%
4/29	55	385,000,000	5/31/77	4.572%

On April 20, the Bank purchased $7 million in debentures from Small Business Investment Companies. The following debentures are guaranteed by the Small Business Administration:

Amount	Maturity	Interest Rate
$ 400,000	4/01/80	6.235%
150,000	4/01/82	6.775%
800,000	4/01/84	7.125%
5,650,000	4/01/87	7.415%

Federal Financing Bank holdings for the month of April, 1977, totalled $30.8 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. June 14, 1977

TREASURY TO AUCTION $1,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $1,500 million of 2-year notes to refund notes maturing June 30, 1977. The offering will provide for a net pay-down for the Treasury of about $406 million as the public holds $1,906 million of the maturing notes. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for their own account in exchange for $264 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.

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Attachment

B-290

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JUNE 30, 1977

June 14, 1977

Amount Offered:	
To the public........................	$1,500 million
Description of Security:	
Term and type of security...........	2-year notes
Series and CUSIP designation........	Series R-1979 (CUSIP No. 912827 GU 0)
Maturity date.......................	June 30, 1979
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..............	December 31 and June 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 $1,000,000 or less
Deposit requirement.................	5% of face amount
Deposit guarantee by designated institutions........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Tuesday, June 21, 1977, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds.......	Thursday, June 30, 1977
b) check drawn on bank within FRB district where submitted....................	Monday, June 27, 1977
c) check drawn on bank outside FRB district where submitted..................	Friday, June 24, 1977
Delivery date for coupon securities.	Thursday, June 30, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 9:30 a.m.
June 15, 1977

STATEMENT OF THE HONORABLE LAURENCE N. WOODWORTH
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
ON CAPITAL FORMATION
BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and members of this Subcommittee:

My colleagues today are making a persuasive case for promoting a higher rate of capital formation in the U.S. economy. There is no need for my repeating it. In view of our disappointing record regarding economic growth, and gains in productivity and real income, the important question is what can public policy do about it. From my position, the question is even more specific: what can tax policy do about it?

I should first note that capital formation is not solely or perhaps even primarily a tax issue. We must look to more fundamental reasons to understand why our present rate of investment is deficient. In the aftermath of a major bout with both inflation and recession, it perhaps is not surprising that business confidence has not yet fully recovered. Uncertainty concerning opportunities for expansion of markets as well as the thrust of future government policies is not easily dispelled. In this climate, general monetary and fiscal policies to reinforce the recovery of the economy in a noninflationary manner may be more important than specific structural program changes. Nonetheless, it is still possible to define a more specific role for tax policy in stimulating capital formation. This can best be appreciated by considering that investment will not be undertaken unless the after-tax rewards are commensurate with the risks of adding to productive capacity. Tax policy can affect investment decisions by changing these after-tax rewards.

In fact, as I shall discuss in more detail, there are various ways in which tax policy can improve the after-tax returns to investment and risk taking. We are now critically evaluating these alternatives as part of the process of developing tax reform proposals to submit to Congress later this year. No final decisions have been made as yet on the specific components of the tax reform program. I would like to share with you, however, some of our thinking on tax incentives for capital formation. I will also address the question of the relationship between the need for additional capital formation and the other goals of the tax reform program.

The tax reform program we are now working on has two other important goals in addition to providing adequate incentives for capital investment. The first is tax simplification to which we assign a much more important role than it has generally been assigned in the past. Simplification involves making tax returns easier for the average person to prepare, reducing the burdens of financial recordkeeping, and generally making the tax law more understandable for taxpayers. The second goal is to improve the equity of the tax system so that the laws are regarded as fair. This can be accomplished by removing opportunities for tax gamesmanship with high pay offs to expert legal advice and shrewd tax planning, and by making sure that individuals with equal incomes are taxed the same while those with higher incomes are taxed at progressive rates. In providing incentives for expanding productive facilities, we must continue to keep in mind the other goals of simplification and fairness.

Designing tax proposals to stimulate capital formation as well as to be consistent with tax simplification and tax equity is no simple task. I might also add that we have not yet discovered any new ways of achieving all these goals simultaneously. The problem, as always, is one of choices and tradeoffs.

<u>Alternative Ways to Stimulate Capital Formation</u>

The particular instruments that may be used to increase the after-tax returns to investment and thereby stimulate additional capital formation are generally familiar to all of us. They include the investment tax credit, alternative methods of depreciation, and changes in corporate tax rates. In addition, there is a device which has not been used in this country but has been adopted by our major trading partners including Canada, England, France, Germany, and Japan. This is eliminating the double tax on corporate income, or integrating the corporate and personal income taxes.

Each of these may be discussed briefly in turn.

Investment Tax Credit. The investment tax credit now stands at 10 percent for eligible property which generally includes depreciable equipment, but not buildings, used in a production process. Equipment with useful lives of less than 3 years does not receive the investment tax credit, that with lives of more than 3 years but less than 5 years receives one-third of the credit, and equipment with useful lives of greater than 5 years but less than 7 years receives two-thirds of the credit. In addition, the credit cannot exceed $25,000 plus 50 percent of the tax liability over $25,000. However, special higher limitations are temporarily provided for public utilities, railroads, and airlines. Unused credits may be carried back 3 years and carried forward 7 years. One alternative for stimulating additional capital formation is to increase the investment credit above its current level or to relax the general 50 percent of tax liability limitation.

Depreciation Allowances. Under current law, property held for the production of income in a trade or business is allowed a reasonable deduction for exhaustion, wear and tear, and obsolescence. Depreciation deductions are calculated for tax purposes by first determining the life of the property and then applying a depreciation method allowed by law. Lives may be justified by taxpayers on the basis of either facts and circumstances or by reference to the class lives established by the asset depreciation range (ADR) system for taxpayers electing to use that system. Those electing ADR are also permitted to use 20 percent shorter lives than the published class lives. Once the asset life has been determined, the actual tax depreciation deductions are calculated by using either the straight-line method or a more accelerated method such as double declining balance.

As a mechanism for reducing taxes on capital income, it is possible to allow taxpayers larger depreciation deductions. This could be accomplished by various combinations of changes in either asset lives, more accelerated methods, or indexing depreciation for inflation.

Corporate Tax Rates. Alternatively tax burdens on capital income could be reduced by direct corporate rate cuts. Currently, the first $25,000 of corporate income is taxed at the 20 percent rate, the next $25,000 at 22 percent, and income in excess of $50,000 at 48 percent. Any or all of these rates could be reduced as a measure to stimulate investment.

Eliminating the Double Tax on Corporate Income. Although the idea of eliminating the double tax on corporate income has received considerable attention in recent years, it may nonetheless be worthwhile to review the various approaches which might be used to achieve this result. There are essentially three alternatives. One is full integration of corporate and personal income taxes and the other two are alternative variants of partial integration. Full integration is equivalent to treating the corporation as a partnership. Each corporate shareholder, as does a partner under current law, would include in his own income for tax purposes his proportionate share of the corporation's income whether or not it is distributed. The corporate tax then becomes a withholding tax credited against the shareholder's final individual tax liability. In effect, the corporation pays no separate tax at all in this case but merely serves as a collection agent for the Treasury.

The two variants of partial integration eliminate the corporate tax only on distributed earnings. The corporate tax would remain on undistributed corporate income. One version of partial integration involves a deduction for dividends paid at the corporate level in the same way that interest is currently deducted by corporations. The alternative version treats corporate taxes attributed to dividends as a withholding tax. The individual shareholder grosses up his cash or "take-home" dividends the same way that take-home pay is grossed up to include taxes withheld by the employer. Then in determining final tax liability, grossed-up dividends are taken into total income but a credit against tax is allowed for the corporate tax attributable to the dividends received. Again, this is similar to our current withholding system for wages and salaries where tax liability is based on "grossed-up" or before-tax wages, and a credit is taken for taxes withheld by the employer.

The choice among alternative ways of eliminating the double tax in the event that some proposal of this kind is recommended must also be based on considerations of simplicity and equity as well as on possible differences in revenue costs.

<u>Criteria for Choosing Among Investment Stimulus Alternatives</u>

It is important to specify the criteria to apply in choosing among alternative ways of stimulating investment. Let me enumerate these criteria and then briefly evaluate the alternatives.

<u>Nondiscriminatory or Efficient Incentives</u>. Where possible, incentives for capital formation should be provided in a nondiscriminatory manner. This means that market forces rather than the opportunity for specific tax advantages should determine the particular kinds of investment to be undertaken as well as the particular firms and industries which undertake it. The allocation of investment will be much more efficient when investors respond to market signals which reflect the wishes of consumers for particular goods and services.

Since the double tax on dividends in current law tends to distort the allocation of investment between corporate and noncorporate enterprise, some form of integration may make a significant contribution to economic efficiency. Other capital formation measures, to the extent that they reduce the relative taxation of corporations, have similar effects but not nearly to the same degree.

<u>Debt Versus Equity Finance and Corporate Dividends Versus Retained Earnings</u>

Also, tax incentives should ideally be neutral with respect to the way in which investment is financed and the extent to which corporations distribute or retain their earnings. There is considerable concern that in our present tax structure the corporation income tax biases the financing choice toward debt rather than equity financing and toward retentions rather than distributions of earnings. To the extent that debt financing is encouraged, an unbalanced financial structure can develop with too much debt piled on a limited equity base. The result could be an economic system increasingly vulnerable to cyclical fluctuations, and investors increasingly less willing to assume risk. Similarly, tax incentives to retain earnings can lead to corporate conglomerates as large firms seek outlets for their retained earnings.

Eliminating the double tax on dividends deals directly with the bias toward debt financing since returns to debt capital -- that is interest -- and returns to equity capital -- that is dividends plus corporate retentions -- would be taxed more nearly alike. The other measures for stimulating capital formation have no substantial effects in removing this bias. Similarly, by eliminating the double tax it is possible to achieve neutrality in the corporate decision to retain or distribute earnings.

Timing Effects. Alternative devices for stimulating capital formation may also have quite different effects on the timing of investment per dollar of revenue loss. These differences in timing may be important since we are concerned about investment to eliminate potential short-run bottlenecks as well as to provide an expanding productive capacity to sustain long-run growth.

The investment tax credit and changes in depreciation measures tend to have a larger short-run effect on investment per dollar of foregone revenue than either corporate rate cuts or eliminating the double tax on dividends. This occurs because in the short run the investment tax credit and accelerated depreciation have a greater affect on investment decisions. In contrast, a significant portion of the tax reduction from rate cuts and eliminating the double tax accrues to capital already in place rather than to new capital formation.

It is difficult to determine how heavily to weigh the timing differences of alternative proposals to stimulate investment. In the long run, it seems to me, that proposals which equally increase the after-tax profitability of investment are likely to have about equal effects in increasing the capital stock. The extent to which short-run differences should be given priority depends in part on one's evaluation of the short-run constraints currently impeding capital formation. If tax considerations are exerting a significant constraint on current investment decisions, then a stronger case could be made for the investment tax credit or an acceleration of tax depreciation. On the other hand, if investment is currently constrained by a concern about whether markets will be available for the additional output produced by a larger capital stock, then structural tax policy may be less effective in the short-run and should perhaps be directed towards longer term objectives.

The overall objectives of tax reform -- simplicity and equity -- also enter into the evaluation of investment stimulus alternatives.

Simplicity. Of the various investment stimulus alternatives, the simplest would be a straight cut in the corporate rate, although no significant complexities would generally be involved in increasing the investment tax credit or in allowing more accelerated depreciation methods. Also, although integration may be less familiar, it could be designed so that all the shareholder would have to do would be to copy onto the tax return information supplied by his corporation. This is particularly true for partial integration. Full integration could involve more complexity at the shareholder level since in this case shareholders would have to increase their basis in the stock for the earnings which corporations retain on their behalf.

Equity. Corporate and personal tax integration would be consistent with the goal of taxing all income only once and would also be more progressive than other ways of providing an investment stimulus. This result occurs because under integration, corporate income -- dividend income only in the case of partial integration and all corporate income in the case of full integration -- are taxed at individual marginal tax rates rather than at a flat corporate rate. Eliminating the corporate rate with respect to dividends therefore confers greater benefits per share to shareholder in lower tax brackets than to those in higher tax brackets. In other words, the effect is the same as increasing by a constant factor the dividends of all shareholders. While before-tax income goes up proportionately, after-tax income goes up more for lower income than higher income shareholders because of the progressive tax rate schedule.

The other stimulus measures -- the investment tax credit, accelerated depreciation, or corporate rate cuts -- also provide initial relief to owners of corporate shares, since these shareholders claim the higher after-tax income stream earned by the corporation. However, unless the cash-flow gains to the corporation from lower taxes are completely paid out in the form of higher dividends, the distribution of the after-tax benefits from corporate tax cuts will tend to be proportional to dividend income. This occurs because the additional income available at the corporate level will not immediately be taxed at the marginal rates of shareholders. If these cash flows are retained by the corporation, the values of corporate stock may increase and while corporate shareholders have experienced a gain in wealth as a result, there is no immediate increase in tax liability. Thus, the greater progressivity from eliminating the double tax is due to the fact that the additional income accrues at the shareholder level, rather than at the corporate level, and, therefore, it is subject to a progressive structure of marginal tax rates.

It should be pointed out, however, that while eliminating the double tax on dividends may be more progressive among shareholders than are cuts in taxes on corporations, nonetheless, all investment stimulus measures which reduce taxes on capital income are regressively distributed in general. This is true because capital income tends to be concentrated among higher income taxpayers as a whole. It need not follow, of course, that a complete tax reform package cannot be progressive if stimulating capital formation is to be one of its objectives. But in order for the program to be progressive in its total impact, it must take into account the effect of measures to stimulate investment.

Here again there are trade-offs. While eliminating the double tax may be more progressive per dollar of revenue loss, the investment tax credit and accelerated depreciation may require fewer dollars of revenue loss to achieve a given short-run investment effect. In any event, the long-run effects of higher rates of capital formation on the distribution of income will be quite different from the immediate impacts. Over time, the benefits associated with real productivity gains will be generally distributed throughout the economy.

Let me conclude by assuring you that this Administration is greatly concerned about the failure of our economic system to perform up to its potential over the past 10 years. We have taken seriously the need to provide adequate incentives for capital formation and risk taking. In the tax program which we shall later be presenting, this objective will be addressed in a significant way. At the same time we are also committed to developing a tax system which is more equitable and simpler. I shall look forward to working with you in the future as we present our proposals to achieve these ends.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 10:00 A.M.
June 16, 1977

STATEMENT OF DAVID MOSSO
FISCAL ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON CIVIL SERVICE,
HOUSE COMMITTEE ON POST OFFICE
AND CIVIL SERVICE ON H.R. 6526

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss H.R. 6526, which provides for mandatory withholding of city income taxes from the salaries of employees who are residents of cities with which the Treasury has tax withholding agreements.

As you know, Public Law 93-340 authorized the Treasury to enter into tax withholding agreements with cities. While that legislation provided for mandatory withholding from employees who worked in a taxing city, it did not require withholding from employees who resided in that city but worked elsewhere.

At the request of a number of city officials, the Treasury and the Civil Service Commission developed procedures, released in August 1975, which allowed employees who are residents of cities, but who work elsewhere, to have city tax withheld on a voluntary basis. H.R. 6526 would make this type of withholding mandatory, except for those residents who work outside the State where the city is located. At the present time, we have entered into agreements with 46 cities; the mandatory withholding provisions of H.R. 6526 would apply to them and to any other cities with which Treasury enters into withholding agreements.

I would point out that if action is taken on the bill, it should be amended by inserting "or county" after "city" each place it appears in section 1(a) of the bill. This amendment would conform the bill to the law as amended by the Tax Reduction and Simplification Act of 1977, which broadened the withholding statute to cover county-imposed taxes.

The Treasury Department generally favors this kind of proposed legislation. It provides for a systematic method for Federal employees to meet their local tax obligations, and it assists the taxing jurisdictions in administration of their tax laws in the same reciprocal fashion that their withholding of Federal income taxes assists the Treasury. Implementation of the proposed amendment should be no burden for Federal employers, since the voluntary withholding procedures already in place can be easily applied on a mandatory basis.

Mr. Chairman, that concludes my statement. I will be glad to respond to any questions you may have on this subject.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 2:30 P.M.
JUNE 16, 1977

STATEMENT OF THE HONORABLE ANTHONY M. SOLOMON
UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
SENATE COMMITTEE ON FOREIGN RELATIONS

Mr. Chairman and Members of this Distinguished Committee:

It is my pleasure to appear before you today to report on the results of the Conference on International Economic Cooperation (CIEC), in which the United States has participated during the past eighteen months. At the outset of my remarks, I want to make clear that I view the CIEC as part of the ongoing, evolving dialogue between the industrialized and developing countries. Because of this, it would not only be difficult, but also probably not very useful to strike a balance on CIEC alone. North-South issues have been discussed in numerous fora over the past few years and significant results have been achieved to the benefit of developed and developing countries alike. In addition to the outcome of CIEC, I am thinking, for example, of the liberalization of the Compensatory Financing Facility of the International Monetary Fund (IMF), the establishment of a Trust Fund for the benefit of the poorest nations, also in the IMF, the replenishment of the capital resources of the International Development Association now before the Congress and the participation of the United States in negotiations on individual commodity agreements that aim at stabilization of commodity prices around their long-term trend. To what extent these results might have been different in the absence of CIEC is hard to say. I believe that, at a minimum, the Conference was useful in setting out the problems facing developed and developing countries, in increasing mutual understanding, at least in regard to some issues, and in creating an atmosphere in which co-operative action and policy recommendations could be fashioned.

It may be useful to remember how the Conference came about. It first was conceived by the developed countries as a forum in which consultations between oil importing and oil exporting countries could go forward in the aftermath of the OPEC price increases of 1973/74. But the successful cartel action of OPEC brought about a greater sense of political impetus and cohesion, not only among the oil exporting countries, but also among the developing countries generally. This development led to the formulation of a far reaching set of economic demands that has become known as the New International Economic Order (NIEO) and to the view that energy issues should be discussed only within the context of the wider range of North-South economic problems. As a consequence, CIEC was charged with conducting substantive discussions covering all major areas of North-South issues. The nineteen participants from LDCs (the G-19) in CIEC thus derived their mandate from the Group of 77 which had shaped the NIEO and they, consequently, had very little negotiating flexibility. This was an important element in the dynamics of the Conference and it also meant that anything short of a full endorsement of all elements of the NIEO by the Conference could not be considered a success by the G-19. In addition, the fact that Conference decisions were taken by consensus meant that a lone participant could block a decision. While we saw this as a procedural safeguard, it did have the effect of narrowing the area of possible agreement. Nevertheless, beneath all the rhetoric that inevitably accompanies international conferences, a considerable amount was in fact accomplished. This is reflected in the Conference communique, which -- as such documents go -- is a very workmanlike document. In outlining clearly the basic areas of agreement and disagreement in the North-South dialogue, it shows that a major contribution of CIEC was to help delineate the realistic limits to demands and commitments of the developed and developing countries.

The industrialized countries participating in CIEC showed a willingness to back their rhetoric on global interdependence and the value they put upon a cooperative approach to North-South issues with concrete and meaningful action. The actuality of interdependence was underscored by the fact, brought out in the discussions, that LDC demand for the exports of developed countries was a significant sustaining element during the recession and, conversely, that recovery in the industrialized world benefited first commodity producers and then other LDCs materially. Thus, the commitments made to seek Congressional approval to increase the volume and effectiveness of aid flows, to assure adequate availability of official international financial resources and to strengthen the international trading system, in particular by reaffirming the pledge made at the outset of the current Multilateral Trade Negotiations to provide LDCs access to the markets of industrial countries, reflected both the self-interests of developed countries and a growing recognition of the needs of developing countries. Similarly, we see our agreement to negotiate a common fund, which would pool financial resources of various buffer stock organizations, as an integral part of our overall goal to stabilize commodity prices around their long term trend and thereby reduce the risk of inflationary pressures for consumers and producers alike.

The oil producing countries recognized during the course of the Conference that in shaping their supply policies they bear a particular responsibility for economic stability worldwide. And, the non-oil LDCs recognized the importance of private investment flows to their development plans. Thus, despite the continued rhetoric reflecting their love/hate relationship with multinational corporations, there emerged a considerable amount of pragmatic recognition regarding the elements that constitute a favorable investment climate.

On a large number of basic issues, however, no agreement could be reached. Throughout the Conference, the industrialized countries insisted that the dialogue must seek to achieve improvements within rather than a basic restructuring of the existing economic framework. In addition, the industrialized countries sought to demonstrate that indirect ways of transferring resources from developed to developing countries, e.g., by granting generalized debt relief or by indexation of developing countries' export prices, would start us down roads the endings of which, at best, were unclear and in most cases disadvantageous to us all. The developing countries, on their part, insisted that a reordering of the economic system, giving the LDCs inter alia more automatic access to international financial resources and a greater voice in decision-making, was essential. No agreement could be reached on issues that involved the view of LDCs of the exercise of their sovereign rights, such as determination of the export price of oil and the settlement of private investment disputes. Even in the areas of fundamental disagreement, however, the educational process involved will probably prove helpful in future North-South discussions.

The Conference proceeded in two stages: the first six months were devoted to an exhaustive analytical examination of North-South economic issues followed by a second stage during which the actual proposals and conclusions of the Conference were being negotiated. Most of the proposals and conclusions, except perhaps in the energy area, were not substantively new, but were articulated more sharply than in earlier discussions. In some cases, nuances in policy views were highlighted by large amounts of time devoted to drafting changes that to outside negotiating circles would have little meaning and would appear to be struggles over semantics only. The work proceeded in four separate commissions dealing with (1) energy, (2) raw materials, (3) development and (4) financial affairs.

On energy, the general objective of the industrialized countries was to broaden the base of international understanding of the interrelationship of energy prices and the performance of the world economy. The G-8 never attempted, nor did they think it appropriate to try, to obtain agreements regarding the actual setting of oil prices or the avoidance of embargoes. Progress was made on the basic G-8 energy objectives, except for obtaining a CIEC recommendation for an ongoing energy dialogue. The CIEC participants agreed to a general set of guidelines that 1) recognize the essentiality of adequate and stable energy supplies to global growth and the responsibilities of all nations, including the oil exporting countries, to ensure that such supplies are available; 2) call for intensified national and international cooperative efforts to expand energy conservation and accelerate the development of conventional and non-conventional energy supplies during the energy transition period and beyond; 3) affirm that special efforts should be made to help alleviate the energy burdens of oil importing LDCs; 4) recommend that the IBRD, in the context of a general capital increase, expand its activities so as to increase capital flows into the development of indigenous energy resources, particularly in energy importing developing countries; 5) call for new international efforts to facilitate the transfer of energy technology to LDCs wishing to acquire such technologies; 6) endorse enhanced international cooperation in energy R&D, which will probably lead to participation by some oil exporting and other developing countries in some R&D work in the International Energy Agency (IEA), and 7) recognize the desirability and inevitability of the integration of the downstream processing industries of the oil-exporting countries into the expanding world industrial structure as rapidly as practicable.

Under the general subject of raw materials, the Conference dealt with a full range of issues concerning international trade in commodities, practically all of which are the subject of discussions elsewhere and many of which were covered in UNCTAD Resolution 93 (IV), an Integrated Programme for Commodities, which was agreed on at the UNCTAD meeting in Nairobi in May 1976, but against certain parts of which the United States and some other G-8 countries registered reservations.

The issues we reserved against involved indexation of the export prices of commodity producers and measures to harmonize the production of synthetics with that of natural products. And these matters continued to meet with fundamental disagreement in CIEC as did G-19 proposals in the areas of transportation, marketing and distribution. With regard to compensatory financing to cover shortfalls in LDC earnings from exports of primary products, the G-8 proposed that the IMF/IBRD Development Committee study this issue, but this proposal foundered over G-19 insistence on UNCTAD participation and on defining terms of reference that effectively would have prejudged the outcome of the study.

In the wake of the decision of participants in the London Economic Summit that there should be a Common Fund and that CIEC should seek to give impetus to resumed negotiations on this issue in November, CIEC participants reached agreement in principle on the "establishment of a Common Fund with purposes, objectives and other constituent elements to be further negotiated in UNCTAD." Throughout the Conference we have made it clear that we cannot agree to negotiate on the UNCTAD version of the Common Fund, which would finance not only buffer stocks, but also a whole range of other activities included in the Nairobi Resolution. The type of common fund we have in mind is limited to a financial pooling arrangement for buffer stocks where they are part of individual negotiated agreements. Such an arrangement would result in efficiencies that would reduce the overall commitment of financial resources needed to back up the individual buffer stock organizations; it would not finance any measure or measures which would go beyond commodity price stabilization.

In the development area, there was intensive and prolonged discussion on some of the most important issues facing the Conference. The participants were able to reach agreement on the need for progressively and substantially increasing the flows of official development assistance, the desirability of a substantial increase in the general capital of the World Bank, the provision of assistance to infrastructure development, with particular reference to transportation and communications development in Africa, and assistance to food and agricultural production in developing countries. We did make clear, however, that we could not commit to any fixed target ratio of official development assistance to GNP.

I believe the lengthy discussions in the Conference resulted in an increased understanding by all of the necessity, not only of increasing aid volumes, but also, and of equal importance, of increasing the effectiveness with which these funds are used to enhance the development process. We stressed the responsibilities of the recipient developing countries in this regard and I think the message was understood.

The Conference took particular account of the pressing economic and financial difficulties of the poorest of the developing nations. The G-8 agreed to provide a $1 billion Special Action program for low income countries with the most acute financial needs; as our contribution to that program, Secretary Vance indicated that President Carter will seek Congressional approval in FY'79 for $375 million over current levels in U.S. bilateral aid to the poorest.

We were not, however, able to resolve several difficult issues in the development area. The industrialized countries insisted that debt service problems of developing countries should be addressed on a flexible, case-by-case basis and could not agree to G-19 proposals for generalized debt relief, for consolidation of commercial debts, and other objectives of debt reorganization. There was also disagreement on the issue of unrestricted access to industrial countries' markets for manufactured goods from developing countries and on G-19 proposals relating to the responsibilities of multinational corporations.

In the financial area, agreement was largely reached on the following issues: private foreign direct investment, developing country access to capital markets, other financial flows (monetary issues), and cooperation among developing countries.

On private direct foreign investment, considerable progress was made in identifying the essential elements that constitute a favorable investment climate. But those issues that touched upon the sovereignty of the host countries could not be resolved. Regarding access to capital markets, the final results support the work of the IMF/IBRD Development Committee and urge the speedy implementation of its recommendations. These primarily involve technical assistance of various sorts.

With respect to monetary issues, the participants noted with satisfaction that the work program laid out for the IMF by the Interim Committee reflected largely the concerns expressed during the Conference. Strong support was expressed for the initiative taken to establish a supplementary credit facility in the IMF. A number of G-19 participants advanced specific proposals for structural changes in the international monetary system and for easier access to international financial resources. The G-8 resisted inclusion of such proposals as these are matters for discussion in the IMF and not within the competence of the CIEC. The G-19, preferring to have monetary issues remain on the table, withdrew their specific proposals in order to reach an agreed text on these issues, noting, however, that the consensus reached did not cover all areas of interest to them. The paper on cooperation among developing countries largely reflected text agreed earlier in various UN fora and deals with ways and means by which bilateral and multilateral financial assistance could help promote economic and financial cooperation among developing countries.

Disagreement on the text on measures against inflation reflected divergent views on the sources of inflation. The G-19 insisted that the only matter of concern was inflation imported from industrialized countries and that the appropriate measure against such inflation is indexation of export prices of commodities. The G-8 maintained that inflation is largely homegrown, and requires appropriate domestic demand management measures. However, the G-8 noted that those countries whose actions have worldwide repercussions -- i.e. large industrial countries and countries with important exports, such as oil and some other commodities -- have a particular responsibility to combat inflation. On financial assets of oil-exporting developing countries, participants agreed that some oil exporting developing countries, in order to accommodate world energy requirements and thereby contribute to world economic growth and stability, have been maintaining production levels that, at current prices, yield external resources in excess of their current requirements. However, the G-8 could not agree that, therefore, such assets should receive preferential treatment. Although it appeared possible to come to an agreed text on this issue that would reflect both OPEC and G-8 concerns, agreement fell apart at the last minute and participants returned to their original positions.

As I noted earlier, a full assessment of results of CIEC is difficult to make. The Conference started in an atmosphere of near confrontation and discussions in the closing meetings were difficult, but it did result in a consensus communique which stated that CIEC had contributed to a broader understanding of the international economic situation and had been useful to all participants. In fact, while it would be difficult to prove, it is possible that this increased understanding, if not directly serving to moderate OPEC oil price increases, may have enabled those producers who supported moderate pricing decisions to do so more forcefully. Thus, my overall assessment is a positive one. This does not mean, as the dialogue proceeds in other fora, that the developing countries will drop any of their demands. However, to the extent that the discussions in CIEC have produced an increased sense of realism among the participants, the Conference will ease future negotiations and should be judged on that basis.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. June 16, 1977

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,200 million, or thereabouts, of 364-day Treasury bills to be dated June 28, 1977, and to mature June 27, 1978 (CUSIP No. 912793 M8 6). The bills, with a limited exception, will be available in book-entry form only, and will be issued for cash and in exchange for Treasury bills maturing June 28, 1977.

This issue will provide for a net pay-down for the Treasury of about $412 million as the maturing issue is outstanding in the amount of $2,612 million, of which $1,375 million is held by the public and $1,236 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 noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, this series of bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, June 22, 1977. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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.

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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.

Payment for the full par amount of the bills applied for must accompany all tenders submitted for bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities, for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for definitive bills, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

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 for bills to be maintained on the records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on June 28, 1977, in cash or other immediately available funds or in Treasury bills maturing June 28, 1977. 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 a 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 Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
TO BE EXPECTED AT 10:00 A.M.
JUNE 16, 1977

STATEMENT OF C. FRED BERGSTEN
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
DEPARTMENT OF THE TREASURY
BEFORE THE COMMITTEE ON INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

Mr. Chairman and members of the Committee on International Relations. I appreciate this opportunity to appear on behalf of the Administration to present its views on H.R. 7738, a bill "With respect to the powers of the President in time of war or national emergency." It has been a great pleasure to work together with the Subcommittee and we believe most issues have been worked out to our mutual satisfaction.

As a procedural matter, this bill had its genesis with the introduction of H.R. 1560, a bill "To repeal Section 5(b) of the Trading with the Enemy Act of 1917." The hearings that were held on that bill before the Subcommittee on International Economic Policy and Trade and subsequent mark-up afforded both Congress and the new Administration an opportunity to evalute the powers and procedures provided under Section 5(b) of the Trading with the Enemy Act, which we greatly welcomed.

In a real sense, the bill before us today had its genesis in the enactment of the Trading with the Enemy Act in 1917 and in the subsequent, occasionally hurried, amendments of that Act. In the midst of the 1933 banking crisis and again in the days preceding World War II, Congress added to the President's economic authorities to be exercised in wartime or during other periods of national emergency. In contrast with the crises in which Congress has previously amended Section 5(b), the current proposals and any new legislation will have the benefit of careful and deliberate consideration by all parties concerned.

In the National Emergencies Act enacted late last year, Congress provided for procedural constraints that it believed were required on the use of national emergency authorities in order to avoid unending states of national emergency. However, Congress also recognized that the national emergency powers conferred under Section 5(b) were complex and affected sensitive foreign affairs areas. Accordingly, Section 5(b) was excepted from the new procedures embodied in the National Emergencies Act to afford appropriate Congressional committees an opportunity to study that Section to determine what changes would be appropriate. The bill before us today reflects the development of a Congressional response to the requirements of the National Emergencies Act, and we are pledged to work closely with the Subcommittee in this effort.

Before I turn to the specific provisions of H.R. 7738, I would like to take a moment to describe briefly the uses of Section 5(b). From its inception in 1917, Section 5(b) has evolved through four amendments. A narrow trading with the enemy wartime provision has become a law authorizing, in wartime as well as other periods of national emergency, a broad range of economic powers, both domestically and internationally, with respect to property and a variety of transactions. This Section has been relied upon for domestic crises such as the 1933 banking crisis, as well as wartime situations such as the freezing of the assets of the Axis powers. Today, the Section is the basis for:

(1) the trade embargoes against Cuba, North Korea, Vietnam, and Cambodia;

(2) the freezing of Chinese, Vietnamese, and Cuban assets;

(3) the controls remaining on World War II blocked assets of East Germany, Czechoslovakia, Latvia, Lithuania, and Estonia; and

(4) export controls on strategic goods.

In our April 26 testimony before the Subcommittee on International Economic Policy and Trade, Assistant Secretary of State Katz and I stated the belief of this Administration that procedural reforms were needed in the way Section 5(b) powers are exercised. Accordingly, we recommended that in the future, the President be required to proclaim a new national emergency for any new application of Section 5(b) powers. This would avoid reliance on outdated emergency declarations, such as the use of the 1950 emergency relating to the threat of communist aggression to implement the balance of payments controls in 1968. We also testified that annual review and renewal of future national emergencies would be desirable. In accordance with the accountability and reporting requirements contained in the National Emergencies Act, we supported keeping Congress and the public informed on the uses of Section 5(b). I am pleased to note that the bill before us today incorporates all of these suggestions.

Now let me turn to the specific provisions contained in H.R. 7738. We support the basic approach of the bill, which is to separate the wartime from the national emergency powers by leaving the wartime powers in Section 5(b) and placing the emergency powers in a separate statute. We also believe that the Subcommittee has adopted a sound procedure for continuing the existing uses of Section 5(b). The procedure contained in Section 101(b) of the bill enables the President, after September 1978, to extend for one year periods Section 5(b) authorities being exercised as of June 1, 1977, if he determines that such extension is in the national interest of the United States.

We also support the requirement of Section 202 which states that a national emergency for the purposes of this International Emergency Economic Powers Act must be based on an unusual and extraordinary threat to the national security, foreign policy, or economy of the United States. We believe that this approach emphasizes that these powers should be available only in true emergencies, a view which we share. The qualification contained in Section 202 that the threat be from a source in whole or substantial part outside the United States will preclude certain uses of this Act which were heretofore authorized by Section 5(b). Similarly, Section 203(a)(1)(A)(ii), relating to the President's powers to act with respect to transfers of credit or payments between banking institutions, limits those powers to transfers or payments which involve the interest of any foreign country or a national thereof. This foreign interest qualification does represent a deletion of power which is now conferred under Section 5(b). Powers to regulate domestic transactions may be available pursuant to other statutes. Accordingly, we are reviewing these qualifications to determine their impact on the powers and authorities available to the President.

The language of Section 203(b)(3) which precludes the regulation or prohibition under the Act of uncompensated transfers of <u>anything</u> of value is troublesome to us. We are sympathetic to the purpose of this provision but believe that its wording will prevent the President from regulating or prohibiting activities which, if permitted, could damage the national interest. We should emphasize that this bill carefully limits the circumstances in which national emergency powers may be invoked, an approach which we fully support. Accordingly, when those circumstances are present, the President should be able to exercise tight controls to meet what are, by statutory definition, extraordinary and unusual threats. We recommend that the Committee adopt the language contained in Section 38 of the Trading with the Enemy Act which permits the donation of food, clothing and medicines intended to be used solely to relieve human suffering.

Section 206, providing for additional Congressional review of regulations, is the source of our greatest concern in this bill. We agree that Congress should oversee closely the exercise of these national emergency powers. This bill contains numerous procedural restraints on the use of emergency authorities through its own reporting and accountability requirements, notably the requirement for annual renewal of the emergency, in addition to those contained in the National Emergencies Act. Furthermore, Congress may, of course, modify or revoke the President's emergency powers through legislation. Thus, we believe that there is no need for additional review such as that provided in Section 206. In addition, it is the Administration's position that Congressional disapproval by concurrent resolution of regulations issued pursuant to law in the administration of ongoing programs violates the constitutional principle of the separation of powers. A similar concurrent resolution mechanism has been included in this bill for purposes of terminating declared national emergencies, through the adoption of that provision now contained in the National Emergencies Act. We strongly oppose both of these provisions.

Again, let me say that it is a great pleasure to have worked with the Committee in drafting a bill which meets our joint concerns in providing adequate national emergency powers, with adequate restraints on the use of such powers. We think that the bill before the Committee today makes significant strides in that direction and we hope that a formulation satisfactory to both the Congress and the Administration can be worked out.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: John P. Plum
566-2615

FOR IMMEDIATE RELEASE June 17, 1977

PROCEDURES EXTENDED FOR FERROCHROME, SPECIALTY STEEL IMPORTS

The Department of the Treasury today announced a one-month extension to July 18, 1977 of the expiration date for the temporary procedures governing imports of ferrochrome and specialty steel products under the Rhodesian Sanctions Regulations. The temporary procedures were published on May 10, in connection with the recent Congressional action (P.L. 95-12) repealing the Byrd Amendment and prohibiting importation of Rhodesian chrome and other strategic materials.

The extension of the interim procedures is being authorized in view of the substantial progress made to date in negotiations between the Treasury Department and representatives of countries that export ferrochrome and specialty steel products to the U.S. This brief extension will enable permanent certification agreements to be concluded with these countries. It will prevent trade disruption pending completion by July 18, 1977 of the necessary foreign administrative and legislative arrangements. Treasury does not foresee any need for further extension.

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DEPARTMENT OF THE TREASURY

NEWSMAKER'S BREAKFAST

with

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ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

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(This transcript was transcribed from a live tape.)

P R O C E E D I N G S

MR. : You're not going only to be meeting, I gather, but steel is on the agenda. We have some discussions about steel where the Administration is concerned about an apparent move toward a steel cartel.

MR. BERGSTEN: Well, the Administration has got two immediate objectives in the international discussions on steel.

The first is to really express, very strongly, our concern about the practices that some other countries have been starting to get into in the steel industry which we think may very well distort international trade in steel products and raise real problems for our own industry.

One has to do with the internal plans in Europe for, what they call, rationalization of their steel industry; the so-called Seamonay (ph), and now, Darviaux (ph) plans which really attempt to regulate steel production, and necessarily, therefore, steel trade of the European producers.

And a variety of the aspects of that arrangement strike us as raising the possibility of dumping of European steel in international markets during periods of slack demand, and, perhaps, otherwise, distorting international trade to the disadvantage of our own industry and workers.

Another practice we're concerned about is the bilateral deal that the Europeans and Japanese have worked out within the last six months, or so, that puts some so-called voluntary restraints on Japanese exports of steel to the European community. That, obviously, runs the risk of deflecting Japanese steel into this market, and thereby, also disadvantaging American industry and American workers.

Those are two concrete cases of what we see as a possibly widespread problem of actions in other countries that distort international trade and raise problems for our own steel industry.

A second question which relates to that, but is broader, has to do with allegations that have been made, including by the U.S. steel industry, that there are just some structural differences between U.S. practices and practices in other countries, particularly as relates to relations between government and business in the steel sector.

A charge is made, particularly toward Japanese industry, that the basic structure of the industry and its relations with the government there enable Japanese firms to be much less conscious of profit margins than our American firms; enables them to sell steel below actual cost of production during, at least, some periods of time, which, if true, obviously would raise some real trade problems and problems for American industry and raise questions of whether U.S. anti-dumping statutes should come into play.

On that front, what we're trying to do at this point is get a better understanding of the situation to both work internally, as we are doing on the issue, and to have international discussions with the other key countries, Europeans and the Japanese, so that we can do two things: express our concern about developments that have already been taken by other countries, and, also, get a better understanding and, hopefully, ask some pretty probing questions about some of these fundamental aspects of the structure of steel industries in other countries as they would affect international trade, and through that, the American industry and American jobs.

At this point, we're certainly not seeking to negotiate any kind of new international agreements in the steel sector, or any other sector. But we do think there are some serious problems in steel; some very broad and fundamental questions have been raised, and we want to get to the root of those as quickly as we can.

MR. : Would voluntary trade agreements alter this area if Japan agrees to hold out?

MR. BERGSTEN: Well, we have a real reluctance, as the President has indicated on several occasions, to propose any kinds of restraint in international trade. The President has said that explicitly and that's his position.

As you know, in the shoe and color television cases, we have negotiated some restraint agreements with a limited, very limited number of suppliers.

But in this case, the preference is certainly to roll back the distortions that other countries have undertaken to avoid any actions by European governments, for example, that would lead to export subsidies or dumping by European firms in the world steel market and, similarly, to avoid any undue effects on ourselves of the European-Japanese arrangement.

Our strong preference would be to avoid distorting measures by other countries rather than to talk about putting in any new distorting measures of our own.

MR. : Do the OECD discussions of steel preclude any ~~gss~~ GATT agreements and a sector agreement on steel made in the Geneva negotiations?

MR. BERGSTEN: No. I think there's no prejudice here as to the form. At this stage, we basically view it as a problem among the industrial countries, and more explicitly, between ourselves, Europe and Japan.

So the OECD, which has had steel discussions in the past, struck us as a natural place to have that kind of discussion. But for any longer run negotiations that might be required in this area, the ~~gap~~ GATT and multi-lateral trade negotiations are a possible forum.

As you know, the Congress in the Trade Act of 1974, in fact, urged on the Administration an effort to negotiate in the steel sector, per se, and that certainly remains a possibility.

At this stage though -- let me stress -- we're not talking about any negotiating anywhere on international agreements in steel. What we try to do is express our concern with a view toward rolling back some possibly distorted facts of other countries and try to get a much clearer understanding of these more fundamental issues that underlie the whole question of steel trade.

MR.   : So you still would go for a sector agreement in steel?

MR. BERGSTEN: Well, the previous administration, late last year, put a proposal on the table in Geneva, in the ~~gap (ph)~~ GATT, for some steel sector talks. There has not been much progress on that. What to do on that is part of the review we're now undertaking and what we learn and what progress we can make in the OECD talks and elsewhere will be an important guide to our judgment as to how best to pursue the whole question.

MR.   The Times says Mr. Schultz in Paris yesterday again urging more expansion on Germans. And I thought that the U.S. had made a decision to drop that line.

Is it picking up again or was my original impression correct?

MR. BERGSTEN: I don't know where that line really came from.

I think the Administration has been pretty consistent, literally, from day one, the Mondale trip, and all that, in saying a couple of fundamental things: one is that in a world where the OPEC countries are going to continue to run sizable current account surpluses, the order of magnitude of $40 billion dollars, or so, per year, the rest of the world, by arithematic fact, has to run current account deficits of $40 billion, or so, a year.

And the issue for an international economic and monetary stability in the short run is how to divide up those current account deficits.

It's been our view that the stronger countries, the United States, Germany, Japan, and a few others as well, should take their share of that current account deficit which is required in the rest of the world.

We think it's wrong, frankly, for strong countries to be running current account surpluses, particularly, large current account surpluses, particularly, large and growing current account surpluses in a world of that type because then the rest of the world has to share out not only a $40 billion deficit but maybe a $55 or $60 billion deficit if other people are coming in and running surpluses.

And we have made that view known from, I think, almost day one of the Administration. Secretary Blumenthal, in recent speeches, most notably in Tokyo at the International Monetary Conference on May 25, explicitly said the United States has moved into current account deficit. And we believe the other surplus countries, Germany, Japan, Switzerland, Netherlands, should now do so as well.

So, it couldn't have been anything more explicit about our basic position, now, and it's been constant, I think, from day one until I cite the Secretary's speech of May 25 and he reiterated the same theme in his press conference 10 days ago.

MR. : The Secretary was talking about moving certain kinds of surplus or deficits through appreciation of the currency but not through expansionary policy --

MR. BERGSTEN: Yes. I was going to say the next question is how do you do it? And we haven't tried to, you know, tell other countries how they ought to do it.

There are two obvious ways: one is a more rapid internal growth rate; the other is an appreciation exchange rate. In the real world, both obviously occur and both can be undertaken to that end.

Let me make one other point of consistency, I think. Never did we, in the Administration, urge any country to expand its economy so rapidly that it would trigger a new bout of inflation. We never said that. And if we weren't clear, it was our mistake.

The London Summit declaration said very clearly, inflation can create unemployment. And we're not pushing countries to inflate their economy to deal with their balance of payments or any other problems. But we said that right at the outset too when we went to Europe and Japan, with the Vice President. We always made clear that within the constraint of avoiding a renewed bout of inflation, we would hope that countries could expand their economies as rapidly as possible.

It's our view, based on the U.S. experience, which we think has proven true so far, that there was room for the U.S. economy to expand more rapidly without triggering any significant increase in the rate of inflation.

So, we did point to that possibility. The Secretary has pointed explicitly to the exchange rate possibility, and those are the two main ways to go about it. There may have been, you know, some differences in emphasis in presentation along the way, but I think the basic theme has been clear from the outset and it remains clear.

MR. : So when Mr. Schultz urges expansionary policies on the Germans, in your view, that's no change in Administration policy?

MR. BERGSTEN: That's right. Literally, from the outset, we have said that. Secretary Blumenthal has more recently talked even more explicitly about the exchange rate in addition, but they are all a part of the same fundamental philosophy and approach to try to restore and maintain maximum stability in the world economy and the world financial system.

MR. : Mr. Bergsten, in dealing with this deficit problem that's been taxed on the overseas, opinion seems to be pretty unanimous among western countries that the way to deal with that is to beef up the IMF.

But if we beefed it up substantially, isn't there a danger that you're just creating an inflationary or liquidity monster in the world?

MR. BERGSTEN: No, there's not. We've been very careful in all our planning in this area, and particularly with the IMF, to avoid that kind of risk. In fact, I would view the kind of focus we put on the IMF as a very strong anti-inflationary tool. Let me explain why.

One reason we want to center attention and activities so heavily on the IMF is because IMF lending is always explicitly hooked into stabilization programs on the part of the borrowing countries.

We have not called, for example, for a creation of special drawing rights which would be an expansion of IMF funding without conditions or without any reference to the economic policies undertaken by the recipient countries.

What we have stressed is the need to expand condition liquidity lending capacity, on the part of the IMF, but which explicitly would be linked, in all cases, to the policies undertaken by the borrowing countries -- by definition, therefore, deficit countries -- to put their own houses in order.

And, in fact, one of the reasons we think it's so important to do that is to help countries who need to undertake stabilization programs to do so with outside help and have financing that will enable them to do so on an orderly basis. But it's precisely due to help cope with inflation, which we continue to view as an outstanding global problem, that we have put our emphasis on the IMF within the IMF on the expansion of conditional liquidity in order to help countries that need it to undertake stabilization programs.

MR. On that same subject. The

Bank for International Settlements, this week, seems to again be raising the issue of the dollar rights by suggesting that the large current accounts deficit being run by the United States is flooding dollars into the -- is increasing international reserves, international liquidity, by an outflow of dollars.

Do you see any serious danger there?

MR. BERGSTEN: All I can say is that the exchange markets don't agree with the BIS.

MR. : I thought floating (ph) rates was supposed to end that problem?

MR. BERGSTEN: Well, exactly. And, moreover, during the period when the trade balance and current account balance of the United States had moved into sizable deficit, the dollar has strengthened in the exchange market.

So I think, at this point, it's analytically fallacious to say that there's any incipient dollar glut which is causing concern around the world.

MR. : There's been a pretty selective strengthening, now, hasn't it? It hasn't strengthened against the (INAUDIBLE).

MR. BERGSTEN: Well, I'm talking about a weighted average exchange rate.

Clearly, in a world of flexible rates, some currency is going to go up against the dollar and some down.

The dollar is the pivot currency in the whole system.

As I said before, we certainly have no reluctance to see the currencies of surplus countries appreciated. Indeed, that's a contribution to reducing their surpluses and thereby moving the world toward a more equilibrium and balanced position. So we certainly have no cause for concern about that.

But, indeed, if the current account surpluses of some of those other countries remain strong, we would expect to see greater appreciation to their rates. Secretary Blumenthal said that explicitly about the yen in his recent press conference.

But in terms of weighted averages, taking into account all other currencies, the dollar has been strengthening during the last 18 months when there's been this very sharp move into deficit. If you go back to the oil crisis, from which dates the big increase in our oil imports and, therefore, moving the deficit of our trade position, the dollar strengthened very markedly.

In fact, the whole second devaluation has been undone. The so-called third devaluation, as Pompidou labeled it, has been undone. And, if you take the weighted average exchange rate of the dollar, not just vis-a-vis the other industrial countries, but vis-a-vis the 42 countries that account for about 90 percent of our trade which includes a lot of important developing countries, the dollar is stronger today than it was in June 1970 when the Canadian float started the whole series in exchange rate realignments.

Now that's a long-winded answer to say that the exchange markets, private investors, traders, governments, central banks around the world don't seem to be having any doubts about the dollar now. I think that's probably because they realize, as we have indicated, that the underlying competitive position of the United States is very strong. Our share of world exports and manufacturers has increased sharply and stayed high. On all the other indicators we can see, the underlying competitive position remains strong.

We're watching it closely; we're not complacent about it; we're not blase; we're not saying this should be ignored and forgotten about. But in all the indicators, as we can read them now, the underlying position looks strong.

MR. : Secretary Vance said a couple of weeks ago that the U.S. (INAUDIBLE) the Japanese (INAUDIBLE). And since it takes Congressional (INAUDIBLE) to release them to the U.S. stockpile (INAUDIBLE). (INAUDIBLE)

MR. BERGSTEN: No. It is not a signal of that.

Technically, there are two routes to U.S. contribution to the buffer Stock (ph) of the International Tin Council. One would be, as you suggest, by taking tin out of the strategic stockpile and just contributing in kind. That would require legislation of one type.

Another would be simply to get an appropriation of money and turn over a financial contribution to the management of the Tin Agreement which, in turn, could use that in the market.

But I don't think we would buy tin in the market and put it in. We would either put in our own stockpile of tin or we would put in a financial contribution. And which route to go, you know, depends on the legislative outlook and a lot of things. And we haven't, frankly, decided that yet.

MR. : Sir, if we can talk a bit about the results of the North-South Conference.

MR. BERGSTEN: All right.

MR. : What's the preliminary lessons that we're drawing from what happened in Paris, in particular about the usefulness of big conferences and the ability to work through smaller groups and bilateral

MR. BERGSTEN: Right. I should know. Under-Secretary Solomon is going to be testifying on that topic later today in the Senate Foreign Relations Committee. You might want to look at his statement on that because it addresses these kinds of questions.

I guess our main substantive conclusion is that North-South relations, while certainly they're not perfect, have really come a pretty long way in the last two or three years.

Things were at a pretty confrontational stage a couple or three years ago, I guess it culminated or highlighted the Sixth Special Session of the General Assembly of the UN back in early 1975.

But dating from the Seventh Special Session back in the fall of that year when the previous administration here really reversed U.S. policy toward the developing countries in a number of areas, I think things have been on a much smoother path.

There are a number of things that I think we're doing now which really do go a long way to meet the very serious and legitimate concerns of the developing countries. We're boosting the growth of our own economy very sharply, which is the most important thing we can do for the developing countries as well as for ourselves because that provides a growing market for their exports, t sronger commodity markets for their commodity sales, and better environment in which we can avoid trade restrictions, provide foreign aid, et cetera, et cetera.

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By supporting a big increase in the resource of the IMF, we are providing a lot bigger pool of balance of payments support for developing countries as well as others.

By avoiding import controls, we're keeping our markets open to developing countries in shoes, for example, instead of putting restraints on shoe imports across the board which would have hit about 20 to 25 developing countries, particularly in Latin America, very hard; Brazil, Colombia, Uruguay. We avoided that. We limited the constraints to two countries whose tremendous growth really called for some ~~pairing~~ paring back.

In the foreign assistance area, we are seeking, this year, a 30 percent increase in U.S. aid. We may not get all of it from the Congress but I think we will get most of it and it will be a very sharp increase in U.S. assistance, both bilateral and particularly multi-lateral.

As mentioned a minute ago, we've completely shifted our policy on commodity trade. We're not only supporting but we're seeking, wherever possible, to negotiate international commodity agreements to stabilize prices which help~~s~~ us but help~~s~~ the producing developing countries as well.

There are just a number of areas in which I think our policy is moving in the right direction and making a lot of progress with developing countries.

On the procedural aspects that you raised, I think the ~~CEAC~~ CIEC (ph) Conference does demonstrate the difficulty of trying to move ahead on all fronts simultaneously.

The history of international economic change and negotiation does seem to suggest that the greatest progress is made when you isolate an issue in a functionally specific institution and sort of keep narrowly focused on that topic: monetary issues in the IMF; trade issues in the ~~GAP~~ GATT (ph); commodity issues and something like the Tin Council; aid issues in the World Bank to some extent.

When you try to put them all together in a single negotiating pot, problems do arise just in the workability of the whole enterprise.

And in this particular conference there was the added difficulty of representation. The so-called group of 19 developing countries there really were the representatives of the much larger so-called group of 77 which is really 106. And they really took their instructions from the broader group which meant they couldn't negotiate.

It couldn't be a negotiating conference because there wasn't really flexibility to negotiate on either side. That, in addition to the just unwieldiness of having that big a group of people even though it was representative of a much larger group.

Now, that's not to say that groups of that type don't have some purpose because there is a need, I think, for forms in which the whole package can be discussed in its interrelationship where political impetus can be given to the specific more technical discussions, and broad political statements and interests can be expressed. So we would not come away feeling that there was no utility; only that it's difficult to make concrete progress in the specific issue areas in forms of that type.

CIEC ~~CEAC~~ (ph), itself, remanded some specific issues to other forums and, I think, kind of demonstrating the point I was making.

The UNCTAD ~~UMTED~~ (ph) will pick up on the negotiations of the Commodities Common Fund in the fall. Some issues have been remanded into trade forums, development committee at the IMF World Bank, et cetera, et cetera.

So, you know, there's a role for different kinds of forums. This was kind of a multi-purpose highly politicized forum. It has its utility. But as far as negotiating specific steps forward, I think history shows those are more likely to come in the functionally specific more technically oriented, if you will, institutions.

MR. : When U.S. (INAUDIBLE) negotiating international wheat agreements, don't you find (INAUDIBLE) individualization (INAUDIBLE).

MR. BERGSTEN: We certainly see a series of grain issues as coming together; the need to stabilize prices better, perhaps, through creation of buffer stocks that are coordinated internationally; the issue of food aid, an emergency food reserve for humanitarian needs and ongoing commitments on food aid to the poorer countries; and the trade issue of opening markets to international trade in grain.

So, those three big headings, we certainly see as being interrelated and as pieces of a package that ought to be discussed together, not necessarily in the sense that it will all be negotiated in the same form at the same time, but that it ought to be a part of the overall international notion of how to improve international grains trade for all concerned.

MR. : I guess related to the North-South dialogue is the East-West dialogue. And I wonder what the Treasury view is now that this tide turns to get the communist world toward the western point which seems to be growing, or whether this is something that has been taken notice of in Treasury, whether it's something that
Eastern European communist debt
will be coped with or what the status of the (INAUDIBLE) is right now on this?

MR. BERGSTEN: Well, certainly, something that's been noticed and, you know, we try to monitor closely the whole international financial picture, including debt problems, whether they are of developed countries or developing countries or socialist countries. So we certainly do watch it and try to get as good data as we can and watch the changes in the picture.

The eastern European debt is not so directly an American problem because most of the debt is not to U.S. banks. You know, for a variety of reasons, U.S. banks have not been terribly active in lending to Eastern Europe, or communist countries, in general, and so it's not as direct a U.S. involvement as would be the case with bank lending to other parts of the world.

Nevertheless, since it has an affect on international financial stability in general, we do watch it. I think, in the last several months, there has been an appreciable slowdown in the rate of increase of that debt simply because some of the banks in Western Europe have developed some concerns about the level of the debt and it has slowed the pace of their lending.

So, it's something that we're watching. We don't see any imminent problems. We think that market reactions to the development of that debt already are tending to limit the risk that it might become a serious problem. As I say, it's not one that's as directly a U.S. thing as bank lending in other parts of the world.

MR. : On this East-West question.

It was reported yesterday in the Post, I think, that the Soviet foreign trade minister had a meeting which I think you attended.

MR. BERGSTEN: Right.

MR. : And it said that the Soviet Union really did not need the U.S. trade.

Can you comment on his statement, and, also, could you give some understanding of what you think U.S. trade will be in the coming year or so?

MR. BERGSTEN: Well, on the latter, I, you know, public statements were made including by Secretary Blumenthal during the course of the last week of talks with the Soviets that it looks like there may be a significant decline this year over last in the level of U.S. trade with the Soviets.

Those things are hard to predict, but that's our best judgment at the moment.

The fundamental point on that, and also on your first question, is that the magnitudes involved are miniscule in terms of both U.S. trade and Soviet trade with the rest of the world in U.S.-Soviet trade for fundamentally political reasons; but also reasons of the economic structure of the two countries is ~~(INAUDIBLE)~~ very small as a share, not only of their gross national product where you can hardly see it, but as a share of their international trade position.

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So when Minister ~~Politchev~~ (Ph) says we don't need your trade, in a literal sense, that's probably true. It's already very tiny. There aren't that many products where the United States is the sole supplier. Just as there aren't any products where the Soviet Union or any other country is the sole supplier in this kind of world economy we have today.

So, taken literally, it's true. However, one has to go much beyond that because that statement could be made about almost any pair of trading partners.

There are some things that we supply that we do better than anybody else and the Soviets could save some money and, perhaps, get some better technology in the better quality products that they bought from us.

I think what the Minister was saying was that the United States should not believe that trade provides a massive lever, vis-a-vis other issues, in U.S.-Soviet relations. That's the view he was expressing. I'm not endorsing or denying that view, but I think that was what he was really saying that the United States should not believe that an opening up of trade with the Soviet Union is such -- is of such importance to the Soviet Union that they would, therefore, be prepared to make lots of changes in their policies or international affairs, domestic affairs, or whatever it might be.

I think that was his point. And on that, one can only say the future will tell.

MR. : Did Paris kill all hopes for an energy producer consumer coordinating group, or whatever you want to call it, or were any of the ideas that were floating around there salvageable later on?

MR. BERGSTEN: I don't think it killed all possibility. Certainly, there's an ongoing interest on the part of a number of oil importing countries, and I should say on the part of a number of oil exporting countries as well, to have some forum in which a discussion of that type can be carried out.

In fact, at Paris, there were some ideas thrown around about the possibility of other forums emerging as a basis for that kind of discussion.

I don't believe there's been any more concrete formulation of those ideas in the couple of weeks, now, since the ~~SEAC~~ CIEC (ph) meeting ended, but I would guess that they would emerge at some point.

MR. : May I go back to the dollar question.

Your position, isn't it the same as the Republicans have done which was called benign neglect? I mean, if they don't like your deficits, they can always appreciate and this is probably what you want.

How does this tie in with a monetary cooperation which you said it will be in favor of to avoid distortions in the market and turmoil?

MR. BERGSTEN: Well, I would reject any notion that our policy is one of benign neglect, with or without analogies to the way that term was used in the past.

The most critical issue, of course, for a country's international financial position is its internal economic policy. We happen to think we're running, right now, a pretty responsible internal economic policy. The growth rate is up and vigorous; the unemployment rate is coming down sharply; the inflation rate, while it remains too high, is not rising and we don't think it's going to rise; and so we think our internal policy is certainly a responsible one, responsible to both international and domestic terms.

And, in fact, by running a more vigorous internal economy, thereby providing some impetus to imports from other countries as well as for domestic output, we think we're making a major contribution to the world economy. By running those external deficits, I should say, we also think we're making a contribution.

For the longer run, the obvious imbalance problem is really one of oil trade. And there, the President has, as everybody knows, proposed a rather widespread and massive program to try to deal with the issue, reduce U.S.

dependency and, therefore, U.S. imports, which, if that is successfully achieved, would go an important part of the way toward restoring international energy balance and, therefore, reducing that particular source of international disequilibrium.

As far as our relations with other countries go, we have, as I said at the outset, been pushing on other countries whose surpluses add to the international disequilibrium, to take steps to take their share of the inevitable current account deficits that now exist in the world outside OPEC.

I think if you put all of those things together, it's pretty hard to call it benign neglect.

MR.   : Could it be argued that since the U.S. is contributing so heavily to the OPEC surpluses by importing oil, that the U.S. got the countries to (INAUDIBLE) oil imports.

MR. BERGSTEN: Well --

MR.   : I mean, you have made that point several times. If you take out all of your balance of your current accounts, then you are in a heavy surplus.

MR. BERGSTEN: Right.

MR.   : So, what is actually the underlying factor of the U.S. deficits are strictly oil. We could argue this point.

So, if you have $30 billion or $40 billion of imports and the deficit of $12 billion in the current account, the others should be (INAUDIBLE) with their (INAUDIBLE) and go into deficit too. I mean, you have surplus positions with the ~~LDCs~~ LDCs (ph) and with the industrialized countries. You have only deficit position with the OPEC countries.

In my opinion, it doesn't make sense.

MR. BERGSTEN: What do you think we should do?

(Laughter)

MR. : I don't know. But I think the argument is, I think, fundamental (INAUDIBLE).

MR. BERGSTEN: Well, let me explain it; in answer to the first part of your question.

We're trying to do something about our deficit with the OPEC countries. We're trying to cut back sharply on our imports of oil. That is the bottom line of the President's energy approach. And, despite the fact that the Congress is changing some parts of it and not accepting some, adding other things of its own, there will be a strong U.S. energy program. And over time, it will, along with increased supply from other sources, cut back on our imports of oil, and that will go directly to the root of our deficit with OPEC. So we're working on that.

On the other part, our surplus with the rest of the world, you're quite right. We are running a surplus with the rest of the world.

There, of course, the delicate question is what to do about it. What you're suggesting is we ought to make that -- turn that surplus with the rest of the world maybe into a deficit. If we did that, of course, then our world trade deficit would be 40, 50, $60 billion a year at this point, which might be a little large to sustain in terms of both the exchange rate of the dollar and some domesitc political considerations.

If, for example, it led to a depreciation in the exchange rate of the dollar, then the deficit would immediately go away by virtue of the fact that we would recoup the surplus, not with OPEC, but with the same countries that we eliminated it with in the first place.

So, in a world of flexible rates, I don't think your argument has any chance of playing through even if we wanted to do it. If we wanted to do it and somehow could figure a way to sustain it, I'm afraid the deficit in our trade balance, of that order of magnitude, might trigger just some of the kinds of policies that we're all, I think, trying to avoid: pressures for import restraints, reduction of foreign aids, other kinds of uncooperative moves in international economic relations which I think would not serve any of our countries.

So there's a fundamental question, which you rightly raised. But our view is that by combining a modest trade surplus with the rest of the world with our structural and growing services surplus, we're able to keep our overall current account position in a tenable position during this interim period but while we all work to reduce the fundamental imbalance in the OPEC and other countries.

Remember that we're not asking other countries to run trade deficits. When I mentioned the need for them to move into current account deficit, that doesn't say trade déficit because, as you well know, Germany, Japan and others have deficits in their services items unlike our big surplus, which means they can run current account deficits even with a continued sizable trade surplus.

So, we're not calling for a wholesale change of that type, but rather, for a more modest change for everybody to take his share of the inevitable deficits that now exist.

MR.   : The famous 23 to $25 billion deficit that's going up every month. It used to be just 23 and now it's 23 to 25, and whatever.

Is that going to be a one-shot thing or are you planning toward some numbers like that for at least a couple of years until, praise the Lord, Carter's plan begins to work?

MR. BERGSTEN: Well, we don't really plan for

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particular trade balance figures at all. I have always tried to be careful to say that this year's deficit will be over 20. And as far as 23 or 21 and a half or 24.78, I'm not going to put my money on a point estimate at this point, but it's big, and that's the basic point.

We do think there are several factors that are likely to improve it in the short run in the next year or two. One is the cyclical situation. One reason that our exports and manufactured goods have not increased rapidly over the last six to 12 months is because some of our major markets have been very sluggish: Canada, Japan. And some of the key developing countries which now take 40 percent of our exports of capital equipment.

Those countries have been sluggish and are now beginning to pick up, particularly Japan. But the importer rates are now beginning to come down in Canada. Some of the developing countries have now gotten through their stabilization program and have started to grow again more rapidly.

So, we think our exports and manufactured goods are likely to pick up steam in the months and quarters ahead, and that will be an improvement.

The second factor is that North Slope oil does begin to come on later this year. It should be a pretty full flow by next year. And at full tilt, that's going to take about $5 billion a year off our oil import costs. The North Sea has taken about $10 billion a year off British costs and the North Slope will take about $5 billion a year off our costs when it's running at two million barrels a day. So that's a second favorable factor that's coming on.

A third favorable factor, which is simply a continuation of the structural situation in the past, is that this services surplus keeps rising. It's now up to 15 billion; it rises 3 or 4 billion a year, and that's pretty inexorable. So that keeps rising and brings the current account deficit down.

So you keep -- you see, those three items that are moving up in a positive direction.

MR. : In that regard, in your speech awhile back on the (INAUDIBLE), you estimated at about $3 billion the amount of the deficit that comes from the difference between the growth of our trading partners, and you've estimated 5 million from the North Oil slope.

And the other thing you were talking about was invisible, so can we subtract $8 billion from 25 to get next year's deficit?

MR. BERGSTEN: No. Too many other variables. All I meant to say was those were some factors that seem to be improving.

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The $3 billion on the cyclical figure was my judgment -- and this is anybody's estimate -- but it was our judgments, conservatively formulated, I might say, of the cyclical effect '77 over '76.

If you take '77 vis-a-vis '75, remember, in '75, we had a trade surplus of $9 billion. This year, we've got a trade deficit of maybe 20, 25; that's about a $30 billion swing. Probably, as much as half of that swing is due to cyclical factors. Because a lot of the surplus in '75 was cyclical, because when our economy slows down and runs negative growth, as it did then, we had this big income elasticity of demand and our import demand dropped very, very sharply.

So, you've got to be careful on how you use this cyclical thing, and I wasn't making a big point out of it only to say that as other markets, which are critical exports, pick up, our sales, too, are going to pick up.

I could add, you know, a fourth thing, but I don't want to try to quantify. Our own growth rate is probably going to be a little slower in the second half than in the first half, and a little slower, maybe, in '78 than in '77, the first half.

And so, the rate of growth of import demand ought to decline a little bit too. So, you know, there are a variety of factors, and I don't want to try to put numbers on them. We don't have point estimates for the trade balance in '78, but there are a number of factors that seem to clear and be pointing in the direction of reducing the current deficit.

(NEW Solidarity press Service--U.S. Labor Party)
MS. : Is the Administration concerned with the opening, now, of discussions about using Saudi funding for purchases from the Soviet Union by the rest of the Arab Bloc, I mean, particularly in the context of the fact that over the last two payments quarters, they're going to be default showing on the account of key industrial ~~(INAUDIBLE)~~ countries which was admitted eventually after (INAUDIBLE) when people actually expected that the (INAUDIBLE).

In the context of the Saudis refusing to go into the (INAUDIBLE) now, actually, opening discussions about using their financing,of purchases from the Soviet Union for both (INAUDIBLE) now be facing a situation where the United States is essentially in the position of possibly losing control if defaults do occur. There are other arrangements which have been set up between other countries, excluding the United States (INAUDIBLE).

MR. BERGSTEN: Well, your facts are wrong on three counts.

The Saudis have said, explicitly, they will join the Witteveen ~~(INAUDIBLE)~~ facility, and they will --

MS. : That's $2 billion.

MR. BERGSTEN: They said they would join. No

No final amounts yet. The amount will undoubtedly be higher than that. We don't know the final amount yet.

Secondly, I've never heard any mention of Saudi money being used for imports from the Soviet Union for any other OPEC countries.

Third, I'm not aware of any defaults that are going to be announced to take place in the next two quarters.

MR. : In light of your expressed satisfaction of a limited nature of the TV and the footwear agreement, what are your views on the continuation for a second and a third year, let's say, of their especially steel import quota system?

MR. BERGSTEN: I just don't know. The President has recently asked for an ITC review of the situation as President Ford had indicated would occur when he first put those quotas into effect a year ago, and I simply don't know. We're going to have to see what the ITC appraisal is of the state of the industry, the impact imports are having and what course it might recommend. I simply can't perceive how it's going to go.

MR. : You are not at the point where you can give advice?

MR. BERGSTEN: No. No. We quite literally are waiting until we get the ITC recommendation. It will be another month or two before we get that so that we will have a comprehensive appraisal of the industry before us.

MR. : It is possible, then, that you can live with this type of import restraint?

MR. BERGSTEN: Sure, if the President concludes that the state of the industry and the threat from imports continues to be serious and threaten injury to the industry, then I'm sure he would want to maintain some kind of restraints.

MR. : And that would be your view?

MR. BERGSTEN: That would be my view. I would want -- as I say, I don't have a view on the subject, at the moment, but if that were the analytical outcome, certainly we plan to carry out the trade law in its full intent.

MR. : We have time for about two more questions.

MR. : Sir, I'm concerned about the reports (INAUDIBLE) at the Treasury about the gold sales before th end of the year.

I was wondering if you could tell us what the Treasury policy is on gold sales now and what might trigger a gold sale, say, if Carter's program gets hung up in Congress and (INAUDIBLE).

MR. BERGSTEN: Well, Undersecretary Solomon, in a letter to Chairman ~~Royce~~ Reuss which was published, indicated the Administration takes basically the same view on gold policy as did the previous administration. Over time, move it out of the center of the monetary system.

And certainly, he envisaged in that letter that there would, from time to time, be U.S. Treasury gold sales. But no decision has been made on timing and, really, would only be speculation at this point to try to link it to any such event. We have not done so and, at this point in our internal thinking, no decision has been made yet as to the possible timing of sale.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 11:00 A.M.
JUNE 20, 1977

TESTIMONY OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE SENATE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS

Mr. Chairman and Members of this distinguished Committee:

I appreciate this opportunity to testify on behalf of the Administration on S.1664 which is the principal financial reform legislation that the Administration expects to propose this year.

In the last few months, the Administration has reviewed the work of previous study commissions, assessed past legislative efforts, and taken a fresh look at Federal banking laws and regulations as they stand today. Our conclusions are not likely to surprise the members of this Committee who have dealt with these issues over the years. By now, it is widely recognized that significant portions of our Federal system of laws and regulations governing financial institutions are in need of revision to take account of the many technological and structural changes that have taken place in the last two decades and to eliminate anticompetitive bias.

Despite substantial past efforts by Congress and previous Administrations, Federal laws dealing with depository institutions have been largely unresponsive to pressures for change. Elaborate attempts to enact comprehensive packages of financial reform to deal with a wide range of difficult issues have failed. My general feeling -- which I believe is shared by many members of Congress and leaders of various segments of the industry -- is that these attempts failed because they linked a number of proposals on which there is obvious need to measures on which the need for prompt action is less pressing.

The approach the Administration is recommending through the proposals contained in S.1664 is to concentrate on two related areas that clearly need to be addressed and to resist the temptation of addressing all real or perceived inequities and thereby invite continuing stalemate.

Introduction of NOW Accounts

The first area that clearly invites attention is the prohibition in the federal banking laws against the payment of interest on demand deposits. That prohibition was enacted in 1933 on the basis of an assumption that the payment of such interest had been in some measure responsible for unsound banking practices that developed in the 1920's. Several recent studies have indicated that the assumption on which the prohibition was enacted remains unsubstantiated. Interest has, of course, been paid on demand deposits in many other countries both before and subsequent to 1933. Consumer groups have advocated the repeal of the prohibition since it clearly restricts services that might otherwise be offered to consumers and also has an anticompetitive impact. In fact, a form of interest on transaction accounts for individuals now exists, but in a barter form, as banks offer "free" checking related services to customers in exchange for minimum balances. Large depositors, particularly businesses, have learned to circumvent the prohibition through cash management techniques which keep their demand deposits at levels just necessary to compensate banks for other services actually rendered. In the last three years, so-called NOW accounts have been widely marketed in New England, and credit union share draft instruments have been offered on an experimental basis without serious adverse effects.

While consumers have unquestionably benefited from the limited offering of NOW accounts in New England, it has also significantly contributed to smaller New England commercial banks leaving the Federal Reserve System and, therefore, led indirectly to a weakening of the System's monetary policy capabilities. In any event, our conclusion is that the time has certainly come to provide for an orderly expansion of bank services in this area. Accordingly, Part I of S.1664 provides that depository institutions -- commercial banks, mutual savings banks, savings and loan associations, and credit unions -- may offer interest-earning transaction accounts to their individual customers.

In general, we believe such accounts will provide American consumers residing outside New England with an alternative to conventional savings and checking accounts -- one that provides the advantages of both accounts, namely interest on deposits and easy accessibility to funds. Also, the number of institutions permitted to offer NOW accounts could greatly exceed the number offering conventional checking accounts and, therefore, competition for consumer deposits will be active. This added competition among financial institutions for the household demand deposit dollar will improve the quality and variety of services offered to all consumers.

There may be consumers, of course, who will not find these new accounts sufficiently attractive to switch from conventional accounts. Some consumers keep small checking account balances and write a large number of checks. The low-balance, high-turnover customers will probably not choose NOW accounts unless they are willing to economize on check usage. Otherwise, service costs will outweigh the interest earned. In a broad economic sense, however, these service charges reflect a healthy development. As institutions begin to price services to reflect true costs, an efficient allocation of resources is promoted. In this way customers are able to weigh the personal value of a service against its actual price and make a more informed choice.

The introduction of NOW accounts, therefore, is basically a pro-consumer measure which may temporarily increase costs for some of our financial institutions. We thus propose to balance this NOW account proposal with certain compensatory measures for the institutions. The New England experience indicates that the introduction of these interest-earning transaction accounts may impose some transitional costs on institutions. We particularly understand the concern of the small, retail-oriented banks which receive a large proportion of their deposits as personal checking accounts. These banks will need time to adjust gradually to added competition as new institutions begin to offer NOW accounts. We believe these difficulties will be temporary and can be minimized through a gradual, phased-in program. The basic danger is that change will occur too rapidly for these institutions, and we want to avoid that.

I would like now briefly to describe the specific provisions in our bill that will make the nationwide NOW account program more equitable, more gradual and more balanced than the New England experiment. First, we propose that a temporary interest rate ceiling be imposed on NOW accounts and share draft deposits, which we believe should be lower, at least initally, than the passbook savings rate and lower than the 5 percent that is paid today on New England NOW accounts. The ceiling will be set by the four rate-setting Federal financial regulators, acting as a group, including the credit union administrator, and will be uniform for all types of institutions. If for some reason these four regulators cannot reach agreement on the initial uniform rate, then the Federal Reserve will have the governing vote. The nationwide ceiling is expected to be in effect for only three years, but can be extended for up to three additional years if the regulators deem this necessary.

Second, we have included a provision to grandfather those New England institutions and credit unions that are presently paying higher rates on these transaction accounts. Otherwise, the current competitive climate within New England could be disrupted when the national rate is set. This grandfathering protection, however, will expire after the first three years, the time when all rate controls under the bill will also expire.

Third, Mr. Chairman, S.1664 provides that only individuals may open NOW accounts and share draft accounts. We chose to limit this new type of account to individuals for two reasons. Consumers with general small balances have far fewer investment alternatives available than corporate and public entities. A business with $20,000 in temporary excess cash can relatively easily invest this money. On the other hand, a housewife with $200 of temporary excess cash would find it more difficult to invest the cash. A NOW account would be responsive to this basic consumer need.

Another argument for limiting these new accounts to individuals was to ease the transitional difficulties for commercial banks. Household demand deposits make up only about a fourth of total demand deposits. By limiting NOW accounts and share drafts to individuals, we have limited the amount of potential funds which might shift into those accounts to a manageable proportion of total demand and savings deposits.

In New England, where non-profit corporations also are eligible for NOW accounts, those non-profit corporations maintaining these accounts at the time of enactment of S.1664 will be permitted to maintain them for three years.

Fourth, another safeguard expected to ease transition difficulties is the proposed one-year delay after enactment of this bill, before institutions can introduce this new type of account. This should give financial institutions adequate time to assess costs, adjust fees, and determine marketing strategies in advance. The one-year delay will also allow State governments to adjust their laws, if necessary, to this Federal change in policy.

A final, important difference, relative to the New England experiment, is the provision specifying uniform reserve requirements against NOW and share draft accounts at all depository institutions. The chief objective here is to promote competitive equity. The NOW account market will be competitive, and no one type of depository institution should suffer significant cost disadvantages by virtue of Federal requirements, including reserve requirements, imposed for the benefit of the entire economy.

It is also important from the standpoint of monetary policy that there be a requirement of uniform reserve requirements. The experience in New England indicates that these will be a significant movement of funds into NOW accounts over the long-run; some of these funds will represent deposits flowing out of banks which belong to the Federal Reserve System. A uniform reserve requirement on NOW's will neutralize the effect of such a movement on the conduct of monetary policy. We know of no other practicable way of assuring competitive equality of treatment other than authorizing the Federal Reserve to set NOW and share draft reserve requirements for all institutions.

Another fear is that the added costs to banks of paying interest on NOW accounts will exacerbate the long-term decline of bank membership in the Federal Reserve System. This has happened in New England, and we must guard against the possibility that a number of banks might leave the System when NOW accounts are entended nationwide if compensatory measures are not taken. And that leads to the second major and intertwined issue that S.1644 addresses.

Payment of Interest on Member Bank Reserves

In the last five years an increasing number of commercial banks have withdrawn from the Federal Reserve System. That trend, if it should continue, or accelerate by reason of the spread of NOW accounts, will ultimately have a serious impact on the ability of the Federal Reserve System to conduct efficiently national monetary policy.

Between 1970 and 1976, 361 banks left the Federal Reserve System causing a decline in the proportion of total gross bank deposits held by member banks of a little over six percent. In 1975 and 1976 alone gross deposits held by member banks as a proportion of total bank deposits declined by over 3 percent. The decline in the proportion of gross bank deposits held in New England member banks has been even more dramatic as a consequence of NOW accounts. At the end of 1974, member banks held 75 percent of all bank deposits in the region. By the end of 1976, this proportion had declined to 70 percent and in the first five months of 1977, to 63 percent.

There can be no doubt but that the cost burden imposed by the System's reserve requirements is the primary reason for this withdrawal of banks. Federal Reserve member banks are required to set aside a proportion of their deposits as reserves in non-interest bearing form. Banks hold a small proportion of reserves in the form of cash, but the majority are in the form of balances at Federal Reserve Banks, and under present conditions, these funds earn no interest and thus represent a real "cost" to the member bank in the form of lost earnings on those reserves. In contrast, most non-member commercial banks and savings institutions, are able to fulfill the reserve requirements imposed by their regulators by holding their reserves in interest-earning securities. It is more costly, therefore, for member banks to satisfy their reserve requirements than for non-member banks and savings institutions to do so. This cost is partially offset by the free services provided by the Federal Reserve System to member banks, but the smaller-sized banks for a variety of reasons do not make extensive use of these services.

The Federal Reserve System's ability to implement monetary policy efficiently is related to the proportion of the nation's deposits subject to its reserve requirements. There is no precise proportion of deposits that must be subject to System reserve requirements for monetary policy objectives to be efficiently attained, but there is little doubt that if present trends continue -- and there would seem to be no reason to believe they will not continue without this legislation -- the ability of the System to conduct efficient policy will be impaired.

S.1664 would permit the Federal Reserve Banks to pay interest on the required reserves of member banks. The Administration decided to support this proposal after extensive discussions between the Treasury Department and the Federal Reserve Board. Other options such as lowering reserve requirements or requiring reserves from non-member financial institutions were considered, but the payment of interest on required reserves appeared to be the most equitable.

The payment of interest will result in a reduction in the net earnings of the Federal Reserve System and therefore in payments by the System to the Treasury. On the other hand the continued withdrawal of banks from the System will have the same effect. If the present rate of attrition in membership should continue, the net cost to the Treasury of a total withdrawal of disadvantaged banks after a few years might be between $200 million and $300 million per year, according to Federal Reserve estimates, and thus in a sense the "costs" to the Treasury would be neutral if the impact on the Treasury from payment of interest on reserves did not exceed those figures.

Obviously, whatever system the Federal Reserve ultimately utilizes to pay interest, with the objective of stemming the attrition in membership, must be subject to some ceiling and to some guidelines. S.1664 therefore limits the amount of interest that may be paid on reserve balances to no more than 10 percent of the net earnings of the Federal Reserve in the previous year. The ceiling is set at a level which we believe will provide more than enough funds to enable the Federal Reserve to offset the membership burden of those banks most likely to leave the System.

Because the membership burden varies significantly among banks, we chose not to specify uniform interest payments on all reserves held at the Federal Reserve. Instead, S.1664 gives the Federal Reserve the discretion to concentrate its interest payments among those banks suffering the greatest competitive disadvantage and thus most likely to leave the System. We expect that the banks which have a relatively low net burden from being a Federal Reserve member because of their extensive use of free Federal Reserve services or access to the discount window (even if not used extensively) may not need to be as highly compensated for the reserves they maintain at the Federal Reserve.

We have also discussed extensively the acceptable level of revenue loss to the Treasury in the first year from interest payments. We have informed the Federal Reserve that we regard a net revenue cost of $200 million as a reasonable objective. This should permit aggregate interest payments in the range of $330 million to $500 million.

In this connection, I should point out that S.1664 would permit the Federal Reserve to reduce the required reserves against demand deposits that must be maintained by member banks from 7 percent to 5 percent, provided that such reduction shall only be available to a member bank with net demand deposits of less than $15 million. By using this provision, the Federal Reserve could also, in effect, reduce the burden of membership on the smaller banks and thus help to meet the problem of attrition. We understand that in using this latitude, the Federal Reserve will consider the loss of revenue to the Treasury in conjunction with the loss that will occur from the payment of interest on reserves.

We also understand that the Federal Reserve is studying the pricing of services it now provides without charge with the objective of determining whether it should charge for such services, if it should be permitted to pay interest on reserves. We understand it's desire to move slowly in this area to avoid exacerbating the membership problem. But, from the standpoint of efficiency and the encouragement of private sector participation in providing such services, we would support the objective of their introduction over the next few years.

Deposit Rate Ceilings

Mr. Chairman, the final section of S.1664 would extend the present authority permitting the Federal Government to impose interest rate ceilings on time and savings deposits -- called Regulation Q -- from December 15, 1977 to December 15, 1979.

In 1966, the Federal Government turned to deposit rate ceilings to protect the savings institutions and, thus, the mortgage market from commercial bank competition, but the ceilings were considered temporary and meant to expire the following year. It was recognized then that the ceilings penalized the small depositor and might not succeed in ensuring a steady flow of funds to the housing market. But, since 1966, no generally accepted alternative to deposit rate controls has been offered and Congress has been forced repeatedly to extend the ceilings. Today, there is a widespread judgment that deposit rate ceilings are, on the one hand, inadequate to mitigate the impact of high interest rates and disintermediation on housing, and on the other hand, unfair to small depositors. Assessment of the consequences of removing the ceilings is a complex undertaking and one that involves considerations that go beyond the banking system.

The President has therefore decided to establish a task force, including all concerned agencies, to study the impact of these deposit rate ceilings on the financial intermediaries, the individual saver, and the mortgage market. It is our expectation that the conclusions of the task force will have been reached and transmitted to the Congress for action well before the suggested 1979 expiration of the deposit rate authority.

In another area related to financial institutions and the mortgage market, the President has decided that the Administration should undertake a study of credit discrimination against low income, inner-city residents by lending institutions -- commonly called "redlining." We are aware that the Senate has recently taken action with respect to one aspect of the problem last week through passage of S.1523, the Housing and Community Development Act. However, this is a very difficult problem and we believe that a coordinated effort among all the agencies concerned might yield methods of attack not now utilized. Accordingly, a comprehensive study will be undertaken within the Urban and Regional Policy Task Force chaired by Secretary Harris.

CONCLUSION

In closing, Mr. Chairman, I would like to reemphasize our conviction that success or failure in achieving in this Congress the goals underlying this bill is dependent upon our concentrating the efforts of the Congress and the Administration on legislation that addresses issues that merit prompt attention and that are of significance to the public and not merely to an industry segment. I believe S.1664 meets those criteria.

This Committee has before it a number of related legislative proposals which would go much further than the Administration bill towards restructuring financial institutions. Many of the provisions in these proposals were contained in the previous financial reform packages and may well deserve the support of this Administration on their own merits. Some of these goals have long been sought by various segments of the industry, but I would suggest that -- if past is prologue -- each additional provision added to S.1664 will reduce the chances of enactment by this Congress. I therefore hope the temptation to try to resolve too much and therefore accomplish nothing, will be resisted.

Thank you, Mr. Chairman.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 20, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,000 million of 13-week Treasury bills and for $3,001 million of 26-week Treasury bills, both series to be issued on June 23, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 22, 1977			26-week bills maturing December 22, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.739 a/	4.989%	5.12%	97.375	5.192%	5.41%
Low	98.729	5.028%	5.16%	97.354	5.234%	5.45%
Average	98.733	5.012%	5.15%	97.360	5.222%	5.44%

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

Tenders at the low price for the 13-week bills were allotted 43%.
Tenders at the low price for the 26-week bills were allotted 78%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 24,925,000	$ 9,925,000	$ 27,765,000	$ 2,765,000
New York	3,045,310,000	1,621,415,000	4,162,635,000	2,541,835,000
Philadelphia	14,975,000	14,975,000	6,855,000	6,855,000
Cleveland	28,230,000	28,230,000	4,715,000	4,715,000
Richmond	25,285,000	20,285,000	16,025,000	11,025,000
Atlanta	29,255,000	21,760,000	23,520,000	23,520,000
Chicago	193,600,000	68,030,000	252,535,000	115,335,000
St. Louis	50,595,000	37,595,000	58,065,000	45,065,000
Minneapolis	10,595,000	7,745,000	9,305,000	9,305,000
Kansas City	39,240,000	38,955,000	9,315,000	9,315,000
Dallas	11,495,000	11,495,000	4,045,000	4,045,000
San Francisco	277,830,000	119,930,000	412,030,000	227,030,000
Treasury	30,000	30,000	10,000	10,000
TOTALS	$3,751,365,000	$2,000,270,000b/	$4,986,820,000	$3,000,820,000c/

b/Includes $264,095,000 noncompetitive tenders from the public.
c/Includes $100,100,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn Johnston
(202) 634-5377

FOR IMMEDIATE RELEASE June 22, 1977

TREASURY SECRETARY BLUMENTHAL APPOINTS SANFORD N. MCDONNELL AS NEW SAVINGS BONDS CHAIRMAN FOR MISSOURI

WASHINGTON -- Secretary of the Treasury W. Michael Blumenthal has appointed Mr. Sanford N. McDonnell, President, Chief Executive Officer and Director, McDonnell Douglas Corporation, as Volunteer State Chairman for the Savings Bonds Program in Missouri. The appointment is effective immediately.

Mr. McDonnell will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting bond sales throughout the state. He succeeds W. L. Hadley Griffin, Chairman of the Board, Brown Group, Inc.

Prior to Mr. McDonnell's current appointment, he had previously served as a member of the U. S. Industrial Payroll Savings Committee for Savings Bonds, representing the St. Louis geographic area.

Mr. McDonnell was born in Little Rock, Arkansas, and has degrees from Princeton University, the University of Colorado, and Washington University. He began his career in 1948 as a trainee engineer with McDonnell Aircraft Corporation and over the years has held increasingly more responsible positions. In 1971 he was elected President of the Corporation; in 1972 he became Chief Executive Officer; in 1973 he was named Chairman of the Douglas Aircraft Company Division; and in 1975 he was elected Chairman of McDonnell Douglas Corporation's Executive Committee.

Mr. McDonnell's professional memberships include the Aerospace Industries Association (Chairman of the Board of Governors); the American Security Council, and the United States Chamber of Commerce. He is a fellow of the American Institute of Aeronautics and Astronautics; a member of the Board of Trustees, Washington University; a member of the Board of Directors, United Fund of Greater St. Louis and on the Executive Board, St. Louis Area Council, Boy Scouts of America. He is married to the former Pricilla Robb and has two children.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. June 20, 1977

TREASURY TO AUCTION $1,500 MILLION OF 15-YEAR 1-MONTH BONDS

The Department of the Treasury will auction $1,500 million of 15-year 1-month bonds to raise new cash. Additional amounts of the bonds 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

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 15-YEAR 1-MONTH BONDS
TO BE ISSUED JULY 8, 1977

June 20, 1977

Amount Offered:	
To the public.......................	$1,500 million
Description of Security:	
Term and type of security...........	15-year 1-month bonds
Series and CUSIP designation........	Bonds of 1992 (CUSIP No. 912810 BY 3)
Maturity date.......................	August 15, 1992
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 15 and August 15 (first payment on February 15, 1978)
Minimum denomination available......	$1,000
Terms of Sale:	
Method of sale......................	Yield auction
Accrued interest payable by investor............................	None
Preferred allotment.................	Noncompetitive bid for $1,000,000 or less
Deposit requirement.................	5% of face amount
Deposit guarantee by designated institutions........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Tuesday, June 28, 1977, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds.......	Friday, July 8, 1977
b) check drawn on bank within FRB district where submitted....................	Tuesday, July 5, 1977
c) check drawn on bank outside FRB district where submitted..................	Friday, July 1, 1977
Delivery date for coupon securities.	Thursday, July 14, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 21, 1977

TREASURY ANNOUNCES FOUR ACTIONS
UNDER THE
COUNTERVAILING DUTY LAW

The Treasury Department announced today that it is initiating investigations under the Countervailing Duty Law of imports of leather handbags from Colombia and Uruguay. In other actions it announced that countervailing duties on imported scissors and shears and cotton yarn are being reduced slightly.

Notices to this effect appeared in the Federal Register of June 21, 1977.

The handbag investigations stem from petitions filed by the International Leather Goods, Plastics and Novelty Workers Union on April 22, 1977. A preliminary determination in each case must be reached by October 22, 1977, and a final decision by no later than April 22, 1978. Handbag imports from Colombia were approximately $5.6 million in 1976. Uruguayan handbag imports for the same period were $3.3 million.

Countervailing duties on Brazilian cotton yarn imports are being reduced from 21.4% to 19.6% effective June 21, 1977. Similar duties on scissors and shears imports from Brazil are being reduced from 17% to 15.8% effective February 11, 1977. As a result of information provided by the Brazilian Government, the Treasury determined that the size of the subsidy had been reduced.

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B-301

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE JUNE 20, 1977

BEATRICE N. VACCARA APPOINTED DEPUTY ASSISTANT SECRETARY FOR ECONOMIC POLICY

Treasury Secretary Michael Blumenthal announced today the appointment of Beatrice N. Vaccara as Deputy Assistant Secretary for Economic Policy.

Mrs. Vaccara, a graduate of Brooklyn College and Columbia University, formerly served as Associate Director for National Analysis and Projections at the Bureau of Economic Analysis at the Commerce Department.

Prior to joining the Commerce Department in 1959, she spent five years at the Brookings Institution where she produced two pioneering books dealing with the employment effects of foreign trade, one as author, the other, co-author. Her professional career started at the National Bureau of Economic Research in New York which she joined immediately upon finishing her graduate studies at Columbia.

Mrs. Vaccara was awarded the Silver Medal for Meritorious Service in 1965 and in 1974 was awarded the Gold Medal for Distinguished Achievement in the Federal Service at the Department of Commerce.

She is a fellow of the American Statistical Association, a member of the ASA Board of Directors, a past president of the Washington Statistical Society, a board member of the National Economist Club and a past member of the Executive Committee of the Conference on Research in Income and Wealth.

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B-302

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: George G. Ross
202-566-5985

FOR IMMEDIATE RELEASE June 21, 1977

UNITED STATES AND UNITED KINGDOM
INITIAL NEW ESTATE AND GIFT TAX TREATY

The Treasury Department today announced that a draft of a proposed new double taxation treaty between the United States and the United Kingdom, covering taxes on estates of deceased persons and on gifts, was initialed in London last week.

The draft convention would replace the existing estate tax convention between the two countries. The draft is being submitted to the respective governments for approval. (Copies of the draft are not available.)

The existing estate tax convention will continue to apply to Federal estate tax and United Kingdom capital transfer tax imposed on any death occurring before the new convention enters into force.

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B-303

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 9:00 A.M.
JUNE 17, 1977

STATEMENT OF DONALD C. LUBICK, DEPUTY ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY), ON S. 1538, THE BLACK LUNG BENEFITS REFORM ACT OF 1977, BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT COMMITTEE ON FINANCE

The Treasury Department endorses the objectives of the tax and trust fund provisions of S. 1538. Since the Congress has decided that there should be a Federal program to insure benefits to victims of black lung diseases and their survivors, it is quite appropriate that the costs not met by other insurance programs should be assessed against the coal mining industry in general. My comments about the bill therefore will be directed to the details of the tax and trust fund provisions.

In the 94th Congress, the Committee on Finance adopted amendments to the trust fund and financing provisions of H.R. 10760, a predecessor of S. 1538, but H.R. 10760 was never enacted. The trust fund and financing provisions of S. 1538 reflect in a general way the changes made in H.R. 10760 by the Senate Finance Committee.

Last year, as you remember, the Finance Committee recommended that the revenue for the trust fund be raised by a tax of 10 cents a ton on coal sold by the producer, except that the tax would be 15 cents a ton on anthracite produced by underground mining. The tax was to be added to the system of manufacturers excise taxes now in the Internal Revenue Code, with the same rules as the other manufacturers excises, subject to a few modifications to reflect the "user charge" concept involved in the tax.

This year's version of the tax as reported out by the Human Resources Committee also is to be included in the manufacturers excise tax part of the Internal Revenue Code. However, the tax is to be a three tiered one based on the average rated Btu value of the coal. The Btu value is to be that "assigned by the United States Bureau of Mines to the coal field or coal seam from which the coal is extracted." The three rates (7.5 cents, 15 cents, and 30 cents per ton) graduated upward according to the Btu content of the coal are intended to reflect the fact that, in general, the price of coal reflects the Btu content and, according to the Human Resources Committee, "because the mining of higher Btu level coal produces a higher incidence of black lung as a general proposition."

As a result of discussions with representatives of the Bureau of Mines, we doubt whether that organization currently has available the information necessary to effect the decisions as to taxability required by the bill. A definite statement as to the situation should be obtained from the Bureau.

If after due evaluation, it is decided to continue with the Btu approach, we wish to stress that full responsibility for determination of the Btu content of coal and for supporting such determination should rest with the Bureau of Mines. The Treasury Department, more specifically, the Internal Revenue Service, does not have the expertise for making or defending such determinations.

If your Committee agrees with our view that use of the Btu content as a tax determinant is likely to be difficult to put into practice, we suggest consideration of alternative methods of determining the tax on coal. The Bureau of Mines could suggest technical language to describe the three tax categories and provide expert information for purposes of selecting the three tax rates.

We defer to the Department of Interior as to the practicality of determining the tax category for all domestic coal output.

There are two minor technical changes that we suggest in the tax provisions. We see no need to define a "sale" or to amend the definition of "lease" as is done on page 17 of the bill. Present law definitions of these terms are adequate for purposes of the new tax.

I now move on to comment on the trust fund provision. We feel that it would be desirable to simplify or "streamline" some of the details.

1. The bill provides for three Secretaries, Labor, HEW, and Treasury, to act as trustees of the fund with the Secretary of Treasruy acting as managing trustee. We see no need for the Secretary of the Treasury to be included as a policy determination official of the fund. By the terms of the bill, the basic function of the Treasury Department (aside from the role of the Internal Revenue Service in collecting the tax)

is to act as manager of the tax receipts and pay benefits as determined by the Department of Labor. We, therefore, recommend that the Secretary of the Treasury merely be denoted "manager" of the fund, and the Secretary of Labor be made the trustee.

2. In new section 424(b)(2), after the words "repayable advances" the words "out of any money in the Treasury not otherwise appropriated" should be added to clarify that the general fund would be charged for the repayable advances.

3. Section 424(c)(2) should be revised: 1) by striking all after the first sentence and inserting in lieu thereof the following: "Such investments shall be made only in public debt securities with maturities suitable for the needs of the fund and bearing interest at prevailing market rates. The interest on such investment shall be credited to and form a part of the fund."; and 2) by deleting paragraphs (3) and (4). These amendments would give the Secretary of the Treasury the flexibility to tailor the investment program for the optimum return to the fund.

4. Proposed section 424(e)(4)(A) should be revised by deleting "the Secretary of the Treasury" and inserting either "the Attorney General" or "the Secretary of Labor."

Under the proposed section 424(e), a mine operator may be held liable to the United States for repayment of benefits already disbursed from the fund but attributable to the operator under sections 422 and 423 of the Act. If the repayment is not made, an operator's liability lien is created which is fashioned after the Federal tax lien. Any unpaid liability would, under the terms of the bill, be collected through a civil suit brought by the Secretary of the Treasury.

The Labor Department would make the determination of operator liability. Similarly, administrative appeals would be with the Secretary of Labor. As presently written, it is not clear whether Labor or Treasury would be responsible for filing the operator's liability lien. The assignment of jurisdiction to the Secretary of Treasury to bring a civil suit to enforce the operator liability lien does not correspond to the method for enforcing a tax lien. Treasury refers tax lien suits to the Department of Justice for litigation as provided in Code section 7401.

The Treasury Department is strongly opposed to this assignment of responsibility for bringing civil suit to the Secretary of the Treasury, since it would require three Departments to administer the law. Assigning the civil suit function to the Attorney General or the Secretary of Labor would be more efficient.

(5) Finally, the Treasury opposes proposed section 424(f). Subsection (f) in effect provides that the fund (i.e., the trustees) may enter into insurance contracts with individual operators so that they may have the insurance coverage required by section 423 of the Federal Coal Mine Health and Safety Act. The Treasury Department does not believe that it is a proper function of the federal government to enter into the insurance business as an underwriter of what is essentially workmens compensation insurance. Especially the trust fund should not be jeopardized by having it subject to insurance underwriting losses.

This is a rather extensive list of recommended changes, but I do want to emphasize that we in no way consider this as reflecting on the validity of the tax and trust fund approach. As I said, we support the principles involved, and the Treasury staff is available to provide any help you wish in making adjustments that will make the tax and trust fund provisions more efficient and effective.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. June 21, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,300 million, to be issued June 30, 1977, as follows:

91-day bills (to maturity date) for approximately $2,100 million, representing an additional amount of bills dated March 31, 1977, and to mature September 29, 1977 (CUSIP No. 912793 K4 7), originally issued in the amount of $3,404 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated June 30, 1977, and to mature December 29, 1977 (CUSIP No. 912793 L9 5). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing June 30, 1977. This offering will provide for a net pay-down for the Treasury of about $407 million as the maturing issues are outstanding in the amount of $5,707 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,515 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, June 27, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on June 30, 1977, in cash or other immediately available funds or in Treasury bills maturing June 30, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202) 566-2615

FOR IMMEDIATE RELEASE June 22, 1977

KOREAN CERTIFICATION AGREEMENT REACHED ON CHROMIUM

The Department of the Treasury announced today the conclusion of a formal certification agreement with the Government of the Republic of Korea to permit importation under the Rhodesian Sanctions Regulations of specialty steel products from Korea. The agreement replaces the interim arrangements which were in effect between March 18, 1977 and June 17, 1977.

Under the new agreement, the Korea Chamber of Commerce will issue special certificates of origin under governmental supervision. These certificates will serve to establish that Korean specialty steel products do not contain any chromium of Rhodesian origin. Interim certificates will also be acceptable until July 18, 1977, under existing interim procedures.

Korea will subject to laboratory testing all Korean imports of chromium ore and ferrochromium from South Africa, to verify that the imports do not contain chromium of Southern Rhodesian origin. In addition, Korea has agreed not to permit importation from other countries of ferrochromium and specialty steel unless the countries adopt similar certification procedures.

It is expected that similar agreements with other countries which export ferrochrome and specialty steel products to the United States will be concluded in the near future.

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B-307

52-WEEK BILL RATES

DATE: June 22, 1977

HIGHEST SINCE

Issue of 9/21/76

LAST MONTH

5.403%

LOWEST SINCE

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TODAY

5.408%

5.561%

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 22, 1977

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2,201 million of 52-week Treasury bills to be dated June 28, 1977, and to mature June 27, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $500,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.540	5.400%	5.71%
Low -	94.526	5.414%	5.73%
Average -	94.532	5.408%	5.72%

Tenders at the low price were allotted 59%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted
Boston	$ 65,940,000	$ 55,940,000
New York	4,550,200,000	2,001,150,000
Philadelphia	46,490,000	21,490,000
Cleveland	33,595,000	3,595,000
Richmond	13,580,000	1,580,000
Atlanta	4,090,000	3,090,000
Chicago	362,355,000	33,355,000
St. Louis	27,930,000	4,110,000
Minneapolis	24,670,000	9,670,000
Kansas City	10,990,000	8,490,000
Dallas	985,000	985,000
San Francisco	285,010,000	57,510,000
Treasury	35,000	35,000
TOTAL	$5,425,870,000	$2,201,000,000

The $2,201 million of accepted tenders includes $52 million of noncompetitive tenders from the public and $1,123 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.

B-308

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 20, 1977

DANIEL I. HALPERIN APPOINTED
TO TAX LEGISLATIVE COUNSEL POST

Secretary of the Treasury W. Michael Blumenthal today announced the appointment of Daniel I. Halperin, Professor of Law at the University of Pennsylvania since 1970, as Tax Legislative Counsel. The appointment is effective June 7, 1977.

Mr. Halperin, 40, had previously served in the Treasury Department, Office of Tax Legislative Counsel, from 1967-70, and had been Deputy Tax Legislative Counsel from 1969-70.

Prior to joining the Treasury Department, Mr. Halperin had been an Associate in the New York law firm of Kaye, Scholer, Fierman, Hays & Handler from 1961-67.

As Tax Legislative Counsel, Mr. Halperin will be principal legal advisor to Assistant Secretary for Tax Policy Laurence N. Woodworth in the formulation of policy, legislation, and regulations on domestic tax matters. The Office he heads is one of four major units under the Assistant Secretary for Tax Policy. The other units are the Office of International Tax Counsel, which has corresponding responsibilities for international tax matters; the Office of Tax Analysis; and the Office of Industrial Economics.

A native of Brooklyn, New York, Mr. Halperin attended the City College of New York, graduating magna cum laude with the B.B.A. degree in 1957. He received his law degree from Harvard Law School in 1961, graduating magna cum laude.

Mr. Halperin has published a number of articles and has been a frequent speaker in the field of Federal taxation. He holds memberships in the American and Philadelphia Bar Associations.

Mr. Halperin is married to the former Marcia Hellman of Beacon, New York. They have three children and reside in the District of Columbia.

B-309 oOo

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
EXPECTED AT 2:00 P.M.
JUNE 23, 1977

STATEMENT BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
AND TRADE
HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

Administration Policy Toward the Overseas Private Investment Corporation (OPIC)

The Administration has completed a thorough review of OPIC. This review concluded that OPIC can advance U.S. foreign economic development policies and should be continued. It also was agreed that, with new program directions, OPIC could play an even more important role in the future than it has in the past.

The Administration concluded that three changes are needed in the emphasis of OPIC programs to enable it to play such a role. First, OPIC should focus much more heavily on the poorer developing countries (LDCs) which really need its assistance. Second, OPIC should develop innovative risk reducing coverage for projects in energy and other raw materials. Third, OPIC cannot successfully pursue these objectives and turn over its entire insurance portfolio to the private sector by the end of 1980; thus, existing legislation should be modified to eliminate the "privatization" objective.

Privatization

The existing legislative situation which authorizes OPIC is unstable. Under the 1974 legislation, OPIC must progressively increase private participation in its insurance functions with the aim of withdrawing completely from direct underwriting of inconvertibility and expropriation insurance by the end of 1979, and of war risk insurance by the end of 1980.

It is now clear that this withdrawal schedule cannot be met. OPIC has made heroic efforts to increase private participation in its portfolio. Some increase in participation has resulted, but success has been strictly limited and at the cost of diverting OPIC from the fundamental objectives of its program. If this requirement is not changed, OPIC will be gutted -- and important U.S. policy objectives will lose a helpful policy tool.

OPIC witnesses have detailed their efforts to privatize. Let me simply repeat the results: after three years of effort aimed at obtaining private participation, OPIC has succeeded in interesting private insurance in only a very limited part of its portfolio and has not succeeded at all in interesting them in insuring for catastrophic losses. There is virtually no private willingness to insure land-based war risk, and private insurers will accept no more than a one year renewable commitment in privatization activities. It is thus unrealistic to expect the private insurers to fully replace OPIC's insurance underwriting by the end of 1980.

Moreover, these efforts to obtain private participation have been costly to OPIC in terms of management time to plan and negotiate agreements with private members, to conduct meetings with them, to prepare more complicated insurance contracts (which, incidentally, make OPIC insurance less attractive to users), and to seek licensing of the War Risk Insurance Reciprocal, a mutual type of entity for insuring war risks, which has still not gotten off the ground.

Most importantly, efforts to obtain private participation have undoubtedly affected OPIC's portfolio decisions. The portfolio which maximizes OPIC's developmental impact is clearly not identical to the portfolio which maximizes private participation. Private insurers are in business for profit, and their interest in OPIC's portfolio is directly proportional to that portfolio's profitability.

Thus the pressure on OPIC to turn over its insurance to the private sector by 1981 has led OPIC toward choosing less risky, more profitable, projects even when these are not the best projects for developmental purposes. It is simply ludicrous that OPIC's past management seriously considered insuring projects in developed countries such as Kuwait, Hong Kong, Ireland and Spain.

Yet this was the inevitable result of the mandate that OPIC "privatize". The Administration believes that maximum emphasis should be placed on development, consistent of course with OPIC's undertaking to be self-sufficient. The issues before the Congress today are whether development in the poorer countries is in the national interest of the United States, whether private direct investment promotes such development, and whether OPIC promotes private direct investment. If the answers to these questions are affirmative, then OPIC should be given new policy directions and a new lease on life.

<u>OPIC Development Policy</u>

The Administration believes that the answers to these questions are affirmative. Private direct investment can play an important role in the economic development process, particularly through:

-- the transfer of resources and managerial and administrative expertise;

-- the expansion of productive capacity and employment; and

-- the establishment of new export markets.

Between 1966 and 1975, U.S. foreign direct investment in the developing countries rose from $13.9 billion to $34.9 billion, an increase of 151 percent. This expansion is roughly comparable to the 158 percent rise in U.S. investment in developed countries. The bulk of this increase in U.S. investment, however, was concentrated in a few countries. For example, Brazil ($3.7 billion) and Mexico ($1.8 billion) accounted for $5.5 billion, or about 26 percent, of the total $21 billion increase. U.S. direct investment in Brazil increased more than 400 percent, and in Mexico more than doubled, between 1966 and 1975. Countries such as these have demonstrated an increasing capability to attract foreign investment on their own, and do not need a great deal of help from OPIC or other programs in home countries of potential investors.

Relatively little U.S. investment went into other LDCs during this decade, however. Those nations most in need of external resources received very little private direct investment, measured as a percentage of the U.S.

total -- but fairly important amounts relative to their own economies' needs.

In order to further focus OPIC's efforts, the Administration has concluded that OPIC programs should in the future be confined to the less developed countries, excluding the advanced or "upper middle income" countries except for mineral and fuel projects approved by the Board and exceptions recommended by the Secretary of State on national interest grounds. OPIC will concentrate on the poorer countries, which are most in need of external resource transfers and are least likely to receive investment inflows from the private sector on their own. The program will not generally operate in the upper tier LDCs which are quite able to attract private investment without outside assistance.

Energy and Raw Materials

A second new focus on the OPIC program recommended by the Administration relates to investments in energy and non-fuel raw materials. OPIC has already introduced a program to develop innovative, risk-reducing coverage for new types of investments -- joint ventures, service contracts, and the like -- in fuel projects in oil-importing LDCs and in minerals projects. The Administration recommends that OPIC continue, and expand, its use of insurance and guarantees to promote U.S. investment in LDC mineral projects. This would enable it to pursue three important U.S. national objectives:

-- to avoid misallocation of resources,

-- to diversify supply and contribute to a reduction in U.S. vulnerability to collusive price arrangements of interruptions of supply, and

-- to help LDCs deal directly with their own energy needs, one of the major current constraints on their development policies.

There is evidence of a global misallocation of resources which, if continued, could significantly increase the cost of raw materials over the long run. A recent World Bank survey found that 80 percent of all exploration expenditures in 1970-1973 were being made in the industrialized countries -- the United States, Canada, Australia, and South Africa. Private firms are reluctant to invest in LDCs, primarily because of political risks. U.S. firms, for example, prefer to develop a copper deposit with less than one-half percent richness in the United States than deposits which are more than twice as rich in an LDC. Yet the rate of return in minerals projects in LDCs is twice as high as in industrial countries (Table 1). Indeed, for some Fourth World countries, minerals projects may be the only good projects that OPIC-supported private investment could develop.

However, the dollar amounts of OPIC activity in this field would be small compared with the capital requirements for most energy and raw materials projects. Thus some means of leveraging OPIC's involvement would need to be developed for it to have a significant impact. In this connection, OPIC would seek to coordinate its efforts with similar institutions in the sixteen other countries in which they exist. This coordination would also serve two other U.S. objectives:

-- to minimize the likelihood that host countries will renege on their end of investment bargains, by maximizing the costs to them of doing so by increasing the number of home countries which would be adversely affected.

-- to minimize fears of other materials-importing countries, in Western Europe and Japan, that the United States was unilaterally making "special deals" to outbid them for potentially scarce raw materials.

The Administration thus supports OPIC's efforts to develop risk-reducing coverage for investments in raw materials in the developing countries.

Conclusion

The Administration believes that OPIC can, and should, serve two important policy objectives of the United States: development of the poorer countries, and increased LDC production of energy and other raw materials. We believe that it can remain self-sustaining financially while doing so.

This approach is clearly not compatible with privatization of OPIC, as mandated under current legislation. As noted at the outset of my testimony, however, privatization proved to be impossible even when the program was aimed wholly at achieving that objective. Hence, for policy as well as for practical reasons, we urge the Congress, in framing new legislation for OPIC, to abandon the existing privatization mandates and reaffirm instead the goal of development. With a clear mandate to this end, OPIC can become a more useful instrument of U.S. policy toward foreign direct investment by American firms.

Rates of Return on U.S. Foreign Direct Investment 1967-1975

(Percent)

Rate of Return 1/	1967	1968	1969	1970	1971	1972	1973	1974	1975
All Countries	10.3	11.1	11.8	11.4	11.6	12.6	17.5	23.0	14.0
Developed Countries	7.7	8.3	9.4	9.3	9.8	11.1	15.0	13.4	11.2
mining and smelting	10.0	11.2	9.3	7.7	5.5	4.5	8.9	10.6	-
petroleum	2.4	2.2	2.4	NA	4.6	4.6	11.8	11.0	8.6
manufacturing	8.7	9.9	11.7	10.5	10.9	13.4	16.5	14.0	11.1
Less Developed Countries	17.3	18.5	17.9	15.9	16.3	17.7	26.2	53.6	23.6
mining and smelting	24.3	22.1	25.6	16.3	9.5	9.0	13.2	18.9	-
petroleum	27.3	29.1	26.9	24.6	28.7	29.5	49.9	133.3	40.2
manufacturing	7.7	10.7	11.1	10.8	9.6	11.3	13.3	13.9	13.4

1/ Adjusted earnings: Direct investment position (yearly average)

TABLE 1

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202)566-2615

FOR IMMEDIATE RELEASE June 22, 1977

FRIED SWORN IN AS EXECUTIVE DIRECTOR TO WORLD BANK

Edward R. Fried, 59, has been sworn in as U.S. Executive Director to the World Bank. A Senior Fellow at Brookings Institution since 1969, Mr. Fried was nominated for his new position by President Carter on June 6, 1977, and confirmed by the Senate on June 15. As Executive Director, he represents United States policy and interests at the Bank.

While at Brookings, Mr. Fried took leave from October 1969 to March 1970, to be the Executive Director of the Presidential Task Force on International Development. From 1967 to 1969, he was a Senior Staff Member of the National Security Council, with responsibility for Western Europe and International Economic Affairs.

Mr. Fried began his career with the State Department in 1946, rising from Foreign Service and Departmental Officer, to Deputy Assistant Secretary of State for Economic Affairs, 1965-67.

In between, he was Executive Secretary of the Presidential Committee on U.S. Trade Relations with East European Countries and the Soviet Union, 1964-65; Member of the Policy Planning Council, Department of State, with responsibility for foreign economic policy, 1962-65; Counselor for Economic Affairs, American Embassy, The Hague, 1960-62, and Deputy Principal Officer and Chief of the Economics Section, American Consulate General, Hong Kong, 1955-60.

Mr. Fried received his B.A. in Economics from the University of Michigan in 1941, and did graduate work in economics at George Washington University 1946-48. He served in the U.S. Army 1943-45.

B-311

He is author or co-author of many articles and publications, including "The United States in the World Economy" in Setting National Priorities: The Next Ten Years, Brookings Institution, 1976; and co-author with Charles Schultze of Higher Oil Prices and The World Economy: The Adjustment Problem, Brookings Institution, 1975.

Mr. Fried holds the Treasury Department's Distinguished Service Award (1968) and State Department's Superior Honor Award (1964).

He is married to the former Joyce Edwards of Long Beach, N.Y. They have four children and reside in nearby Maryland.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 6 A.M., EDT
FRIDAY, JUNE 24, 1977

REMARKS BY THE HONORABLE MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY OF THE UNITED STATES
AT THE MINISTERIAL MEETING OF OECD
PARIS, FRANCE

Prospects and Policies for Sustaining Expansion in the OECD Area

Last month the Heads of Government of seven of the countries here agreed on several basic objectives:

-- to create more jobs while continuing to reduce inflation;

-- to achieve stated growth targets or to pursue appropriate stabilization policies;

-- to support IMF efforts to obtain additional resources and to link IMF lending to the adoption of appropriate stabilization policies;

-- to pursue both national and joint efforts to limit energy demand and to increase and diversify energy supply;

-- to reject protectionism and give a new impetus to the Tokyo Round of multilateral trade negotiations; and

-- to provide the developing countries with greater opportunities to share in the growth of the world economy.

This meeting provides an opportunity for other nations to join in those commitments. I urge each one to do so.

It provides an opportunity to establish procedures which will improve our understanding of the implications of each nation's policies and enable us to monitor our progress. I propose that we do so.

And it is an occasion of a considering together of our prospects for sustained economic growth in the OECD area.

In virtually every country represented here unemployment is at a totally unacceptable level. In most of our countries inflation is too high. Many of our nations are experiencing external payments deficits which cannot be long sustained.

We face interrelated problems in an interdependent world. We cannot solve one problem at the expense of the others. Nor can any nation expect to be an island of prosperity in a sea of economic troubles. Our problems must be solved together and cooperatively. The survival of our political institutions and our open trade and financial system depends on our success.

We can meet this challenge; we can succeed in achieving sustained non-inflationary growth

-- _if_ every member country in a position to do so pursues the domestic macro economic policies which will induce the maximum rate of domestic growth consistent with avoiding a resurgence of inflation;

-- _if_ every country which does not yet have inflationary pressures under control pursues forceful and effective stabilization policies;

-- _if_ we go beyond traditional demand management measures to attack the underlying structural causes of unemployment and inflation;

-- _if_ both surplus and deficit countries allow exchange rates to play their appropriate role in the adjustment process.

Because some countries have made more progress than others in controlling inflation and some are under external financial strains while others are not, the policies required will differ from country to country.

In the financially strong countries this situation calls for economic expansion at the maximum rate consistent with control and reduction of inflationary pressures. In the United States, we are already well on our way toward achievement this year of roughly 6% growth, year end to year end. First quarter economic activity grew at an annual rate of 6.9%. We expect a similar performance in the current quarter, followed by a 5 to 5½% growth rate in the second half of the year. Unemployment has been pushed below 7% for the first time in almost three years while employment has risen by over 2 million in six months.

At the same time, despite temporary setbacks because of bad weather, the United States' underlying inflation rate has remained stable, although still too high.

We are naturally concerned by the Secretariat's forecasts which suggest that current policies may not enable either Germany or Japan to reach its stated growth target and that too much of the growth of output, in Japan particularly, is going into exports. But we have faith in the assurances of Chancellor Schmidt and Prime Minister Fukuda that they will take further measures, as needed, to achieve their growth goals and to reduce their current account surpluses.

Reduction of the current account surpluses is essential because some of the weaker countries are approaching prudent limits to the accumulation of debt -- whether to private lenders or official institutions. In these circumstances the availability of ample lendable funds from persistent surplus countries is not a complete answer.

Stronger domestic growth and exchange rate appreciations in the stronger countries will tend to eliminate their surpluses. But supplementary steps are also in order. This is the time for surplus countries to eliminate practices which favor exports over output for domestic consumption or impede imports or interfere with exchange markets. It is a time for strong countries to dismantle monetary and capital controls that might depress exchange rates and for seeing that foreign exchange acquired outside the market, such as interest accruals on existing reserves, is resold on the market.

Among the responsibilities of the stronger countries, I count the obligation of the United States to reduce its excessive imports of oil. The flow of oil from Alaska will provide an immediate reduction of our import demand. But for the longer run, we must achieve a strong energy program based on conservation and the substitution of domestic for imported fuels. President Carter has made that goal his top priority despite the difficulty of achieving the economic and social changes it entails.

Countries in weak external financial positions have an equal responsibility to put their own houses in order, to stabilize their economies and improve their international competitiveness. They have a right to the cooperation of the stronger countries, but they cannot expect others to solve their problems for them. They should not over-borrow. They should permit sufficient depreciation of their currencies to improve their competitive positions. And they should back up their declining exchange rates with domestic policies that retain their competitive gain. The benefits of depreciation may not come quickly but if exchange rates are not allowed to respond to differences in inflation rates, payments imbalance can only grow worse. It is hard to see how any country can improve its international position unless its policies allow its producers export profit margins that are essential to an adequate export performance as well as to improved import competitiveness. Manufacturers must have the proper incentives to invest in facilities for both the export and home markets.

Obviously the domestic economic policies needed to restore domestic price stability and external creditworthiness are not easy for governments. They involve national belt-tightening. Yet delay will only lead to the necessity for more severe and more painful action. At the first sign of difficulty in attracting capital on normal terms, stabilization programs should be developed, with the cooperation of the IMF if necessary. Such cooperation will not only bring official financing but will also help to sustain financing from private sources.

Many countries have, of course, been following this growth or stabilization strategy for some time. We are now beginning to see results. The world payments pattern is shifting significantly in the right direction.

Economic expansion is beginning to exert its impact, notably in the United States. We expect a current account deficit of $10 to $12 billion this year compared to a deficit of $600 million in 1976 and a surplus of $11 1/2 billion in 1975. As the strength of the dollar indicates, the United States can sustain this deficit for a time because we attract the capital required to finance it.

General economic recovery is clearly improving the earnings of many developing countries. Exports of the non-oil developing countries were one-third higher in the fourth quarter of 1976 than a year earlier. And while some individual developing countries face difficulties, there is no general "LDC debt problem." In fact, reserves of non-oil developing countries rose by $11 billion last year.

Stabilization programs are beginning to show results. The United Kingdom's balance of payments appears to be edging into surplus while Italy, Mexico and Brazil have sharply reduced their deficits.

But despite these signs of progress, we have a considerable distance to go toward appropriate payments balance.

-- We need significant shifts -- into deficit -- in the current account positions of such surplus countries as Japan, Germany, Switzerland and the Netherlands.

-- We need to see stabilization policies adopted in a number of smaller countries represented at this table.

-- And in the countries which have already adopted stabilization measures we need perseverance until inflation is brought down and the fears of its resurgence allayed.

I recognize that such changes cannot occur overnight. They require time and careful, gradual policies. Countries in a weak external position will need adequate official financing, conditioned on the adoption of suitable stabilization policies. I am confident that the current efforts to expand the IMF's resources will ensure the adequacy of official financing to meet this need for the near term, apart from the unique case of Portugal. For the longer term, I trust that all OECD members will also be prepared to support an adequate increase in the quotas of the IMF.

But while adjustments and structural changes in our economies take time, the longer the initiation of this process is delayed, the greater the danger of domestic turmoil or of trade restrictions and debt defaults. We have been preoccupied with concerns about the sustainability of the financial system. But the penalty for failure to solve our financial problems may not be financial collapse. Instead, the result may be trade restrictions and a slide back into the inefficiencies of economic nationalsim.

Unilateral trade restraints must be rejected as an unacceptable response to payments deficits or to problems of domestic economic adjustment. Such measures clearly risk fostering further unemployment and increasing inflation, both at home and abroad.

While we cannot ignore the reality of trade-related difficulties in certain sectors which cannot be fully resolved overnight, our objective should remain meaningful adjustment to structural change within our own economies without shifting those problems to our trading partners. Our record has not been perfect on this score, but overall the OECD members have resisted the pressures of protectionism.

Renewal of the trade pledge of 1974 provides us the opportunity jointly to reaffirm our determination to avoid trade restrictions or other restrictive current account measures and the artificial stimulation of exports. The U.S. strongly supports its renewal and urges your support as well.

We must also seek to liberalize trade by granting new impetus to the Multilateral Trade Negotiations in Geneva by seeking substantial progress in key areas this year.

This means that we must agree on what the critical issues are, on what rules we will adopt to deal with them, and within what time period each of these steps is to be taken.

We urgently need agreement on:

-- a formula for tariff reductions and rules for negotiating the lowering of non-tariff barriers;

-- a practical and effective means of breaking the deadlock on agricultural trade;

-- steps to help the developing countries benefit from expanding world trade, and

-- a new international code on subsidies and countervailing duties.

We need better mutual understanding of what constitutes fair and unfair trade and host governments may justly respond to unfair trade practices to counter a major irritant in our trading relations.

We need, in short, not rhetoric, but real progress in addressing the difficult problem of trade liberalization.

I would like to stress the importance of further progress toward an arrangement which broadens and strengthens the present international consensus on export credits.

Achieving the domestic and international adjustments I have outlined will require skilled and responsible economic management and a willingness to plan ahead. As the Secretariat points out, our countries must give more attention to the medium term. In the United States, President Carter has set a goal of reducing both the rate of inflation and the rate of unemployment and balancing the Federal budget in a high employment economy by 1981. We are viewing economic and budgetary decisions and developing economic goals in that context.

Growth targets and stabilization policies must, of course, remain the ultimate responsibility of sovereign nations. Each country will be assisted in arriving at is growth goals and stabilization policies, however, if it has a clear understanding of the plans of other nations and of the global implications of its own objectives.

I believe it would be useful, therefore, to strengthen the procedure for multilateral examination and subsequent monitoring of the economic policies of member countries. We need to be realistic, however. The members as a whole -- although not all member countries -- probably should be aiming at a somewhat faster rate of expansion in 1977. Nevertheless, we are not in a position at this meeting to set a quantitative target for the growth rate for the area as a whole in 1978. Any such target must be the outgrowth of national decisions not yet made.

I support the suggestion that each country be asked to submit preliminary objectives for the growth of domestic demand and for stabilization policies for 1978 to the Organization early in the fall. We should also expect countries to indicate the desired direction of change in prices and current account positions, although specific targets for these indicators would be impractical. These submissions would form the basis for study and comment by the Economic Policy Committee. Because this proposal blends directly into the ongoing work of the Organization, I would not expect it to require the impetus of a special meeting of the Ministerial Council.

Finally, let me say that we must conduct our economic policies with the recognition that some of our tools of economic management no longer work as they once did. In the United States and other countries, the tradeoff between economic activity and inflation has changed. We see that neither high unemployment nor low utilization of capacity leads automatically to a rapid drop in inflation. Factors other than excess demand are increasingly important determinants of inflation.

So we must seek new programs and policies to supplement demand management in our efforts to reduce unemployment and inflation. Many of the measures we must adopt should focus on specific structural problems in our economies -- the need to change employment patterns and develop new labor skills, the need for new measures to provide employment for our youth, the need to foster competition and to remove regulations that are outdated or fail to meet a cost-benefit test.

I support the proposal for a high level conference to exchange experience and develop policy directions on measures for alleviating youth unemployment. This problem is universal among our countries. Because many of us are embarked on specific programs to combat it, we can benefit from sharing our ideas and our experiences. I also welcome the useful and timely discussion in the Report of the McCracken Group on techniques for combating inflation. As part of President Carter's comprehensive anti-inflation program, the United States is already reviewing government regulations with the intent of reducing unnecessary costs imposed on the private sector and enlarging the scope for the free market. At the same time, we are working with labor and management to develop voluntary, cooperative measures to avoid wage-price spirals.

When all is said and done, the success of our economic policy depends fundamentally on our ability to engender confidence that we will achieve sustained growth with lower unemployment and price stability and that we will maintain a strong and open monetary and trading system. In a cost-benefit calculus, the dangers of pushing ahead too far and too fast have increased because our economies seem less responsive to attempts to correct over-stimulation. We should recognize this reality, as the United States did in withdrawing the proposed tax rebate. Our policy should be cautious yet committed, providing a firm basis for rebuilding the confidence that we need to call forth increased investment in productive capacity. After their experiences of the recent past, businessmen in all countries are wary -- and understandably so. But investment is vitally needed to create jobs, avoid supply problems and speed up productivity growth.

Our words alone will not win this confidence. But if we take actions which demonstrate the determination and ability to adhere to the approach being proposed here today, we will gain the confidence that will undam the vital flow of investment. Unemployment will be brought down; inflation will be reduced; and a sustainable pattern of external payments will evolve.

Thank you, Mr. Chairman.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
THE DEPARTMENT OF THE TREASURY 1789

FOR RELEASE AT 4:00 P.M. June 24, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,600 million, to be issued July 7, 1977, as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated April 7, 1977, and to mature October 6, 1977 (CUSIP No. 912793 K5 4), originally issued in the amount of $3,503 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,300 million to be dated July 7, 1977, and to mature January 5, 1978 (CUSIP No. 912793 M9 4). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing July 7, 1977. This offering will provide for a net pay-down for the Treasury of about $407 million as the maturing issues are 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 $3,015 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

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Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Friday, July 1, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on July 7, 1977, in cash or other immediately available funds or in Treasury bills maturing July 7, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Charles J. Arnold
(202)566-2041

FOR IMMEDIATE RELEASE, JUNE 24, 1977

SECRETARY BLUMENTHAL NAMES ROBERT E. CHASEN COMMISSIONER OF CUSTOMS

Secretary of the Treasury W. Michael Blumenthal today announced the appointment of Robert E. Chasen, a multinational corporation executive and former FBI agent, to be Commissioner of the U.S. Customs Service effective July 15.

Mr. Chasen, 60, of Saddle River, N.J., replaces Vernon D. Acree, who resigned. He will direct the operations of the 14,000 people in the Customs Service.

In announcing the appointment, Secretary Blumenthal said: "Robert Chasen brings to the leadership of the Customs Service an outstanding background combining knowledge of international trade and business, skill in management and labor relations and experience as a Federal law enforcement officer."

Mr. Chasen will be leaving his post as a Vice-President of International Telephone and Telegraph Corporation, responsible for the diversified company's Government and Commercial Services group. This group conducts business worldwide, with operations in 30 foreign countries.

He began his career with ITT in 1952 as coordinator of plant security and assistant to the Vice-President for Industrial Relations in New York City. He then moved into general management, holding positions as President, Chairman of the Board, and Chief Executive Officer of several of the corporation's subsidiaries. In addition, his group vice-president responsibilities included service as the President of Intelex Systems, Inc., of Providence, R.I., Chairman of the Board of Federal Electric Corporation, Inc., of Paramus, N.J., and Chairman of the Board of ITT Space Communications, Inc. The Cable-Hydrospace division of ITT, San Diego, California, also reported to Mr. Chasen.

A native of Newark, N.J., Mr. Chasen joined the FBI in 1940 as a fingerprint specialist. From 1943 to 1952, he was a special agent serving in the Cleveland, New Haven and New York City field offices.

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Mr. Chasen received his Bachelor of Commercial Science degree from Benjamin Franklin University in Washington, D.C., in 1943 and undertook graduate study at Columbia University in 1947-8 and at New York University in 1949-50. Mr. Chasen is married to the former Laura Etta Brown of Cleveland, Alabama, and the couple have two daughters, Julie Beth and Ellice Brook.

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FOR IMMEDIATE RELEASE JUNE 22, 1977

Office of the White House Press Secretary

THE WHITE HOUSE

EXECUTIVE ORDER

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WITHHOLDING OF DISTRICT OF COLUMBIA, STATE, CITY AND COUNTY INCOME OR EMPLOYMENT TAXES

By virtue of the authority vested in me by Sections 5516, 5517 and 5520 of Title 5 of the United States Code, and Section 301 of Title 3 of the United States Code, and as President of the United States of America, in order to authorize the Secretary of the Treasury to provide for the withholding of county income or employment taxes as authorized by Section 5520 of Title 5 of the United States Code as amended by Section 408 of Public Law 95-30, as well as to provide for the withholding of District of Columbia, State and city income or employment taxes, it is hereby ordered as follows:

Section 1. Whenever the Secretary of the Treasury enters into an agreement pursuant to Sections 5516, 5517 or 5520 of Title 5 of the United States Code, with the District of Columbia, a State, a city or a county, as the case may be, with regard to the withholding, by an agency of the United States, hereinafter referred to as an agency, of income or employment taxes from the pay of Federal employees or members of the Armed Forces, the Secretary of the Treasury shall ensure that each agreement is consistent with those sections and regulations, including this Order, issued thereunder.

Sec. 2. Each agreement shall provide (a) when tax withholding shall begin, (b) that the head of an agency may rely on the withholding certificate of an employee or a member of the Armed Forces in withholding taxes, (c) that the method for calculating the amount to be withheld for District of Columbia, State, city or county income or employment taxes shall produce approximately the tax required to be withheld by the District of Columbia or State law, or city or county ordinance, whichever is applicable, and (d) that procedures for the withholding, filing of returns, and payment of the withheld taxes to the District of Columbia, a State, a city or a county shall conform to the usual fiscal practices of agencies. Any agreement affecting members of the Armed Forces shall also provide that the head of an agency may rely on the certificate of legal residence of a member of the Armed Forces in determining his or her residence for tax withholding purposes. No agreement shall require the collection by an agency of delinquent tax liabilities of an employee or a member of the Armed Forces.

Sec. 3. The head of each agency shall designate, or provide for the designation of, the officers or employees whose duty it shall be to withhold taxes, file required returns, and direct payment of the taxes withheld, in accordance with this Order, any regulations prescribed by the Secretary of the Treasury, and the new applicable agreement.

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Sec. 4. The Secretary of the Treasury is authorized to prescribe additional regulations to implement Sections 5516, 5517 and 5520 of Title 5 of the United States Code, and this Order.

Sec. 5. Executive Order No. 11968 of January 31, 1977, is hereby revoked. However, all actions heretofore taken by the President or his delegates in respect of the matters affected by this Order and in force at the time of the issuance of this Order, including any regulations prescribed or approved by the President or his delegates in respect of such matters and any existing agreements approved by his delegates, shall, except as they may be inconsistent with the provisions of this Order, remain in effect until amended, modified, or revoked pursuant to the authority conferred by this Order, unless sooner terminated by operation of law.

JIMMY CARTER

THE WHITE HOUSE,

June 22, 1977.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
EXPECTED AT 11:15 A.M. EST
JUNE 27, 1976

REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
TENTH WASHINGTON CONFERENCE FOR CORPORATE EXECUTIVES
OF THE COUNCIL OF THE AMERICAS
WASHINGTON, D. C.

Commodity Agreements, Common Funding, Stabilization of Export Earnings, and Investment in Commodity Production: The Policy of the Carter Administration Toward International Commodity Issues

Introduction

Since the Carter Administation came into office five months ago, it has launched a number of new initiatives in U.S. international commodity policy:

-- We have adopted a positive and open attitude toward the negotiation of individual commodity agreements to stabilize prices around their market trends;

-- We have agreed in principle to the establishment of a common funding arrangement to assist in the financing of buffer stocks as part of individual commodity agreements;

-- We are seeking to use existing institutions, both national and international, to expand world production of raw materials which may in the future be in short supply;

-- We have indicated a willingness to study the options for further reducing the variability of the export earnings of countries which rely heavily on primary products.

All of these issues are of particular importance to relations between the United States and Latin America, as well as to our own domestic economy and to overall U.S. foreign policy. I would like to lay out this morning a few details of that new policy, and the rationale behind it.

Both exporting and importing countries face important problems under the current international regime for commodity trade. Excessive price fluctuations can ratchet up inflation in importing countries, and destabilize economic development in exporting countries. Unstable earnings from commodity exports can disrupt such development. Inadequate investment in productive sources of raw materials has an inflationary effect on the world economy over the longer run. The U.S. interest in improved international arrangements for commodity trade is an important component of the overall international economic policy of the United States under this Administration.

The Problems of Commodity Price Instability

Commodity price instability has adverse effects on consuming countries. Larger manufacturers and food processors, having some measure of control over prices, may justify price hikes on the basis of temporary increases in the prices of raw materials which they use in the production process, pushing up the consumer price index. Increases in consumer costs, in turn, provide justification for increased wage demands which limit the reversal of the earlier price increases for manufactured and processed goods once raw material prices have receded. The effect is a ratcheting-up of the general price level. Temporary price increases for primary commodities can thus fuel inflation in the U.S. economy.

Once inflationary expectations have developed, partly as a result of such events, additional demand for business inventories is generated through hedging and protective stocking. Raw material prices are then forced up even further in a commodity-price spiral.

Paradoxically, excessive price declines in the short run may also contribute to inflation in importing countries in the longer run, by deterring investment in new productive capacity at both the primary and processing stages. This can result in later supply bottlenecks and upward surges in prices in response to increases in industrial production.

From the standpoint of the United States, the primary purpose in pursuing international commodity agreements is thus to reduce the risk of inflationary pressures at home. President Carter referred explicitly to this objective in his anti-inflation message of April 15. If we feel a commodity agreement contributes measurably to this end, we will seriously consider signing it.

Commodity price instability can also adversely affect producing countries. There is little doubt that volatile export earnings, which result from price instability, make it more difficult to manage the economies of developing countries. A 1975 World Bank study showed that forty-eight developing countries, thirteen in Latin America, depend on three or fewer commodities for over fifty percent of their total export earnings. The developing countries themselves have argued in international forums, over the past several years, that price instability can have adverse effects on their development.

Thus developing and developed countries alike have an interest in achieving greater price stability in the commodity markets. The problem is to find and implement policies which are effective in reducing price instability in a balanced fashion.

One such policy is international commodity agreements which stabilize price fluctuations through the creation and use of internationally held buffer stocks. Buffer stocks of sufficient size, by buying low and selling high, can work to stabilize prices around market trends to the benefit of both consumers and producers. Both buyers and sellers also gain from the fact that buffer stock arrangements help maintain production at efficient levels when demand slackens sharply; this induces sustained investment in commodity production, which helps insure adequate future supplies.

The developing countries fully recognize the advantages of international buffer stocks, as evidenced by the prominence of such schemes in their proposals in the North-South dialogue and the efforts of producing countries for some commodities to organize such schemes on their own. However, the emphasis and balance given to price stabilization in those proposals are considerably less than we would desire. Indeed, they often envisage income redistribution from the developed to the developing countries as well as greater stabilization of markets, prices and export earnings.

Our policy is to separate out and reject the category of measures designed to effect income transfers through commodity arrangements. We oppose any measures whose effect would be to raise prices, such as indexation. But we look positively, if discriminatingly, at proposals which might achieve greater stability through cooperation between producing and consuming countries alike.

We believe that price stabilization agreements should operate to the maximum extent possible through buffer stocks.

Supply controls, by contrast, generally act to reduce supplies and raise prices. Production controls can lock industry into inefficient patterns of production, by forcing low-cost producers to cut back along with high-cost producers. Use of either production controls or export quotas tends to freeze existing production and market patterns, since they are usually allocated on the basis of some past average of market shares and bar entry for efficient new producers.

Most of the buffer stock arrangements proposed by the UNCTAD Secretariat and the producing countries rely heavily on supply controls as "back-up measures." It is argued that such measures will help assure that the buffer stock arrangement can defend the floor price and will permit a smaller, less costly buffer stock. However, by limiting the size of the buffer stock, they may also inhibit its ability to protect the ceiling. For this reason, the United States recently submitted proposals for a new international sugar agreement which would contain much more adequate stocking provisions that did previous sugar agreements -- which we remain hopeful can be worked out.

Indeed, production controls may actually increase price instability. When production (and/or export) controls are relied upon to stem price declines, the buffer stock is often unable to accumulate sufficient stock at the lower end of the range to defend the ceiling once there is a resurgence of prices. If these measures force producers to cut back output significantly, or drive out marginal producers, they may cause rapid price rebounds and thus destabilize the very markets which they seek to stabilize.

This has in fact occurred occasionally with the Tin Agreement, the only buffer stock arrangement which has functioned over a long period of time. It is also an important reason why the Carter Administration has decided to seek Congressional approval for a U.S. contribution to the Tin Agreement. We hope that by enlarging the tin buffer stock we can make the Tin Agreement more effective in stabilizing prices and reduce its reliance on export controls to defend floor prices. In short, larger buffer stocks are clearly perferable to smaller buffer stocks from the standpoint of importing countries -- and therefore to the United States in many commodity agreements.

We recognize, however, that international buffer stock agreements are not appropriate for every commodity. When international buffer stocks are not feasible, but greater price stabilization appears desirable, the United States will consider export quota arrangements which would promote national stocking to protect against high prices and encourage investment through a flexible reallocation system. We are also willing to consider internationally coordinated national stocks in cases where international buffer stocks are not feasible; we have proposed such a system for sugar, and are preparing a national stocking proposal for wheat.

In summary, U.S. policy with regard to individual commodity agreements is to:

-- seek agreements which are effective in reducing inflationary pressures within our own domestic economy and in other consuming countries.

-- give priority consideration to buffer stocks as a price stabilizing technique, where they are technically feasible and where the price of the commodity is determined in an open market.

-- seek to provide sufficient financial resources, including through contributions by consuming countries, to accumulate large enough buffer stocks to protect agreed ceiling levels against price surges and floor levels against price declines.

-- limit any use of export quotas in support of buffer stocks to extreme situations, in order to allow the buffer stock to operate unencumbered within the price range set by the agreement.

-- where necessary, accept agreements implemented through export quotas where production is maintained through holdings of national stocks which are made available for export when prices rise.

-- reject the use of production quotas in such agreements.

U.S. Policy and the Common Fund

Commodity agreements of the type which we seek must be adequately financed, to enable them to build buffer stocks of sufficient magnitude. Hence an issue closely related to individual commodity agreements is the proposal to create a "common fund" to provide financial support for such agreements. At last month's North-South Conference in Paris, the United States agreed with other developed and developing countries to the "establishment of a Common Fund with purposes, objectives and other constituent elements to be further negotiated in UNCTAD." We support an arrangement whose purpose would be to facilitate the financing of the buffer stocks by (1) reducing the total cost of financing the several buffer stocks which may be negotiated, and (2) providing some emergency financing in extreme situations when the prices of most commodities are falling.

Financial savings can occur because commodities have differing trade cycles. Prices may be high for some, such as tin and coffee at present, while they are low for others, such as sugar and copper. As a result, the size, direction and timing of the cash flows required for the operation of individual buffer stocks would offset one another to some extent, reducing the total funds required through the traditional pooling principle.

This Administration, however, does not support the UNCTAD proposal for a $6 billion fund which would (1) be the principal source of financing for individual commodity agreements, (2) finance measures other than buffer stocks, (3) have considerable control over the operations of individual agreements, and (4) be authorized to intervene directly in markets to buy commodities where no agreement exists. We reject the premise on which that proposal is based -- that it is necessary to put funding in place to permit the conclusion of international agreements on particular commodities.

We are prepared to negotiate on the creation of a common fund at the same time that individual commodity agreements are being negotiated. But we believe that financial pooling can only be activated after individual agreements have come into effect. In our view, it is the technical and political difficulty of negotiating effective commodity agreements -- not inadequate financial support for buffer stocks -- which is the primary barrier to progress in this area.

Furthermore, we reject any notion of a common fund which would get into a host of income transfer activities and could be used to raise prices above long-term market trends. Any such scheme would run counter to our own fundamental objectives, be inordinately expensive, require continual replenishment, duplicate a number of the functions of existing international institutions, and disrupt markets. The UNCTAD proposal would clearly not be in the U.S. economic interest, and thus we will not support it.

Within the U.S. Government, and through discussions at the first negotiating session in Geneva, in March, we have begun laying out a set of principles or requirements for the type of common fund which we can support in future negotiations:

-- the arrangement must be financially viable.

-- its financial activities must apply only to buffer stocks, not to other commodity-related activities.

-- it should facilitate the financing of individual agreements by providing savings over separately financed buffer stocks.

-- each member agreement must retain exclusive authority over all matters relating directly to the commodity it covers, including questions of financing.

Stabilization of Export Earnings

Price stabilization of individual commodities through international agreements will normally help stabilize the export earnings of producing countries. Yet we know that such agreements will turn out to be feasible for only a handful of commodities, perhaps six or seven. And even the exporting countries which benefit from such stabilization might simultaneously be affected adversely by temporary declines in earnings from their other exports due to factors beyond their control.

Thus there is a need for additional measures to help developing countries, which rely heavily on commodity exports, to avoid the disruption to their development plans which such instability can cause. Just as we will support price-stabilizing commodity agreements primarily because of their contribution to fighting inflation in the United States and other importing countries, we will support effective means of stabilizing the export earnings of producing countries primarily to help stabilize development in those countries.

We believe that the Compensatory Financing Facility (CFF) of the International Monetary Fund is the most effective institutional device for promoting export earnings stabilization. The CFF makes loans to countries in balance of payments need during periods of temporary export earnings shortfalls. By compensating for export earnings shortfalls which occur from factors beyond these countries' control, the activities of the CFF can enhance the possibility of negotiating more economically rational, balanced buffer stock schemes. This is because producing countries will more readily accept price ranges adequate to permit prices to perform their proper allocative function when they can turn to an earnings stabilization fund in addition to the commodity agreement itself. Compensatory financing also reduces reliance on supply controls in buffer stock agreements to maintain floor prices, thus avoiding the economic distortions such controls may bring about.

In an effort to provide additional access to IMF resources for members experiencing balance of payments difficulties related to commodity trade, the CFF was substantially liberalized in late 1975. The technique for calculating compensable export earnings shortfalls was modified, to take fuller account of the impact of inflation on export trends. The amount that could be borrowed in a twelve-month period was doubled, to 50 percent of the member's quota, and the level of loans which a country could have outstanding from the facility was raised to 75 percent of quota. Procedures were changed to permit more timely financing.

As a result of these changes, and the sharp fall in commodity prices in late 1974-1975 from their peaks in 1973 and early 1974, loans from the Facility have risen sharply.

Last year they amounted to about $2.6 billion. This level of lending was more than double the total financing provided in the previous thirteen-year history of the CFF, and is more than five times the amount that would have been possible without the liberalization.

In recent international discussions, there have been proposals to further liberalize the CFF through:

-- another expansion of the quota limits, or their total elimination.

-- basing claims on shortfalls in aggregate commodity export earnings rather than total export earnings.

-- basing compensation on the real value of export earnings, i.e., taking account of changes in import prices paid by commodity exporters.

-- eliminating the requirement that a country have a balance of payments need to be eligible to borrow.

In its latest review of the CFF, however, the IMF Executive Board decided to make no further structural changes at the present time. This reflected recognition that the current provisions have been in force for less than a full commodity cycle and that it is therefore premature to determine what, if any, changes may be warranted. Furthermore, many of the proposals would be inconsistent with the monetary character of the IMF and could result in an excessive drain on its limited resources. In our view, the current arrangement is functioning well and is capable of meeting export earnings stabilization needs as and when they arise. Should further modifications prove necessary, we would be prepared to consider possible steps to assure that the IMF Facility operates effectively to meet such needs.

There are other compensatory financing options which have been proposed to deal with LDC commodity concerns. The most ambitious approach would be a global earnings stabilization scheme modeled after the STABEX scheme of the European Community, which now provides limited stabilization of export earnings for 52 countries of the African, Caribbean, and Pacific regions for 11 agricultural commodities and iron ore. Under the present scheme, the European Community makes loans to these countries -- grants in the case of the least developed -- when their earnings from any one of the twelve commodities drop below the average of theprevious four years by more than 7.5 percent (2.5 percent in the case of the least developed, land-locked or island states).

A number of proposals have been suggested by the European Community itself and by individual European governments, to expand STABEX to developing countries in all regions, including Latin America, and to cover a wider list of commodities.

We have agreed to further consider problems of the stabilization of export earnings and developing countries. However, we see no need to take further steps in this area until there is a clear demonstration that the liberalized CFF is inadequate. Indeed, it is our view that an effective earnings stabilization scheme is now in place, and that this particular aspect of the international commodity problem is well in hand.

Investment in Commodity Production

Any comprehensive commodity policy must include steps to assure the adequacy of long-term supply. We are concerned over possible future shortages and temporary bottlenecks as a result of lagging investment, leading to sharp increases in prices during future periods of industrial country expansion.

In addition, there is a real risk of misallocation of investment in the non-fuel minerals industries due to fears, real or imagined, of political risk in developing countries. The vast bulk of world investment in this sector is now going into a handful of developed countries, even when the quality (and profitability) of their mineral deposits is decidedly inferior to deposits in developing countries. If present investment trends continue, mineral prices by the mid-1980s will be higher than necessary, supply sources in developing countries will become less secure, and developing countries will face lower export volumes and smaller export earnings with which to finance their development plans. We believe that investment policy initiatives are thus required to promote more efficient allocation of investment in mineral production.

The proposal of the previous U.S. Administration for an International Resources Bank (IRB) sought to deal with this problem by promoting the negotiation of fair and equitable contract provisions, and by providing insurance against contract default by host countries. The Carter Administration, however, is looking to existing institutions, at both the international and national level, to do the job.

One such institution is the World Bank. It is a multi-purpose institution and, therefore, has more leverage to reduce the political risks associated with investment in industrial raw materials. In addition, the IBRD is able to weigh a particular resources project in the context of overall development programs. We thus favor World Bank participation in energy and raw material projects with private investors. Indeed, the hope was expressed at the London Summit meeting in April that the Bank will give special emphasis to projects which will expand domestic energy production in oil-importing developing countries, and a recommendation to this effect was approved at the recently concluded Conference on International Economic Cooperation in Paris.

The World Bank Group already participates in non-fuel raw material projects. The Bank itself lends funds for infrastructure development related to raw material projects. Its presence during early stanges of contract negotiations, and knowledge of its likely participation in the development phase of a project, is already helping in a few cases to reduce uncertainties over whether the contract terms would be fulfilled as agreed by both the host country and the foreign company. Furthermore, the International Finance Corporation (IFC) can take equity participation in projects. Such tripartite approaches on natural resource projects, involving the internatio: development banks, could help to avoid friction between private investors and host governments -- and thereby enhance the prospects for increased levels of efficient production of industrial raw materials in the future.

We would also like to see the regional development banks expand their efforts to develop energy and raw materials projects. At the recent Annual Meeting of the Board of Governors of the Inter-American Development Bank in Guatemala, Secretary Blumenthal proposed that the IDB devote some of its resources to projects in this area which would meet the internal demands of Latin American countries, particularly the poorer nations, and possible increase exports of those countries as well.

Finally our own Overseas Private Investment Corporation(OPI(along with its counterpart investment insurance institutions in other industrialized countries, can aid in reducing political risk through greater involvement in raw materials projects. OPIC has already begun a program of innovative, risk-reducing coverage for such projects, and both OPIC management and the Administration testified last week in an effort to win Congressional support for that objective.

Conclusion

The United States is pursuing a comprehensive program to deal with the international commodity problem, as seen by both industrialized and developing countries. We seek to do so through cooperative means by which both sets of countries will agree upon, and subsequently implement, a series of efforts together.

Our program includes international commodity agreements, preferably operated through international buffer stocks of sufficient magnitude, to stabilize the prices of particular products around their market trends. It includes a common fund to facilitate financing of those agreements. It encompasses the Compensatory Finance Facility at the IMF to help stabilize export earnings of exporting countries, and a willingness to consider additional measures to that end if further steps appear necessary. It envisages new efforts, by both the multilateral development banks and through cooperative efforts of the several national investment insurance agencies, to expand production of industrial raw materials in the developing countries.

We believe that this program will promote the interests of all countries. It should help reduce world inflation, in both the short run and the longer run, and thereby contribute to more stable growth and lower rates of unemployment.

It can reduce balance of pyaments difficulties, particularly for the poorer countries but for industrialized importing nations as well. As a result, it can alleviate the political frictions which otherwise may well arise among three sets of countries -- between producers and consumers, among producers, and among consumers -- as they scramble to enhance their market positions at the expense of others. We believe our effort can promote joint gains for all the nations of the world, including those in Latin America, and hope that it will do so in the months and years ahead.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 27, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,101 million of 13-week Treasury bills and for $3,200 million of 26-week Treasury bills, both series to be issued on June 30, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 29, 1977			26-week bills maturing December 29, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.749	4.949%	5.08%	97.395	5.153%	5.36%
Low	98.742	4.977%	5.11%	97.381	5.180%	5.39%
Average	98.745	4.965%	5.10%	97.385	5.173%	5.39%

Tenders at the low price for the 13-week bills were allotted 84%.
Tenders at the low price for the 26-week bills were allotted 31%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 23,635,000	$ 15,315,000	$ 33,095,000	$ 11,645,000
New York	3,495,060,000	1,779,835,000	5,372,090,000	2,884,955,000
Philadelphia	16,755,000	16,755,000	35,180,000	5,180,000
Cleveland	25,455,000	25,455,000	30,275,000	10,275,000
Richmond	26,605,000	23,365,000	27,455,000	14,385,000
Atlanta	39,325,000	36,975,000	98,120,000	54,515,000
Chicago	276,685,000	70,975,000	354,145,000	65,005,000
St. Louis	52,925,000	37,085,000	33,945,000	14,945,000
Minneapolis	11,465,000	11,465,000	27,240,000	12,240,000
Kansas City	30,985,000	27,520,000	25,445,000	15,275,000
Dallas	20,875,000	20,875,000	6,435,000	6,435,000
San Francisco	171,375,000	35,495,000	303,445,000	105,495,000
Treasury	20,000	20,000	10,000	10,000
TOTALS	$4,191,165,000	$2,101,135,000 a/	$6,346,880,000	$3,200,360,000 b/

a/ Includes $ 301,895,000 noncompetitive tenders from the public.
b/ Includes $ 132,470,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 28, 1977

RESULTS OF AUCTION OF 15-YEAR 1-MONTH TREASURY BONDS

The Treasury has accepted $1,501 million of $3,696 million of tenders received from the public for the 15-year 1-month bonds auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.27%	1/
Highest yield	7.30%	
Average yield	7.29%	

The interest rate on the bonds will be 7-1/4%. At the 7-1/4% rate, the above yields result in the following prices:

Low-yield price	99.792
High-yield price	99.520
Average-yield price	99.611

The $1,501 million of accepted tenders includes $375 million of noncompetitive tenders and $1,126 million of competitive tenders (including 13% of the amount of bonds bid for at the high yield).

1/ Excepting 3 tenders totaling $5,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

ADVANCE FOR RELEASE ON DELIVERY
EXPECTED ABOUT 8:00 P.M. EDT

REMARKS BY THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
TO THE FINANCIAL ANALYSTS FEDERATION
WASHINGTON HILTON HOTEL, WASHINGTON, D.C.
JUNE 29, 1977

Tonight I want to talk to you about tax reform. President Carter has made a major commitment to improve the American tax system. Work on the Administration's proposal is moving ahead and we expect to present a program to Congress toward the end of the summer. So I would like to take this opportunity to share some of our thinking on this important subject.

Our minds are open to a very wide variety of options for tax reform. But we have limited ourselves to this extent: we will retain the income tax as the centerpiece of the American tax system, without any thought of substituting a value added tax, a consumption tax or other exotic possibilities. We have a tax system that works -- imperfectly to be sure, but at that better than most. It is preferable to correct its faults and build upon our knowledge and experience with it than to embark on fundamental change with an untried system whose effects we could not fully foresee.

Government, as Hobbes taught us long ago, is essential to restrain and mediate the passions of men and to provide that order without which not only civilization but life itself is in jeopardy. And taxes in turn must support government.

No matter how much we complain about paying taxes, it is still a lot cheaper than buying one's own army and navy.

Modern societies have of course assigned government much wider responsibilities than external defense and maintenance of internal order. For most of our history, the United States got along with only customs and excise taxes. The corporate income tax did not appear until 1909. The individual income tax, apart from temporary levies during and just after the Civil War and in the 1890's was enacted in 1913. And even then for the next 30 or so years it affected relatively few Americans. Payroll taxes came along in 1935.

Our requirements have now changed. For today's needs we must have broadly based taxes, capable of raising the revenues required by the many social responsibilities of government and the state of the economy. But the tax system of a free and democratic people must do more than merely raise the revenue that government requires. It must be equitable in the sense that the taxation is reasonably related to people's ability to pay and in the sense that people with like incomes pay the same amount of tax. It must be simple enough to be understood and to be respected. And it must operate efficiently to foster those social goals that it is called upon to promote.

How does our present Federal income tax system stack up against these criteria?

In some respects it performs rather well. But in other important aspects it falls short of our ideals -- fully justifying the heavy emphasis this Administration is placing on tax reform.

As a revenue system, Federal income taxation is flexible and productive. In 1975, it generated $163 billion in revenues -- representing nearly 60 percent of total Federal tax collections.

It is remarkable that we raised this huge sum through a tax system that largely depends upon, and obtains, voluntary compliance, a tax system that is administered with honesty and integrity, and one that functions with minimal administrative and enforcement costs. In these respects, and others as well, the American tax system is the best in the world.

If we examine its fairness, we see that, as a whole, it is reasonably progressive. Nominal Federal income tax rates range from 14 percent on taxable income under $500 to 70 percent on taxable income over $100,000. And when we look at the rates actually paid on expanded income -- a concept which adds capital gains and certain preference income to adjusted gross income -- we find rates ranging from 1.1 percent on income under $5000 in a steady, if somewhat uneven graduation to 32.6 percent on incomes over $200,000.

And if we look back, we can see that our tax system has become more progressive over the last dozen years. The top half of all taxpayers had effective rates that were 1 1/2 to 2 percentage points higher in 1975 than in 1965. In the same period, effective tax rates on the lowest 10 percent dropped to virtually zero and on the next 20 percent declined from 4.1 to 2.4 percent.

But there is more to tax fairness than reasonable progressivity. We also believe that people with the same income should pay the same amount of tax. Here the performance of our tax system is mixed. All taxpayers with incomes between $5,000 and $10,000 are taxed at effective rates between zero and 15 percent -- a range of 15 percent. Ninety-two percent of the taxpayers with incomes between $25,000 and $50,000 are taxed at effective rates between 10 and 25 percent -- again a range of 15 percent. But for taxpayers with incomes of $200,000 and over, the differences are far wider, with some paying as low as 2 percent and others as high as 58 percent. Substantial numbers pay at rates of less than 20 percent and more than 45 percent.

The present structure of our tax system allows these large differences among higher income taxpayers. The high marginal tax rates they face provide them with a strong incentive to find imaginative ways to lower their taxes. At the same time, opportunities for them to do so are available because of our piecemeal approach to tax legislation and regulation and as a by-product of efforts to promote social objectives. When we attempt to deal with a single problem in the tax code, we often find that the provisions can be used in unexpected ways to shelter income from taxation. When we seek to promote a social goal, such as housing development, we may also create real estate tax breaks for those with reason to seek them.

Part of the problem is the sheer complexity of the tax system. By now our tax code totals 1100 pages. Related tax regulations account for many thousands of additional words and the Federal Tax Reporter runs to 14 volumes. With this great mass of rules, it is little wonder that nearly half of our taxpayers either cannot complete their returns unaided or believe that they can gain by hiring professionals who purport to understand the complexities of the law. The inability to understand what the tax laws are, and the belief that there is money to be made through tax planning and gamesmanship, undermine the confidence and trust that we require for a system based primarily on voluntary compliance.

We have sought to use our tax system to promote many social goals -- charitable giving, home ownership, investment in productive equipment and in specific industries, environmental improvement and much else. It is difficult to generalize about the results of these incentives. But there are reasons to doubt that some, perhaps many, of these so-called tax expenditures are the most efficient means available to the government to achieve its objectives. On the other hand, in some cases, it appears that present tax incentives are not strong enough to serve our purpose.

For example, our current deductions for medical and casualty losses might well be superfluous if we had a national health insurance program.

And we may ask whether in a world of flexible exchange rates the tax code should promote exports through a device such as DISC, the so-called Domestic International Sales Corporation.

On the other hand, incentives to investment in productive equipment require strengthening to encourage the higher rate of capital formation that our economy needs. In recent years, the rate of capacity growth in manufacturing has slowed -- from 4.6 percent over the period between 1948 - 1968, to 4 percent from 1968 to 1973 and 3 percent from 1973 to 1976. One consequence of this lagging investment is a decline in productivity growth that means less growth in real incomes and an increased propensity to inflation.

In these circumstances, criticism of our tax system can come as no surprise. Americans from many different points of view are saying that the tax system is too complicated, that its effects are often inequitable, and that it is failing to contribute effectively to our social objectives.

The Carter Administration will respond to these concerns. Our goals are to make the American tax system simpler, fairer and better able to foster growth and efficiency in the American economy.

By simplicity, we intend that the average taxpayer should be able to readily understand what the law requires and to complete his own tax return without professional aid.

By greater equity, we intend that taxpayers with like incomes should pay like taxes in a system that remains reasonably progressive.

And to foster growth and efficiency, we intend to create incentives to work, to investment and savings and to eliminate the waste and resource misallocations that accompany efforts at tax planning.

At the strategic level, we face a choice between a radical and reformist approach. By "radical," I do not mean a far-right or a far-left proposal. I mean a solution that goes to the root of the problem. We could achieve vast simplication, great equity, and at least eliminate the inefficiencies associated with tax planning by wiping out all exemptions and deductions and taxing all income from whatever source at much lower rates. The rates could, of course, be lower because the taxable base would have been greatly enlarged. At the same time, the level at which income would be free of tax could be raised significantly.

This solution would mean, however, that such items as black lung benefits, social security payments, capital gains, and every other form of income would be taxed along with wages and salaries.

The uniform tax treatment under this system would provide few opportunities for perceived inequities. It would also mean that the tax system would be used for nothing but raising revenue. The social purposes we now seek to advance through the tax code would have to be promoted in other ways -- ways that would be more direct and obvious and subject to scrutiny. Promotion of these purposes through budgeted expenditures would result in review, debate and legislative action different than the kind of review given to the tax expenditures that we now use.

But quite apart from the problems of adjustment to such a drastic change -- and it could certainly not be done from one day to the next -- there is a crucial question of whether some purposes can be promoted in our system except through tax incentives. For example, the alternative to tax incentives for investment would seem to require unacceptable government controls over capital outlays and the allocation of investment, with attendant inefficiency and misallocations of resources.

The radical approach is clean and decisive. A strong theoretical case can be made for it, but it makes some people tremble.

The strategic alternative is to develop a package of specific steps that will take us in the same direction, but without the wholesale change in existing law.

Without implying that any decisions have been made -- because none have -- let me describe some of the possibilities along this line.

The largest single source of tax complexity is the preferential treatment of capital gains. Forty-one sections and 51 subsections of the Tax Code are devoted to capital gains taxation. And efforts to convert ordinary income into capital gains are probably the largest area of tax planning, leading to many activities of little or no social value but productive of ample private gain.

Other sources of complexity in present law are the existence of both exemptions and credits, the record-keeping requirements related to certain deductions, and the option for a credit or deduction for political contributions. The $750 exemption for the taxpayer and each dependent and the "general tax credit" that can be determined by optional methods could be simplified and combined. The record-keeping requirements associated with itemized deductions could be lessened if certain deductions were limited or if standard deductions were permitted for certain items in conjunction with itemized deductions for others. By broadening the tax base, limitations on certain deductions would permit general reductions of rates with the same revenues.

With the flat standard deduction included in the President's economic stimulus program, steps such as these could make tax preparation much easier for nearly all Americans. We should be able to make it possible for more than three out of four Americans to use the standard deduction and determine their tax from a simple rate table.

Fortunately, many of the steps that would simplify the tax system would also make it fairer. A large part of the variation in taxes paid on like incomes stems from the preferential taxation of capital gains.

Other equity problems stem from other kinds of preference income and from the freedom from taxation of certain fringe benefits and alleged business expenses, such as the $50 martini lunch.

There are several options open to us for increasing growth and efficiency in the economy. Tax policy can affect investment decisions by increasing its after-tax return.

We could reduce or end the double taxation of corporate income by any of several methods. One possibility is full integration, which is equivalent to treating the corporation as a partnership. Each corporate shareholder, as a partner does under current law, would include in his own income for tax purposes his proportionate share of the corporation's income whether or not it is distributed. The corporate tax then becomes a withholding tax which can be credited against the shareholder's final individual tax liability.

Or, corporate and individual taxation could be partially integrated. In one approach, the individual shareholder grosses up his cash or "take-home" dividends in the same way that take-home pay is converted to total pay by adding taxes withheld by the employer. In determining final tax liability, the dividends are included in total income, but the taxpayer takes a credit for his share of the corporate tax.

Alternatively, corporations might be permitted a deduction for the dividends they pay, just as interest deductions are allowed at present.

There are other methods of encouraging investment:

* Larger deductions for depreciation of income producing property can be allowed by various combinations of changes in asset lives, more accelerated methods, or by indexing depreciation schedules for inflation.

* The investment tax credit, now at 10 percent for eligible property including depreciable equipment but not buildings, could be increased by raising the rate or relaxing the restriction that generally limits it to 50 percent of tax liability.

* Corporate tax rates could be cut.

We will look at these options in terms of their effect on the freedom of investment to respond to market demands, their neutrality concerning the way investment is financed, and their impact on the timing and amount of investment that results from each dollar of revenue lost.

At the same time, we mean to promote growth and efficiency in other ways. The reduction of very high marginal rates could lessen the incentive for unproductive activities aimed at reducing taxes. The elimination of capital gains and other preference income could have a similar result.

In developing a comprehensive tax package, there are obviously conflicts and trade-offs among our goals. But there is ample opportunity to offset these effects and fashion a program, that in its entirety, fulfills all three of our objectives and gives this country the kind of tax system that it should have.

It will be one that retains its present good qualities of integrity and voluntary compliance. But it will also be a better system, fairer and simpler, and one that provides adequate incentives for growth and efficiency.

We are getting much advice on how to accomplish these goals.. We welcome it and we want more, from you and from Americans across the country. We know that in translating our goals into realities there are difficult choices and complex issues. We want to know what you think.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE June 30, 1977

STUART E. SEIGEL BECOMES ASSISTANT GENERAL COUNSEL OF THE TREASURY DEPARTMENT

Washington, D.C.----Treasury Secretary W. Michael Blumenthal today announced that Stuart E. Seigel assumed office as Assistant General Counsel of the Department of the Treasury on Friday, June 24, 1977.

Mr. Seigel was nominated Chief Counsel of the Internal Revenue Service by President Jimmy Carter on May 6, 1977 and confirmed by the Senate on June 23, 1977. The IRS Chief Counsel traditionally serves as Assistant General Counsel at the Department of the Treasury.

Mr. Seigel, 44, was born in New York City and received a B.S. degree from New York University in 1953 and an LL.B. degree from New York University Law University in 1957. Mr. Seigel received an LL.M. (Master of Laws in Taxation) degree from Georgetown University Law Center in 1960. While at NYU he was associate editor of the Law Review.

From September 1957 until October 1965 Mr. Seigel was an attorney with the Chief Counsel's Office of the IRS. In October 1965 Mr. Seigel joined the staff of the Tax Legislative Counsel. He resigned in January 1969 to become a partner with the Washington, D.C. law firm of Cohen & Uretz.

Mr. Seigel is a member of the American Bar Association, the Federal Bar Association, and the American Judicature Society. He is also a member of the District of Columbia and New York State Bars.

Mr. Seigel is married to the former Joyce R. Meyers of New York, New York. They have three children, Charles, Lee and Suzanne, and make their home in Washington, D.C.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202) 566-2615

FOR IMMEDIATE RELEASE June 30, 1977

YUGOSLAV SIGNS FERROCHROMIUM AGREEMENT

The Department of the Treasury announced today the conclusion of a formal certification agreement with the Government of the Socialist Federal Republic of Yugoslavia to permit importation under the Rhodesian Sanctions Regulations of specialty steel products from Yugoslavia. The agreement replaces the interim arrangements which have been in effect since March 18, 1977.

Under the new agreement, the Yugoslav Chamber of Economy will issue special certificates of origin under governmental supervision. These certificates will serve to establish that Yugoslavian specialty steel products do not contain any chromium of Rhodesian origin. Interim certificates will also be acceptable until July 18, 1977, under existing interim procedures.

Yugoslavia will subject to laboratory testing all Yugoslavian imports of chromium ore and ferrochromium from South Africa to verify that they do not contain any chromium of Southern Rhodesian origin. In addition, Yugoslavia has agreed not to permit importation from other countries of ferrochromium and specialty steel unless the countries adopt similar certification procedures.

A similar agreement has been concluded with Korea and it is expected more such agreements will be signed by other countries in the near future.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202)566-2615

FOR IMMEDIATE RELEASE July 1, 1977

JAPANESE SIGN SPECIALTY STEEL AGREEMENT

The Department of the Treasury announced today the conclusion of a formal certification agreement with the Government of Japan to permit importation under the Rhodesian Sanctions Regulations of specialty steel products from Japan. The agreement replaces the interim arrangements which have been in effect since March 18, 1977.

Under the new agreement, the Ministry of International Trade and Industry of the Government of Japan will issue special certificates of origin. These certificates will serve to establish that Japanese specialty steel products do not contain any chromium of Rhodesian origin. Interim certificates will also be acceptable until July 18, 1977, under existing interim procedures.

Japan will subject to laboratory testing Japanese imports of chromium ore and ferrochromium from South Africa to verify that they do not contain any chromium of Southern Rhodesian origin. In addition, Japan has agreed not to permit importation from other countries of ferrochromium and specialty steel unless the countries adopt similar certification procedures.

Similar agreements have been concluded with Korea and Yugoslavia and it is expected more such agreements will be signed by other countries in the near future.

B-321

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: George G. Ross
202-566-5985

FOR IMMEDIATE RELEASE July 1, 1977

Proposed Amendment to Technical Explanation of the United States and United Kingdom Income Tax Treaty

The United States Treasury Department today released a proposed amendment to the Technical Explanation of the proposed income tax treaty between the United States and the United Kingdom, and requested comments on the proposed amendment.

The text of the Technical Explanation was released on March 9, 1977. It has since come to the attention of the Treasury Department that one of the foreign tax credit rules set forth in the Technical Explanation may cause substantial hardship. That rule, set forth in the paragraph numbered 1 of the explanation of Article 23 of the treaty, currently provides that the United Kingdom Advance Corporation Tax ("ACT") paid with respect to a distribution shall be treated as attributable to the accumulated profits (determined under U.S. principles) of those years in which ACT reduces the United Kingdom "mainstream" corporate tax. This may be many years after payment. In fact, in some cases there may never be sufficient mainstream tax to absorb the credit for ACT.

The proposed amendment provides as a general rule that ACT paid with respect to a distribution will be attributable to the accumulated profits of the year of distribution. There are, however, two exceptions to this general rule.

The first exception is that offset of ACT against mainstream tax of a prior or subsequent year will be considered (1) a refund of the ACT with respect to the accumulated profits of the year of distribution, and (2) a payment of mainstream tax with respect to the accumulated profits of the years in which ACT reduces the United Kingdom mainstream corporate tax.

The second exception is necessary because under the general rule attribution of unrefunded ACT to a year may eliminate the accumulated profits--and thus the credit for foreign taxes paid--in respect of that year. In that situation it will be necessary to use a more exact attribution method.

The text of the proposed amendment is set forth below. Written comments on the proposed amendment should be sent to Laurence N. Woodworth, Assistant Secretary for Tax Policy, Treasury Department, Washington, D.C. 20224, by July 13, 1977.

Proposed Amendment to Technical Explanation

The proposed amendment to the Technical Explanation of the United States and United Kingdom Income Tax Treaty is as follows:

Paragraph 1. The sixth full paragraph of the explanation of Article 23 and the immediately subsequent paragraph numbered 1 are deleted, and the following passage is substituted for those paragraphs:

> In the United Kingdom tax system, ACT serves a dual function. To the extent that it offsets the United Kingdom corporate income tax imposed without regard to distributions (hereinafter referred to as "mainstream tax"), it is analogous to a payment of regular corporate income tax. To the extent that it does not offset mainstream tax, it is more analogous to a tax imposed on distributions which are income to the shareholders.
>
> To reflect this hybrid nature of ACT, ACT which offsets mainstream tax will be attributed to the earnings of the year in which it offsets such tax and treated as if it were regular corporate tax. ACT which does not offset mainstream tax will generally be attributed to the accumulated profits of the year of distribution.
>
> In order that the derivative foreign tax credit be computed as intended under the Convention, corporate shareholders receiving the

benefits of subparagraph 2(a)(i) of Article 10 (Dividends) must apply the following rules:

1. ACT paid with respect to a distribution shall be treated as attributable to the accumulated profits (determined under U.S. principles) of the year of distribution, except in two circumstances:

a) to the extent the ACT reduces mainstream tax for a prior or subsequent year (see Example 4 below); and

b) if, after attribution of ACT which does not reduce mainstream tax, accumulated profits would not exceed corporate taxes for the year (see Example 5 below).

ACT which reduces mainstream tax in any year or years shall be attributable to any accumulated profits of the year or years for which the mainstream tax is reduced. Where ACT is used to offset mainstream tax, the offset will be viewed as a refund of the ACT initially allowed as a credit and as a tax paid in respect of the year for which the ACT is applied as an offset. Consequently, a reduction in the foreign tax credit for the year from which the ACT is carried must be made in accordance with section 905(c) of the Code.

Mainstream tax will be considered offset first by ACT incurred with respect to the current distribution. Additional offset will be considered to be attributable to ACT incurred in the earliest year from which the ACT can be carried.

Where attribution to a year of ACT which does not offset mainstream tax leaves no accumulated profits for that year, the more exact attribution method set forth in Example 5 should be used.

Paragraph 2. Examples 4 and 5, set forth below, are added after the first full paragraph following Example 3 of the explanation of Article 23 of the treaty:

Example 4.

A United Kingdom resident corporation is wholly owned by a U.S. corporation. The accumulated profits (according to United States standards), taxable profits (according to United Kingdom standards), and distributions of the subsidiary are as follows:

	Year 1	Year 2	Year 3
1. Accumulated profits.	$ 120	$ 100	$ 100
2. Taxable profits.	0	50	50
3. Distribution.	0	26	130

With respect to year 1, the U.S. parent corporation has no taxable income for U.S. purposes, no U.S. tax, and no foreign tax credit.

As of the end of year 2, the year 2 taxes of the parent are calculated as follows:

1. Accumulated profits.	$100.00
2. U.K. taxable profits.	50.00
3. British mainstream tax at 52% rate.	26.00
4. Distribution.	26.00
5. ACT with respect to distribution before refund.	14.00
6. Net mainstream tax, reduced by ACT	12.00
7. Refund of one-half of ACT	7.00
8. Unrefunded one-half of ACT	7.00
9. Total corporate tax ($12.00 plus $7.00)	19.00
10. Total dividend received before withholding tax ($26.00 plus $7.00)	33.00
11. Accumulated profits in excess of British corporate taxes ($100 minus $19).	81.00
12. Derivative tax credit $\left(\frac{33}{81} \times 19\right)$	7.74
13. British withholding tax (5% of $33.00).	1.65
14. Total foreign tax credit ($7.74 + $1.65).	9.39
15. Taxable income ($33.00 + $7.74).	40.74
16. United States tax before credit (48% of $40.74).	19.56
17. United States tax after credit ($19.56 minus $9.39)	10.17

As of the end of year 3, the year 3 taxes are calculated as follows:

	Year 1	Year 2	Year 3
1. Accumulated profits.	$120.00	$100.00	$100.00
2. U.K. taxable profits.	-0-	50.00	50.00
3. Year 2 U.K. corporate tax before year 3 ACT (line 9 above).	-	19.00	-
4. Year 3 British mainstream tax at 52% rate.	-	-	26.00
5. Year 3 ACT before adjustments.	-	-	70.00
6. Year 3 ACT offset to mainstream tax.	-0-	(3.50)*	(17.50)*
7. Year 3 ACT carried back and deemed mainstream tax.	-0-	3.50	(3.50)
8. Year 3 ACT refund before adjustment.	-	-	(35.00)
9. Year 3 ACT refund carried back.	-0-	(1.75)	1.75
10. U.K. corporate tax after year 3 ACT (sum of lines 3 through 9).	-0-	17.25	41.75
11. Accumulated profits in excess of British corporate taxes (line 1 minus line 10)	120.00	82.75	58.25
12. Year 2 dividend	-	33.00	-
13. Accumulated profits available for distribution in year 3 (line 11 minus line 12).	120.00	49.75	58.25

*Under U.K. rules, the maximum amount of ACT that can be credited against mainstream tax is 35/52 of mainstream tax, and excess ACT is carried back two years, and then carried forward indefinitely. Thus, since $26 of mainstream tax was payable for each of years 2 and 3, the offset for ACT for each of years 2 and 3 cannot exceed $17.50 ($26 \times \frac{35}{52}$).

For year 2, this means an increased offset of $3.50 (17.50 minus 14 previously offset).

	Year 1	Year 2	Year 3
14. Year 3 dividend before §78 gross-up (130 + 35 ACT refund)	-	-	165.00
a. From year 3 accumulated profits (line 13).	-	-	58.25
b. From year 2 accumulated profits (line 13).	-	-	49.75
c. From year 1 accumulated profits (balance).	-	-	57.00
15. Year 3 foreign tax credit			
a. British withholding tax (5% of 165).	-	-	8.25
b. Year 3 derivative tax credit (from line 10).	-	-	41.75
c. Year 2 derivative tax credit $\left(\frac{49.75}{82.75} \times 17.25\right)$.	-	-	10.37
16. Taxable income (165 + 41.75 + 10.37).	-	-	217.12
17. United States tax before credit (48% of 217.12).	-	-	104.22
18. Total foreign tax credit (8.25 + 41.75 + 10.37).	-	-	60.37
19. United States tax after credit (104.22 less 60.37).	-	-	43.85

As of the end of year 3, the year 2 taxes are recalculated as follows:

1. Total dividend received before withholding tax.	$33.00
2. British withholding tax (5% of 33).	1.65
3. Derivative tax credit $\left(\frac{33}{(81 + 1.75} \times (19-1.75)\right)$	6.88
4. Taxable income (33 + 6.88).	39.88
5. United States tax before credit (48% of 39.88).	19.14
6. Total foreign tax credit (1.65 + 6.88)	8.53
7. United States tax after credit (19.14 minus 8.53).	10.61
8. United States tax previously paid.	10.17
9. Additional United States tax due (10.61 minus 10.17).	.44

Example 5.

This example, showing a more exact attribution of non-offset ACT, is to be used only if, after attribution of non-offset ACT, there are no accumulated profits in excess of British corporate tax.

The facts are the same as in Example 4, except that the accumulated profits for year 3 are $30 rather than $100.

The calculation of the year 2 taxes as of the end of year 2 is the same as in Example 4. As of the end of year 3, the year 3 taxes are calculated as follows:

	Year 1	Year 2	Year 3
1. Accumulated profits.	$120.00	$100.00	$ 30.00
2. U.K. taxable profits.	-0-	50.00	50.00
3. Year 2 U.K. corporate tax before year 3 ACT (line 9 of Example 4 calculation of year 2 taxes as of the end of year 2)	-	19.00	-
4. Year 3 British mainstream tax at 52% rate.	-	-	26.00
5. Year 3 ACT before adjustments.	-	-	70.00
6. Year 3 ACT offset to mainstream tax.	-0-	(3.50)	(17.50)
7. Year 3 ACT carried back and deemed mainstream.	-0-	3.50	(3.50)
8. Year 3 ACT refund before adjustment.	-	-	(35.00)
9. Year 3 ACT refund carried back.	-0-	(1.75)	1.75
10. U.K. corporate tax after year 3 ACT (sum of lines 3 through 9).	-0-	17.25	41.75
11. Accumulated profits in excess of British corporate taxes (line 1 minus line 10)	120.00	82.75	(11.75)

Since attribution of the non-offset ACT to year 3 eliminates any excess of accumulated profits over British corporate tax, the calculation must be redone, taking into account only offset ACT, and then attributing non-offset unrefunded ACT only to the extent of $17.50* for every $65 of accumulated profits considered distributed (determined under U.S. rules before taking into account non-offset ACT).

In year 3, only $17.50 of ACT offsets mainstream tax. One-half of this is refunded. In year 3, therefore, U.K. corporate tax after the offset ACT is:

$$\begin{array}{r} 26.00 \\ (17.50) \\ 8.75 \\ \hline 17.25 \end{array}$$

Accumulated profits in excess of British corporate tax other than non-offset ACT is $30.00 minus $17.25, or $12.75. Non-offset unrefunded ACT is $24.50 ($\frac{70 - 17.50 - 3.50}{2}$). The maximum amount of non-offset unrefunded ACT attributed to accumulated profits in year 3 is $12.75 X $\frac{17.5}{65}$, or $3.43. Thus, the accumulated profits available for distribution in year 3 are $9.32 ($30.00 minus $17.25 minus $3.43), and the U.K. corporate tax is $20.68 ($26.00 minus $17.50 + $8.75 + $3.43).

In year 2, the accumulated profits available for distribution before adjustment for year 3 non-offset ACT are $49.75 (from line 13 of Example 4 calculation of year 3 taxes). The balance of non-offset unrefunded ACT from year 3 is $21.07 ($24.50 less $3.43). The accumulated profits available for distribution in year 2 are $28.68 ($49.75 minus $21.07), and the U.K. corporate tax is $38.32 ($17.25 + $21.07).

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*$17.50 represents the amount of unrefunded ACT which would result from a distribution of $65 (one-half of $65 X $\frac{35}{65}$).

The year 3 dividend of \$165 (130 + 35 ACT refund) before the section 78 gross-up is considered to carry out the entire available accumulated profits of year 3 (\$9.32), year 2 (\$28.68) and year 1 (\$120.00). The balance of \$7.00 (\$165 minus \$9.32 minus \$28.68 minus \$120.00) is a return of capital to the extent of adjusted basis.

If the non-offset ACT from year 3 had exceeded the maximum which could be attributed to accumulated profits for years 3 and 2, the balance would have been carried back to year 1. The carryback is limited to two years, and there is no carryforward.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 1, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,301 million of 13-week Treasury bills and for $3,301 million of 26-week Treasury bills, both series to be issued on July 7, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 6, 1977			26-week bills maturing January 5, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.731 a/	5.020%	5.16%	97.357	5.228%	5.44%
Low	98.718	5.072%	5.21%	97.341	5.260%	5.48%
Average	98.725	5.044%	5.18%	97.348	5.246%	5.46%

a/ Excepting 2 tenders totaling $500,000

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 10%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 23,585,000	$ 18,585,000	$ 40,125,000	$ 32,125,000
New York	3,224,855,000	1,936,105,000	4,926,055,000	2,680,055,000
Philadelphia	24,365,000	24,365,000	35,705,000	26,205,000
Cleveland	34,395,000	34,395,000	25,605,000	15,605,000
Richmond	16,725,000	16,725,000	17,715,000	12,715,000
Atlanta	28,815,000	28,815,000	39,465,000	29,465,000
Chicago	179,780,000	108,910,000	283,640,000	155,840,000
St. Louis	38,030,000	28,030,000	23,440,000	10,440,000
Minneapolis	16,515,000	16,515,000	13,665,000	13,665,000
Kansas City	25,620,000	25,620,000	20,005,000	20,005,000
Dallas	12,535,000	12,535,000	9,185,000	9,185,000
San Francisco	124,925,000	49,925,000	370,620,000	296,120,000
Treasury	30,000	30,000	10,000	10,000
TOTALS	$3,750,175,000	$2,300,555,000 b/	$5,805,235,000	$3,301,435,000 c/

b/ Includes $ 274,995,000 noncompetitive tenders from the public.
c/ Includes $ 118,390,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 5, 1977

TREASURY ANNOUNCES PRELIMINARY COUNTERVAILING DUTY DECISION ON IMPORTS OF BUTTER COOKIES FROM DENMARK

The Treasury Department announced today its preliminary determination that imports of butter cookies from Denmark are being subsidized under the U.S. Countervailing Duty Law.

Notice to this effect will be published in the Federal Register of July 6, 1977.

The Countervailing Duty Law requires the Treasury Secretary to assess an additional (countervailing) duty that is equal to the amount of a bounty or grant (subsidy) when one has been found to be paid. The Department found preliminarily that imports of Danish butter cookies benefit from two programs under the Common Agricultural Policy of the European Communities (EC) which are bounties or grants under the law. These benefits to cookie manufacturers include export refunds for certain ingredients used in the production of butter cookies in addition to reduced prices for butter obtained from EC inventories.

Interested parties will have 30 days from the date of publication in the Federal Register in which to present written views regarding this action. A final determination must be issued by no later than December 28, 1977.

Imports of butter cookies from Denmark were valued at approximately $5 million during calendar year 1976.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE

Contact: Alvin Hattal
566-8381

July 5, 1977

TREASURY SETS HIGHER LIMIT ON IRA BOND PURCHASES

U.S. Individual Retirement Bonds can now be bought in higher amounts by eligible married taxpayers, the Treasury announced today.

Individual Retirement Bonds have been on sale since 1975 and are one of the investment options available to eligible individuals to establish their own retirement programs and to obtain a tax deduction for the funds set aside. Such funds are generally known as individual retirement accounts (IRAs).

The Tax Reform Act of 1976 enables a married eligible individual with a non-working spouse to buy bonds in each of their names up to a total of 15 per cent of earned income, or $1,750, whichever is less. The total purchase made in bonds and IRA investments must be in equal amounts. To be eligible, a person must have earned income and not be a participant in any pension plan during the year in which the deduction is taken.

To make its bond offering compatible with the higher limit, the Treasury Department will issue a new $75 bond. Married couples will then be able to purchase $875 in bonds in each spouse's name to achieve the maximum $1,750 deduction. Formerly, the bonds were issued only in denominations of $50, $100 and $500.

An amendment to the offering circular for Individual Retirement Bonds, Department Circular No. 1-75, reflecting these changes will be published soon in the Federal Register.

Details concerning the change and general information about the bonds are available from any Federal Reserve Bank or Branch or from the Bureau of the Public Debt, Washington, D.C. 20226.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. July 5, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,600 million, to be issued July 14, 1977, as follows:

91-day bills (to maturity date) for approximately $2,200 million, representing an additional amount of bills dated April 14, 1977, and to mature October 13, 1977 (CUSIP No. 912793 K6 2), originally issued in the amount of $3,503 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated July 14, 1977, and to mature January 12, 1978 (CUSIP No. 912793 N2 8). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing July 14, 1977. This offering will provide for a net pay-down for the Treasury of about $303 million as the maturing issues are outstanding in the amount of $5,903 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,230 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

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Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, July 11, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on July 14, 1977, in cash or other immediately available funds or in Treasury bills maturing July 14, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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

FOR IMMEDIATE RELEASE
THURSDAY, JULY 7, 1977
CONTACT: PRISCILLA CRANE (202) 634-5248

GENERAL REVENUE SHARING AND
ANTIRECESSION PAYMENTS TO BE ISSUED TOMORROW

Payments totalling $2,205,976,612 to 36,613 units of State and local government are being issued by the Department of the Treasury's Office of Revenue Sharing tomorrow.

Of this total, $1,688,895,974 represents the second quarterly payment of general revenue sharing funds for the Eighth Entitlement Period (January 1, 1977 through September 30, 1977). The remaining $517,080,638 is being paid to 22,936 units of State and local government who also qualify for antirecession fiscal assistance funds for the calendar quarter beginning July 1, 1977, based on an applicable national unemployment rate of 7.3%.

On May 23, 1977 President Carter signed a law (P.L. 95-30) which enlarges and extends the antirecession fiscal assistance program through September 30, 1978 at increased levels of funding. The total amount available to distribute each quarter is $125 million plus $30 million for each full one-tenth percentage point of seasonally adjusted national unemployment over 6%. The renewal bill carries with it a five-quarter ceiling of $2.25 billion, as compared with the original authorization of $1.25 billion for the five quarters beginning July 1, 1976.

Tomorrow's payment of antirecession funds will include as recipients the Commonwealth of Puerto Rico and the territories of Guam, the American Virgin Islands and American Samoa. These territories are not eligible to receive general revenue sharing money.

Tomorrow, 1,526 units of local government will not receive $4,220,380 in revenue sharing funds to which they are entitled. These units of government failed to file one or both of two reports required by revenue sharing law which were due to be returned to the Office of Revenue Sharing in March 1977. All recipient governments are required to submit a Statement of Assurances to indicate that revenue sharing money will be expended according to the provisions of applicable law. In addition, the Office of Revenue Sharing must receive a report showing Actual Use of revenue sharing dollars which were appropriated, obligated or spent during Entitlement Period Seven. Any jurisdiction that does not return both reports, properly completed, by September 30, 1977 will forfeit its payment for the Eighth Entitlement to the next higher-level recipient unit of government in the State.

Recipients of antirecession funds now are subject to the same non-discrimination provisions that apply to the general revenue sharing program. These provisions state that no person in the United States shall, on the ground of race, color, national origin, sex, age, religion, or handicapped status be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity of a recipient state or local government.

Through general revenue sharing, approximately 39,000 units of State and local, general government are receiving nearly $6.75 billion in payments issued at regular, quarterly intervals each year: in January, April, July and October. The funds are allocated for each entitlement period according to formulas contained in revenue sharing law which use data relating to the population, per capita income, local tax effort and certain other factors for each jurisdiction.

Antirecession funds also are allocated on a formula basis. The data which are used in determining relative shares of antirecession funds for each quarter relate to unemployment and general revenue sharing entitlement amounts.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 5, 1977

SECRETARY BLUMENTHAL APPROVES $300 MILLION LOAN TO NYC

Secretary of the Treasury W. Michael Blumenthal today approved New York City's request for a loan of $300 million under the New York Seasonal Finance Act. He has determined, as required under the Credit Agreement, that there is a reasonable prospect that the loan will be repaid.

In approving the first loan to the city for fiscal year 1978 which started July 1, Secretary Blumenthal accepted the city's certification that it had used its best efforts to meet its seasonal financing needs without resort to borrowing from the U.S. Treasury. The certification states that the city had been unable to reenter the private short-term credit market in July but would continue to work to resolve the "financial uncertainties" -- especially the status of $819 million in city notes held by banks and pension funds -- that impede its access to private credit. The U.S. Treasury will continue to monitor these efforts closely.

The city also stated in the certification that it will continue to work with financial advisors and potential underwriters with a view to reentering the private credit market at "an early date."

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn Johnston
(202) 634-5377

FOR IMMEDIATE RELEASE July 7, 1977

TREASURY SECRETARY BLUMENTHAL APPOINTS ROBERT P. HENDRICKSON AS NEW SAVINGS BONDS CHAIRMAN FOR NORTH DAKOTA

WASHINGTON -- Secretary of the Treasury W. Michael Blumenthal has appointed Robert P. Hendrickson, Chairman, First National Bank & Trust Company of Bismarck, as Volunteer State Chairman for the Savings Bonds Program in North Dakota. The appointment is effective immediately.

Mr. Hendrickson will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting bond sales throughout the state. He succeeds Anker M. Eriksmoen, former President of the Dakota National Bank & Trust Company.

Mr. Hendrickson started his banking career in Cavalier, North Dakota in 1938. From 1949 to 1957 he served with the First National Bank in Valley City, North Dakota as Assistant Cashier and Cashier, and from 1957 to 1959 he was Vice President of the Red River National Bank of Grand Forks, N. D. In 1959 he joined the First National Bank & Trust Company of Bismarck serving as Vice President (1959-1964), President (1964-1975), and currently as Chairman of the Board.

Mr. Hendrickson is active in community and civic affairs. He is a member of the American Legion, past president of the Bismarck Lions Club, Director of the Bismarck Medical Foundation, a member of the Advisory Council of Small Business Administration for North Dakota, and a member of the Greater North Dakota Association. He is married and has three daughters and one son.

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B-329

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FOR RELEASE 10:00 a.m. (E.D.T.)
Friday, July 1, 1977

MID-SESSION REVIEW OF THE 1978 BUDGET

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GENERAL NOTES

Budget figures for all years reflect a recent definitional change. Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. The effect of the change is to reduce budget authority, outlays, and receipts each by $0.8 billion in 1976, $0.1 billion in the transition quarter, and by $0.9 billion in 1977 and in 1978, with no effect on deficit figures. The reduction in budget authority and outlays affects the data for the income security function and for the Department of the Treasury. The revisions are reflected in the February and April estimates in this report, as well as in the current estimates. For this reason, the figures shown in this document as February and April estimates are not the same as published earlier. The revised figures are now comparable to the congressional budget resolutions.

All years referred to are fiscal years unless otherwise noted. Actual data for the transition quarter, which occurred between 1976 and 1977, can be found in the 1978 budget.

Detail may not add to totals due to rounding.

LIST OF TABLES

OVERVIEW

This document provides:

-- revised budget estimates for 1977 and 1978 as required by Section 201 of the Budget and Accounting Act, as amended;

-- long-range projections through 1982 reflecting current Administration policy; and

-- economic assumptions on which the estimates and projections are based.

The 1978 budget was first submitted to the Congress by the previous administration in January 1977 and revised by the current Administration in February 1977. The Congress was also provided with reestimates of major portions of the budget on April 22.

By law, the budget revisions in this document are required by July 15. However, they are being submitted two weeks early so that they will be more useful to the Congress in the development of the Second Concurrent Resolution on the 1978 Budget.

In the past, the mid-session estimates for the current year reflected nearly a full year of actual outlays. Because of the change in the fiscal year, which now ends on September 30, the estimates for 1977 are based on actual data for two-thirds of the year.

Two major policy changes have caused revisions from the February budget estimates: changes in the economic stimulus program resulting from improved economic conditions, and the energy proposals announced by the President on April 20.

By the end of the first quarter of calendar year 1977, economic conditions had improved significantly and some parts of the stimulus program were no longer needed to maintain a sustained economic recovery. The tax rebate and business tax incentives proposals were withdrawn, having a net effect of $12.2 billion on reducing the deficit.

The energy proposals announced April 20 are estimated to increase the deficit $1.5 billion in 1978, but would not have a substantial effect on the deficit through 1985. Net receipts from the proposed oil and gas use tax offset added outlays for the new or expanded Federal energy proposals for the 8-year period 1978 through 1985. These proposals are designed to promote energy conservation and expand the strategic petroleum storage program.

In addition to the energy policy and economic stimulus proposals, the Administration has already presented longer-range financing for social security programs, and will propose major welfare and tax reforms before the end of the fiscal year. The details of the latter two proposals have not yet been fully developed.

Part 1

THE BUDGET OUTLOOK

Budget Totals

Although the Congress has completed virtually all action that will affect the 1977 totals, actual amounts of receipts and outlays to be reported in late October may vary from these estimates because of unforeseen events. Receipts for 1977 are now estimated to be $358.3 billion, $9.8 billion above the February estimate, and outlays are expected to be $406.4 billion, $10.2 billion below the February estimate (adjusted for the change in the budget treatment of the earned income credit in excess of tax liabilities). The deficit for 1977 is now expected to be $48.1 billion, a decrease of approximately $20 billion since February, as shown in Table 1.

Most of these changes were reflected in revised estimates released in April along with a revised economic forecast.

For 1978, the President's February budget revisions called for outlays of $458.5 billion. The current estimate -- which takes into account changes in the economic stimulus program, revised economic assumptions, the energy proposals, and congressional action -- is $462.9 billion. Receipts for

1978 are now projected at $401.4 billion, an increase of $0.7 billion since the estimate made in February. These estimates result in a projected deficit of $61.5 billion for 1978, an increase of $3.8 billion from the February estimate.

Table 1

BUDGET TOTALS 1/
(in billions of dollars)

	Receipts	Outlays	Deficit (-)
1976 Actual	299.2	365.7	-66.5
1977 Estimate:			
February	348.5	416.6	-68.0
April	358.6	407.3	-48.7
Current	358.3	406.4	-48.1
1978 Estimate:			
February	400.7	458.5	-57.7
April	403.8	461.7	-57.9
Current	401.4	462.9	-61.5

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Short-Range Economic Forecast

The economic outlook for calendar years 1977 and 1978 has not changed significantly from that presented in April. Real growth over the 2-year period is expected to average 5.2%, with somewhat stronger growth in 1977 than forecast in April, and somewhat less growth in 1978. The rate of unemployment, which dropped from 7.8% in December 1976 to 6.9% in May 1977, is expected to fall to about 6% by the end of 1978. The rate of inflation is expected to subside from the high rates of the earlier months of the year, which were due in part to the severe winter weather. The projected rate of about 6% for next year includes an allowance of about 0.3% for the effects of the proposed crude oil equalization tax; without that allowance, the rate of price advance would be forecast to decline somewhat below 6% next year. Even so, this is an unacceptably high rate and indicates the need for continued efforts to bring inflation under better control.

Additional detail on the short-range forecast is provided in Table 2.

Table 2

SHORT-RANGE ECONOMIC FORECAST
(calendar years; dollar amounts in billions)

	Actual 1976	Forecast 1977	Forecast 1978
Gross national product			
Current dollars:			
Amount	1,692	1,883	2,106
Percent	11.6	11.3	11.9
Constant (1972) dollars:			
Amount	1,265	1,330	1,399
Percent change	6.1	5.1	5.3
Incomes (current dollars)			
Personal income	1,375	1,526	1,698
Wages and salaries	890	991	1,105
Corporate profits	148	173	199
Prices (percent change)			
GNP deflator:			
Year over year	5.1	5.9	6.3
Fourth quarter over fourth quarter	4.6	6.5	6.1
CPI:			
Year over year	5.7	6.5	6.0
December over December	4.8	6.9	6.1
Unemployment rates (percent)			
Total:			
Yearly average	7.7	7.0	6.3
Fourth quarter	7.9	6.6	6.1
Insured 1/	6.4	5.1	4.2
Federal pay raise, October (percent)	4.8	6.5	6.5
Interest rate, 91-day Treasury bills (percent) 2/	5.0	4.9	5.0

1/ Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

2/ Average rate of new issues within period. The forecast assumes continuation of current market rates.

Budget Receipts

Receipts in 1977 are now estimated to be $358.3 billion, compared with the February estimate of $348.5 billion and the April estimate of $358.6 billion. Receipts in 1978, estimated at $400.7 billion in February and $403.8 billion in April, are now estimated to be $401.4 billion.

These estimates assume enactment of the President's proposals announced to date, including his energy proposals, and reflect the effect of scheduled increases in the unemployment insurance tax base and the social security tax rate and base. Under current law, the social security tax rate will increase from 11.7% to 12.1% on January 1, 1978, and the tax base is expected to rise from $16,500 in 1977 to $17,700 in 1978. The unemployment insurance tax base is scheduled to increase from $4,200 to $6,000, effective January 1978. The estimates do not reflect the effect of the Administration's tax reform proposals that will be transmitted to the Congress later this year.

The receipts estimates are based on the economic assumptions presented in Table 2, and are shown by major source in Table 3.

Changes in budget receipts.--As shown in Table 4, estimates of 1977 and 1978 receipts were revised upward in

Table 3

BUDGET RECEIPTS BY MAJOR SOURCE, 1976-1978 1/
(in billions of dollars)

	1976	1977 Estimate			1978 Estimate		
	Actual	February	April	Current	February	April	Current
Individual income taxes...	130.8	148.1	159.3	158.3	178.3	182.1	178.2
Corporation income taxes..	41.4	57.2	55.0	54.6	61.6	61.3	59.7
Social insurance taxes and contributions........	92.7	108.0	108.0	108.8	123.8	124.1	123.1
Excise taxes..............	17.0	17.9	17.9	17.8	18.6	18.5	22.0
Estate and gift taxes.....	5.2	5.9	7.1	7.3	5.8	5.4	5.5
Customs duties............	4.1	4.7	4.7	5.0	5.3	5.3	5.6
Miscellaneous receipts....	8.0	6.7	6.6	6.6	7.2	7.1	7.2
Total budget receipts..	299.2	348.5	358.6	358.3	400.7	403.8	401.4

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

April, largely due to removal of the Administration's rebate and business tax incentive proposals.

Removal of these proposals increased receipts by $9.1 billion in 1977 and $2.3 billion in 1978. Since the Congress had failed to act on the President's tax simplification proposals, the April estimates also assumed that changes in withholding schedules would become effective in June rather than in May as originally proposed. These delayed changes were expected to increase receipts by $0.3 billion in 1977 and reduce them by an equal amount in 1978. Other revisions, largely due to technical reestimates and revised incomes, increased receipts by $0.7 billion in 1977 and $1.2 billion in 1978.

Since April, estimated receipts have been revised downward by $0.3 billion in 1977 and $2.5 billion in 1978. The Tax Reduction and Simplification Act of 1977, enacted in May, reduces estimated receipts by $1.4 billion in 1977 and $4.0 billion in 1978. The major provisions of this act include a standard deduction of $2,200 for single taxpayers and $3,200 for married couples filing jointly (the corresponding figures under the Administration's proposal were $2,200 and $3,000, respectively) and a new jobs tax credit applicable to new employees hired in calendar years 1977 and 1978. An increase in receipts of $37 million in

Table 4

CHANGES IN BUDGET RECEIPTS 1/
(in billions of dollars)

	1977	1978
February estimate	348.5	400.7
Changes in legislation	9.4	2.0
(Removal of rebate)	(8.2)	(---)
(Removal of business tax incentive proposals)	(0.9)	(2.3)
(Delayed enactment of tax simplification proposals)	(0.3)	(-0.3)
(Limit on general tax credit)	(*)	(0.1)
Revised incomes and technical reestimates	0.7	1.1
April estimate	358.6	403.8
Changes in legislation	-1.4	-3.4
(Tax Reduction and Simplification Act of 1977)	(-1.4)	(-4.0)
(Removal of miscellaneous proposals)	(*)	(0.2)
(Energy proposals)	(---)	(0.3)
(Coal mining reclamation fees)	(---)	(0.2)
Revised incomes and technical reestimates	1.1	0.9
Current estimate	358.3	401.4

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

* $50 million or less.

1977 and $182 million in 1978 is expected to result from non-enactment by July 1 of a proposal to freeze the monthly supplemental medical insurance premium. Removal of the proposal authorizing the Nuclear Regulatory Commission to collect fees to cover the costs of its licensing services decreases receipts by $9 million in 1978. The Administration's energy proposals have no effect on 1977 receipts but increase 1978 receipts by $0.3 billion. Proposed legislation requiring the payment of reclamation fees by coal mining operations is expected to increase 1978 receipts by an additional $0.2 billion. Revised incomes and technical reestimates account for the remaining increases of $1.1 billion in 1977 and $0.9 billion in 1978.

Budget Outlays

Changes since April.--The April 22, 1977 budget outlay revisions reflected the withdrawal of rebates and other economic stimulus proposals, and slower than anticipated spending for the year to date. They were not prepared in sufficient detail to make detailed comparisons to the February or current estimates. However, the major differences between the April revisions and current estimates are summarized in this section. More detailed analysis in the remainder of the budget outlays section compares the current estimates with those presented in February.

As Table 5 shows, estimates of 1977 outlays have decreased by $0.9 billion since April. This change reflects spending trends since April and recent congressional actions. The same general factors apply to the changes in estimates of 1978 outlays, with the exception of interest and unemployment insurance outlays. The increase in interest estimates reflects a slight increase in market interest rates since April, while the decrease in unemployment insurance outlay estimates reflect an improved employment outlook. The net effect of these and other changes is a $1.2 billion increase in the 1978 estimate.

Table 5

RECONCILIATION WITH APRIL ESTIMATES 1/
(Outlays in billions of dollars)

	1977 estimate	1978 estimate
April estimate	407.3	461.7
Major changes:		
Unemployment trust fund	---	-1.0
Interest on the public debt	0.1	0.7
Rural housing programs	0.6	---
Antirecession fiscal assistance	-0.4	-0.2
Community development block grants	-0.2	-0.4
Petroleum reserves 2/	*	-0.2
FEA: Strategic petroleum storage 2/	*	0.9
Tennessee Valley Authority	*	-0.3
Farm price supports (CCC)	*	-0.3
Export-Import Bank	-0.1	-0.3
Federal employee retirement benefits	-0.3	-0.2
Highway programs	*	-0.2
Veterans benefits	*	0.2
Sewage plant construction grants	-0.2	-0.1
Undistributed allowance for energy initiatives	---	1.2
All other	-0.3	1.3
Current estimate	406.4	462.9

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

2/ In these programs there is a $0.5 billion shift of outlays in 1978 from petroleum reserves to FEA: Strategic petroleum storage. See discussion in the natural resources, environment, and energy function in Part 1.

* $50 million or less.

Changes since February.--As Table 6 shows, estimates of 1977 outlays have decreased by $10.2 billion since February, while 1978 spending is estimated to be $4.4 billion higher.

The large decrease in the 1977 estimates is due to several factors. First, withdrawal of Administration support for proposed rebates and other economic stimulus proposals reduced the estimate by $3.2 billion. Second, a careful review of estimates and a comparison with actual spending in the year to date was undertaken and showed that the 1977 estimates for a number of major programs were too high in the February budget revisions. In addition, congressional action on authorizations and appropriations for economic stimulus programs have also reduced estimates.

For both 1977 and 1978, Administration decisions on farm price supports and a higher than expected social security cost-of-living adjustment have had the effect of significantly raising the estimates.

Functions with significant changes.--The following sections have additional information on functions with significant changes in outlay estimates since February. Descriptions of the general science, space and technology; law enforcement and justice; and general government functions are not included because the changes in these functions are relatively small.

MAJOR CHANGES IN BUDGET OUTLAYS 1/
(in billions of dollars)

	1977 estimate	1978 estimate
February estimate	416.6	458.5
Withdrawal of economic stimulus proposals	-3.2	-0.2
(Rebates and payments)	(-3.2)	(---)
(Payroll tax credit and other)	(---)	(-0.2)
Reestimates and other changes:		
Defense and military assistance	-3.2	1.1
(Defense)	(-2.0)	(0.1)
(Military assistance)	(-1.1)	(1.0)
Social security (OASDI)	0.6	1.9
Farm price supports	1.6	1.7
Unemployment trust fund	-0.3	-1.0
Petroleum reserves 2/	*	-0.2
FEA: Strategic petroleum storage 2/	-0.1	1.1
Export-Import Bank	-0.4	-0.8
Employment and training programs (Labor)	-0.8	*
Medicare and medicaid	-0.8	-0.1
Mortgage credit and insurance programs (HUD)	-0.7	-0.1
Offshore oil receipts (an offset to outlays)	---	0.7
Rural housing programs	0.6	---
Sewage plant construction grants	-0.5	-0.1
Water resources and power programs	-0.5	0.1
All other	-2.5	0.3
Current estimate	406.4	462.9

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

2/ In these programs there is a $0.5 billion shift of outlays in 1978 from petroleum reserves to FEA: Strategic petroleum storage. See discussion in the natural resources, environment, and energy function in Part 1.

* $50 million or less.

BUDGET OUTLAYS BY FUNCTION, 1976-1978 1/
(in billions of dollars)

	1976 Actual	1977 Estimate February	1977 Estimate Current	1978 Estimate February	1978 Estimate Current
National defense	90.0	100.1	96.9	111.9	113.0
International affairs	5.1	6.9	6.5	7.8	7.1
General science, space, and technology	4.4	4.5	4.6	4.7	4.8
Natural resources, environment, and energy	11.3	17.1	15.5	20.5	21.7
Agriculture	2.5	2.9	4.8	2.3	4.1
Commerce and transportation	17.2	15.8	15.4	20.1	19.8
Community and regional development	5.3	8.0	7.5	10.0	9.7
Education, training, employment, and social services	18.2	22.2	20.7	26.5	26.9
Health	33.4	39.5	39.0	44.5	44.6
Income security	126.6	140.7	137.5	145.6	146.5
Veterans benefits and services	18.4	18.4	18.1	19.1	19.1
Law enforcement and justice	3.3	3.7	3.7	3.9	3.9
General government	2.9	3.8	3.8	3.9	4.1
Revenue sharing and general purpose fiscal assistance	7.1	9.9	9.5	9.7	9.6
Interest	34.6	38.2	38.0	41.8	41.7
Allowances:					
Civilian agency pay raises	---	---	---	1.2	1.2
Contingencies	---	---	---	1.5	---
Undistributed allowances for energy programs	---	---	---	---	1.2
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.2	-4.6	-4.6	-4.7	-4.6
Interest received by trust funds	-7.8	-8.2	-8.3	-8.6	-8.6
Rents and royalties on the Outer Continental Shelf	-2.7	-2.3	-2.3	-3.4	-2.7
Total budget outlays	365.7	416.6	406.4	458.5	462.9

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Table 8

BUDGET OUTLAYS BY AGENCY, 1976-1978 1/
(in billions of dollars)

	1976 Actual	1977 Estimate February	1977 Estimate Current	1978 Estimate February	1978 Estimate Current
Legislative branch	0.8	1.0	1.1	1.1	1.1
The Judiciary	0.3	0.4	0.4	0.4	0.5
Executive Office of the President	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President	3.5	4.3	3.0	5.7	6.4
Agriculture	12.8	14.4	16.7	15.0	16.7
Commerce	2.0	3.2	3.0	5.0	4.9
Defense-Military (including pay raises)	88.0	98.0	96.0	109.2	109.3
Defense-Civil	2.1	2.5	2.3	2.6	2.6
Health, Education, and Welfare	128.8	148.2	147.8	161.7	164.3
Housing and Urban Development	7.1	7.7	6.5	8.9	8.3
Interior	2.3	3.5	3.4	3.4	3.8
Justice	2.2	2.4	2.4	2.4	2.4
Labor	25.7	24.0	22.9	25.2	24.2
State	1.1	1.2	1.2	1.3	1.2
Transportation	11.9	12.8	12.4	15.0	14.8
Treasury	43.5	53.5	49.8	53.8	53.4
Energy Research and Development Administration	3.8	5.4	5.0	6.4	6.3
Environmental Protection Agency	3.1	5.3	4.8	6.1	6.1
General Services Administration	-0.1	0.2	0.2	0.3	0.4
National Aeronautics and Space Administration	3.7	3.7	3.9	3.9	3.9
Veterans Administration	18.4	18.4	18.1	19.1	19.0
Other independent agencies	19.2	21.2	20.7	26.1	26.6
Allowances	---	---	---	2.7	2.4
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.2	-4.6	-4.6	-4.7	-4.6
Interest received by trust funds	-7.8	-8.2	-8.3	-8.6	-8.6
Rents and royalties on the Outer Continental Shelf	-2.7	-2.3	-2.3	-3.4	-2.7
Total budget outlays	365.7	416.6	406.4	458.5	462.9

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

050: NATIONAL DEFENSE

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	90.0	100.1	111.9
Changes:			
Department of Defense-Military:			
Retired military personnel............	---	-*	0.1
Operation and maintenance..........	---	-0.8	-0.2
Procurement............	---	-0.2	0.6
Research, development, test and evaluation..	---	-0.5	*
Military personnel.....	---	-0.5	-0.4
Other..................	---	---	0.1
Subtotal.............	---	-2.0	0.1
Military assistance........	---	-1.1	1.0
Other.......................	---	-*	*
Current estimate...............	90.0	96.9	113.0

* $50 million or less.

Estimated outlays for this function are $3.2 billion lower for 1977 and $1.1 billion higher for 1978 than estimated in February.

Most of the outlays in this function occur in the Department of Defense-Military programs. Estimated outlays for retired military personnel increase slightly in 1978 because of higher than estimated increases in the Consumer

Price Index, to which benefit payments are tied by law. Growth in various operation and maintenance activities has occurred differently from what was assumed in February. Since most of the growth has been in activities that have relatively slow spending rates rather than in fast spending areas, outlays are now estimated to decrease $0.8 billion in 1977 and $0.2 billion in 1978 below the February estimates. Estimates based on recent monthly outlay trends indicate that 1977 outlays for procurement and research, development, test and evaluation will be lower than the February estimates, and 1978 outlays for procurement will be $0.6 billion higher than previously estimated. The recent outlay trends for military personnel indicate the February estimates were high, and they have been revised downward for 1977 and 1978.

The current estimates for military assistance reflect major changes in the estimates of the foreign military sales trust fund. Net outlays for the fund are now estimated to be lower in 1977 and higher in 1978 due to management improvements that will reduce the large balances that have accumulated in the fund.

150: INTERNATIONAL AFFAIRS

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	5.1	6.9	7.8
Changes:			
Export-Import Bank.........	---	-0.4	-0.8
International financial institutions.............	---	*	-0.1
Security supporting assistance...............	---	-0.1	0.1
Other......................	---	*	*
Current estimate...............	5.1	6.5	7.1

* $50 million or less.

Outlay estimates for this function are lower by $0.5 billion in 1977 and $0.8 billion in 1978 than estimated in February, primarily because of lower than estimated loan authorizations by the Export-Import Bank. This results from revised lending policies, a temporary reduction in demand for Export-Import Bank credit reflecting reduced import growth in developing countries, higher liquidity in the private banking sector, and a conservative credit risk approach by the Bank's Board toward a number of developing countries.

Estimated outlays for international financial institutions decline due to lower than expected rates of spending for development projects. Security supporting assistance outlays are estimated to be $0.1 billion lower in 1977 and $0.1 billion higher in 1978 than estimated in February. This change reflects a slower than expected rate of spending by Mideast countries receiving this assistance.

300: NATURAL RESOURCES, ENVIRONMENT, AND ENERGY

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	11.3	17.1	20.5
Changes:			
Water resources............	---	-0.3	0.4
TVA.......................	---	-0.2	-0.3
Sewage plant construction grants:			
Reestimates............	---	-0.5	-0.1
Reimbursement..........	---	---	0.2
Petroleum reserves.........	---	-*	-0.2
FEA: Strategic petroleum storage...................	---	-0.1	1.1
FEA: Other.................	---	-0.1	0.2
Energy Research and Development Administration	---	-0.4	-0.1
Other......................	---	-*	-*
Current estimate...............	11.3	15.5	21.7

* $50 million or less.

Outlay estimates for this function have decreased by $1.6 billion in 1977, but increase by $1.2 billion in 1978 from the February estimates.

Outlay estimates for water resources construction programs decrease for 1977 because of slower than expected progress on Corps of Engineers and Bureau of Reclamation projects, as well as technical reestimates. Lower than expected payment of claims for the Teton Dam disaster also appear certain. Increases in the 1978 estimate result from more rapid progress on water resources projects and payments for the Teton Dam disaster not expended in 1977.

The Tennessee Valley Authority (TVA) has received more receipts than anticipated for 1977. This has the effect of reducing outlay estimates since these receipts are treated as offsets to outlays. The higher receipts are expected to continue for the rest of 1977 and into 1978. Outlays for other TVA water resources and power programs are expected to remain the same or decrease, due in part to delays in the construction of several nuclear plants.

Estimated outlays for sewage plant construction have decreased in 1977 by $0.5 billion due to several factors, including construction delays during the severe winter. Estimated 1978 outlays increase slightly. A downward reestimate of $0.1 billion for ongoing programs is more than offset by recent enactment of legislation requiring reimbursements to those municipalities that constructed plants in prior years. Outlays for the reimbursements are estimated to be $0.2 billion in 1978.

The net decrease in estimated outlays for petroleum reserves of $0.2 billion in 1978 is primarily due to two factors. First, it is proposed that the petroleum reserves no longer finance in part the storage program, resulting in a $0.5 billion decrease. Second, this reduction of $0.5 billion is partly offset by a proposal to reduce production at the naval petroleum reserve at Elk Hills, resulting in reduced receipts, which are treated as offsets to outlays. The reduced production is in response to the surplus of oil on the West Coast.

Almost half ($0.5 billion) of the increase of $1.1 billion in the FEA strategic petroleum storage program for 1978 results from FEA fully paying for the program from its own accounts. There is a further increase of $0.4 billion due to higher prices for oil, resulting from the President's energy program as well as the requirement that oil purchased for storage be transported in U.S. ships. The final $0.2 billion is due to outlay reestimates for the program.

Increases in the other FEA programs reflect the President's energy proposals. Most of the effect on the budget of the President's national energy plan announced April 20 occurs in later years, and a discussion of these changes is in Part 2, Long-Range Projections.

The Energy Research and Development Administration outlay estimates in this function decrease for 1977 because of delays in construction projects and the execution of new energy programs. The decreases in 1978 reflect the President's proposals for reductions for the breeder reactor, partially offset by increases for conservation, fossil, geothermal, and solar energy research and development.

An additional $1.2 billion of estimated energy-related outlay increases for 1978 over the February estimate appears in the allowances function. The increases, although caused by the energy proposals, affect programs in other functions. The $1.2 billion reflects increased Federal fuel costs, greater conservation in Federal buildings, and expenditures for rebates of the automobile efficiency and crude oil equalization taxes.

350: AGRICULTURE

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	2.5	2.9	2.3
Changes:			
Farm price supports........	---	1.6	1.7
Agricultural credit insurance.................	---	0.3	0.1
Other......................	---	*	-*
Current estimate................	2.5	4.8	4.1

* $50 million or less.

Estimates of 1977 and 1978 outlays in this function have increased substantially since February. These increases reflect: lower prices for wheat and food grains than was expected, resulting in higher subsidies; the initiation of a grain reserve and storage facility program to handle higher production; and higher loan rates for 1977 crops than were estimated in February. Estimated outlays for the milk support program are $0.4 billion higher in 1977 and $0.2 billion higher in 1978 than the February estimates, due to higher production than earlier projected and an Administration decision for a higher support level. Lower than planned asset sales by the agricultural credit insurance fund adds a further $0.3 billion to 1977 outlays (collections from asset sales are reductions in outlays).

400: COMMERCE AND TRANSPORTATION

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	17.2	15.8	20.1
Changes:			
Mortgage insurance and related programs (HUD)...	---	-0.7	-0.1
Rural housing programs.....	---	0.6	---
Payroll tax credits (withdrawal of proposed legislation).............	---	---	-0.2
Highway improvement and construction.............	---	-0.2	-0.3
Railroads..................	---	0.1	0.2
Other......................	---	-0.1	0.1
Current estimate...............	17.2	15.4	19.8

Outlay estimates for this function have decreased $0.3 billion since February for 1977 and 1978. The decrease of $0.7 billion for the Department of Housing and Urban Development's mortgage insurance and related programs in 1977 reflects lower than expected default claims on mortgages insured by the Federal Housing Administration. In addition, outlays for the Government National Mortgage Association in 1977 are expected to be about $0.5 billion less than previously estimated because favorable market conditions have made it possible to sell mortgages that were planned for sale in later years.

The outlay estimates for rural housing programs increased by $0.6 billion in 1977 because asset sales are expected to drop below February estimates.

The payroll tax credit program proposed in February, which would have affected both outlays and receipts, was subsequently withdrawn by the Administration. The Congress did pass an employment tax credit, but it affects receipts and not outlays.

Outlay estimates for highway programs decrease because States are not obligating these grants as rapidly as expected.

Unexpectedly high losses experienced by ConRail during the severe winter and congressional action result in increases in outlay estimates of $0.1 billion for 1977 and $0.2 billion for 1978.

450: COMMUNITY AND REGIONAL DEVELOPMENT

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	5.3	8.0	10.0
Changes:			
Community development block grants....................	---	-0.2	-0.4
Community Services Administration...........	---	0.2	0.1
Local public works.........	---	-0.2	-0.2
Drought assistance program.	---	*	0.1
Other......................	---	-0.3	0.1
Current estimate...............	5.3	7.5	9.8

* $50 million or less.

Outlay estimates for this function have decreased $0.5 billion for 1977 and $0.2 billion for 1978 since the February revisions. Cities and counties are not expected to spend their community development block grants as quickly as anticipated earlier, reducing estimated outlays $0.2 billion in 1977 and $0.4 billion in 1978. Estimated outlays for the Community Services Administration increase due to a program enacted this year to provide payments for home heating fuel to low-income persons for the severe winter and continuation of the home weatherization program. Partly due to later than expected enactment of legislation for the local public works program, some outlays for this program expected to occur in 1977 and 1978 will not take place until later years. The recently enacted drought assistance program is expected to have outlays of $0.1 billion in 1978. The decrease in other programs for 1977 is primarily a result of lower spend-out rates in the expiring categorical programs replaced by community development block grants in 1975, and a lower volume of claims under the flood insurance program.

500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	18.2	22.2	26.5
Changes:			
Higher education...........	---	-0.3	0.4
Elementary and secondary education................	---	-0.1	0.1
Research and general education aids...........	---	-0.1	-0.1
Training and employment....	---	-0.8	-*
Social services............	---	-0.1	*
Current estimate...............	18.2	20.7	26.9

*$50 million or less.

Estimates of 1977 outlays for this function are $1.4 billion lower than the February estimates. Most of the reduction is in the areas of higher education and training and employment programs, reflecting primarily later than anticipated enactment of appropriations and authorizations. Estimated outlays for 1978 are $0.4 billion higher than the February estimates, due primarily to congressional action increasing 1977 supplemental appropriations for higher education above the President's request.

550: HEALTH

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	33.4	39.5	44.5
Changes:			
Medicare....................	---	-0.4	0.3
Medicaid....................	---	-0.4	-0.4
Other health care..........	---	*	0.1
Health research and education programs.......	---	0.2	*
Other.......................	---	*	0.1
Current estimate...............	33.4	39.0	44.6

* $50 million or less.

Estimated 1977 outlays for the health function have declined $0.5 billion since February. This is due to lower costs than previously projected under the medicare and medicaid programs, and somewhat higher outlays than were projected in February for the health research and education programs of the National Institutes of Health and other health agencies. Estimated 1978 outlays for health have increased by $0.2 billion since February, with lower outlays for medicaid offset by higher outlays for medicare and other health programs.

Current estimates of medicaid outlays are $0.4 billion lower for 1977 and 1978 than the estimates in the February budget revisions. These downward reestimates reflect a lower level of State activity than was apparent in February and State cost-control efforts. In 1978, these downward factors are offset in small part by the effects of decreased estimates of savings from cost-containment legislation.

Current estimates of medicare outlays are $0.4 billion lower in 1977 and $0.3 billion higher in 1978 than the February estimates. The 1977 decrease results primarily from reestimates, while the 1978 increase is due to an estimated increase in the eligible population. In addition, decreased estimates of savings from cost-containment legislation have added substantially to the medicare estimate for 1978.

600: INCOME SECURITY 1/

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	126.6	140.7	145.6
Changes:			
Social security and railroad retirement......	---	0.7	2.1
Proposed $50 payments to individuals...............	---	-3.2	---
Federal employee retirement and disability...........	---	-0.3	-0.1
Unemployment insurance.....	---	-0.2	-1.0
School lunch and other nutrition programs.......	---	-0.2	-0.1
Other.....................	---	-0.2	-0.1
Current estimate...............	126.6	137.5	146.5

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Outlay estimates for the income security function for 1977 have decreased $3.2 billion, primarily as a result of withdrawal of the $50 rebate and payments proposal made in February as part of the economic stimulus program. Estimates of 1977 outlays for civil service retirement have been reduced $0.3 billion due to a lower estimate of the number of retirees. These and other reductions are partly offset by a $0.7 billion increase in social security and railroad retirement benefit costs associated with the larger than projected cost-of-living benefit adjustment effective in June 1977.

The 1978 estimates of income security outlays have been increased by $0.9 billion. Outlays for social security and railroad retirement have been increased by $2.1 billion due to the Supreme Court decision (Califano vs. Goldfarb) affecting eligibility of husbands and widowers and a larger than projected cost-of-living increase. This increase has been partially offset by decreases in unemployment insurance outlay estimates of $1.0 billion due to the improved employment outlook.

700: VETERANS BENEFITS AND SERVICES

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	18.4	18.4	19.1
Changes:			
Readjustment benefits......	---	-0.4	-*
Housing loan funds.........	---	0.2	-*
Other......................	---	*	-*
Current estimate...............	18.4	18.1	19.1

* $50 million or less.

Estimated 1977 outlays for the veterans function have decreased $0.3 billion since February due to lower than anticipated school enrollment by veterans under the readjustment benefits program (GI bill). This is partly offset by an increase in outlays due to fewer housing loan asset sales than estimated in February.

850: REVENUE SHARING AND GENERAL PURPOSE FISCAL ASSISTANCE

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	7.1	9.9	9.7
Changes:			
Antirecession fiscal assistance................	---	-0.4	-0.2
Other......................	---	0.1	0.1
Current estimate................	7.1	9.5	9.6

Outlay estimates for this function decrease primarily because of changes in the estimates for the antirecession fiscal assistance program. These estimates decreased because the Congress provided that the new formula would not take effect until the third quarter of calendar year 1977, rather than the second quarter as proposed by the Administration; and because unemployment rates, which trigger and regulate the outlays, are expected to be lower than projected in February.

900: INTEREST

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	34.6	38.2	41.8
Changes:			
Interest on the public debt	---	-0.3	-0.2
Other......................	---	0.1	0.1
Current estimate................	34.6	38.0	41.7

Estimated outlays for this function have decreased $0.2 billion in 1977 and $0.1 billion in 1978 since the February estimates. This is due primarily to a decrease in the estimated 1977 deficit, which was offset only partly by an increase in interest rates.

920: ALLOWANCES

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	---	---	2.7
Changes:			
Contingencies for other requirements.............	---	---	-1.5
Undistributed allowances for energy programs......	---	---	1.2
Current estimate...............	---	---	2.4

Estimated 1978 outlays for this function have decreased $0.3 billion since February. Contingencies for other requirements have been eliminated as outlay estimates for other functions increased since February, absorbing these contingencies. This decrease of $1.5 billion has been partially offset by the inclusion of $1.2 billion for increased outlays for energy programs, discussed above in the natural resources, environment, and energy function.

950: UNDISTRIBUTED OFFSETTING RECEIPTS

Outlays
(in billions of dollars)

	1976 actual	1977 est.	1978 est.
February budget revisions......	-14.7	-15.1	-16.7
Changes:			
Rents and royalties on the Outer Continental Shelf..	---	---	0.7
Other......................	---	-0.1	*
Current estimate...............	-14.7	-15.1	-15.9

* $50 million or less.

Outlay estimates for this function for 1978 increase from the February estimate because some sales of oil and gas leases on the Outer Continental Shelf, previously expected in 1978, are now scheduled for later years.

Budget Authority

As Table 9 shows, the current estimate of total budget authority in 1977 is $464.1 billion, up $0.9 billion since the February revisions, and $504.3 billion in 1978, a decrease of $2.0 billion since February. These changes in budget authority result primarily from revision of the economic stimulus package, enactment of the 1977 Supplemental Appropriations Act, and revisions to previous estimates.

The current estimates of budget authority reflect both Administration and congressional changes to the President's economic stimulus package. Administration withdrawal of the proposed $50 rebates and the payroll tax credit decreased budget authority by $3.2 billion in 1977 and $0.2 billion in 1978. The major congressional change in the President's economic stimulus package was the forward funding in 1977 of local public works and employment and training programs. In addition, the 1977 Economic Stimulus Appropriations also provided $0.9 billion of additional funds for safer off-system roads, railroad improvement projects, drought assistance, and reimbursement to towns for sewer plant construction prior to the Federal Water Pollution Control Act.

Table 9

MAJOR CHANGES IN BUDGET AUTHORITY 1/
(in billions of dollars)

	1977 estimate	1978 estimate
February budget revisions	463.2	506.3
Changes to the President's economic stimulus program:		
Withdrawal of Administration proposals:		
$50 rebates and payments	-3.2	---
Payroll tax credit and other	---	-0.2
Economic Stimulus Appropriations Act:		
Forward funding of employment and training programs	4.7	-5.9
Forward funding of local public works	2.0	-2.0
Antirecession fiscal assistance	-0.3	---
Other changes in Economic Stimulus Appropriations Act:		
Drought assistance program	0.2	---
EPA reimbursement claims	0.3	---
Ground transportation programs	0.4	---
Changes included in the 1977 Supplemental Appropriations Act:		
CCC: Farm price supports	0.7	-0.7
EPA: Sewage plant construction grants	-3.5	---
Housing assistance	-2.4	---
Other	0.5	---
Reestimates and other changes:		
Social security	0.3	6.5
Petroleum reserves	---	0.1
FEA: Strategic petroleum storage	0.4	0.8
Rents and royalties on the Outer Continental Shelf	---	0.7
Advances, military credit sales	0.8	1.8
Unemployment insurance	0.4	-1.3
Interest on the public debt	-0.3	-0.2
Export-Import Bank	-1.3	-1.6
Allowances	---	-0.5
All other	1.1	0.4
Current estimate	464.1	504.3

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Enactment of the 1977 Supplemental Appropriations Act resulted in a decrease in budget authority of $4.7 billion in 1977 and $0.7 billion in 1978. The act provided $0.7 billion to reimburse the Commodity Credit Corporation for realized losses for farm price supports. The February estimates anticipated that this reimbursement would occur in 1978. In addition, the act contains significant reductions in 1977 budget authority for EPA sewage plant construction grants ($3.5 billion) and housing assistance payments ($2.4 billion), the latter reflecting the congressional cut of 30,000 assisted housing units in 1977.

Legislative proposals for placing social security on a sounder actuarial basis beginning in 1978 account for the bulk of the change in social security estimates. This proposal along with program reestimates result in an increase of $0.3 billion in 1977 and $6.5 billion in 1978. The increase in oil prices and transportation costs results in an increase for the FEA strategic petroleum storage program of $0.4 billion in 1977 and $0.8 billion in 1978. Revisions in scheduled sales of offshore oil exploration rights decreases receipts by $0.7 billion in 1978, resulting in an increase to budget authority.

Budget authority for foreign military credit sales is $0.8 billion higher in 1977 and $1.8 billion higher in 1978 than estimated in February. The higher budget authority is a direct result of reestimates in the offsetting collections from foreign governments. These reestimates reflect the improved data available from the centralized program manager under the new consolidation of management of the foreign military sales trust fund.

The lower reestimate of interest on the public debt by $0.3 billion in 1977 and $0.2 billion in 1978 is based on the decrease in the estimated deficit for 1977 only partly offset by an increase in interest rates.

Experience to date in the unemployment trust fund and expected lower future benefit payments indicate that the flow of unemployment tax receipts will result in increased budget authority of $0.4 billion in 1977 and a decrease of $1.3 billion in 1978.

Loan authorizations for the Export-Import Bank have been running significantly lower than budgeted, resulting in a reduction in budget authority of $1.3 billion in 1977 and $1.6 billion in 1978.

The February budget estimates for 1978 included $1.8 billion as an allowance for contingencies. In recognition of the specific increases reflected in these estimates, this allowance has been deleted. However, this decrease is partially offset by a new allowance for energy proposals of $1.3 billion.

Table 10

BUDGET AUTHORITY BY FUNCTION, 1976-1978 1/
(in billions of dollars)

	1976	1977 Estimate		1978 Estimate	
	Actual	February	Current	February	Current
National defense	103.8	108.5	109.4	120.1	122.3
International affairs	6.6	8.0	6.6	10.3	8.8
General science, space, and technology	4.3	4.5	4.6	4.9	4.9
Natural resources, environment, and energy	19.3	17.7	15.1	20.5	21.5
Agriculture	4.2	1.7	2.4	2.7	2.0
Commerce and transportation	20.9	15.0	15.5	19.5	19.4
Community and regional development	5.7	10.6	13.3	9.3	7.3
Education, training, employment, and social services	21.2	24.6	29.7	26.7	21.0
Health	33.6	40.3	40.6	47.8	47.2
Income security	139.2	173.2	168.2	178.9	184.2
Veterans benefits and services	19.7	19.1	19.1	19.1	18.8
Law enforcement and justice	3.3	3.6	3.6	3.8	3.8
General government	3.4	3.7	3.9	3.9	4.0
Revenue sharing and general purpose fiscal assistance	9.5	9.4	9.2	10.7	10.9
Interest	34.6	38.2	38.0	41.8	41.7
Allowances:					
Civilian agency pay raises	---	---	---	1.2	1.2
Contingencies	---	---	---	1.8	---
Undistributed allowances for energy programs	---	---	---	---	1.3
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.2	-4.6	-4.6	-4.7	-4.6
Interest received by trust funds	-7.8	-8.2	-8.3	-8.6	-8.6
Rents and royalties on the Outer Continental Shelf	-2.7	-2.3	-2.3	-3.4	-2.7
Total budget authority	414.5	463.2	464.1	506.3	504.3

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

BUDGET AUTHORITY BY AGENCY, 1976-1978 1/
(in billions of dollars)

	1976 Actual	1977 Estimate February	1977 Estimate Current	1978 Estimate February	1978 Estimate Current
Legislative branch	0.9	1.0	1.0	1.1	1.1
The Judiciary	0.3	0.4	0.4	0.4	0.5
Executive Office of the President	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President	10.6	3.2	3.9	5.3	7.2
Agriculture	15.0	13.9	15.3	14.6	13.9
Commerce	2.3	6.0	8.2	4.2	2.2
Defense-Military (including pay raises)	95.7	108.3	108.3	118.9	119.2
Defense-Civil	2.2	2.5	2.5	2.6	2.6
Health, Education, and Welfare	128.2	146.7	147.8	162.2	168.0
Housing and Urban Development	28.5	35.9	33.3	39.2	39.0
Interior	2.5	3.4	3.6	3.6	3.8
Justice	2.2	2.3	2.3	2.3	2.4
Labor	20.4	26.2	31.3	26.6	19.7
State	0.9	1.3	1.3	1.4	1.4
Transportation	10.3	9.1	9.5	13.3	13.4
Treasury	46.0	53.1	49.6	54.8	54.7
Energy Research and Development Administration	4.5	6.4	6.3	7.8	7.3
Environmental Protection Agency	0.8	6.0	2.8	5.3	5.3
General Services Administration	0.2	0.2	0.3	0.3	0.3
National Aeronautics and Space Administration	3.6	3.7	3.8	4.0	4.0
Veterans Administration	19.7	19.0	19.0	19.0	18.8
Other independent agencies	34.5	29.4	28.6	32.9	32.8
Allowances	---	---	---	3.0	2.5
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.2	-4.6	-4.6	-4.7	-4.6
Interest received by trust funds	-7.8	-8.2	-8.3	-8.6	-8.6
Rents and royalties on the Outer Continental Shelf	-2.7	-2.3	-2.3	-3.4	-2.7
Total budget authority	414.5	463.2	464.1	506.3	504.3

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Table 12

BUDGET RECEIPTS AND OUTLAYS BY FUND GROUP, 1976-1978 1/
(in billions of dollars)

	1976 Actual	1977 Estimate February	1977 Estimate Current	1978 Estimate February	1978 Estimate Current
Receipts					
Federal funds	200.3	232.8	242.0	268.9	270.2
Trust funds	133.7	152.4	153.2	167.8	172.5
Intragovernmental transactions	-34.8	-36.6	-36.9	-36.0	-41.4
Total	299.2	348.5	358.3	400.7	401.4
Outlays					
Federal funds	269.2	308.6	300.0	336.9	344.8
Trust funds	131.3	144.6	143.3	157.6	159.4
Intragovernmental transactions	-34.8	-36.6	-36.9	-36.0	-41.4
Total	365.7	416.6	406.4	458.5	462.9
Surplus or Deficit (-)					
Federal funds	-68.9	-75.9	-58.0	-68.0	-74.6
Trust funds	2.4	7.8	10.0	10.2	13.1
Total	-66.5	-68.0	-48.1	-57.7	-61.5

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Table 13

BUDGET SURPLUS OR DEFICIT (-) BY FUND GROUP AND TYPE OF TRANSACTION, 1976-1978
(in billions of dollars)

	1976 Actual	1977 Estimate February	1977 Estimate Current	1978 Estimate February	1978 Estimate Current
Federal Funds					
Transactions with the public....................	-40.8	-46.2	-28.1	-39.2	-40.4
Transactions with trust funds..................	-28.0	-29.7	-29.9	-28.8	-34.2
Total.....................................	-68.9	-75.9	-58.0	-68.0	-74.6
Trust Funds					
Transactions with the public....................	-25.6	-21.8	-19.9	-18.5	-21.1
Transactions with Federal funds................	28.0	29.7	29.9	28.8	34.2
Total.....................................	2.4	7.8	10.0	10.2	13.1
Budget Totals					
Federal funds.............................	-68.9	-75.9	-58.0	-68.0	-74.6
Trust funds...............................	2.4	7.8	10.0	10.2	13.1
Total.....................................	-66.5	-68.0	-48.1	-57.7	-61.5

Table 14

DEBT SUBJECT TO LIMIT, 1976-1978
(in billions of dollars)

	1976	1977 Estimate		1978 Estimate	
	Actual	February	Current	February	Current
Unified budget deficit	66.5	68.0	48.1	57.7	61.5
Portion of budget deficit attributable to trust funds surplus or deficit (-)	2.4	7.8	10.0	10.2	13.1
Federal funds deficit	68.9	75.9	58.0	68.0	74.6
Effect of off-budget entities on debt subject to limit	7.2	10.8	10.1	8.5	7.7
Total to be financed	76.1	86.7	68.1	76.5	82.3
Means of financing other than borrowing, and other adjustments	11.3	-4.6	-6.5	0.3	0.2
Change in debt subject to limit	87.3	82.1	61.7	76.8	82.5
Debt subject to limit, beginning of fiscal year 1/	634.2	635.8	635.8	717.9	697.5
Anticipated debt subject to limit, end of fiscal year 1/	621.6	717.9	697.5	794.7	780.0

1/ The statutory debt limit is permanently established at $400 billion. Public Law 94-344 temporarily increased the statutory debt limit to $682 billion through March 31, 1977, and to $700 billion through September 30, 1977.

Part 2

LONG-RANGE PROJECTIONS

The 1978 budget presented projections of budget authority and outlays through 1982 by function and major agency. The February and April revisions sent to the Congress by this Administration did not include long-range projections because of the limited time available for preparation. This section presents for the first time the Administration's long-range economic assumptions and budget projections. It also contains, as required by law, projected outlays for open-ended programs and fixed costs, and spending from balances of budget authority for non-mandatory programs.

Long-Range Economic Assumptions

Accurate economic forecasts for the years 1977 and 1978 are difficult at best, but for longer time periods are subject to even greater uncertainty. The long-range economic assumptions, therefore, differ in nature from the short-range economic forecast presented earlier in that they are projections that assume progress in moving toward a more fully-employed economy and greater price stability, rather than forecasts of economic events.

The projections assume real economic growth of about 5% for calendar years 1979 through 1981 and lower real growth in 1982. The rate of unemployment falls to below 5% in 1981 and reaches approximately 4-1/2% by the end of 1982. Inflation declines steadily over the projection period and approaches 4% in 1982. Additional detail can be found in Table 15.

Table 15

LONG-RANGE ECONOMIC ASSUMPTIONS
(calendar years; dollar amounts in billions)

	Assumed for Purposes of Budget Projections			
	1979	1980	1981	1982
Gross national product				
Current dollars:				
Amount	2,345	2,592	2,836	3,081
Percent change	11.3	10.6	9.4	8.6
Constant (1972) dollars:				
Amount	1,468	1,545	1,621	1,690
Percent change	5.0	5.2	4.9	4.3
Incomes (current dollars)				
Personal income	1,894	2,097	2,294	2,493
Wages and salaries	1,231	1,366	1,495	1,624
Corporate profits	223	246	268	291
Prices (percent change)				
GNP deflator:				
Year over year	6.1	5.1	4.3	4.2
Fourth quarter over fourth quarter	5.9	4.6	4.2	4.2
CPI:				
Year over year	5.9	5.0	4.3	4.3
December over December	5.7	4.5	4.3	4.2
Unemployment rates (percent)				
Total:				
Yearly average	5.7	5.2	4.8	4.5
Fourth quarter	5.5	5.0	4.6	4.4
Insured 1/	3.7	3.2	3.0	2.8
Federal pay raise, October (percent)	6.5	6.0	5.5	5.0
Interest rate, 91-day Treasury bills (percent) 2/	5.0	5.0	5.0	5.0

1/ Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

2/ Average rate of new issues within period.

Budget Projections

Introduction.--Just as in the case of the economic assumptions, the budget outlays and receipts for the year 1979 through 1981 shown in Table 16 are not forecasts. In broad terms, they represent an estimate of what receipts and outlays would be under existing law, and the receipts and outlays of programs already proposed by the Administration, given the economic assumptions spelled out above. The estimates include the effect of initiatives in the area of welfare reform, energy policy, and social security financing, and take into account congressional action that is already completed on the President's February budget revisions. They do not reflect any proposals, such as tax reform, that will be presented in the future.

Table 16 compares projected total receipts and total outlays. It is important to note that the estimates reflect the impact of congressional action to date. These projections are not intended as forecasts of future receipts, outlays, or budget authority because no attempt is made to predict future decisions or their effects. Specifically, the margins shown for 1980, 1981, and 1982 should not be considered as forecasts of the amounts for those years. The projections are also not intended to be recommendations for future-year funding, since the continuation of Federal programs and taxes is a matter properly subject to continuous review in light of changing conditions.

Table 16

THE FISCAL OUTLOOK, 1978-1982 1/
(in billions of dollars)

	1978 Current Estimate 2/	1979	1980	1981	1982
Projected outlays........................	462.9	498.6	532.7	564.8	601.0
Projected receipts.......................	401.4	466.8	536.6	606.9	676.5
Budget margin or deficit (-)........	-61.5	-31.8	3.9	42.1	75.5
Budget authority........................	504.3	551.9	589.8	620.2	664.3

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

2/ Includes impact of congressional action and inaction.

The difference between the outlays and receipts -- the budget margin -- simply reflects the fact that under the assumed economic conditions, receipts would grow faster than outlays between now and 1982 if there were no further changes in tax rates, no new programs, and no discretionary program increases or decreases by either the President or the Congress other than those currently proposed by the Administration.

Under these conditions, total outlays are projected to rise $138.1 billion, from $462.9 billion in 1978 to $601.0 billion in 1982. Receipts would rise more rapidly, from $401.4 billion in 1978 to $676.5 billion in 1982. The deficit, projected to decline through 1979, becomes a surplus in 1980 that rises rapidly to $75.5 billion in 1982. This margin, however, should be considered highly tentative. Long-range budget projections are very sensitive to small changes in the underlying economic assumptions. This consideration, and such policy initiatives as tax reform, could later result in a much smaller budget margin.

The receipts projections reflect the economic assumptions presented in Table 15 and assume extension of the temporary tax provisions under current law and enactment of the President's tax proposals announced to date.

The outlay and budget authority estimates indicate the degree to which resources would be committed by the continuation of existing and Presidentially-proposed programs.

In general, the projections assume that program levels remain constant except in those instances where current law or explicit Administration policies would cause increases or decreases. The employment and training programs started or increased under the economic stimulus proposals are thus shown as phasing out after 1978, since that was the understanding when they were proposed. This display does not reflect a final policy decision on the need for continuation, since such decisions will be made when the 1979 budget is developed. The projections allow for changes in beneficiary populations for programs such as social security. Estimates also reflect future cost-of-living adjustments to benefit levels where such increases are automatic under current law and for recipients of veterans compensation and pensions. Federal pay increases and price increases of Federal nondefense purchases of goods and services are included in undistributed allowances consistent with the economic assumptions outlined in Table 15.

Budget outlay projections.--In total, budget outlays are projected to rise by $138.1 billion between 1978 and

1982. This represents an increase of about 30%. Among the major increases is the currently projected increase in the national defense function, which rises by 42% for the 5-year period, reflecting allowances for future pay raises, inflation, and the spendout of past and currently projected program increases. Further, substantial increases are projected for the income security and health functions -- 36% and 60%, respectively -- as well as the interest function, and allowances for future pay raises and inflation.

The broadest categories used by OMB for analysis are those in Table 18 displaying the composition of budget outlays. The major trend in the composition of the budget over the last 20 years has been the rapid growth of domestic assistance programs and the corresponding relative decline in spending for direct Federal operations, particularly defense. Over the past two decades, outlays for domestic assistance have increased much more rapidly than GNP, and more rapidly than total Federal outlays. The projections through 1982 suggest that this latter trend will continue. The proportion of domestic assistance outlays devoted to grants-in-aid to State and local governments declines, due largely to the gradual phaseout of the temporary countercyclical grant programs as the economy improves.

Table 17

BUDGET OUTLAYS BY FUNCTION, 1978-1982 1/
(in billions of dollars)

	1978 Current Estimate	Projection 1979	1980	1981	1982
National defense........................	113.0	122.8	136.0	148.7	160.2
International affairs....................	7.1	7.2	7.4	7.4	7.7
General science, space, and technology..	4.8	5.2	5.0	4.6	4.3
Natural resources, environment, and energy................................	21.7	22.2	21.2	17.6	18.3
Agriculture.............................	4.1	4.3	3.4	3.7	3.3
Commerce and transportation.............	19.8	20.5	21.3	20.4	20.1
Community and regional development......	9.7	9.2	7.7	7.4	7.3
Education, training, employment, and social services.......................	26.9	24.9	21.0	20.6	20.7
Health.................................	44.6	50.1	56.3	63.2	71.1
Income security........................	146.5	159.1	172.5	186.7	200.0
Veterans benefits and services..........	19.1	19.6	19.8	19.7	19.6
Law enforcement and justice.............	3.9	3.9	3.9	3.9	3.9
General government......................	4.1	4.1	4.1	4.0	3.8
Revenue sharing and general purpose fiscal assistance.....................	9.6	8.9	8.5	8.7	8.8
Interest...............................	41.7	45.7	48.7	50.4	52.6
Allowances:					
Civilian agency pay raises...........	1.2	2.3	3.6	4.8	6.0
Contingencies........................	---	5.6	10.5	12.5	14.0
Undistributed allowances for energy programs...........................	1.2	---	---	---	---
Undistributed offsetting receipts:					
Employer share, employee retirement..	-4.6	-5.0	-5.3	-5.8	-6.1
Interest received by trust funds.....	-8.6	-9.4	-10.3	-11.2	-12.1
Rents and royalties on the Outer Continental Shelf.............	-2.7	-2.5	-2.5	-2.5	-2.5
Total budget outlays............	462.9	498.6	532.7	564.8	601.0

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Table 18

COMPOSITION OF BUDGET OUTLAYS, 1976-1982 1/
(dollar amounts in billions)

	Actual	Current Estimate		Projection			
	1976	1977	1978	1979	1980	1981	1982
Domestic Assistance							
Payments for individuals:							
Direct 2/	147.0	159.5	172.4	188.5	205.5	223.5	241.1
Indirect (grants-in-aid)	19.5	22.6	25.1	27.4	30.0	33.0	36.4
All other grants-in-aid 2/	39.4	46.5	56.1	53.6	47.6	46.6	46.9
Subtotal, Domestic assistance	206.0	228.6	253.6	269.5	283.1	303.1	324.4
Direct Federal Operations							
National defense	90.0	96.9	113.0	122.8	136.0	148.7	160.2
Net interest	26.8	29.8	33.1	36.3	38.4	39.2	40.5
Other	42.9	51.0	63.2	70.0	75.2	73.8	75.9
Subtotal, Direct Federal operations	159.7	177.7	209.3	229.1	249.6	261.7	276.6
Total budget outlays	365.7	406.4	462.9	498.6	532.7	564.8	601.0
PERCENT OF TOTAL OUTLAYS							
Domestic Assistance							
Payments for individuals:							
Direct 2/	40.2	39.2	37.2	37.8	38.6	39.6	40.1
Indirect (grants-in-aid)	5.3	5.6	5.4	5.5	5.6	5.8	6.1
All other grants-in-aid 2/	10.8	11.4	12.1	10.8	8.9	8.2	7.8
Subtotal, Domestic assistance	56.3	56.3	54.8	54.0	53.1	53.7	54.0
Direct Federal Operations							
National defense	24.6	23.8	24.4	24.6	25.5	26.3	26.6
Net interest	7.3	7.3	7.1	7.3	7.2	6.9	6.7
Other	11.7	12.6	13.7	14.0	14.1	13.1	12.6
Subtotal, Direct Federal operations	43.7	43.7	45.2	46.0	46.9	46.3	46.0
Total budget outlays	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

2/ Excludes military retired pay and grants classified in the national defense function.

Two major policy initiatives that significantly affect these long-range projections are the President's energy proposal and welfare reform.

Overall, outlays for the President's energy plan are projected to grow from about $1.7 billion in 1978 to about $8.0 billion in 1982, as shown in Table 19. Most of this spending will be offset by energy-related increases in receipts. A major focus of the President's energy plan is on conservation. Outlays to encourage greater conservation efforts include a program to insulate private residences against extremes of weather, a program to encourage use of more efficient automobiles, grants to schools and hospitals for energy conservation, and greater conservation and solar energy demonstrations in Federal buildings.

A program of assistance to low-income individuals is intended to help those faced with unexpected and sharp increases in the cost of energy. The President has set as a goal a strategic petroleum reserve of one billion barrels of oil.

Energy research and development is reduced due to the proposed cancellation of a major demonstration plant for the breeder reactor program, and the change in the technology being used for the additional uranium enrichment plant being constructed by the Energy Research and Development

Table 19

EFFECT OF ENERGY PLAN ON FEDERAL OUTLAYS AND TAX RECEIPTS
(in millions of dollars)

	1978	1979	1980	1981	1982	1983-1985	1978-1985
Outlays							
Conservation:							
Weatherization	49	106	180	200	200	615	1,350
Grants for schools and hospitals	150	300	300	150	---	---	900
Solar: Federal buildings	19	32	31	18	---	---	100
Conservation: Federal buildings	110	150	480	480	480	970	2,670
Auto efficiency tax 1/	500	500	500	700	900	4,600	7,700
Crude oil equalization tax 1/	499	1,177	1,914	2,108	2,053	5,765	13,516
Oil and gas regulation	1	4	35	67	67	201	375
Emergency assistance to the poor	50	50	50	50	50	150	400
Increased Federal fuel costs	112	303	384	402	415	1,279	2,895
Energy R&D	-118	-369	-401	-460	-489	-293	-2,130
Strategic petroleum reserve 2/	268	383	508	738	2,336	8,196	12,429
Indexing: Federal programs tied to the CPI 3/	10	190	700	1,390	1,890	6,970	11,150
Other 4/	62	67	64	45	48	144	430
Total outlays	1,712	2,893	4,745	5,888	7,950	28,597	51,785
Net Receipts							
Conservation:							
Residential energy credits	-392	-513	-544	-553	-588	-1,894	-4,484
(Insulation) 5/	(-360)	(-445)	(-469)	(-494)	(-520)	(-1,648)	(-3,936)
(Solar energy)	(-32)	(-68)	(-75)	(-59)	(-68)	(-246)	(-548)
Business energy credits	-362	-378	-474	-618	-748	-484	-3,064
(Thermal efficiency)	(-306)	(-307)	(-349)	(-428)	(-488)	(-317)	(-2,195)
(Cogeneration)	(-52)	(-62)	(-106)	(-157)	(-214)	(-139)	(-730)
(Coal conversion and solar equipment)	(-4)	(-9)	(-19)	(-33)	(-46)	(-28)	(-139)
Auto efficiency tax 1/	500	500	500	700	900	4,600	7,700
Crude oil equalization tax 1/	499	1,177	1,914	2,108	2,053	5,765	13,516
Stand-by gasoline tax 6/	---	---	---	---	---	---	---
Oil and natural gas consumption tax	---	1,403	3,444	4,169	4,918	26,979	40,913
(Electric utilities)	(---)	(---)	(---)	(---)	(---)	(310)	(310)
(Industrial)	(---)	(1,403)	(3,444)	(4,169)	(4,918)	(26,669)	(40,603)
Geothermal credit	-5	-10	-17	-21	-20	-106	-179
Aviation and motorboat fuel tax revisions	45	51	54	59	65	225	499
Repeal excise tax on buses	-13	-9	-9	-9	-9	-27	-76
Repeal of minimum tax on intangible drilling costs	---	-32	-37	-42	-48	-195	-354
Total receipts	272	2,189	4,831	5,793	6,523	34,863	54,471

See footnotes at end of table.

Table 19 (continued)

	1978	1979	1980	1981	1982	1983-1985	1978-1985
Addendum							
Outlays	1,712	2,893	4,745	5,888	7,950	28,597	51,785
Net receipts	272	2,189	4,831	5,793	6,523	34,863	54,471
Impact on surplus	-1,440	-704	86	-95	-1,427	6,266	2,686
Naval petroleum reserves (Outlays in $ millions) 7/:							
Low estimate	281	612	1,084	118	---	---	2,095
High estimate	281	612	1,084	1,140	1,202	4,018	8,337
Additional tax losses due to mandatory insulation beginning January 1, 1980 5/	---	---	-43	-302	-395	-2,202	-2,942

1/ There is no net budget effect since tax receipts offset the outlays. Outlays reflect those receipts paid through the Treasury (e.g., to social security recipients) as opposed to tax credits.

2/ Reflects increased outlays due to higher oil prices for the first 500 million barrels (already planned), and estimated costs of a second 500 million barrels of storage to attain 1-billion-barrel goal.

3/ Includes effect of energy proposals on Federal pay and on Federal programs indexed to the cost of living, such as the social security, civil service and military retirement, food stamps, and school lunch programs.

4/ Includes utility pricing, coal conversion, interconnection and wheeling, information systems, appliance efficiency, mandatory building standards, fuel efficiency standards, fuel economy for the Federal fleet, fuel economy for light-duty trucks, and receipts for land and water conservation fund.

5/ Tax incentives may prove inadequate to achieve the conservation target. Thus, a mandatory program may be necessary to achieve the President's goal.

6/ If triggered, tax receipts will be fully rebated.

7/ Estimated receipts from production of oil at Elk Hills will be lower than indicated in previous budget estimates, the extent of which will be determined by future decisions. This is necessary to reduce the surplus of oil on the West Coast. The low estimates assume NPR production resumes at the maximum efficient economic recovery rate in FY 1981; the high estimate assumes minimum production through FY 1985.

Administration. These reductions are partially offset by greater outlays for fossil, solar, and conservation research. Federal outlays will also increase due to higher fuel costs. Outlay increases in response to a rise in the Consumer Price Index (CPI) due to the energy program are expected to increase outlays for those Federal programs tied to the CPI by about $1.9 billion by 1982.

Measures to encourage conservation also include proposals to increase or decrease taxes. Tax credits, projected at $400 to $600 million a year for 1978-1985, are proposed for individuals who insulate their homes, as well as for those who install solar energy devices. Businesses are to receive credits if they increase thermal efficiency, invest in cogeneration or solar energy, or convert to coal.

Auto efficiency taxes are proposed for manufacturers or importers of cars that get low gas mileage; all receipts are to be paid to manufacturers or importers of cars that get high gas mileage. The crude oil equalization tax is proposed to increase the price of domestically-produced crude oil up to the world price, with the proceeds returned to the public partly as increased tax credits or direct payments, and partly as subsidies to residential users of heating oil.

A standby gasoline tax is proposed to become effective only if gasoline consumption is not sufficiently limited, with the proceeds again returned to the public. Taxes on oil and natural gas consumption by industry and utilities are proposed. They would take effect in 1979 and 1983, respectively, and will be rebated to those businesses and utilities switching to coal. Several other tax revisions include a credit for intangible drilling costs for geothermal energy sources, higher taxes on aviation and motorboat fuel, a repeal of the minimum tax on intangible drilling costs for oil and gas wells, and the excise tax on buses.

In addition to reflecting the impact of the President's energy proposal, the long-range projections include the effects of welfare reform. With one exception, the budget authority and outlays that will be folded into the welfare reforms are included in the same agency and functional totals as they have been in the past. The exception is $5.5 billion that will come from the phaseout of the President's economic stimulus package. These funds cannot be assigned to a specific function or agency until it has been determined how they will be used. Accordingly, the funds have been placed in the allowances for contingencies pending a final decision on welfare reform design. Initial outlays are expected to be about $1.8 billion in 1979, growing to $5.5 billion in 1982.

Table 20

BUDGET OUTLAYS BY AGENCY, 1978-1982 1/
(in billions of dollars)

	1978 Current Estimate	Projection 1979	1980	1981	1982
Legislative branch	1.1	1.3	1.1	1.1	1.1
The Judiciary	0.5	0.5	0.5	0.5	0.6
Executive Office of the President	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President	6.4	5.9	4.9	3.7	3.6
Agriculture	16.7	17.1	16.5	17.1	17.0
Commerce	4.9	4.4	3.0	2.5	2.3
Defense-Military (including pay raises)	109.3	119.0	133.2	145.9	157.5
Defense-Civil	2.6	2.8	2.8	2.7	2.7
Health, Education, and Welfare	164.3	180.2	197.8	216.0	234.9
Housing and Urban Development	8.3	9.8	11.4	12.7	14.1
Interior	3.8	3.7	4.0	3.9	3.5
Justice	2.4	2.4	2.4	2.4	2.4
Labor	24.2	21.3	16.4	15.6	14.9
State	1.2	1.4	1.5	1.6	1.7
Transportation	14.8	16.1	16.5	16.3	16.3
Treasury	53.4	56.7	59.3	61.1	63.4
Energy Research and Development Administration	6.3	6.6	6.6	6.1	5.9
Environmental Protection Agency	6.1	6.3	5.8	5.4	5.6
General Services Administration	0.4	0.3	0.3	0.3	0.3
National Aeronautics and Space Administration	3.9	4.3	4.1	3.8	3.4
Veterans Administration	19.0	19.6	19.8	19.7	19.6
Other independent agencies	26.6	27.9	28.7	28.4	30.8
Allowances:					
Civilian agency pay raises	1.2	2.3	3.6	4.8	6.0
Contingencies	---	5.6	10.5	12.5	14.0
Undistributed allowances for energy programs	1.2	---	---	---	---
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.6	-5.0	-5.3	-5.8	-6.1
Interest received by trust funds	-8.6	-9.4	-10.3	-11.2	-12.1
Rents and royalties on the Outer Continental Shelf	-2.7	-2.5	-2.5	-2.5	-2.5
Total budget outlays	462.9	498.6	532.7	564.8	601.0

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Budget receipts projections.--Long-range projections of receipts are presented in Table 21. These projections reflect the economic assumptions in Table 15 and include the effect of scheduled increases in the unemployment insurance tax base and the social security tax rate and base. Under current law, the social security tax rate will increase from 11.7% to 12.1% on January 1, 1978, and from 12.1% to 12.6% on January 1, 1981. The social security tax base is expected to rise annually from $16,500 in 1977 to $24,000 by 1982, and the unemployment insurance tax base is scheduled to increase from $4,200 to $6,000, effective January 1, 1978.

The projections also assume extension of the following temporary tax provisions:

-- the temporary income tax provisions of the Tax Reduction and Simplification Act of 1977 that are scheduled to expire December 31, 1978;

-- the 10% investment tax credit for equipment acquired and put in service in calendar years 1975 through 1980, that is scheduled to expire December 31, 1980; and

-- the highway and airport and airway trust fund taxes that are scheduled to expire September 30, 1979 and June 30, 1980, respectively.

Table 21

PROJECTED RECEIPTS BY MAJOR SOURCE, 1978-1982 1/
(in billions of dollars)

	1978 Current Estimate	1979	1980	1981	1982
Individual income taxes..................................	178.2	213.4	250.0	287.5	327.3
Corporation income taxes.................................	59.7	66.9	74.5	81.7	88.8
Social insurance taxes and contributions..............	123.1	138.7	155.9	177.2	197.2
Excise taxes...	22.0	28.1	35.3	38.2	39.2
Estate and gift taxes....................................	5.5	6.0	6.5	6.9	7.4
Customs duties...	5.6	6.2	6.9	7.6	8.2
Miscellaneous receipts...................................	7.2	7.4	7.4	7.8	8.3
Total budget receipts................	401.4	466.8	536.6	606.9	676.5

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

The estimates do not reflect the President's tax reform proposals that will be transmitted to the Congress later this year, but they do assume enactment of the Administration's energy proposals discussed earlier; the social security financing proposals; and various miscellaneous proposals. These miscellaneous proposals include legislation requiring employers to pay social security taxes on employee income derived from tips; a taxable municipal bond option to improve the efficiency of the municipal market; authorization to require navigators of Federal waterways, canals, locks, and channels to pay user fees to help defray the cost of such waterways; an increase in the cost of the migratory bird hunting stamp from $5 to $10; the payment of reclamation fees by coal mining operations; and legislation allowing the Federal Reserve to pay interest on the deposits of member banks.

The major provisions of the President's social security financing proposals include three changes in the tax system that affect budget receipts and a provision for increased general fund payments to the social security trust funds. The tax provisions are:

-- an increase in the wage base on which employers pay taxes, to $23,400 in 1979, $37,500 in 1980, and to 100% of wages and salaries in 1981;

-- an increase in the wage base on which employees and the self-employed pay taxes of $600 per year in 1979, 1981, 1983, and 1985. These increases are in addition to the estimated increases scheduled under current law; and

-- an increase in the old-age, survivors and disability insurance (OASDI) tax rate for the self-employed to three-fourths of the combined employee-employer rate in 1979. The self-employed would continue to pay half the combined employee-employer rate for health insurance (medicare).

The provision for general fund payments to the social security trust funds is designed to compensate the social security system for payroll tax receipts that are lost as the result of an unemployment rate in excess of 6%. The payments would be made in the years 1978-1980, but would reflect the revenue shortfalls of the years 1975-1978.

The effect of these financing proposals on receipts and the estimated amount of the general fund payments are shown in the following table.

SOCIAL SECURITY FINANCING PROPOSALS
(in billions of dollars)

	1978	1979	1980	1981	1982
Effect of financing proposals on receipts.......	---	1.3	5.1	9.1	12.8
(Employer wage base increases)...............	(---)	(1.0)	(4.1)	(7.9)	(11.2)
(Employee/self-employed wage base increases).....	(---)	(0.2)	(0.6)	(0.8)	(1.3)
(Self-employed rate increases)...............	(---)	(0.1)	(0.3)	(0.4)	(0.4)
Payments to the trust funds from the general fund 1/....	5.2	3.4	2.8	---	---
Total additional social security financing..........	5.2	4.6	7.9	9.1	12.8

1/ This is a transfer between Government accounts and does not add to net budget outlays.

Table 22 shows the effects of extension of temporary tax provisions and proposed legislation on receipts. In comparison to current law, extension of temporary tax provisions and the President's legislative proposals result in a net increase in receipts in all years except 1979 and 1980 when receipts are reduced by $4.6 billion and $0.9 billion, respectively.

In 1979 and 1980, permanent extension of the temporary tax provisions results in a net decrease in receipts that is only partially offset by an increase in receipts due to the President's legislative proposals. In 1981 and 1982,

Table 22

ESTIMATED EFFECTS OF LEGISLATION ON LONG-RANGE RECEIPTS, 1978-1982 1/
(in billions of dollars)

	1978	1979	1980	1981	1982
Receipts under current law	400.8	471.4	537.6	604.0	672.3
Extension of temporary tax provisions:					
Individual and corporation income tax cuts	---	-8.3	-15.3	-17.6	-21.0
(Provisions of the Tax Reduction and Simplification Act of 1977)	(---)	(-8.3)	(-15.3)	(-16.1)	(-16.9)
(Investment tax credit)	(---)	(---)	(---)	(-1.6)	(-4.1)
Highway and airport and airway trust fund taxes	---	---	4.3	5.4	5.6
Total, Temporary tax provisions	---	-8.3	-10.9	-12.3	-15.4
Proposed legislation:					
Energy proposals	0.3	2.2	4.8	5.8	6.5
Social security financing proposals	---	1.3	5.1	9.1	12.8
Miscellaneous proposals	0.3	0.3	0.1	0.2	0.3
Total, Proposed legislation	0.6	3.7	10.0	15.1	19.7
Current estimate of receipts	401.4	466.8	536.6	606.9	676.5

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

however, the net reduction in receipts due to extension of the temporary tax cuts is more than offset by the combined effect of the Administration's energy, social security, and miscellaneous tax proposals.

The effect of legislation on long-range receipts by major source is shown in Table 23.

ESTIMATED EFFECTS OF LEGISLATION ON RECEIPTS BY MAJOR SOURCE, 1978-1982 1/
(in billions of dollars)

	1978	1979	1980	1981	1982
Individual income taxes under current law	180.6	225.8	270.7	309.6	350.4
Extension of temporary tax provisions	---	-7.2	-12.7	-13.4	-14.7
Proposed legislation	-2.4	-5.2	-8.0	-8.7	-8.4
(Energy proposals)	(-2.4)	(-5.3)	(-8.3)	(-9.1)	(-8.9)
(Taxable municipal bond option)	(*)	(0.1)	(0.2)	(0.3)	(0.4)
(Flow-through effect of interest on deposits of Federal Reserve member banks)	(---)	(*)	(0.1)	(0.1)	(0.1)
Individual income taxes, current estimate	178.2	213.4	250.0	287.5	327.3
Corporation income taxes under current law	60.3	69.5	79.5	89.0	98.3
Extension of business tax cuts	---	-1.1	-2.6	-4.2	-6.3
Proposed legislation	-0.6	-1.4	-2.4	-3.1	-3.2
(Energy proposals)	(-0.6)	(-1.4)	(-2.5)	(-3.2)	(-3.3)
(Flow-through effect of interest on deposits of Federal Reserve member banks)	(---)	(*)	(0.1)	(0.1)	(0.1)
Corporation income taxes, current estimate	59.7	66.9	74.5	81.7	88.8
Social insurance taxes and contributions under current law	123.1	137.3	150.8	168.0	184.3
Proposed legislation	*	1.3	5.2	9.2	12.9
(Social security financing proposals)	(---)	(1.3)	(5.1)	(9.1)	(12.8)
(Employee tax on tips)	(*)	(0.1)	(0.1)	(0.1)	(0.1)
Social insurance taxes and contributions, current estimate	123.1	138.7	155.9	177.2	197.2
Excise taxes under current law	18.5	19.0	15.2	14.6	14.7
Extension of highway and airport and airway excise taxes	---	---	4.3	5.4	5.6
Proposed legislation	3.5	9.1	15.8	18.3	19.0
(Energy proposals)	(3.3)	(8.9)	(15.6)	(18.1)	(18.8)
(Coal mining reclamation fees)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Excise taxes, current estimate	22.0	28.1	35.3	38.2	39.2
Other taxes under current law	18.2	19.8	21.4	22.9	24.6
Proposed legislation	0.1	-0.1	-0.5	-0.6	-0.6
(Interest on deposits of Federal Reserve member banks)	(---)	(-0.3)	(-0.7)	(-0.8)	(-0.8)
(Other proposed legislation)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Other taxes, current estimate	18.3	19.7	20.9	22.2	24.0
Total receipts, current estimate	401.4	466.8	536.6	606.9	676.5

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Table 24

BUDGET AUTHORITY BY FUNCTION, 1978-1982 1/
(in billions of dollars)

	1978 Current Estimate	Projection 1979	1980	1981	1982
National defense	122.3	137.2	148.2	159.5	170.4
International affairs	8.8	9.6	9.1	8.5	8.5
General science, space, and technology	4.9	5.1	4.9	4.5	4.2
Natural resources, environment, and energy	21.5	20.1	20.6	16.9	17.6
Agriculture	2.0	2.6	3.0	3.5	3.3
Commerce and transportation	19.4	20.2	21.4	21.8	21.6
Community and regional development	7.3	7.4	7.4	7.3	7.1
Education, training, employment, and social services	21.0	23.7	20.6	20.6	20.7
Health	47.2	52.2	58.2	67.1	76.1
Income security	184.2	197.7	213.0	223.4	244.1
Veterans benefits and services	18.8	20.0	20.0	19.9	19.9
Law enforcement and justice	3.8	3.9	3.8	3.9	3.9
General government	4.0	4.1	4.0	4.0	3.9
Revenue sharing and general purpose fiscal assistance	10.9	11.4	10.8	10.9	11.0
Interest	41.7	45.7	48.7	50.4	52.6
Allowances:					
Civilian agency pay raises	1.2	2.3	3.5	4.8	6.0
Contingencies	---	5.6	10.5	12.5	14.0
Undistributed allowances for energy programs	1.3	---	---	---	---
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.6	-5.0	-5.3	-5.8	-6.1
Interest received by trust funds	-8.6	-9.4	-10.3	-11.2	-12.1
Rents and royalties on the Outer Continental Shelf	-2.7	-2.5	-2.5	-2.5	-2.5
Total budget authority	504.3	551.9	589.8	620.2	664.3

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Table 25

BUDGET AUTHORITY BY AGENCY, 1978-1982 1/
(in billions of dollars)

	1978 Current Estimate	Projection 1979	1980	1981	1982
Legislative branch	1.1	1.3	1.1	1.1	1.2
The Judiciary	0.5	0.5	0.5	0.5	0.6
Executive Office of the President	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President	7.2	6.0	5.5	3.9	3.8
Agriculture	13.9	15.2	16.0	16.9	17.1
Commerce	2.2	2.5	2.7	2.4	2.2
Defense-Military (including pay raises)	119.2	134.9	146.1	157.3	168.3
Defense-Civil	2.6	2.6	2.6	2.6	2.7
Health, Education, and Welfare	168.0	183.5	203.4	225.8	250.9
Housing and Urban Development	39.0	38.9	39.1	39.1	39.1
Interior	3.8	4.1	4.4	4.2	3.7
Justice	2.4	2.4	2.3	2.3	2.3
Labor	19.7	23.3	19.4	14.9	18.2
State	1.4	1.4	1.6	1.7	1.8
Transportation	13.4	14.6	15.5	16.3	16.3
Treasury	54.7	59.2	61.5	63.3	65.7
Energy Research and Development Administration	7.3	7.2	6.8	6.4	6.3
Environmental Protection Agency	5.3	5.3	5.3	5.3	5.3
General Services Administration	0.3	0.3	0.3	0.3	0.3
National Aeronautics and Space Administration	4.0	4.3	4.1	3.6	3.2
Veterans Administration	18.8	20.0	20.0	19.8	19.8
Other independent agencies	32.8	33.4	35.5	34.3	36.2
Allowances:					
Civilian agency pay raises	1.2	2.3	3.5	4.8	6.0
Contingencies	---	5.6	10.5	12.5	14.0
Undistributed allowances for energy programs	1.3	---	---	---	---
Undistributed offsetting receipts:					
Employer share, employee retirement	-4.6	-5.0	-5.3	-5.8	-6.1
Interest received by trust funds	-8.6	-9.4	-10.3	-11.2	-12.1
Rents and royalties on the Outer Continental Shelf	-2.7	-2.5	-2.5	-2.5	-2.5
Total budget authority	504.3	551.9	589.8	620.2	664.3

1/ Earned income credit payments in excess of an individual's tax liability, formerly treated as outlays, are now classified as income tax refunds. See general note with the Table of Contents.

Projections of Outlays for Open-Ended Programs and Fixed Costs

Outlay projections for open-ended programs and fixed costs are shown in Table 26.

These projections indicate that, under existing legislation, payments for individuals are estimated to grow by roughly 9.3% a year from 1978 to 1982. Outlays for other open-ended programs and fixed costs are projected to be relatively stable. Outlays for open-ended programs and fixed costs in total are estimated to comprise about 60% of the budget by 1982.

Table 26

PROJECTIONS OF OUTLAYS FOR OPEN-ENDED PROGRAMS AND FIXED COSTS, 1978-1982*
(in billions of dollars)

	1978 Current Estimate	1979	1980	1981	1982
Open-Ended Programs and Fixed Costs					
Payments for individuals:					
Social security and railroad retirement.....	97.7	108.4	119.7	131.4	143.0
Military retired pay..........................	9.1	9.8	10.7	11.4	12.2
Other Federal employees retirement and insurance......................................	11.2	12.7	14.2	15.7	17.1
Unemployment assistance....................	12.7	12.1	11.5	11.1	10.2
Veterans benefits............................	12.8	12.6	12.1	11.6	11.2
Medicare and medicaid......................	37.7	43.9	50.9	58.6	67.2
Housing payments............................	3.7	4.7	5.9	7.3	8.7
Public assistance and related programs......	21.9	22.8	23.7	24.5	25.2
Subtotal, Payments for individuals.....	206.9	227.0	248.6	271.6	294.8
Net interest....................................	33.3	36.4	38.5	39.3	40.7
General revenue sharing (existing law only)....	6.8	6.9	6.9	6.9	6.9
Other open-ended programs and fixed costs......	14.3	14.2	12.4	12.3	11.6
Total, Open-ended programs and fixed costs............................	261.3	284.6	306.4	330.1	353.9

* This table is supplied pursuant to the requirements of Section 221(b) of the Legislative Reorganization Act of 1970 (P.L. 91-510). The estimates represent simple projections of outlays under existing law and exclude proposed legislation. They are not intended to predict future economic conditions; nor do they reflect possible increases or decreases in the scope or quality of the program. Further, the resources that might appropriately be applied in later years will require a reexamination of the relative priorities of these and other government programs in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

Spending from Balances of Budget Authority Available at the End of Fiscal Year 1978: Non-Mandatory Programs

Section 221(b) of the Legislative Reorganization Act of 1970 amended the Budget and Accounting Act of 1921 to require that the President shall transmit to the Congress "summaries of estimated expenditures, in fiscal years following such ensuing fiscal year [1978 this year], of balances carried over from such ensuing fiscal year." Table 27 contains these estimates.

The current estimate of the balances at the end of fiscal year 1978 for programs that have controllable outlays is $218.7 billion. About $11.3 billion of this total is in guarantee and insurance program balances, very little of which is expected ever to be spent. The spending pattern from the balances in other programs, which amount to $207.4 billion, is fairly consistent among the programs. The bulk of the spending takes place in 1979, and declines rapidly thereafter. About 49% is expected to be spent in 1979 and almost 20% in 1980. About 13% ($29.5 billion) is expected to remain unexpended at the end of fiscal year 1982. An estimated $5.8 billion of the 1978 end-of-year balances are expected to expire (without being spent) during fiscal years 1979 through 1982.

Table 27

ESTIMATED SPENDING FROM END OF FISCAL YEAR 1978 BALANCES OF BUDGET AUTHORITY: NON-MANDATORY PROGRAMS
(in billions of dollars)

	Federal Guarantee and Insurance Programs: Reserves for Losses, and Standby and Backup Authority	Other Unexpended Balances, September 30, 1978	Total
Total balances, end of 1978 (current estimate)........	11.3	207.4	218.7
	=====	=====	=====
Spending from balances in:			
1979....................	0.6	106.3	106.9
1980....................	0.6	43.9	44.5
1981....................	0.5	21.1	21.6
1982....................	0.5	9.9	10.4
Expiring balances, 1979 through 1982..............	---	5.8	5.8
Unexpended balances as of end of 1982...............	9.0	20.5	29.5

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

July 7, 1977

BIOGRAPHICAL SKETCH

Roger E. Shields

Roger E. Shields, appointed Deputy Assistant Secretary of the Treasury for Research and Planning in September 1976, is responsible for international economic and financial research programs and for development of long range plans in the international economic area.

Prior to joining Treasury, Mr. Shields served from 1973-76 as Deputy Assistant Secretary of Defense for International Economic Affairs. His duties in this position included such assignments as representing the Department of Defense in offset negotiations with the Federal Republic of Germany and directing the Department's activities in the strategic trade control area.

From 1971-73 he was Assistant to the Assistant Secretary for International Security Affairs, and Adviser to the Secretary of Defense for International Security. In that period he directed the planning and implementation of Operation Homecoming, culminating with the return of American prisoners of war from Southeast Asia in 1973. He was a member of the 1976 Department of Defense Committee to Review the Code of Conduct for U.S. military personnel.

Mr. Shields was born November 8, 1939 at Salt Lake City, Utah. He graduated from the University of Florida with a BS degree in 1961, received his MA degree there in 1965, and the Ph.D. in economics from the University of Virginia in 1968.

Subsequently, he taught at the University of Texas at Austin and in 1970 joined General Electric's Center for Advanced Studies at Santa Barbara, California.

Mr. Shields is the author of a number of articles and essays and recently a book, Economic Growth With Price Deflation: 1873-1896. Among his honors, he received the Department of Defense Distinguished Civilian Service Medal in 1973 and again in 1975. He is married to the former Diann Titus of Heber City, Utah. They have two children, Edward 4 and Matthew 2, and reside in nearby Virginia.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 8, 1977

STATEMENT OF THE HONORABLE LAURENCE N. WOODWORTH
ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)
BEFORE THE
COMMITTEE ON FISCAL AFFAIRS OF THE ORGANIZATION
FOR ECONOMIC COOPERATION AND DEVELOPMENT
ON EXPORT TAXATION AND BORDER TAX
ADJUSTMENT PRACTICES
PARIS, FRANCE

Introduction

I am very pleased to be here today and to attend my first meeting of the OECD committee on fiscal affairs. I would like to take this opportunity to review two recent developments relating to the impact of taxes on international trade: the reports of the GATT panels on export taxation and the actual and pending court decisions with respect to border taxes and countervailing duties in the United States.

GATT Reports

Last November a group of four identical panels convened by the General Agreement on Tariffs and Trade (GATT) Council issued reports declaring the United States Domestic International Sales Corporation (DISC) legislation and the export taxation practices of Belgium, France, and the Netherlands to be illegal export subsidies. The panels thus accepted the argument set forth by the United States that if the DISC should be found to be in violation of GATT, then the tax practices of Belgium, France, and the Netherlands with respect to the taxation of exports also violated GATT. The findings of the GATT panels have far reaching implications. The export tax practices of some of the world's principal trading countries have been found to be in violation of GATT. Moreover, similar tax practices of a large number of other countries that were not parties to the GATT proceeding would appear, by implication, also to be in violation of GATT.

The United States takes its GATT obligations, and the findings of the panels, very seriously. An important and necessary first step in the resolution of the issues associated with these findings is the acceptance of the panel's reports by the GATT Council. The United States believes, since the panels had identical membership, were set up at the same time, analyzed similar issues, and issued their reports simultaneously, that the GATT Council should adopt all four reports as a group. We believe that this will facilitate a comprehensive review and study of all the issues raised by the reports. Belgium, France, and Netherlands have been unwilling for the GATT Council to adopt the reports finding them in violation of GATT. We would urge these countries to reconsider their position so that the way can be cleared for adoption of all four reports.

Once this procedural barrier has been overcome, we hope that the other countries will join us in reviewing the international rules affecting direct and indirect export subsidies. The United States has come to the realization that more flexible exchange rates have reduced the benefit of programs of this type. As part of its tax reform package, for example, the Carter Administration is considering recommending to Congress that the DISC legislation be repealed. In making this decision, we must weigh the domestic costs of DISC against the need to achieve a satisfactory multilateral resolution of international trade issues.

Border Tax Adjustments: Zenith, Steel, Trade Act

A second major development in the taxes and trade area was the recent decision of the United States Customs Court, in a case brought by the Zenith Radio Corporation, that the remission and abatement of consumption taxes by the Japanese Government under Commodity Tax Law Number 48 constitutes a bounty or grant within the meaning of the United States countervailing duty law. The United States Treasury Department has traditionally held that rebates of indirect or consumption taxes are not bounties or grants under the terms of the countervailing duty statute. This view is of course consistent with the current border tax adjustment rules set forth in the GATT which allow indirect taxes to be rebated on exports and levied on imports.

The United States understands the concern of its trading partners with regard to the Zenith case. We also understand that other countries might consider that the levying of countervailing duties against the rebate of indirect taxes would be inconsistent with articles VI and XVI of GATT. Accordingly, we are vigorously pursuing a reversal of the Customs Court decision in the higher courts.

In a case involving somewhat similar issues, the United States Customs Court has before it a petition filed by the U.S. Steel Corporation requesting that the rebates of some of the European value added taxes be declared bounties or grants under the countervailing duty statute. The United States Treasury Department also is opposing this petition.

We are hopeful that the judicial process will eventually reaffirm the Treasury Department position that rebates of indirect taxes, such as the Japanese commodity tax or the European value added taxes, are not bounties or grants. If this position is not upheld by the courts, we would then consider asking Congress to amend the countervailing duty statute to declare that rebates of indirect taxes are not bounties or grants. The prospects for such legislation will be greatly enhanced if there are signs of concrete progress on improving the international rules on subsidies.

oOo

April 7, 1977

Dear Mr. Chairman:

Thank you for your letter of March 18, 1977, requesting current Treasury Department views on the report, "The State of the United States Coinage," submitted to you by former Secretary Simon.

The positions of the Treasury Department in this Administration are set forth below.

<u>One-cent coin</u>

The Treasury has not recommended to keep or eliminate the one-cent coin at this time. While production considerations point toward elimination, a thorough analysis of consumer impact has not yet been made. We are proceeding with data gathering and assessment of the consumer impact aspects. A decision should not be made until the potential economic impact on consumers is understood. In the meantime, we recommend that the Congress proceed with its own consideration of these matters.

<u>Dollar and half-dollar coins</u>

The Treasury recommends the present dollar coin be replaced with a smaller, more conveniently-sized dollar coin and that the fifty-cent piece be eliminated.

The above positions are consistent with the report.

Concerning timing, consideration by the 95th Congress of the one-cent coin question is a necessity. The decision to expand mint capacity is wholly dependent on the one-cent decision. If the one-cent coin is retained and projected demand is to be met, five-year capacity expansion leadtimes require commencement of facility implementation action this year.

I look forward to working with you and your committee in bringing about an early conclusion to these issues.

Sincerely,

(signed) W. M. Blumenthal

W. Michael Blumenthal

The Honorable
Walter E. Fauntroy
Chairman, Subcommittee on
Historic Preservation and Coinage
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 11, 1977

TREASURY ANNOUNCES TWO ACTIONS UNDER THE COUNTERVAILING DUTY LAW

The Treasury Department announced today its final determination not to impose countervailing duties on imports of canned tomatoes and canned tomato concentrates from Italy. The Treasury Department also announced its preliminary determination that non-rubber footwear from Argentina has benefitted from subsidies.

The Department's decisions, taken under the Countervailing Duty Law will be published in the Federal Register of July 12, 1977.

Under the Countervailing Duty Law (19 U.S.C. 1303) the Treasury is required to assess an additional Customs duty that is equal to a "bounty or grant" (subsidy) found to be paid on imported merchandise. The law requires that the Secretary make a preliminary determination within 6 months after receipt of an acceptable petition and a final determination within 12 months.

Treasury's investigation of canned tomatoes and canned tomato concentrates from Italy revealed that the only payments made under the Italian law which was the subject of the allegations were small in size and limited to calendar year 1975. The Italian tomato industry has not received any further payments under that program since that time.

Imports of canned tomatoes and canned tomato concentrates from Italy were valued at approximately $7.3 million during calendar year 1975.

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The Treasury investigation on non-rubber footwear from Argentina found that a portion of the "reembolso" rebate provided to exporters is a bounty. A final decision is required by no later than February 11, 1978.

Imports of non-rubber footwear from Argentina were valued at approximately $3.3 million in 1976.

* * *

DATE: July 11, 1977

TREASURY BILL RATES

	13-WEEK	26-WEEK
LAST WEEK:	5.044%	5.246%
TODAY:	5.163%	5.356%
HIGHEST SINCE 8/9/76:	5.181%	
8/23/76		5.380%
LOWEST SINCE		

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 11, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,200 million of 13-week Treasury bills and for $3,401 million of 26-week Treasury bills, both series to be issued on July 14, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 13, 1977			26-week bills maturing January 12, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.699 a/	5.147%	5.29%	97.301 b/	5.339%	5.56%
Low	98.691	5.178%	5.32%	97.285	5.370%	5.60%
Average	98.695	5.163%	5.30%	97.292	5.356%	5.58%

a/ Excepting 2 tenders totaling $370,000
b/ Excepting 1 tender of $25,000

Tenders at the low price for the 13-week bills were allotted 2%.
Tenders at the low price for the 26-week bills were allotted 100%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 31,000,000	$ 17,220,000	$ 39,815,000	$ 14,815,000
New York	3,654,690,000	1,850,140,000	4,909,130,000	2,958,130,000
Philadelphia	22,525,000	22,525,000	42,505,000	27,505,000
Cleveland	38,100,000	38,100,000	28,375,000	28,375,000
Richmond	25,365,000	22,865,000	26,045,000	23,045,000
Atlanta	28,795,000	24,995,000	15,225,000	15,225,000
Chicago	243,545,000	89,785,000	269,270,000	85,270,000
St. Louis	40,640,000	30,640,000	28,495,000	18,495,000
Minneapolis	9,990,000	9,990,000	4,865,000	2,865,000
Kansas City	34,895,000	34,145,000	14,830,000	14,830,000
Dallas	18,330,000	18,330,000	13,580,000	8,580,000
San Francisco	227,755,000	41,055,000	425,980,000	203,980,000
Treasury	385,000	385,000	130,000	130,000
TOTALS	$4,376,015,000	$2,200,175,000 c/	$5,818,245,000	$3,401,245,000 d/

c/ Includes $332,510,000 noncompetitive tenders from the public.
d/ Includes $137,540,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn Johnston
(202) 634-5377

FOR IMMEDIATE RELEASE July 10, 1977

TREASURY SECRETARY BLUMENTHAL APPOINTS J. EDWIN MATZ AS NEW SAVINGS BONDS CHAIRMAN FOR MASSACHUSETTS

WASHINGTON -- Secretary of the Treasury W. Michael Blumenthal has appointed J. Edwin Matz, President, Chief Operations Officer, and Vice Chairman of the Board, John Hancock Mutual Life Insurance Company, as Volunteer State Chairman for the Savings Bonds Program in Massachusetts. The appointment is effective immediately.

Mr. Matz will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting bond sales throughout the state. He succeeds John M. Fox, President and Chief Executive Officer, H. P. Hood, Inc.

Mr. Matz joined the John Hancock Company in 1949 as a research associate and assistant controller. He was elected vice president and controller in 1960 and senior vice president in 1965. In 1966 he became a member of the board of directors, in 1972 he was elected senior executive vice president and in 1974 he assumed his present position.

Mr. Matz is a director of the Shawmut Bank of Boston, N.A., and Shawmut Corporation, and a director of Massachusetts Taxpayers Foundation, Inc. He is a member of the board of governors and a trustee of New England Medical Center Hospital. He is also chairman of the actuarial advisory committee of the Veterans Administration, a trustee for the New England Colleges Fund, a member of the corporation and board of trustees of Northeastern University and a trustee of the American College of Life Underwriters.

The new Volunteer State Chairman for Savings Bonds, in Massachusetts, his wife Phoebe and their two children reside in Weston, Massachusetts and Moultonboro, New Hampshire.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. July 12, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,700 million, to be issued July 21, 1977, as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated April 21, 1977, and to mature October 20, 1977, (CUSIP No. 912793 K7 0), originally issued in the amount of $3,406 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated July 21, 1977, and to mature January 19, 1978 (CUSIP No. 912793 N3 6). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing July 21, 1977. This offering will provide for a net pay-down for the Treasury of about $205 million as the maturing issues are outstanding in the amount of $5,905 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,863 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

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Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, July 18, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on July 21, 1977, in cash or other immediately available funds or in Treasury bills maturing July 21, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
JULY 13, 1977

STATEMENT OF THE HONORABLE ANTHONY M. SOLOMON
UNDER SECRETARY FOR MONETARY AFFAIRS
U.S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

The International Banking Act of 1977 (H.R.7325)

It is a pleasure to appear before this Subcommittee to present the position of the Administration on this proposed legislation. We generally support this legislation with certain modifications that I would suggest.

Growth of International Banking

International banking operations have been growing in recent years, although they are still small in relation to our domestic banking industry. Specifically, while total assets of foreign banks held in the United States have tripled during the past four years, rising to $76 billion at the end of 1976, this amount still represented only about 7% of the total assets of all domestic banks. In comparison, the total assets held abroad in foreign branches of U.S. banks were almost three times that amount, $220 billion.

Growth in international banking is the financial counterpart of healthy increases in international trade and also reflects desirable reductions in international obstacles to investment. The United States, like our major trading partners, recognizes the importance of this growth to an efficient world economy. In particular, foreign banking operations in the United States have increased competition in the financial services industry here.

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We expect international banking operations to expand further in the future. Accordingly, this is an appropriate time for the United States to consider a national policy toward foreign bank operations here.

In determining a national policy, we must keep in mind that our regulation of foreign banks may affect foreign government treatment of U.S. banks and other financial institutions operating overseas.

Competitive Equality

U.S. policy toward foreign direct investment in America reflects the principle that foreign companies, in general, should be accorded the same opportunities and be subject to the same restrictions as domestic businesses. This policy, known as "national treatment," seeks neither to promote nor to discourage foreign investment, but to insure regulatory equality. Moreover, it is consistent with U.S. treaty obligations governing foreign trade and investment. Accordingly, the basic objective of H.R.7325, which we support, is to treat foreign banks operating here equally vis-a-vis domestic banks.

Some argue that our policy should reflect reciprocity rather than competitive equality. In this case, reciprocity would permit foreign banks operating here to engage in whatever activities U.S. banks are permitted in selected countries abroad. While reciprocity has a superficial appeal, it would not be desirable for us to adopt it. Such a policy could reduce permissible international banking activities to the lowest common denominator, as countries tighten regulations to achieve strict reciprocity. Furthermore, it could be an administrative nightmare to enforce different sets of rules for different foreign banks operating in this country.

It should be made clear, Mr. Chairman, that the application to foreign banks of restrictions governing domestic banks does not mean that the Administration is reaffirming the desirability of any or all of these restrictions. As I am sure this subcommittee is aware, many issues addressed in the foreign bank bill are currently being reviewed by the Congress, the Administration and independent regulators. Indeed, in the areas of this bill dealing with the securities activities of commercial banks, we would prefer that decisions await these reviews. At the very least, my testimony is not meant to prejudge any of this work. In supporting H.R.7325, we have simply sought to extend the existing regulatory framework, as we find it, to foreign banking.

Existing Law and Elimination of Disparities Therein

Our existing laws and regulations covering foreign banks are not balanced. On the one hand, they deny foreign banks certain banking opportunities here. For example, foreign banks are deterred from establishing national banks. In addition, our laws encourage foreign banks to operate branches or agencies, but these operations are unable to obtain federal deposit insurance.

On the other hand, there is no federal regulation or supervision of foreign bank branches and agencies, even though almost all domestic banks come under the regulation of either the Federal Reserve, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation.

Mr. Chairman, we support the objective of reducing these disparities of treatment between foreign and domestic banking operations in the United States. We are pleased that the bill will provide foreign banks with new federal chartering opportunities to establish national banks, and federal branches and agencies.

At the same time, it also is sensible that H.R.7325 would subject branches and agencies of foreign banks to federal regulation comparable to that of domestic banks. In certain respects, the Bill recognizes that branches of foreign banks require treatment as a special category of banking institution. For example, since state branching laws are not applicable to interstate branching by foreign banks, the Bill employs Federal law to fill the gap.

Proposed Changes in the Bill

While offering our general support for H.R.7325, Mr. Chairman, we recommend several modifications to achieve a greater degree of regulatory equality.

1. Non-Bank Affiliates of Foreign Banks

Section 8(a) of the bill applies the Bank Holding Company Act to foreign banks which maintain U.S. branches and agencies. Section 8 also grandfathers non-banking activities in existence as of December 3, 1974. We recommend moving forward the cut-off date to July 1, 1977. Also, we recommend exempting from the prohibitions of the Bank Holding Company Act those non-bank acquisitions by foreign banks which do not significantly affect the United States. As suggested in Federal Reserve testimony last August, the proposed amendment would

> make clear that the non-banking prohibitions of the Bank Holding Company Act are not meant to prevent foreign banks principally engaged in banking abroad from retaining or acquiring interests in foreign-chartered non-banking companies that are also principally engaged in business outside the United States. ...However,...as a corollary..., a domestic office of a foreign bank should be required to deal with the domestic operations of a foreign company in which it may have an equity interest on a strictly arms-length basis so as not to give the firm or bank involved an advantage over their respective U.S. competitors.

Generally, the Administration believes that the Federal Reserve's proposed amendment would provide greater certainty to foreign banks concerning their non-bank affiliates and is desirable in light of the different regulatory frameworks abroad which permit closer ties between banking and industry.

This amendment is not designed to change the Bank Holding Company Act as currently implemented by regulations of the Federal Reserve Board. It simply gives foreign banks greater certainty about the Act's application.

It is desirable to amend the Bank Holding Company Act in this way for two specific reasons. First, the existing administrative process for exemptions under the Act would create considerable uncertainty for foreign banks concerning which foreign non-banking activities or acquisitions are permissible when they also affect United States commerce. Second, the present version of Section 8(a) could be seen as applying the Bank Holding Company Act extraterritorially to prohibit foreign banks located abroad from acquiring or providing assistance to non-bank enterprises abroad.

2. Grandfathering of Securities Operations

A second provision of Section 8 -- the proposed treatment of the U.S. securities operations of foreign banks -- also concerns us, Mr. Chairman. Specifically, H.R.7325 proposes that foreign banks now lawfully engaged in securities activities here must terminate these activities by December 31, 1985. However, foreign banks would be permitted beyond 1985 to engage in underwriting securities so long as the securities are sold outside the United States. We recommend that this provision be amended to provide permanent grandfathering for the existing securities operations of foreign banks.

This issue of grandfathering existing securities operations is a difficult one. A responsible argument certainly can be made that, when applying to foreign banks here the principle of separating commercial from investment banking, it produces more uniform treatment to apply the principle both to prospective entrants and to existing firms. However, we believe other considerations outweigh the advantage of such proposed uniformity.

First, divestiture would obviously cause a hardship to the foreign banks involved, and would eliminate a small foreign presence which now may have a pro-competitive effect on our large domestic securities industry.

Second, we believe that divestiture would be inequitable to the foreign banks who established themselves here under the rules of the game prevailing at the time. We should also take account of the history of permanent grandfathering that has been applied for domestic banks under the Bank Holding Company Act and also under the McFadden Act. It might be argued that securities activities of domestic banks were not grandfathered in 1933. However, a lack of grandfathering in that case is not a good precedent for the treatment of foreign bankstoday, because divestiture then was based upon widespread abuses whereas we have no evidence of foreign banks abusing their position now.

Third, we feel that our relations with other countries might be damaged as a result of forced divestiture of existing operations of their banks.

These are the disadvantages involved in divestiture. In our judgment, they outweigh the advantages gained from uniformity.

In any case, as you know, Mr. Chairman, the Congress and a number of agencies are in the process of an intensive study of the participation of banks in various aspects in the securities industry. If, as a result of its review of this area, Congress determines that bank securities activities are not in the national interest, Congress of course would not be precluded if it so wished from extending those prohibitions to presently existing securities activities at that time.

3. Special Federal Review of Foreign Bank Applications

I would now like to address, Mr. Chairman, a third basic area in which we favor modification of this bill. Section 9 would introduce special Federal screening of applications by foreign banks desiring to establish operations within the United States. Specifically, this section 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 strongly recommend the elimination of Section 9, because it would deviate unnecessarily from our overall Federal policy of national treatment. Section 9 would apply to foreign-owned banks only and would establish for these banks new criteria beyond that normally applied to both foreign and domestic banks. In this sense, establishing special guidelines and review procedures for foreign banks operating here would conflict with our traditional policy of neither promoting nor discouraging foreign investment and could set an unfortunate precedent for the establishment of similar procedures for foreign investment in other sectors of our economy. It also could induce other countries to introduce or expand restrictions on American financial activities and investments abroad.

This provision also appears to contradict certain national treatment provisions of treaties of friendship, commerce and navigation which we have with most of the major banking nations because it would apply to establishing international banking operations which do not involve depository or fiduciary functions. With regard to the anti-discrimination provision, we understand that foreign bank operations in the United States already are covered by existing anti-discrimination laws applicable to domestic banks. Thus, it would be inappropriate to incorporate this provision into a new banking law, since such action could imply that foreign bank operations were not subject to the law in the past. Moreover, we have no evidence of non-adherence to U.S. anti-discrimination laws.

Furthermore, we also advise against the second part of the anti-discimination provision that would require only foreign banks to take an anti-discrimination oath as a condition of obtaining charters. This proposal singling out foreign banks is discriminatory. As a final point, Section 9 as a whole simply seems unnecessary because it would provide no additional protection to U.S. depositors or to national interests. There already are adequate safeguards in existing law, administrative procedures and in the proposed legislation.

4. Special Deposit Insurance

Another important provision of H.R.7325, Mr. Chairman, is Section 6, which would require U.S. branches of foreign banks to maintain with the FDIC a surety bond or pledge of assets. We recommend that this section be amended to provide more equal treatment vis-a-vis domestic banks. Specifically, we believe the section should be changed (1) to make insurance optional for those state-licensed branches which operate in those very few states that do not require FDIC insurance for state non-member banks and (2) to offer U.S. branches of foreign banks regular FDIC deposit insurance.

These changes are designed to take care of two concerns. First, while we firmly believe that deposit insurance is highly desirable, we again feel that it should be provided while avoiding unequal treatment between foreign and domestic banks in this area. In particular, we want to avoid departing from the national treatment policy and raising questions about U.S. obligations under our treaties of friendship, commerce and navigation.

Second, we are concerned that the special insurance program currently contained in the bill would be unduly burdensome. It would not offer foreign-owned branches access to the federal deposit insurance fund but instead would require branches to pledge assets or a surety bond against their deposits, with the FDIC as custodian of the assets. In the absence of an insurance fund to pool risks, the pledge of assets might prove inadequate to protect depositors.

Last year, the FDIC worked with Treasury to develop a proposed modification of Section 6 to increase the attractiveness of the deposit insurance program for foreign banks. Under this proposal, foreign-owned branches in the U.S. would apply for regular FDIC insurance coverage and would pay the standard insurance premium of domestic member institutions. In addition, the branch would pledge some assets or a surety bond to the FDIC to cover any additional risk.

The Administration supports the FDIC's proposed modification. However, we believe that deposit insurance should be mandatory for U.S. branches of foreign banks, except, as noted above, in those states where state-chartered, non-member domestic banks are not required to obtain it. With these changes, deposit insurance should be viable for U.S. branches of foreign banks.

4. Interstate Branching

Let me turn finally, Mr. Chairman, to the issue of interstate branching by foreign banks. In Section 5 of the bill, interstate branching by foreign banks would be prohibited unless national banks are accorded the same privilege. However, foreign bank branch, agency and commercial lending operations underway prior to May 1, 1976, would be permanently grandfathered. We support the grandfathering of these operations so as to minimize the disruption of ongoing banking services and we also favor changing the effective grandfather date to exempt operations underway on July 1, 1977. Currently, foreign banks may establish branches in more than one state where the law of each state permits, although domestic banks have no ability to branch outside their home state. This occurs because foreign bank branches are not chartered by states and, therefore, state laws restricting branches chartered by other states are not applicable. Since we favor equal regulatory treatment of foreign and domestic banks, we support a prohibition on interstate branching by foreign banks unless and until U.S. banks are accorded the same privilege. However, we do not favor the language of Section 5, for it would subject both state and nationally licensed foreign branches to the restrictions applying only to domestic national banks. While the basic prohibitions on branching imposed by state law are adopted by Federal law, the latter contains additional, somewhat more onerous requirements (e.g., higher capital requirements). We suggest that the subcommittee could attain its intent by having Section 5 phrased to apply the branching law for domestic national banks to nationally licensed foreign branches, and for domestic state banks to state licensed foreign branches.

Conclusion

Thank you, Mr. Chairman, for providing us with the opportunity to testify on this bill.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 14, 1977

TREASURY DEPARTMENT ANNOUNCES INITIATION OF ANTIDUMPING INVESTIGATION ON MOTORCYCLES FROM JAPAN

The Treasury Department announced today that it will begin an antidumping investigation of motorcycles from Japan. Notice of this action will appear in the Federal Register of July 15, 1977. The investigation will cover motorcycles having engines with total piston displacement of ninety cubic centimeters.

Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition from the Harley Davidson Motor Company, alleging that dumping was occurring in the United States. The information received indicates that the prices of motorcycles from Japan exported to the United States are less than the prices of this merchandise sold in the home market. The information received also indicates that there is injury to U.S. industry.

Imports of motorcycles from Japan during calendar year 1976 were valued at roughly $380 million.

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B-337

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. July 13, 1977

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 $1,451 million of notes held by the public maturing July 31, 1977, and to raise $1,049 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 $65 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 security are given in the attached highlights of the offering and in the official offering circular.

Potential bidders for the 2-year note are cautioned that the Treasury Department has included a provision in the official offering circular which prohibits participation in the auction by anyone who has contracted to purchase or sell the security prior to the 1:30 p.m. EDST deadline for receipt of tenders.

A prohibition having this general effect was originally adopted for securities sold during World War II and was eliminated in February 1975 when the offering circular was revised to eliminate provisions then considered obsolete.

The Treasury is taking this present action after monitoring the development and expansion of trading in Treasury securities prior to the actual auctions, and in some cases, prior even to the announcement of an offering, and has concluded that this trading does not contribute to the efficient marketing of new Treasury issues, and may, in fact, facilitate undesirable speculative activity in Treasury securities.

The prohibition on pre-auction trading will be included in all subsequent offering circulars for new Treasury coupon securities. This prohibition does not apply to offerings of Treasury bills. The Treasury will continue to monitor developments in the bill market.

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Attachment

B-338

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED AUGUST 1, 1977

July 13, 1977

Amount Offered:

To the public........................	$2,500 million

Description of Security:

Term and type of security...........	2-year notes
Series and CUSIP designation........	Series S-1979 (CUSIP No. 912827 GV 8)
Maturity date........................	July 31, 1979
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...............	January 31 and July 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 $1,000,000 or less
Deposit requirement..................	5% of face amount
Deposit guarantee by designated institutions.........................	Acceptable

Key Dates:

Deadline for receipt of tenders.....	Tuesday, July 19, 1977, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds.......	Monday, August 1, 1977
b) check drawn on bank within FRB district where submitted....................	Thursday, July 28, 1977
c) check drawn on bank outside FRB district where submitted....................	Tuesday, July 26, 1977
Delivery date for coupon securities.	Monday, August 1, 1977

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. July 14, 1977

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,977 million, or thereabouts, of 364-day Treasury bills to be dated July 26, 1977, and to mature July 25, 1978 (CUSIP No. 912793 R3 2). The bills, with a limited exception, will be available in book-entry form only, and will be issued for cash and in exchange for Treasury bills maturing July 26, 1977.

This issue will not provide new money for the Treasury as the maturing issue is outstanding in the amount of $2,977 million, of which $1,720 million is held by the public and $1,257 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 noncompetitive bidding, and at maturity their par amount will be payable without interest. Except for definitive bills in the $100,000 denomination, which will be available only to investors who are able to show that they are required by law or regulation to hold securities in physical form, this series of bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, July 20, 1977. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn Johnston
(202) 634-5377

FOR IMMEDIATE RELEASE July 14, 1977

TREASURY SECRETARY BLUMENTHAL APPOINTS HAYS T. WATKINS AS NEW SAVINGS BOND CHAIRMAN FOR OHIO

WASHINGTON -- Secretary of the Treasury W. Michael Blumenthal has appointed Mr. Hays T. Watkins, Chairman of the Board and President, Chessie System, Inc., as Volunteer State Chairman for the Savings Bonds Program in Ohio. The appointment is effective immediately.

Mr. Watkins will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting bond sales throughout the state. He succeeds C. A. Cash, Chairman and Chief Executive Officer, Diamond Shamrock Corporation.

Mr. Watkins began his railroad career with the Chesapeake and Ohio Railway in 1949 as an analyst and over the years has held increasingly more responsible positions. In 1961 he became treasurer of the C&O and in 1964 he was elected vice president, finance, of the C&O and the Baltimore & Ohio Railroad. In 1971 he was named president and chief executive officer of both companies and in 1973 he was elected to his present position.

Mr. Watkins is active in civic and community programs, serving as trustee of John Hopkins University; of Baldwin-Wallace College, Berea, Ohio, where he was awarded an honorary Doctor of Laws degree in 1975; of the Cleveland Orchestra and of St. Luke's Hospital in Cleveland. He is also a member of the Board of Sponsors of the School of Business Administration of the College of William and Mary.

B-340

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE JULY 15, 1977

DELIVERY AND REDEMPTION OF WEEKLY TREASURY BILLS POSTPONED BECAUSE OF NEW YORK POWER FAILURE WILL BE EXECUTED TODAY, JULY 15

As a result of the bank holiday declared in New York City, the delivery and redemption of weekly Treasury bills scheduled to take place July 14 at the New York Federal Reserve Bank were postponed until today. However, transactions will be executed as though they took place July 14. Transactions involving maturing issues will be effected at par and transactions involving the new issues will be at the price determined in the July 11, 1977 auction.

All other Federal Reserve Banks and Branches were open to complete their bill transactions July 14.

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B-341

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 15, 1977

STATEMENT OF
THE HONORABLE DANIEL I. HALPERIN
TAX LEGISLATIVE COUNSEL
BEFORE THE
WAYS AND MEANS SUBCOMMITTEE ON
MISCELLANEOUS REVENUE MEASURES

Mr. Chairman and Members of the Subcommittee:

We welcome the opportunity to present the Treasury's views on H.R. 7320. Because of the complexity of the tax laws, it is extremely important that a vehicle such as this Subcommittee exist for correcting technical statutory problems of general concern.

The provisions of H.R. 7320 were developed from a list of recommendations by the American Bar Association, the American Institute of Certified Public Accountants, and other groups in the professional tax community. We welcome the efforts of these groups and expect that they will continue to make recommendations of this kind for improvement of our tax laws.

The Treasury appreciates the opportunity it was given to comment on H.R. 7320. We hope this bill represents only the first of a continuing effort to correct non-controversial technical problems with the Internal Revenue Code. We offer our support in this effort and look forward to working with the Chairman on future bills. In the near future, we hope to present recommendations of our own for consideration by this Subcommittee.

The Treasury supports H.R. 7320 and we would be glad to answer any questions you may have concerning its provisions.

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B-342

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Carolyn Johnston
(202) 634-5377

FOR IMMEDIATE RELEASE July 15, 1977

TREASURY SECRETARY BLUMENTHAL APPOINTS GRANT G. SIMMONS, JR. AS NEW SAVINGS BONDS CHAIRMAN FOR GEORGIA

WASHINGTON -- Secretary of the Treasury W. Michael Blumenthal has appointed Grant G. Simmons, Jr., Chairman of the Board and Chief Executive Officer, Simmons Company, as Volunteer State Chairman for the Savings Bonds Program in Georgia. The appointment is effective immediately.

Mr. Simmons will head a committee of business, banking, labor, government and media leaders who, in cooperation with the U. S. Savings Bonds Division, will assist in promoting bond sales throughout the state. He succeeds John M. Hoerner, who recently retired as President of USS Agri-Chemicals, a division of United States Steel Corporation.

Simmons earned an AB degree in 1942 from Yale University. Upon graduation he entered the U. S. Navy Reserve serving as an Aviation Logistics Officer. While serving with the Navy, he attended Harvard Graduate School of Business Administration (U. S. Navy Supply Course).

Simmons began his career with Simmons Company on returning from the Navy in 1945 as a Time Study Clerk and over the years has held increasingly more responsible positions. In 1950 he became Assistant to the President; in 1952 he became Vice President and Director, in 1957 he became President and Chief Executive Officer, and in 1968 he was elected Chairman of the Board and Chief Executive Officer of the company.

Simmons has served in civic and professional groups with interests as diverse as The Commerce Club of Atlanta, Society of Mayflower Descendants, Capital City Club, Board of Governors, Georgia Business and Industry Association, Boys Clubs of America, Lincoln Center for the Performing Arts, Metropolitan Opera Association, Fellow and Member of President's Council of Brandeis University, and Boy Scouts of America.

(more)

His directorships include IBM World Trade, ACF Industries, Inc., First National Holding Corporation, First National Bank of Atlanta and International Executive Service Corps.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 10:00 A.M.
JULY 18, 1977

SUMMARY STATEMENT BY GARY C. HUFBAUER
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR TRADE AND INVESTMENT POLICY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
UNITED STATES HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

Mr. Chairman, I am pleased to appear before you today in support of the President's request to extend the Emigration Waiver Authority for Romania under Section 402 of the Trade Act of 1974. Such action would further the continued improvement of U.S.-Romanian political and economic relations witnessed since the signing of the U.S.-Romanian Trade Agreement in 1975.

Strengthening good U.S.-Romanian relations -- economic and political -- serves the interests of both countries. More than any other CMEA country, Romania has aggressively pursued friendly relations with countries of the non-Communist world, and has actively participated in a number of international organizations, including the IMF, World Bank and GATT.

Romania's economic vitality is the key to its strategy of independence. It is in our own interest to encourage Romania's independent foreign policy orientation through the expansion and improvement of our bilateral relations. To achieve this end, we believe continuation of the Trade Agreement with Romania is in the U.S. national interest.

U.S.-Romanian Trade

With extension of the Trade Agreement, continued expansion of U.S.-Romanian trade can be expected. Bilateral trade reached a record high in 1976 of

$448 million, with U.S. exports making up more than half of this figure. Based on the actual U.S.-Romanian trade performance for the first four months of this year, bilateral trade for 1977 could approach $600 million.

Since 1970, two-way trade with Romania has been characterized by a steady growth pattern and an average U.S. annual trade surplus of $50 million. An exception to this trend occurred in 1974, when U.S. exports soared due to one-time grain and aircraft purchases by Romania.

This mutually beneficial expansion of trade must be seen in connection with the granting of MFN and GSP to Romania. Trade statistics compared before and after the 1975 and early 1976 agreements -- excluding the 1974 aberration -- indicate an acceleration in our two-way trade. Total trade for 1973 amounted to $172 million while total trade levels in 1975 and 1976 jumped to $322 million and $448 million respectively. In contrast to our Western competitors, U.S. exports to Romania rose from $190 million in 1975 to $250 million in 1976 while, during the same period, exports from West Germany and Italy actually declined.

Trade Financing Assistance

Failure to extend the waiver would not only imply loss of MFN tariff status for imports from Romania but also the inability of the U.S. Government to authorize Eximbank facilities and Commodity Credit Corporation (CCC) credits to Romania. Without these credits, U.S. exports to Romania would eventually slacken.

Since the early 1970's, the U.S. Government has encouraged various financing programs designed to expand U.S. exports to Romania. Eximbank and CCC have been the major sources of U.S. financial assistance. Romania has been eligible for trade financing assistance from Eximbank since its lending operations in Romania were resumed in 1971. Except for the suspension of Eximbank's credits to Romania from January to August in 1975, Romania has been actively utilizing Eximbank's facilities.

As of May 1977, Eximbank had outstanding $71.7 million in direct loans -- of which $45.1 million has been disbursed and $3.6 million in long-term financial guarantees to help finance $158 million of Romanian imports from the United States. Other programs -- short- and medium-term guarantees, insurance, and the CFF credit line -- provided an additional $15.9 million of Eximbank financial support outstanding in May 1977. By authorizing a cumulative total of nearly $160 million of financial support since 1971 (not all of which was taken up by Romania), Eximbank has helped U.S. firms in competition with other Western firms for markets in Romania.

The CCC has also played an important role in promoting U.S. exports to Romania. Since 1970, the CCC credit program has financed $158.2 million worth of agricultural commodities, primarily wheat, feed grains, and cotton. The availability of such credits has thus also offered the United States an opportunity to gain a larger share of Romania's agricultural market.

Market Disruption

Despite increased U.S.-Romanian trade, it has not been necessary to employ the safeguard provisions of the Trade Agreement which protect U.S. manufacturers from disruptive imports. Because Romania has exhibited cooperation to resolve potential problems, antidumping issues have been settled without formal action taken by the U.S. Government against Romania.

Three instances illustrate Romania's willingness to prevent market disruptions. When the importation of Romanian welt work shoes was questioned two years ago by the International Trade Commission (ITC), Romania agreed to curtail its exports and therefore was found not likely to injure U.S. industry.

In January 1977, Treasury determined that Romanian clear sheet glass was being sold at less than fair market value. After receiving assurances from Romania that it would limit its clear sheet glass exports, the International Trade Commission determined that there had not been, nor was there likely to be, injury to U.S. manufacturers.

In the third case, Romania signed a bilateral agreement, effective January 1, 1977, restraining Romanian exports of wool and man-made fiber textiles and apparel to the United States.

Such cooperation has not only prevented potential problems but also demonstrated that should conflicts arise in the future both countries will be able to work together effectively to resolve them.

Conclusion

Finally, to comment on the subject of emigration -- perhaps the most sensitive aspect of these hearings -- we believe, that while Romania's emigration policies still need improvement, advancements have been made in recent years. Compared to pre-MFN years, Romania's emigration performance is much better and no doubt will continue to improve as our overall relationship grows.

To conclude, Treasury believes that as a result of the Section 402 waiver, overall U.S.-Romanian relations have improved. Both U.S. and Romanian trade have benefited from the granting of MFN to Romania and availability of U.S. financing programs. Romania has taken advantage of U.S. financial facilities and at the same time exhibited an excellent record in cooperating to avoid market disruption.

In order to encourage Romania to continue its pursuit of a foreign policy independent of Moscow; to foster the expansion of economic cooperation between our two countries; and, to provide the climate in which we can expect the Romanian Government to continue to be responsive to our very deep interest in human rights, we believe it is in our national interest to extend this waiver as recommended by the President.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 10:00 A.M.
JULY 19, 1977

STATEMENT OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON THE BUDGET

Mr. Chairman and Members of this distinguished Committee:

I am pleased to have the opportunity of discussing with you this morning the results of the Administration's mid-session Budget review, particularly as it relates to the fiscal year 1978, and to describe the broad contours of the projected economic performance that underlie these budget estimates.

As you requested, I will also briefly discuss the estimated impact on the budget of the changes made in the Administration's energy proposals thus far in the Congressional review of the energy program. The Administration proposals regarding welfare and tax reform could also possibly impact the budget outlook as presented in the mid-year review, particularly in the longer run, but these programs are still in the formative stages and their detailed budgetary effects cannot be assessed at this time.

The economy is moving into fiscal year 1978 with good forward momentum, relatively free from imbalances and speculative excesses. Real growth in the first half of the year has averaged close to a 7 percent annual rate. Economic growth in the second half of 1977 and through 1978, while expected to be slower than in the first half of this year, will still permit further progress towards our goal of reducing unemployment, from the present level of around 7 percent to about 6 percent by the end of 1978.

Against this background, the mid-session Budget review estimates FY 1977 outlays of $406.4 billion and receipts of $358.3 billion, for a budget deficit of $48.1 billion. This is about $20 billion less than was estimated in February. Withdrawal of some parts of the stimulus program, in view of the strong performance of the economy, and a tendency for Federal outlays to run below estimates largely account for the drop in the deficit.

Next fiscal year the budget deficit will widen again. Taking into account the economic stimulus programs proposed for FY 1978, the Administration's energy proposals, and the projected course of the economy, we are estimating Federal outlays of $462.9 billion and receipts of $401.4 billion, for a projected deficit in FY 1978 of $61.5 billion.

Your own estimates as of mid-May in the First Congressional Budget Resolution called for outlays of $461 billion and receipts of $396.3 billion, for a deficit of $64.7 billion. The differences between the projections, while deserving analysis, are less important in my opinion than the considerable area of agreement which seems to exist as to the short-run budget outlook.

To some degree, this coincidence of budget estimates arises from similar views of the short-run economic outlook. Both of us expect a fairly strong expansion to continue through calendar year 1978. There are differences of detail, of course. For example, we expect a slightly larger rise in real GNP and, as a consequence, a slightly lower unemployment rate by the end of 1978. In terms of distribution of national income, Congressional Budget Office estimates have higher wages and salaries and lower corporate profits. However, the differences in forecast seem to be well within the probable margins of error for this uncertain art.

Our forecast does incorporate some slowing in the rate of expansion of real output: from an estimated 7 percent annual rate in the first half of this year to an average 5 percent annual rate over the next six quarters to the end of calendar year 1978. Such slowing down in the rate of growth is not unexpected at this stage of the business cycle when the economy is progressing from the recovery to the expansion phase. However, we do not anticipate any pronounced or extended sluggishness, and see no signs of recession.

As to the composition of the forces producing this growth, we would expect the business and government sectors to take up some of the burden from the consumer sector. Growth of consumer spending has outpaced that of spendable incomes over the past year or so, drawing down the personal saving rate to unusually low levels. It is likely that this process will be reversed, with the saving rate rising to more normal levels. The process has apparently already begun; retail sales have been relatively flat now for several months, while incomes have continued to rise. A somewhat slower pace to the rise in consumer spending from here on out has been factored into our economic outlook.

But we have also anticipated that fiscal policy will become more expansive in the second half of this year, and this will operate as an offset to a somewhat smaller rise in private spending. Increases are budgeted for Federal spending for goods and services, and also markedly for transfer and grant-in-aid programs. State and local government spending will be making a substantial contribution to real growth, partly because of these increased Federal grant programs. Residential construction will be reflecting the past strengthening of housing starts, as well as some further improvement.

The primary thrust for continued expansion into 1978 should come from growth of business capital outlays. Investment has been dampened by a variety of factors, but perhaps most importantly by the availability of capacity well beyond needs for current production. Utilization rates are now beginning to advance to the zone at which pressures to expand capacity intensify. Corporations have, in large measure, rebuilt their liquidity and restructured their balance sheets. Advance indicators of business fixed investments are favorable and point to substantial real growth in business capital outlays.

Continued vigorous growth in plant and equipment spending is crucial both for short-term recovery and long-term growth. In framing our recommendations for tax reform, we are therefore considering most carefully the various alternatives for promoting additional investment.

Perhaps the most obvious development that could derail the current recovery would be an acceleration in the rate of advance in prices and costs. Happily, recent developments in this area have been encouraging. While the pace of inflation quickened during the early months of 1977, largely in response to unusual factors that affected prices of food and energy, more recently farm and food prices have been declining under the weight of exceptionally good crops. There has also been some slowing in the rate at which industrial commodity prices have been rising.

Assuming continued good fortune on the weather front, and with the continued cooperation of labor and management, we expect further moderation in inflation next year. The rise in consumer prices during 1978 is projected at about 6 percent, including an allowance of 0.3 percent for the effects of the proposed crude oil equalization tax, down from the 6-1/2 percent price rise expected during 1977 and the 8-3/4 percent rate of increase over the past six months.

The Administration's target is still that of further reduction in the rate of inflation, while achieving a balanced budget in a prosperous economy by 1981. Temporarily, the budget will be swinging in an expansionary direction, but then with revenues rising and expenditures under control, budget deficits beyond 1978 should be narrowing. In the monetary area, present targets appear consistent with the continued expansion of the economy and gradual reduction of inflation. Of course, both fiscal and monetary policies will need to be reexamined in light of the progress of the economy on the employment and price fronts in the months ahead. But at the present time the policy dials--both fiscal and monetary--seem set appropriately to foster a satisfactory expansion. A strong rate of expansion, but one not adding to inflation, is essential to the achievment of our budgetary and other goals.

The estimates of Federal outlays and revenues presented in the mid-session budget review incorporate the budgetary impacts of the President's Energy Program. This program is one of the most important undertakings of our time, involving major adjustments in fundamental aspects of our economic system. Naturally, any adjustment as large as has been envisioned by this plan involves substantial costs. However, the costs of the plan were spread evenly to all sectors of the economy, so that to the maximum possible extent no sector, and no individual, would bear an unfair share of the cost. Further, every effort was made to minimize the impact of the program on the Federal budget.

Accordingly, it is estimated that over the period 1978-1985, additional budget outlays related to the President's energy program would aggregate to $51.8 billion, while net revenues raised directly by new energy related taxes (net of credits and certain rebates) would run to about $51.5 billion, with a consequent cumulative net budget impact of only $0.3 billion.

For fiscal year 1978 alone, the energy plan as proposed by the Administration was expected to increase net receipts by $272 million, and increase expenditure by $1,712 million--primarily because of the increased cost of additions to the strategic petroleum reserve and grants to schools and hospitals for weatherization of structures--with a resultant net budget loss of about $1.5 billion.

After review of action on the energy program taken by the House Ways and Means Committee, it appears that for FY 1978 the net budget impact would be to increase the deficit by about $500 million. This increase results primarily from timing changes in connection with the crude oil equalization tax, for which rebates are scheduled in the Congressional program to begin January 1, 1978 while tax collections would occur later in the year. The Administration program was designed for a matching in time of collections and rebates.

It is difficult at this early juncture to assess the longer-run impact on the budget, the economy and our energy objectives, of the modifications to the President's energy program that have emerged from Congressional committee deliberations. The Congressional changes involve major modifications in both sources of revenues and the composition of outlays. Let me cite some examples:

(1) The oil and gas consumption taxes were modified to exempt industries that use oil and gas as

feedstock, and those that use oil or gas in the manufacturing process itself. These exclusions could result in a revenue loss of about $38 billion over the period 1978 through 1985, with most of the loss occurring towards the end of the period.

(2) The crude oil equalization tax would have been fully rebated under the Administration's program. The Congressional Committee adopted a rebate scheme of this type for one year only, leaving for future consideration whether the funds available for rebate in subsequent years (estimated to cumulate to $27 billion) will be used for tax reform, rebates, or for other purposes.

(3) The Ways and Means Committee extended the federal 4-cent gasoline tax through 1985, well beyond the period for which the highway trust fund is now in existence. This could raise $21 billion of additional revenue over the period through 1985.

(4) In addition, the Committee repealed the income tax deduction for state and local gasoline taxes. This involves a revenue gain over the period through 1985 of $7.5 billion.

It is clear that with such major uncertainties as to future Congressional action, it is impossible to assess the longer-term budgetary impact of the energy plan as modified to date. The plan submitted by the Administration was constructed to insure a balance between outlays and revenues over the 1978-85 period, and we feel that such budgetary neutrality is desirable.

Finally, I would like to comment briefly on one other major program proposed by the Administration, namely, the revision in financing of the social security and disability trust funds. As is well known, the recession and inflation in recent years have seriously impacted the financial base of the social insurance funds. Recent estimates of the Social Security Trustees show that under current law, deficits will reduce reserves in the trust funds to the point where the Disability Trust Fund will be exhausted by 1979 and the Old Age and Survivors Trust Fund in 1983.

Confronted with this urgent situation, the Administration has proposed several changes in the payroll tax and social security benefit structure to correct both the short-term and long-term financing problems of the system, including the transfer of general revenues to the OASDI Trust Funds whenever the unemployment rate exceeds 6%, and the removal of the ceiling on the amount of an individual's salary on which the employer must pay social security taxes.

While the proposed tax changes would not become effective until 1979 or later, the general fund payments to the social security trust funds are proposed to begin in 1978. These payments are designed to compensate the social security system for payroll tax receipts that are lost as the result of an unemployment rate in excess of 6 percent. They would be made in 1978-1980 and would reflect the revenue shortfalls from 1975-1978. For 1978, this payment increases budget authority by $5.2 billion. Since it is a transfer between government accounts, it does not, however, add to total budget outlays.

In summary, Mr. Chairman, the outlay and expenditure programs detailed in the mid-session budget review add up to a fiscal policy attuned to the needs of the economy: fostering continued economic expansion; addressing specific economic and social problem areas, such as the need for job training and improved employment opportunities; launching initiatives to cope with the problems of finite energy sources; and putting the social security system on a sounder financial basis. I hope that my remarks today have been helpful to you as you begin deliberations on the Second Concurrent Budget Resolution for FY 1978.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 18, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,300 million of 13-week Treasury bills and for $3,406 million of 26-week Treasury bills, both series to be issued on July 21, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 20, 1977			26-week bills maturing January 19, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.689	5.186%	5.33%	97.259	5.422%	5.65%
Low	98.678	5.230%	5.37%	97.250	5.440%	5.67%
Average	98.682	5.214%	5.36%	97.252	5.436%	5.67%

Tenders at the low price for the 13-week bills were allotted 60%.
Tenders at the low price for the 26-week bills were allotted 95%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 28,175,000	$ 18,175,000	$ 20,175,000	$ 5,175,000
New York	3,429,105,000	1,881,105,000	5,470,770,000	3,238,330,000
Philadelphia	17,305,000	17,305,000	17,330,000	7,330,000
Cleveland	37,175,000	37,175,000	19,890,000	9,845,000
Richmond	25,230,000	24,230,000	82,380,000	15,530,000
Atlanta	20,830,000	20,830,000	11,575,000	10,575,000
Chicago	323,635,000	149,235,000	477,510,000	31,460,000
St. Louis	37,390,000	22,990,000	27,385,000	10,925,000
Minneapolis	7,105,000	7,105,000	7,405,000	4,705,000
Kansas City	26,425,000	25,925,000	22,290,000	20,975,000
Dallas	13,685,000	13,285,000	18,110,000	8,110,000
San Francisco	253,655,000	82,655,000	450,530,000	42,505,000
Treasury	115,000	115,000	65,000	65,000
TOTALS	$4,219,830,000	$2,300,130,000 a/	$6,625,415,000	$3,405,530,000 b/

a/Includes $285,150,000 noncompetitive tenders from the public.
b/Includes $142,385,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-346

Department of the TREASURY NEWS
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FOR RELEASE UPON DELIVERY
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JULY 19, 1977

STATEMENT OF ASSISTANT SECRETARY OF THE TREASURY
LAURENCE N. WOODWORTH BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE ON PENDING INCOME TAX TREATIES WITH THE U.K., KOREA, AND THE PHILLIPPINES

Mr. Chairman and Members of the Committee:

I am very pleased to appear before your Committee today in support of three income tax conventions currently pending before the Senate -- treaties with the United Kingdom, Korea, and the Philippines. Two other treaties, with Israel and Egypt, are pending before the Committee but are not being considered at this time.

As tax treaties have not been before this Committee for several years, I would like to take this opportunity to review briefly the purpose and direction of our tax treaty program.

We have income tax treaties currently in force with 23 countries, as well as with a number of former or present British, Belgian, and Dutch colonies to which the treaties with these countries have been extended. In addition to the treaties before you today, and the two others that are still pending, new or revised treaties with a number of additional countries are currently the subject of negotiations.

Besides this rather extensive network of income tax treaties, we also have treaties in force with 13 countries dealing with estate taxes and death duties, and in a few cases with gift taxes as well. Several other estate tax treaties are now being prepared for signature.

We view tax treaties as an important element in the international economic policy of the United States. One of our fundamental objectives is to minimize impediments to free international flows of capital and technology, and this objective is fostered by having the broadest possible network of income tax treaties.

Among the major impediments to freer capital and technology flows are the rules of national tax systems and their interaction with the systems of other countries. Tax treaties seek to eliminate, or at least mitigate the impact of, these impediments.

Treaties accomplish this minimization of impediments by a variety of means, the principal ones being the elimination or reduction of double taxation and the elimination, to the extent possible, of discriminatory tax rules which distinguish unreasonably between domestic and foreign investment.

At the same time, tax treaties also serve other policy objectives -- for example, the prevention of tax avoidance and evasion, and the fostering of international cooperation between the tax authorities of Contracting States.

You will see, I believe, as I discuss the treaties currently under consideration, how their individual provisions bring about the harmonization of tax systems with resultant benefits for the United States.

Each of the treaties before you was negotiated by the Treasury Department in close consultation with the Department of State.

In the case of the United Kingdom, the proposed treaty would replace the existing treaty which was signed in 1945 and amended by four subsequent protocols, the most recent of which was signed in 1966. In the other two cases, the proposed treaties would be the first to be entered into by the United States with the treaty partner.

In their general form and many of their specific provisions, these three treaties are alike. However, each of them contains special and in some cases unique provisions, which I will discuss in detail in what of necessity is a rather lengthy statement.

Tax systems differ from country to country as do bilateral economic relations. Modifications in our standard treaty format are necessary in order to accommodate these differences. Although we enter each negotiation with the goal of achieving all of our objectives, we must sometimes accept the benefits of a good treaty when a perfect treaty is simply not attainable. Therefore despite the fact that our treaties retain a common structure and policy thrust, they invariably differ from one to another.

Let me deal first with a general overview of the treaties before you. The one with Korea was negotiated in 1973 and negotiations with the Philippines were begun at about that time. These treaties therefore reflect the model treaty which the United States was then using as a basis for discussions. In 1975 we revised our model treaty to bring it more closely into conformity with the Model Income Tax Treaty of the Organization for Economic Cooperation and Development (OECD). The revised U.S. model was used as a basis for our discussions with the United Kingdom, and, as a result, you will observe differences in form between the United Kingdom treaty and the others. We do not believe that these formal differences represent major differences in substance.

There are also differences among the three treaties reflecting differences among these countries in levels of economic development. Although we do not offer tax sparing, we do modify some treaty provisions, without altering our basic policies, to reflect the development, revenue, and foreign exchange needs of developing countries. These modifications are to be found principally in the permanent establishment, business visitor, and investment income withholding provisions.

The need of developing countries for revenue often leads them to enact statutory rules which are so burdensome as to inhibit investments. We try by treaty to bring both the levels and scope of such taxes within internationally accepted norms. We recognize, however, that developing countries' have legitimate revenue needs, and we therefore seek reduction in withholding tax rates only to levels which would make these taxes creditable in the U.S. rather than to levels which would result in transfers of revenue from the foreign treasury to the U.S. Treasury.

The treaties before you today have many features in common. Each of them, for example, includes the standard treaty rule stating that a resident of one State will not be subject to tax on business profits in the other State unless these profits are attributable to a permanent establishment which the resident maintains in the other State. By limiting taxation to situations where there is more than just a casual economic contact, we can remove a major irritant to the free flow of international commerce. Though this general rule is standard, there are some differences among the treaties in the definitions both of permanent establishment and business profits.

Each of these treaties also provides that residents of one country who temporarily visit the other for business or educational purposes will not be subject to tax in the host country on income derived there unless they have a significant economic contact with that country in terms of time spent or income earned. As in the case of permanent establishment rules, the degree of contact that we require with developing countries tends to be somewhat less than that required in treaties with developed countries.

As with almost every tax treaty, each of the treaties under consideration establishes maximum levels of withholding tax on dividends, interest, and royalties paid from the source country to residents of the other country. The aim here is to make taxation a relatively neutral factor in investment decisions. Dividend, interest, and royalty provisions probably affect more taxpayers than any other treaty provisions.

It is United States treaty policy, reflected in the treaties under consideration today, that each Contracting State may tax its residents and nationals as if a treaty had not come into effect. The only exceptions to this rule relate to provisions which are clearly intended to limit the authority of a Contracting State to apply its internal tax law to its citizens and/or residents. For example, the treaty foreign tax credit provisions give assurance that, irrespective of changes in internal law, a Contracting State will permit credit for taxes properly imposed by the other Contracting State.

We view an income tax treaty as more than a resolution by the Contracting States of specific substantive problems. There must also be a commitment not to discriminate in tax matters, and to attempt to solve problems not directly dealt with by the substantive provisions of the treaty. All of our recent treaties include a prohibition against discrimination, and all provide for consultation and administrative assistance between the tax authorities of the Contracting States. The importance and value of these provisions are, I believe, being increasingly recognized by both taxpayers and tax administrators.

The Treasury has prepared technical explanations describing in detail each of the three treaties. I would like to submit these for the record and to turn, at this time, to the highlights of each individual treaty.

U.K. Treaty

The proposed treaty with the United Kingdom was signed on December 31, 1975. In early 1976, however, several technical problems came to light. Amendments to the text to deal with these problems were agreed to in April 1976, and the proposed treaty was restated to incorporate these amendments before it was submitted to the Senate.

A protocol was signed in August 1976 making further amendments, largely technical in nature, dealing with corporations resident in both countries, the treatment of shipping income, and the calculation of the U.S. foreign tax credit on dividends received from U.K. corporations. A second protocol was signed on March 31, 1977, principally to deal with a problem arising from a provision in U.K. internal law relating to the determination of British domicile. In my statement I will discuss the restated treaty as amended by the two protocols.

This treaty is, I believe, quite significant. Our economic relations with the U.K. are close and extensive. U.S. direct investment in the U.K. at the end of 1975 totalled $14 billion and U.K. direct investment in the U.S. was $7 billion. During 1975 U.S. investors received over $1 billion in dividends, interest, branch profits, and royalties from this investment. U.S. payments to U.K. investors totalled over $350 million.

Moreover, this treaty is important in principle because it breaks new ground in several fundamental respects.

Dividends

The dividend provision of the U.K. treaty reflects a major concession by the British. To understand this provision, it is necessary to outline the United Kingdom system for taxing corporations and their shareholders.

In 1973 the U.K. introduced a partially integrated system under which a portion of the tax collected at the corporate level is treated -- with respect to distributed profits -- as having been paid on behalf of resident individual shareholders.

Under the U.K. system, U.K. corporations are subject to an initial corporate tax liability of 52 percent. When a dividend is paid, a tax called the Advance Corporation Tax (or ACT) is levied. This ACT is equal to 35/65 of the net dividend and it is credited against the corporation's regular year-end tax liability.

An individual U.K. resident shareholder pays tax not only on the dividend but also on the ACT paid with respect to the dividend. However, he may claim a credit against his own income tax liability for the ACT. If he is a "standard rate" taxpayer subject to a 35 percent rate, the credit will exactly offset his tax on the dividend income. If he is subject to tax below the standard rate, he will receive a refund of the excess of the ACT credit over his tax due. Thus, for a U.K. resident, the ACT is clearly a prepayment at the corporate level of the shareholder's tax.

When the shareholder is a U.K. corporation, the general rule is that the ACT is paid and the recipient corporation is not subject to tax on the dividend income. When that corporation, in turn, pays a dividend to domestic individual shareholders out of this dividend income, there is no further ACT to be paid and the ACT paid on the original dividend passes through and attaches to the second dividend.

Alternatively, the first corporation may elect not to pay the ACT in the case of dividends to a related domestic company, but in this case the second corporation becomes liable for payment of the ACT when it pays that income out as a dividend to individual shareholders.

However, when the shareholder is a nonresident alien, the situation is quite different. British law provides that the ACT must be paid upon any distribution, but there is no credit or refund allowed to the nonresident shareholder -- corporate or individual.

This treatment discriminates against U.S. investors in the U.K., since for U.K. shareholders the effective underlying corporate tax rate with respect to distributed profits is just over 26 percent (after allowance of the ACT credit) while, in the absence of this treaty, for nonresident shareholders the rate remains at 52 percent. This discrimination is potentially of significant dollar magnitude, and must be viewed as a serious problem. We concluded that an income tax treaty is probably the only appropriate vehicle for mitigating the discrimination.

The new U.K. system is not a unique or isolated phenomenon, but rather is likely to be the prototype for European tax systems generally. A June 1975 draft directive of the Commission of the European Economic Community calls for adoption of similar integrated corporate/shareholder tax systems by all Common Market countries. Such a system has been in place in France for some time, and the new tax law in West Germany follows a similar approach. It is, therefore, apparent to us that a precedent must be established early if we are to deal effectively in subsequent negotiations with other countries employing integrated systems. This fact may have led to Britain's initial reluctance to deal with integration-caused discrimination at the present time, while EEC policies with respect to this issue are still in a formative stage.

Under the rules of Article 10 (Dividends) and Article 23 (Elimination of Double Taxation) of the proposed treaty, the discrimination is substantially reduced. For U.S. portfolio shareholders (defined as any shareholder except a corporation which owns at least 10 percent of the voting stock of the paying corporation), the treaty provides the same credit as that available to a U.K. shareholder. It envisions that the ACT part of the U.K. corporate tax will be refunded directly to the U.S. shareholder and, for U.S. tax purposes, be treated as part of the shareholder's dividend income. The total dividend is then subject to the withholding rate provided for in the treaty for portfolio dividends: 15 percent. Thus, on a cash dividend declared of $65.00 the shareholder is entitled to a gross refund of $35.00. From the total dividend of $100.00, the U.K.

withholds 15 percent or $15.00, and the U.S. shareholder receives $85.00. For U.S. tax purposes, the shareholder includes the full $100.00 in income and receives a foreign tax credit against his U.S. tax for the $15.00 withheld by the U.K.

For portfolio shareholders the proposed system is essentially the same as the rule which has been in effect in our treaty with France since 1970. It is also the same as the provision which the U.K. has included in a number of their recent treaties. It is provided in the proposed U.K. treaty that this system will be followed as long as the ACT credit is allowed domestically in the U.K.

The proposed treaty, for the first time in any income tax treaty, also provides a rule for mitigating the integration-related discrimination against direct investors -- i.e., those U.S. corporations which own at least 10 percent of the voting stock of a U.K. corporation. The treaty provides that when a dividend is paid by a U.K. corporation to a U.S. direct investor, a refund equal to one-half of the credit allowable to a U.K. domestic shareholder, i.e., one-half of the ACT, is paid to the U.S. investor. From the gross dividend (the cash dividend paid plus the ACT refund) an amount equal to 5 percent is withheld by the U.K. On a cash dividend of $65.00 paid to a U.S. direct investor, the refund from Inland Revenue would be $17.50. The amount withheld on the total dividend of $82.50 would be $4.12. The net refund therefore would be $13.38, and the parent corporation would receive $78.38.

I would like to explain why the refund paid to direct investors differs from that paid to portfolio investors. The basic premise of an imputation system is that corporate and individual income taxes are integrated. As long as profits remain in corporate solution there is no reason to allow a credit. This is reflected in the U.K. internal tax system, under which the ACT credit is not allowed to corporate recipients of dividends. However, under that internal tax system, the credit passes through a U.K. parent corporation and is allowed to U.K. individual shareholders when the profits leave corporate solution. A U.S. shareholder investing in the U.K. through the intermediary of a U.S. parent corporation would enjoy none of the benefits provided for in the U.K. statute. Using a rule of thumb that about one-half of U.S. corporate profits are paid out in dividends, agreement was reached by treaty to extend one-half of the credit to U.S. direct investors, on the assumption that this credit relates to that portion of the U.K. dividend which on average will eventually be passed through to U.S. shareholders. This resolution provides a measure of fairness for U.S. investors and does no violence to the concept of an integrated system.

The table which follows illustrates the operation of these treaty provisions for both U.S. direct and portfolio investors.

On U.S. source dividends paid to residents of the United Kingdom, there is, of course, no U.S. refund. In general, the U.S. withholding rate is reduced to 15 percent, except that when a dividend is paid to a direct investor in the U.K., the U.S. tax is limited to 5 percent. These are the same withholding rates applied by the U.K. If, while the treaty is in force, the U.K. should abandon its domestic dividend credit mechanism, the U.K. withholding rates will remain at 15 and 5 percent but the provisions dealing with the refund and credit would not be applicable.

Unitary apportionment taxation

One provision of the pending treaty with the United Kingdom -- paragraph 4 of Article 9 -- has generated a great deal of controversy and has been the subject of some misunderstanding. That provision seeks, under certain restricted circumstances, to limit the application of unitary apportionment rules in those states which employ such rules.

Description of the Unitary Apportionment System

There are just a few states which employ the unitary apportionment system -- principally California, Oregon, and Alaska -- though the laws of certain other states provide

Illustration of U.S.-U.K. Treaty Provisions
with Respect to U.K. Dividends Received by
U.S. Parent Corporation and U.S. Individual Shareholder

United Kingdom Corporation	50% dividend	100% dividend
1. Pre-tax corporate profits	100.00	100.00
2. less: initial corporation tax liability (52%)	52.00	52.00
3. Amount available for distribution	48.00	48.00
4. Net dividend declared	24.00	48.00
5. ACT paid (35/65 x (4))	12.92	25.85
U.S. Parent Corporation		
6. ACT refunded before withholding	6.46	12.92
7. less: Amount withheld (5% x (4) + (6))	1.52	3.05
8. Net ACT refund	4.94	9.87
9. Net U.K. corporation tax ((2) - (6))	45.54	39.08
10. Total cash received ((4) + (8))	28.94	57.87
11. plus: amount withheld (line (7))	1.52	3.05
12. plus: 902 gross-up $\frac{(4) + (6)}{(1) - (9)}$ x (9)	25.47	39.08
13. U.S. taxable income ((10) + (11) + (12))	55.93	100.00
14. U.S. tax before credit (48% x (13))	26.85	48.00
15. less: foreign tax credit ((11) + (12))	26.99	42.13
16. Net U.S. tax (excess credit)	(.14)	5.87
17. Dividend income after tax ((10) - (16))	28.94	52.00
U.S. Individual Shareholder		
18. ACT refunded before withholding	12.92	25.85
19. less: amount withheld (15% x (4) + (18))	5.54	11.08
20. Net ACT refund ((18) - (19))	7.38	14.77
21. Total cash received ((4) + (20))	31.38	62.77
22. plus: amount withheld (line 19)	5.54	11.08
23. U.S. taxable income ((21) + (22))	36.92	73.85
24. U.S. tax before credit (45%, for example)	16.61	33.23
25. less: foreign tax credit (line 22)	5.54	11.08
26. Net U.S. tax	11.07	22.15
27. Dividend income after tax ((21) - (26))	20.31	40.62

for selective application of some elements of unitary apportionment. The specific details of the system may differ somewhat from state to state. Since California is the most significant of these states in terms of international business activities, my description today is based on the California system.

When a single enterprise is doing business both inside and outside California, income is apportioned to California under the traditional three-factor formula (payroll, property, and sales). However, when an enterprise doing business in California controls other corporations, is itself controlled by another corporation, or is related to other corporations by virtue of common ownership, and when the degree of common ownership or control is over 50 percent, California requires the controlled group to file a combined report of the group's worldwide income. A combined report is required regardless of whether the parent company or brother-sister companies do business in California, as long as the group constitutes a "unitary business" under California's rules. A unitary business generally exists when there is (1) a unity of ownership (common ownership); (2) a unity of operation as evidenced, for example, by central purchasing, advertising, accounting, and management, and (3) a unity of the use of a centralized executive force and general system of operation. Alternatively, a business will be treated as unitary if the operation of that part of the business carried on in the state is dependent on, or contributes to, the part which is carried on outside the state.

California tax authorities appear to construe the definition of a unitary business very broadly, so that related entities which appear to be independently engaged in very different kinds of activities are aggregated into a unitary business and must be included in a combined report to the tax authorities.

The combined report is, in effect, a consolidated return of the controlled group's worldwide income, although separate returns may be made for each member of the group. California apportions income to the state on the basis of the proportions which the California assets, sales, and payroll bear to the worldwide assets, sales, and payroll of all the related companies.

In the context of multinational business operations, California does not limit its requirement of a combined report to enterprises which are California or United States controlled. For several years now, affiliated groups of corporations having a foreign parent and a California subsidiary have been required to file a combined report if the business has a "unitary" character.

Background of the Treaty Provision

Over the past several years, a number of our treaty partners have raised the question of state application of unitary apportionment systems to multinational corporate groups based in their countries. They have made essentially two points. First, they note that our income tax treaties clearly provide that one Contracting State may not tax the business profits of an enterprise which is a resident of the other State unless those profits are attributable to a permanent establishment in the first Contracting State. They perceive the California system as taxing profits which are earned outside California and not attributable to a permanent establishment located in California. Our treaty partners recognize, of course, that this California practice does not violate the business profits provisions of our existing treaties, because existing treaty provisions apply only with respect to the Federal income tax. Nevertheless, they maintain that state unitary apportionment systems, as applied to foreign corporations, do violate the spirit of our agreements.

Secondly, foreign governments have noted the severe administrative burdens which unitary apportionment systems impose on their corporations. A substantial amount of financial and operating data from each affiliate (in effect the data necessary for a full tax return) must be included in the combined report of the group. When members of the group, and particularly the parent corporation, are located abroad, much of this information is either difficult or impossible for the taxpayer to obtain. Foreign parent corporations find it extremely burdensome to submit all of their books and records concerning all of their worldwide activities in a form satisfactory to the taxing state. This is especially true when only one of a large number of their affiliates does business in the state and the books and records are kept in different languages, different currencies, and according to different sets of accounting rules.

Reasons for Treaty Provision

There are several reasons, both substantive and administrative, why the Treasury believes that the application of the unitary system should be limited as it applies to foreign corporations.

Those states which employ the unitary system see it as a logical extension of the standard use of the three factor formula. It is also viewed as a means of dealing with efforts by groups of related corporations to manipulate income and expenses to the detriment of the state treasury. This is a legitimate concern of both Federal and state governments. The treaty, however, deals explicitly with this issue. Paragraph 1 of Article 9 provides for the adjustment of accounts between related persons to reflect the income and expenses which would be recorded if the related persons were dealing at arm's-length.

And Paragraph 4 of Article 9 is very clear that it does not prevent Federal or state governments from making the arm's-length adjustments provided for in paragraph 1.

In this connection I would note that the arm's-length standard is the internationally accepted norm for apportioning income between related taxpayers. It is confusing to other countries and disconcerting to international relations when our states use a different standard. Furthermore, the use of a different method by one jurisdiction will often lead to double taxation. We recognize that the purpose of the unitary system is not to tax the income of the foreign corporation included in the group, but the effect, nevertheless, is often extra-territorial taxation.

Though the administrative resources available to state governments may not permit them to make the same kind of intensive transfer price investigations that the Federal tax authorities are able to make, individual states have access to materials developed by the Internal Revenue Service in its investigations of cases where related companies may not be pricing according to an arm's-length standard.

Moreover, the unitary apportionment system as a means for determining the state taxation base of a multinational corporation is highly imperfect and a poor substitute for the arm's-length standard. Implicit in the unitary system is the assumption that profit rates in different units of a corporate family, engaged in different activities and in different locations, are always the same. This is clearly not the case. And when it is not the case, the unitary system will misallocate income. Whenever profit rates are higher in foreign affiliates than in domestic activities, the unitary system allocates too much income to the domestic member or members of the group. The result is tantamount to taxation by a state government of the foreign income of a foreign corporation.

The misallocation of the tax base under the application of unitary apportionment to foreign corporations can occur for several reasons. For example, labor costs vary substantially among countries -- very much more so than among regions in the U.S. If two affiliates, one in California and one in, say, Hong Kong, are engaged in essentially the same activities, the Hong Kong labor cost element in the formula will probably be lower than the California labor cost. A disproportionate amount of income will be apportioned to California. Changes in exchange rates can have a similar effect.

Some state governments have suggested that the treaty provision will result in a large revenue cost to unitary taxation states. If, in fact, there is a substantial revenue loss when an arm's-length pricing standard replaces unitary apportionment, this may be an indication that unitary apportionment does, in fact, result in injustifiable extraterritorial taxation.

We also perceive a major problem in the extensive information required by the tax authorities applying unitary apportionment systems. If the necessary information is not provided by the taxpayer, the state authorities reconstruct accounts on the basis of whatever information they can obtain from public sources, such as reports to shareholders. Tax liability calculated on the basis of such reconstructed accounts is, at best, arbitrary, and may very well be unfair. If the parent corporation operates in the taxing state, it is of course possible for the taxpayer to provide accurate information and avoid an arbitrary result. But if the taxpayer is a subsidiary of a foreign parent corporation, or stands in a brother-sister relationship to a foreign affiliate, the submission of accurate data may not be within the taxpayer's power.

The Administration is not alone in considering the issues raised by the unitary system. Legislation, known as the Jones Amendment, was proposed in the House during this past Congress, and would exclude all foreign corporations from states' unitary tax bases. The Jones Amendment was referred to a special task force of the Ways and Means Committee on foreign source income. The task force, chaired by Congressman Rostenkowski of Illinois, has recommended that "States be precluded from taking into account, under the unitary method or under any other method, the income of foreign affiliates of corporations doing business within the States until such time as that income is subject to Federal income tax."

Description of the U.K. treaty provision

The treaty will affect the tax jurisdictions of states to only a limited extent. It provides that a state, say California, in assessing the income of an enterprise doing business there, may not take into account any income or expenses of a related foreign company which is related to a U.K. enterprise. The state may, however, take into account income and expenses of any related U.S. companies, income of all branches of U.S. companies, and income of U.K. companies doing business in California.

The treaty rule will apply if the following conditions are met:

1. The enterprise doing business in California must be either a resident of the U.K. or be controlled, directly or indirectly, by a U.K. resident.

2. Where the U.K. resident is a corporation, such

corporation must be neither controlled by a U.S. corporation nor by a corporation which is a resident of a third state.

3. No U.K. or third country enterprise which is related to a U.S. subsidiary doing business in California would be excluded from California unitary apportionment calculations under the treaty if that enterprise is controlled by the U.S. subsidiary.

A few examples may clarify how the rule would operate:

If a subsidiary of a U.K. corporation is doing business in California, and that U.K. parent corporation has subsidiaries in France and Germany, California would be prohibited from including in its unitary apportionment base the income or expense of the U.K. parent or of its subsidiary corporations in France or Germany.

However, if the U.K. corporation is itself controlled by, say, a New York corporation, or by a Dutch corporation, California may take into account the income and expense of the entire group -- the U.K. corporation, the French and German subsidiaries, and the Dutch or New York parent.

If the California subsidiary of the U.K. corporation has a subsidiary of its own in, say, Belgium, the U.K. parent and the French and German sister corporations may not be included in the unitary apportionment calculations by California, but the Belgian subsidiary, even though it is related to the U.K. corporation, may be taken into account.

Other provisions

There are several other issues raised by this treaty which I would like to touch on briefly.

U.S. Citizens resident in U.K.

A combination of provisions in our existing treaty with the United Kingdom led the British courts to conclude, in what has come to be known as the Lady Strathalmond decision, that the United Kingdom was precluded from taxing U.K. residents who are U.S. citizens on dividend and interest income from U.S. sources. This wholly unintended benefit for U.S. citizens resident in the U.K. stood to cost the United Kingdom substantial amounts of revenue.

In addition, the Strathalmond decision introduced an asymmetry into the taxation rights granted by the treaty. U.S. residents who are U.K. nationals are subject to U.S. tax on their global income. However, U.K. residents who are U.S. citizens and who receive investment income from the U.S. were not, by virtue of Strathalmond, subject to U.K tax on their global income. The treaty before you today corrects this asymmetry.

U.K. wives problem

The correction of the problem raised by the Strathalmond decision brought to light another issue, arising out of the U.K.'s internal law provisions for determining domicile. Although this is not a traditional tax treaty issue, the British agreed to deal with it, and this was the principal purpose of the second protocol, signed on March 31, 1977.

Under British law in effect prior to 1974, an individual who became a U.K. resident could easily retain a foreign domicile. The principal exception was that a married woman automatically acquired her husband's domicile. Thus, a woman who was a U.S. citizen and who could, under normal U.K. standards, be considered to have a foreign domicile would, if she was married to a U.K. domiciliary, automatically be considered as having a U.K. domicile. This rule was changed in 1974, but the change applied only for women married after 1973.

A British domiciliary is subject to higher U.K. taxes on foreign source income than a foreign domiciliary. Under the Strathalmond decision this distinction had no serious effects because a U.S. wife of a U.K. domiciliary would not be subject to U.K. tax on her U.S. source investment income even though she was domiciled in the U.K. Under the proposed treaty, however, she would be subject to U.K. tax, and the distinction between U.K. domicilaries and nondomicilaries becomes important. A number of women in this position complained that the U.K. rule on domicile discriminated against women and that the proposed treaty condoned this discrimination.

The discrimination is eliminated now by a provision that, for purposes of determining domicile, the marriage of a woman who is a national of the United States shall be treated as having taken place on 1 January 1974. Under this provision, she would be able, if the facts warrant, to establish a non-British domicile independent of her husband's domicile.

Dual-residence companies

In general, our treaties seek to assign a unique residence, in one or the other country, to all persons subject to the treaty. In the proposed treaty with the United Kingdom we were not able to agree on such a rule for corporations which each country considers resident of that country. Under British law a corporation is resident where it is managed and controlled. Under U.S. law a corporation is resident where it is incorporated. A corporation organized in the United States but managed and controlled in the United Kingdom would, therefore, be a dual resident. Neither side was willing to make its test of residence subsidiary to the other, and an entity which has dual residence under the treaty could combine the benefits of residence in both countries so as to receive unjustified advantage. We agreed, therefore, that with the exception of certain provisions, dual resident corporations would be denied the benefits of the treaty. While this appears to be a harsh result, we must bear in mind that, given the nature of the two tests of residence, a dual resident corporation may extract itself from that situation.

Petroleum revenue tax

The British recently introduced a tax, called the Petroleum Revenue Tax (PRT), on petroleum production activities on its continental shelf. The British asked that we specifically cover this tax in the treaty so that U.S. companies will be assured of a foreign tax credit in the United States for the PRT. Article 2(2)(b)(Taxes Covered) specifies that the PRT is included in taxes covered. Article 23 (Elimination of Double Taxation) notes in paragraph (1)(a) that the taxes covered in Article 2(2)(b) are to be treated as income taxes for purposes of the U.S. foreign tax credit.

The special limitations in section 907 of the Internal Revenue Code relating to foreign oil and gas income apply with respect to the PRT.

Entertainers

Article 17 (Artistes and Athletes) provides, in paragraph 1, that an entertainer or athlete may be taxed by the Contracting State in which his services are performed unless the remuneration for those services, including expenses reimbursed to him or borne on his behalf, does not exceed $15,000 in the year concerned.

Paragraph 2 of Article 17 is designed to deal with an entertainer or athlete arranging for a part or all of the income for his services to be paid to another person, including a corporation or trust, so as to avoid tax in the host country. If that other person is a foreign corporation which does not have a permanent establishment in the host country, the income would, under normal treaty rules, be completely free of tax in the host country. Paragraph 2 prevents this abuse of the treaty by providing that when the income from an entertainer's or an athlete's activities does not accrue directly to him, but to another person, that person will be subject to tax despite the limitations which would otherwise be applicable under the business profits or personal services articles of the treaty.

If the entertainer does not participate in any way in the profits earned by the other person, such as by the receipt of deferred remuneration, dividends, or partnership distributions, then the provisions of paragraph 2 will not apply.

Article 17 reflects the view, widely held among both developed and developing nations, that the taxation of entertainers and atheletes presents special problems. Although the Treasury does not agree that such persons are wholly different from others performing personal services, we do recognize that the circumstances under which their income is earned can often be extraordinary: it is not uncommon, for example, for entertainers and athletes to earn large sums in a very brief period of time spent in the country of source.

Our views on this issue, and in specific regard to Article 17, are set forth in detail in a letter dated March 1, 1977 which I addressed to Senator Javits. I would like to submit this letter for the record at this time.

Interest and royalties

In addition to the maximum withholding rates prescribed in Article 10 for dividends, which I have already described, Articles 11 and 12 of the treaty provide for exemption from withholding in the source country on interest and royalties, respectively, paid to residents of the other Contracting State.

Korean Treaty

The treaty with Korea was signed on June 4, 1976. There is very little in this treaty that requires special comment.

Social Security exemption

One provision not found in any other U.S. treaty appears in Article 25, which provides a special exemption from U.S. social security taxes for Korean residents who are temporarily present in Guam. A similar exemption is provided in the Internal Revenue Code for Philippine residents temporarily present in Guam. The Koreans argued that the Philippine exemption provides an unfair advantage to Philippine residents and the firms which hire them. They asked that a similar exemption be written into the treaty for Korean residents. The treaty provides that Korean residents will be exempt from social security taxes in Guam only so long as the statutory exemption is in effect for Philippine residents. This provision of the treaty was negotiated in consultation with the Department of Health, Education and Welfare.

It is more reasonable to put these Korean workers on a par with the Philippine workers, with respect to social security tax liabilities, than with workers who are resident in Guam or the United States. The latter groups are subject to social security taxes but they are also eligible for benefits. The workers from Korea and the Philippines are typically present in Guam for only one year and therefore are not likely to be eligible for social security benefits.

Investment income provisions

The treaty establishes maximum rates of withholding tax in the source country on income payments flowing between the two countries. Under Article 12, the rate of withholding tax on portfolio dividends is limited to 15 percent, while on dividends paid by a subsidiary to a parent corporation the rate of tax may not exceed 10 percent. The maximum rate of withholding tax established on interest in Article 13 is 12 percent, except that interest derived by the Government of one of the Contracting States, or by its local authorities or instrumentalities, is exempt from withholding at the source. Under the terms of Article 14, royalties are subject, in general, to a 15 percent maximum rate of tax. However, the tax on literary and artistic royalties, including motion picture royalties, is limited to 10 percent.

Exchange of notes

Notes were exchanged by the U.S. and Korea at the time of the signing of the treaty which deal with two subjects -- treaty incentives for investment in Korea, and the Korean Defense Tax. During the negotiations, Korea expressed its desire to have included in the treaty special provisions to promote the flow of U.S. capital and technology to Korea. The U.S. note recognized this desire and offered assurances that, when circumstances permit, the U.S. would be willing to reopen discussions on provisions which would "minimize the interference of the United States tax system with incentives offered by the Government of the Republic of Korea." Any such provisions, the note continues, would be consistent with U.S. tax policies regarding other developing countries. This note is the same in substance as one signed in 1970 at the time of the signing of our income tax treaty with Trinidad and Tobago.

The Korean Defense Tax is a recently enacted series of surcharges on a variety of existing Korean taxes,including the income and corporation taxes -- the taxes covered by the convention. The Korean note confirms that the taxes covered by the treaty, as designated in Article 1, includes those parts of the defense tax which are related to the income and corporation taxes. This means that under the treaty any U.S. resident who is exempt by treaty from Korean income or corporation tax is also free of any related Defense Tax liabilities.

Philippine Treaty

The treaty with the Philippines was signed on October 1, 1976. An earlier treaty with the Philippines was signed on October 5, 1964 and approved by the Senate with reservations on several provisions. That treaty was never ratified by the Philippine Government.

Shipping and airline profits

The treaty does not contain the usual reciprocal exemption of shipping and airline profits. We tried very hard to include a reciprocal exemption provision. However, the Philippines is strongly opposed to such an exemption on revenue grounds, and has not agreed to it in any other treaty. They did agree to reduce their income tax by treaty from 2-1/2 percent of "gross Philippine billings" (which on passenger travel includes any tickets sold in the Philippines) to 1-1/2 percent of gross receipts on outbound traffic from the Philippines. Moreover, they would guarantee in the treaty to reduce the rate below 1-1/2 percent if they agreed to a lower rate in a treaty with another country. The Philippines has signed treaties with the United Kingdom and Canada which contain a similar provision. We, too, tentatively agreed, and then we discussed it with the affected U.S. companies. Only Pan American Airways objected. Pan Am feared the precedent of treaty approval of any level of tax, and indicated that in the absence of exemption, they would prefer to be left out of the treaty. The other U.S. airlines agreed to support Pan Am's position, although the treaty would have clearly benefitted TWA, which does not fly to the Philippines but does make ticket sales there which are taxable under the law and would not have been by treaty. The treaty rule would probably also have benefitted Northwest and Flying Tiger Lines, both of which fly to the Philippines. We made a final attempt to persuade the Philippines to grant a reciprocal exemption and when that failed we asked them to delete airlines from the treaty. The Philippine negotiators were puzzled that a higher tax would be preferred to a lower tax, but they agreed to the deletion. I believe we could, however, if the Senate so advises, ask the Philippines to reinstate airlines in a protocol to the treaty, subject to a maximum tax of 1.5 percent of gross receipts on outbound traffic or any lower rate agreed to by the Philippines in a treaty with a third country.

Nondiscrimination

Article 24 of the treaty affirms the principle of nondiscriminatory tax treatment with respect to all taxes but there are certain exceptions. These exceptions allow the Philippines to reserve to Philippine nationals incentives granted under specific sections of existing law. These sections permit: (1) a deduction for certain amounts invested in new shares of pioneer industries and a shorter holding period to qualify for capital gains treatment on the sale of such shares; (2) a deduction for certain local costs of export production to firms which are 60 percent Philippine owned; and (3) limited incentives to investment in tourist facilities.

Personal service income

Income derived by a resident of one country from performing personal services, other than entertainment services, in the other country is exempt from tax by that other country unless the individual remains there 90 days or longer during the year or, in the case of services performed in an independent capacity, unless the gross remuneration exceeds $10,000 or a higher amount agreed to by the tax authorities of the two countries. (Although gross remuneration determines whether a tax liability arises, the tax would be imposed on net income.) The 90 day period is consistent with the U.S. statutory rule concerning employees of foreign companies in the United States.

The conditions for exemption of entertainers performing services in the other country are that the income for such services not exceed $100 per day or $3,000 per year. This is similar, in essential respects, to the provision in our 1970 treaty with Trinidad and Tobago.

Investment income provisions

The treaty establishes maximum rates of withholding tax in the source country on income payments flowing to residents of the other country. The treaty reduces the statutory rates of 30 percent in the United States and 35 percent in the Philippines. The maximum rate of withholding tax under the treaty is 25 percent on portfolio dividends and 20 percent on dividends paid to a parent corporation owning 10 percent or more of the voting shares. The 20 percent limit applies also to the additional Philippine tax on profits of U.S. corporations derived through Philippine branches. Since the Philippine corporate tax rate is 35 percent these limits should ensure that the Philippine tax will be fully creditable to U.S. corporations.

The treaty provides a maximum tax at the source of 15 percent on interest in general, 10 percent on public bond issues, and exemption of interest paid to the Government of one of the Contracting States or an instrumentality thereof, or interest on debt guaranteed or insured by that Government or instrumentality.

In the case of royalties the treaty provides a limit of 15 percent at the source for the United States. The Philippine tax at source is also limited to 15 percent provided that the paying corporation is registered with the Board of Investments and engages in preferred areas of activity. In other cases the Philippine tax is limited to 25 percent or to a lower rate if a lower rate applies on comparable payments to residents of third states. This most-favored nation provision means that the Philippine tax on film rentals will be 10 percent, because that rate appears in the Philippines treaties with Sweden and Denmark. The Philippines agreed not to tax rentals of tangible property as royalties.

Conclusion

I believe that the addition of the two new treaties -- with Korea and the Philippines -- to our growing network of income tax treaties and the modernization of our treaty with the United Kingdom, to permit it to better serve our current needs, will strengthen our economic relations with these three countries.

The United Kingdom is one of our major trading partners with whom we have shared close economic ties for many years. We are pleased to have this opportunity to update and revitalize our tax treaty arrangements.

The United States today has only two treaties in force with developing countries -- treaties with Pakistan and Trinidad and Tobago. We attach importance, therefore, to the expansion of our treaty network to include Korea and the Philippines.

This Committee has the opportunity now, by approving these three treaties, to make a clear and strong statement in support of the policies which they reflect -- as well as our general policy of seeking a broadening network of income tax treaties.

I urge your approval of these three treaties.

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STATEMENT OF THE HONORABLE BETTE B. ANDERSON
UNDER SECRETARY OF THE TREASURY,
BEFORE THE SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES,
ON CUSTOMS PROCEDURAL REFORM

Mr. Chairman and members of the Committee, I am Bette B. Anderson, Under Secretary, Department of the Treasury. Included among my responsibilities is supervision of the U.S. Customs Service. Accompanying me this morning is Mr. Robert E. Chasen, Commissioner of Customs. This is Mr. Chasen's first appearance before a Congressional committee since his swearing in last Friday. He comes to the Government from a senior management position at ITT. He has also had previous experience in enforcement activities. We are fortunate in acquiring his talents and expect significant contributions to the management of Customs resources and activities during his tenure. We have submitted to the Committee biographical data on Mr. Chasen -- and also on me, since this is my first appearance, too, before your Committee.

At the table with us from the Customs Service is Mr. Bob Dickerson, Deputy Commissioner, Mr. Thaddeus Rojek, Acting Chief Counsel, Mr. Leonard Lehman, Assistant Commissioner for the Office of Regulations and Rulings, and Mr. Richard Abbey, Acting Deputy Chief Counsel. I would like to thank you, Mr. Vanik, and the Committee for the invitation to discuss H.R. 8149 and H.R. 8367, the versions of the Customs Procedural Reform Act, and the other bills you are considering during these hearings.

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On behalf of the Treasury Department and the Administration, I vigorously endorse the purpose of this legislation. We believe it will substantially facilitate the flow of world trade. The President has stated his commitment to expanding opportunities for trade on a global scale and to strengthening the open international trading system.

In support of this policy, the Treasury Department wishes to initiate procedural reforms designed to expedite entry and accounting for importations and to make life simpler for travelers returning with foreign goods. The statutory authority to implement many of these programs is contained in the bills now before you. The Customs Procedural Reform Act will be the first major statutory revision to modernize and simplify Customs procedures in over twenty years. Not since the Customs Simplification Act of 1956 has Congress enacted measures to facilitate the clearance of merchandise and passengers through our ports.

During the past twenty years, the volume of commerce coming into the country has risen dramatically. The value of importations and the amount of duties collected have increased five-fold. Entries have tripled from 1.1 million in 1956 to 3.4 million in 1976. The number of travelers processed has doubled during that time from 130 million to 266 million. The number of entries processed now averages more than 2,600 per import specialist per year, an increase of 74 percent over the past twenty years. Inspector workloads have been similarly impacted as the number of importations and international travelers has risen.

Today, Customs is responsible for enforcing over 400 laws for more than 40 different Federal agencies. In order to carry out this mandate efficiently and effectively, Customs must be able to adopt modern merchandise processing methods and financial programs. However, Customs' efforts in this direction have been handicapped by antiquated laws and practices. In fact, the origins of many existing Customs' procedures can be traced back to the Act of March 2, 1799, which was drafted with a specificity now associated with the Code of Federal Regulations. The specificity of these archaic laws and their resulting inflexibility have greatly retarded attempts by Customs to adopt modern business practices to cope with twentieth century conditions.

Both versions of the proposed bill would build flexibility into the Customs and navigation laws to permit application of accepted modern business techniques to the processing of passengers and merchandise, and the collection of duties. With this statutory authority, we expect to 1) increase the efficiency and productivity of the Customs workforce, 2) improve Customs' responsiveness to the needs of the importing community and the traveling public, and 3) further ensure compliance with Customs laws and protection of the Government's revenue.

Title I of the proposed legislation would allow Customs to institute modern business methods in the processing of merchandise and duties. In particular, it would permit Customs to implement fully the Automated Merchandise Processing System (AMPS). This is a computerized filing system designed to monitor information on entries, liquidations, and duty collections. The system is updated by telecommunications input from duty assessment offices located around the country. The data is then used for control of warehouse inventory, in-bond shipments, importers' accounts, and merchandise quotas. Records are made of liquidations and duties, and importers are sent bills on a periodic basis. A segment of the system is now operating at Philadelphia, Chicago, Baltimore, Boston, and Miami, and will soon be installed at Los Angeles. This "early implementation" segment permits more effective enforcement of the laws and protection of the revenue by automatically identifying routine importations and highlighting complex or potentially incorrect entries at current locations, we have concluded that the total AMPS program would facilitate the delivery of merchandise to importers, reduce the amount of paperwork now required for entry, cut the number of financial transactions, and provide better statistical data more quickly.

Specifically, sections 102, 103, 104, and 109 (110 in H.R. 8149) would give the Secretary of the Treasury or his designee the authority to prescribe where and when an entry shall be filed and to separate the payment of duties from the entry or withdrawal from warehouse procedure. Also necessary to this system are verification procedures contained in sections 105 through 108 of the Act. These amendments revise existing statutes found in the Tariff Act of 1930 to enable Customs to gain access to data substantiating the details of an import transaction without burdening importers with additional records to be retained.

Title I also addresses Section 592 of the Tariff Act of 1930, the so-called fraud and penalty provision. In recent years this statute has been the subject of mounting criticism. Importers have objected to the severity of the penalty provisions and to the difficulty encountered in obtaining judicial review of an alleged violation.

Title II of the proposed legislation is a collection of various amendments to the Tariff Act of 1930 and related navigation laws. These are designed to facilitate the processing of international travelers and low value importations. For instance, under the provisions of the Treasury bill, travelers would benefit from a proposal to raise personal exemptions for persons arriving from overseas from $100 to $250 ($500 in the case of persons arriving from Guam, American Samoa, and the Virgin Islands). This increase would be introduced gradually over a period of two years to allow the tourist-based economies of the American insular possessions to prepare for the new system. We believe these new levels are necessary in order to be consistent with our policy of dismantling the barriers erected in the 1960's to protect the over-valued dollar. They have also been urged by the travelling public in order to adjust the personal exemption ceiling set in 1961 to the impact of inflation on the dollar.

The Administration's bill would also provide importers with additional protections. Section 222, for example, would establish a limitation of one year for an entry to be liquidated by the Government. This would eliminate unanticipated requests by Customs for additional duties and would protect surety companies, which are jointly liable with importers, against losses resulting from dissolution of their principals in instances where there have been undue delays in liquidation.

Amendments are also included which would enable Customs better to serve the public. A ten percent flat rate of duty would be imposed on articles accompanying returning residents intended for personal or household use not in excess of $600 fair retail value. This provisions would greatly facilitate the calculation of duty owed by passengers and expedite their clearance. Section 211 would increase from $250 to $600 the maximum aggregate value of a shipment which may be entered through informal entry procedures. This section is designed to achieve administrative and operational efficiencies by granting Customs officers greater operational flexibility and will contribute substantially to the effort of the Customs Service to decrease the backlog of unappraised and unliquidated formal entries.

In addition, arrest authority would also be granted to Customs officers similar to the authority already granted to officers of the Immigration and Naturalization Service, the Internal Revenue Service, and the Secret Service.

We regard the proposed Customs Procedural Reform Act as an important step in the effort to bring Customs laws and practices into the modern era of international commerce. It will enable Customs to process imported merchandise and international travelers more quickly and efficiently. Although the versions of the bills now before you agree in this general aim, there are differences in policy that must be resolved. Commissioner Chasen's testimony will discuss these differences in more detail, and I shall be happy to focus on them more thoroughly during your questioning period. However, we are confident that this legislation, with some adjustments, will give Customs the necessary flexibility to respond to future changes.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. July 19, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,900 million, to be issued July 28, 1977, as follows:

91-day bills (to maturity date) for approximately $2,400 million, representing an additional amount of bills dated April 28, 1977, and to mature October 27, 1977, (CUSIP No. 912793 K8 8), originally issued in the amount of $3,300 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,500 million to be dated July 28, 1977, and to mature January 26, 1978 (CUSIP No. 912793 N4 4). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing July 28, 1977, outstanding in the amount of $5,900 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,893 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, July 25, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on July 28, 1977, in cash or other immediately available funds or in Treasury bills maturing July 28, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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

FOR IMMEDIATE RELEASE

SUMMARY OF FEDERAL FINANCING BANK HOLDINGS

May 1-May 31, 1977

Federal Financing Bank activity for the month of May, 1977, was announced as follows by Roland H. Cook, Secretary:

On May 2, the Federal Financing Bank advanced $1,730,000.00 to the Chicago, Rock Island and Pacific Railroad at a rate of 7.755%. The note matures June 21, 1991 and is guaranteed by the Department of Transportation.

On May 2, the National Railroad Passenger Service (Amtrak) issued Note #13 to the FFB in the amount of $100 million. The note matures on August 1, 1977. Amtrak made drawings against the note in the followin amounts:

Date	Amount	Interest Rate
5/2	$40,000,000	4.987%
5/4	7,000,000	4.957%
5/9	10,000,000	5.059%
5/12	5,000,000	5.239%
5/16	10,000,000	5.225%
5/23	8,000,000	5.402%
5/25	10,000,000	5.311%

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

On May 16, the Farmers Home Administration sold $500 million of Certificates of Beneficial Ownership to the Bank as follows:

CBO No.	Amount	Maturity	Interest Rate
31	$250,000,000	5/16/82	7.24%
32	150,000,000	5/16/92	7.95%
33	100,000,000	5/16/97	8.07%

On May 18, the FFB purchased debentures totalling $4.6 million from Small Business Investment Companies guaranteed by the Small Business Administration. The debentures mature May 1, 1987 and bear interest at a rate of 7.625%.

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The FFB purchased the following notes from utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Maturity	Interest Rate
5/2	United Power Assn.	$ 1,000,000	12/31/11	7.841%
5/2	Cooperative Pwr. Assn.	9,000,000	12/31/11	7.841%
5/2	Oglethorpe Electric Membership	1,840,000	12/31/11	7.841%
5/2	United Pwr. Assn.	10,000,000	12/31/11	7.841%
5/2	Arizona Elect. Pwr. Coop.	8,359,000	12/31/11	7.841%
5/3	Sierra Tele. Co.	300,000	5/31/79	6.305%
5/9	Cooperative Pwr. Assn.	2,000,000	12/31/11	7.916%
5/11	Ponderosa Tele. Co.	310,000	12/31/11	7.914%
5/18	Big River Elect. Corp.	1,897,000	12/31/11	7.832%
5/20	South Mississippi Elect. Pwr. Assn.	3,315,000	5/21/79	6.492%
5/24	Associated Elect. Coop.	3,400,000	12/31/11	7.859%
5/25	Arizona Elect. Pwr. Coop.	8,757,000	12/31/11	7.819%
5/25	Kentucky Pwr. Coop.	3,400,000	12/31/11	7.819%
5/31	Central Iowa Pwr. Coop.	1,548,000	12/31/11	7.803%
5/31	Southern Illinois Power Coop.	2,650,000	5/31/79	6.315%

Interest payments on the above notes are made on a quarterly basis.

The Bank made the following advances to the Guam Power Authority:

Date	Amount	Interest Rate
5/2	$22,634,045.43	7.060%
5/17	219,000.00	7.200%
5/23	529,994.12	7.350%
5/25	11,065,170.00	7.230%

The above advances were made against a note in the amount of $36 million, maturing December 31, 1978, which was purchased by the Bank on March 31, 1977. The note is guaranteed by the Department of the Interior.

The Federal Financing Bank made advances to the following foreign governments under loans guaranteed by the Department of Defense.

Borrower	Date	Amount	Maturity	Interest Rate
Argentina	5/2	$ 67,026.69	4/30/83	6.853%
	5/11	4,444.83	4/30/83	6.939%
	5/12	20,529.43	4/30/83	6.991%
	5/18	300,000.00	4/30/83	6.874%
	5/24	1,855,223.00	6/30/83	6.988%
Brazil	5/25	45,855.93	6/30/83	6.949%
China	5/12	12,500.00	12/31/82	7.256%
Dom. Rep.	5/27	59,459.97	6/30/80	6.444%
Ecuador	5/4	113,289.00	6/30/83	6.876%
	5/25	31,742.00	6/30/83	6.919%
	5/27	96,961.00	6/30/83	6.899%
Honduras	5/18	1,569,157.40	6/30/81	6.624%
Kenya	5/19	14,897,400.00	6/30/86	7.198%
	5/19	12,702,600.00	10/01/86	7.234%
Korea	5/5	300,000.00	6/30/84	6.987%
	5/31	1,788,988.45	12/31/83	6.902%
Malaysia	5/6	301,017.60	12/31/82	6.816%
Morrocco	5/2	311,884.36	6/30/84	6.994%
Nicaragua	5/11	54,202.84	6/30/80	6.475%
	5/17	229,856.69	6/30/80	6.162%
Peru	5/23	6,600,000.00	4/01/84	7.119%
	5/31	500,000.00	4/01/84	6.976%
Thailand	5/31	1,944,612.93	12/31/80	6.499%
Tunisia	5/5	572,361.73	6/30/84	6.980%
	5/6	185,635.91	6/30/84	7.057%
Uruguay	5/31	163,419.32	6/30/83	6.857%

The FFB purchased participation certificates from the General Services Administration in the following amounts:

Date	Series	Amount	Maturity	Interest Rate
5/5	M	$4,159,852.68	7/31/03	7.940%
5/13	L	2,619,837.94	11/15/04	7.954%

On May 20, the Federal Financing Bank advanced to the Western Union Space Communications $4.6 million at an annual interest rate of 7.693%. The note, which is guaranteed by the National Aeronautics and Space Administration, matures on October 1, 1989.

The Bank purchased the following notes from the Student Loan Marketing Association (SLMA).

Date	Amount	Maturity	Interest Rate
5/3	$35,000,000	8/02/77	5.058%
5/10	20,000,000	8/09/77	5.075%
5/17	20,000,000	8/16/77	5.257%
5/24	30,000,000	8/23/77	5.408%
5/31	25,000,000	8/30/77	5.252%

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

On May 20, the Department of Health, Education and Welfare (HEW) made an initial drawdown of $3,695,553.13 on a block of Health Maintenance Organization notes sold to the Bank on April 29, 1977. The notes mature July 1, 1996 and were sold to the Bank at a price to yield 7.53%. The notes are guaranteed by HEW.

The U.S. Railway Association (USRA) made the following drawings on notes guaranteed by the Department of Transportation:

Date	Note #	Amount	Maturity	Interest Rate
5/24	8	$3,457,700.00	4/30/79	6.531%
5/31	3	873,778.28	7/30/77	5.155%

On May 31, the FFB purchased a $400 million Series B Power Bond from the Tennessee Valley Authority. The bond matures May 31, 2002 and bears interest at a rate of 7.935%. On the same day, TVA issued to the Bank a short-term note in the amount of $130 million. The note matures on August 31, 1977 and it bears interest at a rate of 5.266%.

Federal Financing Bank loans outstanding on May 31, 1977 totalled $31.0 billion.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 19, 1977

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $2,506 million of $4,687 million of tenders received from the public for the 2-year notes, Series S-1979, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.25%	1/
Highest yield	6.35%	
Average yield	6.34%	

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	100.000
High-yield price	99.815
Average-yield price	99.834

The $2,506 million of accepted tenders includes $330 million of noncompetitive tenders and $2,095 million of competitive tenders (including 88% of the amount of notes bid for at the high yield) from private investors. It also includes $80 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition, $655 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing July 31, 1977, ($65 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($ 590 million).

1/ Excepting 1 tender of $10,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

RELEASE ON DELIVERY
12:30 P.M.
E.D.T.

Remarks by
W. Michael Blumenthal
Secretary of the Treasury
to the City Club of Cleveland
Cleveland, Ohio

July 20, 1977

Around the end of the summer, President Carter will propose to the Congress and the nation a far-reaching reform of the U.S. income tax system -- a reform of great importance to all Americans not only for its impacts on their tax bills but for its effects on the future growth and efficiency of the American economy.

Obviously the stakes are high. We mean to bring forward a proposal based on thorough study and analysis. We will have explored and weighed all the important options in tax reform. And we are determined to share our thoughts with the American people and to draw on their wisdom and experience in shaping our proposals.

I have already met in Washington with groups representing the widest range of views and interests -- representatives of large corporations and small business, of labor unions and academia, of tax practitioners and public interest organizations. Next week I will be meeting with similarly diverse groups in Denver and St. Louis. And I prize the opportunity to talk to and listen to groups such as yours. I hope in the period that follows my remarks, you will give me your comments as well as your questions.

We have already gained new insights and understanding from our meetings and discussions with the public. And I am confident that this open process will result in a stronger tax reform proposal that will well respond to the concerns of the American people.

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We would not have begun this major effort at tax reform without the sure understanding that there are serious shortcomings in the American tax system.

First, the tax system is too complex. For the average taxpayer, this means the forms are difficult to understand and to complete without aid. Personal exemptions and the general tax credit serve essentially the same purpose. Yet the taxpayer must deal with both the exemption and the credit and choose between alternative means of calculating the credit.

Taxpayers must view itemized deductions with mixed feelings. The joy of benefits from itemized deductions is surely tempered by the record-keeping requirements and the involved rules that accompany some of them.

As a result, about half of our taxpayers rely on professional help to prepare their returns and a whole tax preparation industry has grown up out of the complexity of the tax system. Yet even for tax professionals the requirements of the tax code are far from clear. The code itself runs to hundreds of pages of arcane legal and technical language. With the accompanying regulations and court decisions, it is sometimes difficult even for experts to say what the law permits or requires.

Impelled by high marginal tax rates, people seek to turn this complexity to their advantage by using tax experts, by engaging in tax planning and gamesmanship, and by taking risks in the hope that their number will not come up in the audit roulette.

There is some evidence of a decline in tax compliance. And there is considerable concern that the continuation of a system in which many taxpayers cannot understand the tax law and what it requires of them will breed distrust and the erosion of our system based on voluntary compliance.

Second, our tax system today is not as fair as it should be.

Americans have long believed that the income tax system should be reasonably related to the taxpayer's ability to pay. On this count, the system passes muster. The statutory rates range from 14 percent on taxable incomes of $500 to 70 percent on taxable incomes over $200,000, with a maximum 50 percent rate on earned income. The effective rates actually paid on expanded income -- a concept that includes capital gains and certain preference income under $5000 to 32.6 percent on incomes over $200,000. And this progressivity has increased over the last dozen years. Rates paid by the top half of all taxpayers rose 1 1/2 to 2 percentage points while rates paid by the lowest 30 percent declined. For the lowest 10 percent of our taxpayers, effective rates fell virtually to zero and for the next 20 percent they dropped to 2.4 percent from 4.1 percent in 1965.

But American concepts of fairness are violated when taxpayers with the same incomes -- or more precisely, the same abilities to pay -- are taxed at widely varying rates. That happens too much under our present tax system, especially in the upper income brackets.

Among taxpayers with incomes of over $200,000, some pay at effective rates of only 2 percent while others are paying as much as 58 percent. Thirteen percent of all high income taxpayers are taxed at less than 20 percent of their expanded incomes, while nearly one-fifth of them pay more than 45 percent of their incomes in Federal income taxes.

At lower income levels, the variations are much less, although even in the $25,000 to $50,000 income groups there are some paying less than five percent while others pay more than 25 percent. If some items not included in the concept of expanded income -- such as fringe benefits -- were considered, we might find even wider variations in taxes on the same incomes and less progressivity among income classes.

There is no mystery in tracing the source of these differences. Attempts to use the tax code to promote all kinds of social and governmental objectives have created opportunities for people to avoid taxes. And high marginal rates provide the incentives for their use. To aid state and local governments, interest on their bonds is exempt from Federal tax. To foster good works, contributions to charities are tax deductible. To recognize the reduced ability to pay that results from heavy unavoidable expenses, medical costs and casualty losses over specified amounts are deductible. I could go on at some length.

The profusion of opportunities for tax avoidance prompted Congress to impose a so-called minimum tax on certain preference income. But that solution provides only a modest improvement in equity at the cost of more complexity in the tax code.

There is another source of inequity that becomes more troublesome as female participation in the labor force continues its steady rise and as we reduce pay and employment discrimination against women. As it stands now, marriage confers a tax benefit as long as the income of one spouse is 10 percent or less of the their combined income. But when the partners have incomes that are more nearly equal, their marriage, though it may otherwise be bliss, at tax time is a bane.

<u>The third major shortcoming of our tax system today is its failure to provide adequate incentives to efficiency and investment in our economy.</u> On the contrary, to the extent that current tax provisions lead to a variety of activities that would not be undertaken except for their ability to reduce taxes, it fosters inefficiency and misallocation of resources. In our remarkably productive American agriculture, there exist some remarkably unproductve farms which exist only for "farming the Internal Revenue Service." And one may question whether in a time of increasing scarcity of natural resources, percentage depletion allowances that encourage too rapid exploitation of a resource are efficient or sensible.

At the same time, our incentives to investment in the productive plant and equipment that our economy needs have been too weak. The rate of capacity growth in manufacturing has been dropping in recent years -- from 4.6 percent between 1948 and 1968, to 4 percent from 1968 to 1973 and 3 percent from 1973 to 1976.

Even allowing for cyclical effects in the latter periods, the trend is worrisome. This country needs more -- not less -- investment in the tools that a growing work-force must have. We need the higher rate of productivity growth that can come from increased investment. And we need to avoid the capacity bottlenecks and supply shortages that will soon appear in a growing economy without adequate capital formation.

In defining the shortcomings of the tax system, I have of course suggested this Administration's tax reform goals. They are <u>simplicity</u>, <u>equity</u> and <u>incentives to efficiency and investment</u>.

We have already taken a significant step toward simplicity with the passage of the President's economic stimulus program. That legislation provides a flat standard deduction that will allow the dedution, personal exemptions and the general tax credit to be combined in a single tax table for most taxpayers. A concurrent increase in the amount of the deduction for most people will probably mean that three quarters of our taxpayers will use the standard deduction and be able to read their tax out of a table without involved calculations.

But there is more that can be done. We could eliminate one of the complications I mentioned earlier by combining the present general tax credit and personal exemption into either a larger credit or exemption. Use of credits only would, by itself, make taxation more progressive, while reliance on the exemption would have the reverse effect. But either result could be offset by changes in the tax rates.

We could eliminate some or all of the itemized deductions, coupling this with reductions in tax rates. With a virtual elimination of deductions and exclusions, we could raise the same amount of revenue with tax rates of 8 to 38 percent that we now obtain from rates of 14 to 70 percent and do it with approximately the same distribution of the tax burden among income classes. There are obviously many way stations between those two points.

In some cases, events have weakened the rationale for certain deductions. The deduction of medical expenses, for example, is intended to recognize the reduction of the taxpayer's ability to pay that results from unusually high medical costs. Yet with the disproportionate rise in mdeical charges, substantial amounts of normal and usual expenses are now deducted. So we must ask ourselves whether this situation could be better handled, say, by a higher limit on deductible expenses and a rate reduction. Some itemized deductions, such as for sales taxes, are determined by formula and bear little relationship to the taxpayer's actual expenses. Again, we must consider whether they might better be eliminated in favor of rate cuts.

The most important single step we could take to promote tax simplicity and equity is to drastically cut back the preferential taxation of capital gains. Nearly 100 sections and subsections of the tax code are concerned with the preferred treatment of capital gains. A large part of tax planning and the uneconomic activities associated with it is directed at converting ordinary income into capital gains. And much of the variation in taxes paid by people with equal incomes derives from capital gains taxation.

Defenders of the current arrangement argue that its elimination would cause people to hold on to appreciated assets and would reduce savings and investment, thereby undermining our efforts to foster capital formation. But taxation of capital gains at ordinary rates, in combination with a reduction of the top rate to 50 percent and the elimination of the so-called minimum tax, need not have these effects. Even under present law, capital gains can be taxed at as much as 49 1/8 percent, so that the increase in taxation would be much less than many people suppose -- about $3.7 billion a year. And this increase can be balanced out by other measures that raise the return to capital without the complications and inequities associated with the capital gains preference.

Besides reforming the capital gains preference there are other steps we could take to increase equity.

We could help state and local governments as much as we do today, at less cost to the Treasury and with greater tax fairness by directly subsidizing their interest costs in exchange for their issuance of taxable bonds. Such bonds could be an option to be used by the governments or not at their discretion.

We could reduce the inequities related to marriage. However, the simple expedient of treating each wage earner as a separate tax unit means that many families with like incomes will be taxed differently. A possibility that straddles the two conflicting concepts of equity would provide a limited tax credit against the earnings of the lower-earning spouse.

In general, the farther we go in taxing all income, whatever its source and whatever its use, at the same rates, the greater the fairness of the tax system.

Our third goal of increasing efficiency and investment in the American economy will benefit from some of the steps taken to foster simplicity and equity. Reduced incentives for tax planning will help channel resources into their most productive uses. A reduction of the higher marginal rates on unearned income would remove a tax bias against savings and investment. And the eliminaton of incentives that do not serve a social purpose would end certain uneconomic production.

To increase capital formation, we have a number of major options. The arrangement by which corporate income is taxed first at the corporate level and again when paid as dividends to shareholders creates a tax bias agianst corporate business compared to partnerships, against equity financing compared to debt, and against corporations' owners, workers and consumers.

One solution is to treat the corporation as though it were a partnership, attributing to each stockholder his proportionate share of the corporation's income, whether or not it is distributed. The corporate tax then becomes a withholding tax credited against the stockholder's final individual tax liability.

Or we might eliminate the double taxation only on distributed corporate earnings. One possibility is to make dividend distributions deductible by corporations just as interest payments are now. An alternative would attribute to the stockholder his proportionate share of the corporate taxes attributable to his dividends. The stockholder would then increase his income by the amount of the tax attributed to him and take the same amount as a credit against his tax. For example, if a shareholder received dividends of $25 and the corporate tax attributable to him was $25, he would pay taxes on $50 of income and receive a credit against them of $25. If his tax on $50 of income was $20, he would have a refund of $5 and a net gain of $15, assuming the same rate on actual and grossed up dividends. This gross up method could be phased-in by setting a fixed rate for the tax credit, perhaps equal to 20 percent of taxable corporate earnings the first year, and increasing this percentage in later years. Setting a fixed rate could lessen investor uncertainty that would otherwise arise from tax rates that varied from one company to the next, avoid problems stemming from delays in determining corporate tax liabilities, and give us better control of the resulting revenue loss.

There are objections to tax integration because of concerns that it will encourage larger dividend payments and thereby reduce total savings and will be less effective than alternative measures in accelerating business investment.

Since increased dividends would provide tax benefits to stockholders under two of the arrangements and to corporations under the third option, some increase in dividends payments would be likely, especially if corporations are treated like partnerships or if dividends are deductible. Under the gross up method, pressures for dividend increases might be less significant. And if only partial relief in provided under this method, the increase in dividend payments probably would be insignificant. In any event, it is not clear that increased dividends would reduce savings or that investment or economic efficiency would suffer from greater corporate reliance on external financing.

We could also increase the after-tax rate of return to capital by other measures such as cuts in the corporate tax rates, increases in the investment tax credit, and accelerated depreciation of plant and equipment. Considering that many industries face substantial expenditures for environmental protection, we might allow expensing or immediate write-offs against income of outlays for pollution control that did not also increase output. In that case, we would have to make some difficult and unfortunately complicated distinctions. None of these measures would provide the same gains in simplicity and equity that we could get from complete or partial elimination of double taxation.

I want to stress that the possibilities I have mentioned today are just that -- possibilities. Our decision on what to propose are still to be made. Yet I wanted to share these thoughts with you to stimulate your reactions and to foster national discussion of tax reform.

We know that in selecting our proposals we will often find cases where our objectives are more or less in conflict, where a measure that will promote equity will add complications to the tax code, where an incentive to capital formation will lessen equity. We will have to make tradeoffs, to balance advantages and compromise. Nevertheless, we believe we can make major gains toward <u>all</u> our goals.

I know there have been many tax reforms before and I have no illusions that this reform will be the last. But I believe it can and should be one of the most important in the history of our tax system. And with your help and advice and support, it can be.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 20, 1977

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2,978 million of 52-week Treasury bills to be dated July 26, 1977, and to mature July 25, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.317	5.621%	5.95%
Low -	94.280	5.657%	5.99%
Average -	94.290	5.647%	5.98%

Tenders at the low price were allotted 16%.

TOTAL TENDERS RECEIVED AND ACCEPTED
BY FEDERAL RESERVE DISTRICTS AND TREASURY:

Location	Received	Accepted
Boston	$ 36,990,000	$ 21,990,000
New York	4,531,345,000	2,475,065,000
Philadelphia	35,870,000	13,870,000
Cleveland	36,930,000	26,930,000
Richmond	29,345,000	14,345,000
Atlanta	25,115,000	9,115,000
Chicago	719,885,000	236,885,000
St. Louis	22,215,000	5,215,000
Minneapolis	37,350,000	22,350,000
Kansas City	5,275,000	5,275,000
Dallas	4,575,000	3,575,000
San Francisco	356,335,000	143,135,000
Treasury	---	---
TOTAL	$5,841,230,000	$2,977,750,000

The $2,978 million of accepted tenders includes $ 53 million of noncompetitive tenders from the public and $ 973 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 $57 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: Charles Arnold
566-2041

FOR IMMEDIATE RELEASE July 21, 1977

TREASURY DEPARTMENT ANNOUNCES INITIATION OF ANTIDUMPING INVESTIGATION ON VISCOSE RAYON STAPLE FIBER FROM BELGIUM

The Treasury Department announced today that it would begin an antidumping investigation of viscose rayon stable fiber from Belgium. Notice of this action will appear in the Federal Register of July 22, 1977.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service. The Service acted after receiving a petition alleging that dumping is occurring in the United States. The petition included information that was intended to show that the prices of viscose rayon stable fiber exported from Belgium to the United States are less than the prices of this merchandise sold in the home market. The petition also included information intended to show that the U.S. industry is being injured. Based on a summary review of the petition, the Treasury Department determined that the information presented is sufficient to warrant an investigation. If sales at less than fair value are determined by the Treasury Department, the injury question will be decided by the International Trade Commission.

Imports of viscose rayon staple fiber from Belgium during the first quarter of calendar year 1977 were valued at about $1.3 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 10:00 A.M.
July 20, 1977

STATEMENT OF THE HONORABLE LAURENCE N. WOODWORTH
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE
ON PENDING INCOME TAX TREATY WITH THE PHILIPPINES

Mr. Chairman and members of this Committee:

I am here today at the request of the Chairman to discuss testimony by the Air Transport Association requesting that the Philippines treaty not be ratified because it does not contain a provision exempting aircraft registered in the United States from tax in the Philippines.

The Philippines currently has an income tax on airlines of 2-1/2 percent of gross Philippine billings. The Air Transport Association would prefer to have the Philippines treaty not ratified because they fear this would establish a precedent for not including an airline exemption in an income tax treaty.

I would like to make three points:

1. <u>Ability of the Treasury to Negotiate the Airline Exemption</u>.
From a policy point of view, we strongly advocated an

airline exemption. Because Pan Am indicated that it would oppose a treaty with no airline exemption, the Treasury made a second attempt through our embassy in Manila to obtain the exemption. A cable from the embassy last September quoted the Philippines Undersecretary of Finance as saying that there was "no chance" the Philippines could accept the exemption.

We are therefore convinced that the Philippines will not grant us or anyone else an airline exemption. They have not granted it in tax treaties with Canada and the United Kingdom, and we understand that they have not granted it in treaties with other countries. In addition, since the Philippines generally includes a most-favored-nation clause in its shipping articles, if they give America an airline exemption, they would have to give several other countries the same exemption. The Undersecretary of Finance said that because of the most-favored-nation requirement, they will not give the airline exemption to anyone.

2. Philippines Treaty Does Not Change Our Rights in This Area

To the extent that the Philippines taxes our airlines, we can tax their airline; and if they tax our airlines on a discriminatory basis, sections 891 and 896 of the Code give us the power to retaliate and tax their airline on a discriminatory basis. The Philippines' negotiators were advised that we would not consider the use of those sections as contrary to the treaty.

3. <u>Airlines are Choosing to Pay Tax Unnecessarily</u>.

The Philippines was willing by treaty to limit its 2-1/2 percent on gross Philippine billings to a 1-1/2 percent tax on outbound billings. Thus, the airlines could have had a reduction of tax (which we believe we could still obtain by a protocol) as well as having the tax imposed on a narrower base. The airlines preferred no treaty provision. I understand this in the sense that it then does not represent a precedent for other countries. But if this is true then the airlines should have no fear of the present treaty which contains no provision on this point.

While we say the "airlines," we mean that Pan Am preferred not to be covered. It is our understanding that it is primarily Pan Am which is opposing the treaty. It is Pan Am which has been in communication with us on this matter since the beginning. It is our impression that TWA would be helped by the treaty. It also was our understanding that Northwest Airlines and Flying Tiger did not initially object to the provision. We believe that limiting the tax on airlines to

1-1/2 percent by treaty would benefit all airlines, including Pan Am, but we are willing either to include or exclude this provision.

Conclusion.

The choice is between setting a precedent of doubtful value to Pan Am or limiting Philippines tax on three-fourths of a billion dollars of other United States investment. The Treasury will, of course, in subsequent treaties continue to insist vigorously on the airline exemption and will only yield the point when we consider that a treaty as it affects all United States taxpayers is sufficiently beneficial to outweigh that strong principle.

Finally, I cannot repeat too strongly that in my opinion there is no chance of going back to the Philippines and getting an airline exemption. The choice is between a treaty beneficial to the United States and no treaty.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 9:30 A.M.
July 21, 1977

STATEMENT OF THE HONORABLE LAURENCE N. WOODWORTH
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
ON INLAND WATERWAY USER CHARGES
BEFORE THE COMMITTEE ON WAYS AND MEANS

Mr. Chairman and members of this Committee:

I am very pleased to participate in these hearings on waterway user charges. Over the last two decades, the Congress has instituted a set of charges on motor and air operations to help defray the cost of Federal expenditures for the development of motor vehicle and airways systems. Congress is now considering proposals to apply such a user fee concept to the inland waterways. My testimony will outline several of the optional methods of implementing waterway user charges.

Type of User Charge

During the years the waterway user charge concept has been studied by the Federal agencies, the levy that has been given the greatest consideration is a tax on fuel (diesel and residual fuel oil) used in vessels. Section 4041 of the Internal Revenue Code now imposes a tax (currently 4 cents per gallon) on diesel fuel sold for use, or used, in a highway motor vehicle. This excise tax could be extended to cover inland waterway vessels.

Another approach which could be used to help recoup Federal expenditures on the inland waterways is a system of tolls and lockage fees. Under one plan that has been considered, the Corps of Engineers would convert each year the operation, maintenance, and capital costs of specific segments of the inland waterways system to costs per ton mile of freight carried in the last year (or estimated to be carried in the next year). This ton mile figure then would

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become the charge, or toll, to be collected from commercial carriers using each segment. Lockage fees also would be collected from operators of vessels not subject to the segment toll, i.e., principally pleasure craft operators.

The segment and lockage charge mechanism, since it would reflect the cost of individual segments of the inland waterways system, would clearly point up those parts of the system whose costs are greatly above or below the average. Interpretation of the significance of such computations is likely to be quite controversial, but we believe that averages of this type have value as the first step in evaluation of the usefulness of particular portions of the inland waterways.

Even if a segment toll and lockage fee mechanism were instituted, consideration might be given to imposing a fuel tax as well. The fuel tax could represent the average contribution that was desired from commercial users of the waterways, and the special charges could be tailored to reflect extraordinary costs associated with specific projects which, in turn, presumably provide extraordinary benefits to those using the projects.

Level of Taxation or Fees

The Administration's program calls for taxes and/or fees covering all of the maintenance and operating costs and half of the capital costs (based on the prior year's expenditures) of the shallow draft inland waterways. Corps of Engineers' expenditures for these waterways in terms of operating and maintenance costs amounted to $211 million in fiscal 1977 and half of the capital costs in that year amounted to $139 million, bringing the total to $350 million. A tax on diesel fuel of 40 cents per gallon for inland waterway vessels would be required to pay this cost. This translates into about 1 mil per ton mile of commodities carried.

Since recovery using a fuel tax would approximately double the present cost of diesel fuel for the barges and other boats using inland waterways, we recognize that there would be problems with imposing a tax at this level. One way to deal with this problem would be to phase in coverage over a period of years. At the same time, we recognize that trucks are not paying their full share of the cost of the use of highways and that various tax advantages have also been provided for railroads. For these reasons, the Committee may desire to transfer only a portion of the Government's costs to the users of inland waterways over a period of years.

Use of Trust Fund

The current highway and airway user charge revenues are transferred to trust funds which, in turn, are used to finance specified highway and air programs. While a trust fund often is considered a guarantee that user charges will be utilized for the benefit of those taxed, this argument does not appear to be valid when user charges do not cover all costs. Since we are suggesting a phase-in of the waterways charges and since it is unlikely that all costs will be covered for the inland waterways, a trust fund would have to be augmented with revenue from other sources; consequently, we see no benefit from the extra recordkeeping resulting from the use of a trust fund in this type of situation. An annual report on revenues from, and expenditures for, the waterways system can provide all the information the Congress needs as to how the system is working and guidance as to whether changes are desirable.

Impact Study

As proposed by the Administration, provision is made for a study of the distribution by types or classes of users of the cost of the services or facilities furnished by the Federal Government so that the Congress might decide whether to change the system initially installed. Much work has been done already on waterways, and we would hope that this could form much of the basis for any further study.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 21, 1977

JOHN G. HEIMANN SWORN IN AS COMPTROLLER OF THE CURRENCY

John G. Heimann was sworn in today as the twenty-fourth Comptroller of the Currency by Treasury Secretary W. Michael Blumenthal. Mr. Heimann, appointed May 26, 1977 by President Carter and confirmed by the U.S. Senate for a statutory 5-year term, succeeds James E. Smith,who resigned last year.

The Comptroller, as administrator of national banks, supervises, regulates and examines some 4,700 federally chartered banks throughout the United States. The examination functions of the office are carried out through 14 regional offices across the country, as well as through offices abroad that examine more than 600 foreign branches of U.S. national banks.

Mr. Heimann's extensive career in both private industry and public service has included investment banking, banking, state and local financing, as well as housing and urban development. Prior to accepting the Treasury post, Mr. Heimann was Commissioner of the New York State Division of Housing and Community Renewal. From June 1975 to November 1976, he served as New York State's Superintendent of Banks. Mr. Heimann received the 1976 "Housing Man of the Year" award from the National Housing Conference.

From 1967 to 1975, Mr. Heimann was Senior Vice President and Director of the private investment banking firm of E.M. Warburg, Pincus and Company, Inc. He was with the firm of Smith, Barney and Company in New York from 1955 to 1966, serving as Vice President from 1962 to 1966.

Mr. Heimann has served on numerous public organizations and projects including the Steering Committee of the National Urban Coalition, Vice Chairman of the New York State Housing Finance Agency and a member of the Boards of Directors of the New York City Housing Development Corporation, Community Development Corporation, the Federal National Mortgage Association and Director of the Federal Deposit Insurance Corporation. He is also a Trustee of the Institute on Man and Science.

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A native of New York, Mr. Heimann was born on April 1, 1929. After graduating from Syracuse University in 1950 with a B.A. degree in economics, Mr. Heimann served with the U.S. Army in the Korean conflict.

Mr. Heimann and his wife, the former Margaret E. Fechheimer of Cincinnati, Ohio, have two children.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

THE DEPARTMENT OF THE TREASURY 1789

Contact: John P. Plum
(202)566-2615

FOR IMMEDIATE RELEASE July 21, 1977

Certification Agreement with Austria and Sweden

The Department of the Treasury announced today the conclusion of formal certification agreements with Austria and Sweden to permit importation under the Rhodesian Sanctions Regulations of specialty steel products from the two countries. The agreements replace interim arrangements which have been in effect since March 18, 1977.

Under the new agreements the Governments of Austria and Sweden have full responsibility for administration of the detailed control measures provided for in the certification agreement.

The Ministry for Trade and Industry of the Government of Austria and the Board of Trade of the Government of Sweden will authorize producers of ferrochromium and specialty steel products to state on the commercial invoice covering products being exported to the United States that the goods have been produced under the agreed certification procedures. This special certification will be presented to Customs at the time of importation and will serve to establish that specialty steel products form Austria and Sweden do not contain any chromium of Rhodesian origin.

Austria and Sweden will subject to laboratory testing their imports of chromium and ferrochromium from South Africa to verify that they do not contain any chromium of Rhodesian origin. In addition, the existence of similar certification procedures in other countries will ensure that ferrochromium and specialty steel mill products exported to the United States by Austria and Sweden which were produced by those countries with imported materials do not contain any chromium of Rhodesian origin.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202) 566-2615

FOR IMMEDIATE RELEASE July 21, 1977

CERTIFICATION AGREEMENTS WITH CANADA, NORWAY AND SPAIN

The Department of the Treasury announced today the conclusion of formal certification agreements with the Governments of Canada, Norway, and Spain. The agreements replace the interim arrangements which have been in effect since March 18, 1977, to permit importations under the Rhodesian Sanctions Regulations of specialty steel products from these countries. Under the new agreements special certificates of origin will be issued by the Governments of the respective countries. These certificates will serve to establish that specialty steel products of these countries do not contain any chromium of Rhodesian origin.

Canada, Norway, and Spain will subject to laboratory testing their imports of chromium and ferrochromium from South Africa to verify that they do not contain any chromium of Rhodesian origin. In addition, the existence of similar certification procedures in other countries will ensure that ferrochromium and specialty steel mill products exported to the United States by Canada, Norway, and Spain which were produced by those countries with imported materials do not contain any chromium of Rhodesian origin.

All certification agreements concluded by the United States with the exporting countries place primary responsiblity for administration of the agreed control measures on the governments of the countries involved. The governments may elect either to have a governmental agency certify that materials being exported have been produced under the agreed procedures or to have the producers of the materials make the certification under the supervision of the agency. In either case the responsibility for ensuring that the special certificates are issued in accordance with the procedures rests with the government.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202) 566-2615

FOR IMMEDIATE RELEASE July 21, 1977

CERTIFICATION AGREEMENT WITH
THE EUROPEAN COMMUNITIES

The Department of the Treasury announced today the conclusion of a formal certification agreement with the Commission of the European Communities. The Agreement replaces the interim arrangements which have been in effect since March 18, 1977, to permit importation under the Rhodesian Sanctions Regulations of specialty steel products from the European Community.

The Commission of the European Communities and the Governments of the Member States have full responsibility for administration of the detailed control measures provided for in the certification agreement. The Member States will authorize producers of ferrochromium and specialty steel products within their States to declare on the commercial invoice covering products being exported to the United States that the goods have been produced under the agreed certification procedures. This special certification will be presented to Customs at the time of importation.

These special certificates will become available on varying dates between July 18 and September 18, 1977, and announced in the Federal Register, as each Member State is able to put into effect all of the control measures called for by the certification agreement.

The following procedures will govern imports from the European Community:

(1) Imports from Member States issuing special certificates as of July 18, 1977, shall be made under customary import procedures, provided the goods are accompanied by special certificates as required.

(2) Imports from Member States which commence to issue special certificates after July 18, 1977, and before September 18, 1977, may be made under interim certificates

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until special certificates from that country are available. However, the entry will not be liquidated unless the importer files a special certificate for the shipment on or before September 18, 1977. Failure to do so will result in the goods being subject to redelivery into Customs custody.

(3) Imports from Member States after September 18, 1977, may only be made when accompanied by special certificates of origin issued prior to exportation of the products.

All certification agreements concluded by the United States with the exporting countries place primary responsibility for administration of the agreed control measures on the governments of the countries involved. The governments may elect either to have a governmental agency certify that materials being exported have been produced under the agreed procedures or to have the producers of the materials make the certification under the supervision of the agency. In either case the responsibility for ensuring that the special certificates are issued in accordance with the procedures rests with the government.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
Expected at 2:00 p.m.
July 25, 1977

STATEMENT OF
THE HONORABLE DANIEL I. HALPERIN
TAX LEGISLATIVE COUNSEL
BEFORE THE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

Mr. Chairman and Members of this Subcommittee:

I am grateful that the Treasury Department has been given an opportunity to present its views on S. 1514, a bill that would amend section 4941 of the Internal Revenue Code and section 101(1)(2) of the Tax Reform Act of 1969.

Relevant Provision Relating to Private Foundations

The Tax Reform Act of 1969 contains a series of restrictions on private foundations. The provision primarily at issue today is Code section 4941, which imposes taxes on self-dealing. Generally, a person found to be self-dealing, within the meaning of section 4941, is liable initially for a tax equal to five percent of the amount involved with respect to each act of self-dealing. An additional tax equal to 200 percent of the amount involved is imposed on the self-dealer if the proscribed act is not corrected in a timely manner.

Included within section 4941's definition of "self-dealing" is a direct or indirect sale or lease of property between a private foundation and a "disqualified person." It is this provision that raises the tax problems addressed by S. 1514.

Facts Underlying S. 1514

On the basis of information inserted in the Congressional Record by the sponsors of the bill, we understand that Public

Welfare Foundation, Inc., owns all of the stock of three corporations, The Gadsden Times, Inc., The Tuscaloosa News, Inc., and The Spartanburg Herald and Journal, Inc. These three wholly-owned subsidiaries have, for a substantial period of time, leased all of the assets of three newspapers to operating companies. Apparently, after the Internal Revenue Service suggested that the original rentals specified in the lease agreement were unreasonably high, the newspaper operators decided to make charitable donations to the Foundation in exchange for reduced rentals.

Since each of the operators contributed more than $5,000 and more than two percent of the total contributions to the Foundations as of October 31, 1969 (the end of the fiscal year which includes October 9, 1969), each operator is considered to be a "substantial contributor" to the Foundation, within the meaning of Code section 4946(a)(1)(A). Therefore, the operators are "disqualified persons" and their leasing arrangements with the private foundation (through its subsidiaries) fall within the statutory definition of "self-dealing." However, a "grandfather" clause in the Tax Reform Act of 1969 defers application of the self-dealing taxes to these leasing arrangements until taxable years beginning after December 31, 1979.

Effect of S. 1514

S. 1514 would make the following changes in the self-dealing rules:

(1) It would exempt permanently from the self-dealing taxes the leasing of property to a disqualified person by a wholly-owned subsidiary of a private foundation where (a) the lease is pursuant to a binding contract in effect on October 9, 1969, (b) the leasing arrangement at no time constitutes a prohibited transaction under Code section 503(b), (c) the lease terms are no more favorable to the disqualified person than such terms would be in an arms-length transaction, (d) the lessor is not a tax-exempt corporation, and (e) the disqualified person obtained that status solely because of contributions made to the private foundation prior to October 9, 1969.

(2) The 1969 Act provides a grace period for the termination of a pre-existing lease between a private foundation and a disqualified person as long as the lease is not disadvantageous to the foundation. The bill would extend the expiration of this grace period from December 31, 1979 to December 31, 1989.

(3) Another grandfather clause currently permits property, leased by a private foundation to a disqualified person at the time of passage of the Tax Reform Act of 1969, to be sold for at least fair market value to the disqualified person. The deadline for such a sale would be extended by the bill from December 31, 1977 to December 31, 1989.

(4) Under still another grandfather clause, a private foundation had until January 1, 1977 to sell stock to a disqualified person even though the Act's transition rules did not require divestiture at that time in order to avoid the taxes on excess business holdings imposed by section 4943. This deadline would be extended by the bill until January 1, 1990.

Treasury Comments

A charitable organization, whether it be a public charity or a private foundation, must not operate to the benefit of private individuals. Prior to passage of the Tax Reform Act of 1969, this principle was applied to dealings between a charity and related parties by using the "prohibited transactions" test of Code section 503(b). Generally, this standard demands that such dealings accord with the type of bargain that would be struck in an arm's-length transaction.

In enacting the Tax Reform Act of 1969, Congress made the decision that the subjective arm's length test of section 503(b) was not satisfactory in the case of private foundations. Congress chose instead to eliminate completely self-dealing between a foundation and certain "disqualified persons" through the adoption of the self-dealing taxes under section 4941. It apparently believed that the interference with particular legitimate transactions was outweighed by the elimination of actual and potential abuse. The statutory self-dealing standards for private foundations are thus objective, inflexible rules which imply rejection of a case-by-case analysis.

However, like any objective standard, the self-dealing provisions can apparently lead to harsh results, especially in view of the fact that an individual furnishing only two percent of a foundation's contributions is classified as a "disqualified person." Transactions will run afoul of section 4941 even though a subjective evaluation would suggest that a particular "disqualified person" had little control over the foundation's operations and that the transaction involved no overreaching.

The lessee-operators in this case would appear to be at the outer spectrum of "disqualified persons" encompassed by the 1969 Act. Thus, (a) the lessees were not the major contributor to the foundation; (b) the newspaper leases were in existence long before the lessees made any donation to the foundation; (c) the "contributions" in this case were apparently offered by the newspaper operators as substitutes for rental payments; and (d) the consequences of such a recharacterization of payments to the foundation were unforeseen.

Therefore, the Treasury would not object to special consideration of this case provided the grant of relief is drawn more narrowly than S. 1514. I am submitting with my statement proposed language that would remove from the definition of "substantial contributor" a person who became a substantial contributor solely because of contributions prior to October 9, 1969 which totalled less than twelve percent of the total contributions to the foundation as of that date, and where such contributions were made to the private foundation in lieu of rent originally required by a leasing arrangement. Treasury believes that this approach is preferable to a general extension of the various grandfather clauses, which have already provided generous transition rules for private foundations. It may also be preferable to a narrowly defined exception to the grandfather clauses because it will not set a precedent which would indicate that in certain cases at least Congress is willing to consider allowing more time to unravel self-dealing transactions without any special showing of the inadequacy of the ten-year period originally granted.

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SUGGESTED TREASURY PROPOSAL IN LIEU OF S. 1514

Section 4946(a)(2) of the IRC is amended to read as follows:

(2) Substantial Contributors: For purposes of paragraph (1), the term "substantial contributor" means a person who is described in section 507(d)(2) except that for purposes of section 4941 (relating to self-dealing) a person shall not be deemed a substantial contributor if:

(A) Pursuant to a binding contract in effect on October 9, 1969 such person leased property from a corporation whose stock is solely owned by a private foundation which lease at no time constituted a prohibited transaction (within the meaning of section 503(b) or the corresponding provisions of prior law),

(B) The contributions made by such person to the private foundation were made in lieu of rent originally required by such leasing arrangement, and

(C) Such contributions were made prior to October 9, 1969 and totalled less than 12 percent of the total contributions and bequests received by the foundation before the close of the taxable year which includes such date.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 25, 1977

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,400 million of 13-week Treasury bills and for $3,500 million of 26-week Treasury bills, both series to be issued on July 28, 1977, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 27, 1977			26-week bills maturing January 26, 1978		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.703	5.131%	5.27%	97.296	5.349%	5.57%
Low	98.692	5.175%	5.32%	97.284	5.372%	5.60%
Average	98.695	5.163%	5.30%	97.288	5.364%	5.59%

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 AND TREASURY:

Location	Received	Accepted	Received	Accepted
Boston	$ 24,930,000	$ 14,930,000	$ 32,780,000	$ 2,780,000
New York	3,334,665,000	2,079,325,000	5,029,375,000	3,213,705,000
Philadelphia	21,260,000	21,260,000	161,940,000	58,550,000
Cleveland	30,355,000	30,355,000	45,640,000	10,440,000
Richmond	17,830,000	15,830,000	34,270,000	19,830,000
Atlanta	30,975,000	28,975,000	42,975,000	39,765,000
Chicago	197,485,000	48,705,000	252,830,000	24,220,000
St. Louis	41,905,000	25,905,000	32,465,000	13,465,000
Minneapolis	29,160,000	14,160,000	36,820,000	11,820,000
Kansas City	26,400,000	26,400,000	12,345,000	12,335,000
Dallas	14,240,000	14,240,000	8,630,000	6,630,000
San Francisco	200,995,000	79,870,000	344,815,000	86,545,000
Treasury	265,000	265,000	115,000	115,000
TOTALS	$3,970,465,000	$2,400,220,000 a/	$6,035,000,000	$3,500,200,000 b/

a/Includes $281,470,000 noncompetitive tenders from the public.
b/Includes $127,765,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-362

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Transcript of Remarks by
W. Michael Blumenthal
Secretary of the Treasury
to the City Club of Cleveland
Cleveland, Ohio
(with questions and answers)

July 20, 1977

SECRETARY BLUMENTHAL: Mr. Chairman, distinguished guests, ladies and gentlemen, it is a particular pleasure for me to be able to be with you today. I'm delighted to come on a hot day to talk about a hot topic, and it feels pretty good to be so close to home. All I need to do is imagine looking across the lake and I'm practically back in Detroit. And somehow that makes me feel as if I am among friends. And indeed, I am. There are a good many old friends here today. And I've already made many new ones.

It clearly must be an important topic if even my old friend the Right Reverend Williams, the Dean of the Cathedral, shows up to learn about taxes.

I don't know if he wants to balance the budget of the Cathedral or he has some ideas about deductions for charitable contributions. No doubt we will hear from him in due course.

In the introduction you made reference to the commitment by President Carter during his campaign that he would seek to do something about the tax system under which we have been living for some time. And if there is one thing that President Carter feels strongly about, it is meeting his commitments, his campaign promises. And so almost from the beginning, he began the task of learning about and analyzing and seeking to fashion a basic reform program. We are some distance along the path of doing so, and it is true that by the end of the summer or the early fall, by September perhaps, a program is likely to be presented to the Congress by President Carter.

I have already met in Washington with groups representing a wide variety of views and opinions on the subject-- representatives of large companies, of small business, tax lawyers, tax economists, public interest organizations, academic economists. And I am now in the process of visiting various parts of the country in order to hear, through regional meetings and through speeches like this one, what the broadest possible cross-section of taxpayers in this country think about the system and where they place priorities for reform.

One thing is clear, and that is that there are major shortcomings in the present system and some, indeed, are a disgrace. Let me seek very briefly to mention three problems that we are trying to address in this program of reform that we will be presenting to the Congress.

The first one simply is that the system is far too complex. For the average taxpayer, this means a form that's difficult to understand, and to complete, without any assistance. Personal exemptions and general tax credits serve essentially the same purpose. Yet you have to go through a lot of calculations and alternate computations in order to figure out what to do and how to minimize your taxes. There are a great many possibilities and all kinds of manuals and books to study in order to figure out what kinds of itemize deductions you are entitled to. No doubt taxpayers approach this task with mixed feelings, for on the one hand it represents an opportunity to reduce your taxes. On the other hand, it is very complicated and you have that vague feeling that if you only understood the system better and if you were a little smarter and had a little more time you'd be able to take something off your taxes that your neighbor is doing. You end up feeling that somehow your are paying a little more than your neighbor is paying. And that clearly raises questions about the integrity of the system as a whole.

Besides, it requires a tremendous amount of record-keeping, because you never know when your friendly IRS agent is going to come around, call you in, and ask you to substantiate all of those deductions that you have taken in your last year's and previous year's return.

Half the taxpayers of this country, we estimate, aren't able and do not prepare their tax return on their own. They have to go to accountants, lawyers, tax return preparation specialists. A whole industry has grown up to help people do what they ought to be able to do in a simple fashion on their own. Now that may be good for those professionals who make a fine living off it, but we don't believe that it really is the best thing from the point of view of the average taxpayer of this country.

The system is so complicated that I can let you in on a secret. Even the average IRS agent doesn't fully understand it. And as a result -- and this is no joke -- there are parts of the Code that are simply not enforced, because the IRS agents have no real capacity to work their way through the thicket of regulations and rules and exceptions and exemptions and preferences. They simply don't have the time to do that and to cover even a small, small fraction of the returns with the kind of audits that ought to be conducted.

These exceptions also mean that with marginal tax rates that go as high as 70 percent, people seek to cut through this complexity, and to turn it to their advantage, by using experts and by engaging in so-called tax planning -- some people call it tax gamesmanship, by taking risks in the hope that their number will not come up for audit. Clearly that means there is a lowering in the faith in the system. We see some evidence that there is a decline in tax compliance and that's very serious because a great thing about our system is that it is essentially a voluntary system, that the average American, though he or she may grumble, believes in paying a fair share of income in taxes and does so voluntarily and relatively cheerfully, at least compared to other countries. I have learned a long time ago that in this world there are few absolutes and you generally have to ask compared to what. You know the story they tell about W.C. Fields, when people would ask W.C. Fields, how is your wife, he would respond, compared to what. We do see some evidence of a reduction in tax compliance, and that does worry us, and that alone is reason why a reform that makes people feel more confident about the system, and makes it easier to understand and less complex clearly is in order.

There is a second reason why reform is essential and that is because the tax system today is not fair. Americans have long believed that the tax system should be reasonably related to a taxpayer's ability to pay. In theory, our system passes muster pretty well on this count, and again, compared to those of many other countries, quite well. The statutory rates range from 14 percent on taxable income of under $500 up to 70 percent of taxable income over $200,000, with a maximum of 50 percent on earned income. When you look at the actual effect of this -- not the nominal rates, but what the people actually pay -- if we analyze the returns using expanded income, including capital gains and certain preference items, then we find that the actual percentages range from 1.1 percent on income under $5,000 to 32.6 percent on income over $200,000. So there is progressivity. And this progressivity has increased in the last several years -- which means that people at the lower end have had their load lightened somewhat and those at the upper end have had to pay a little more. Nevertheless the system leaves much to be desired when it comes to fairness. Because when you look at taxpayers with incomes over $200,000 you find that some pay in effect only 2 percent while others pay as much as 58. Thirteen percent of all high income taxpayers are taxed at less than 20 percent of their expanded income, while nearly one-fifth of them pay more than 45 percent.

The same thing is not true at the lower levels. At the 10, 20, 30, 40 thousand dollar levels, most people pay more or less the same amount on their expanded income in taxes. The reason for that of couse is clear. As you move on up the ladder, you can afford to hire people to look for loop-holes, you have many different forms of income -- earned income, unearned income, capital gains -- and it begins to pay to engage in this fancy type of tax planning. And that's why you get the result that, at those high levels, people frequently don't really pay a very high proportion of their taxes, and others who don't engage in it pay quite a bit. So that's really an element of unfairness that ought to be corrected, so that at all levels the progressivity is about the same and people with the same amount of income pay, as they should, the same amount of taxes.

Because of the profusion of opportunities for this kind of tax avoidance, Congress has tried to impose a so-called minimum tax on certain preference items but that hasn't worked all that well, and something needs to be done about that.

There is another source of inequity that really becomes more and more troublesome as female participation in the labor force continues to increase, and as we reduce, as we should, pay and employment discrimination against women. As it stands now, marriage confers a tax benefit, as long as the income of one spouse is 10 percent or less of the combined income. But when the partners have incomes that are more nearly equal, their marriage, though it may otherwise be bliss, at tax time is a bane. That is the so-called marriage penalty, which really means that two spouses of relatively equal income pay more taxes than two individuals with roughly the same income.

That really is not fair and should be eliminated. We do not want to have taxes that discriminate against the institution of marriage.

No doubt that's one of the defects President Carter had in mind when he referred to our taxes as a national scandal.

There is a third shortcoming in our tax system which is important because it relates directly to jobs, to the development of our economy, to the making available of enough resources to provide all Americans a decent standard of living and to meet the many needs that all of us face in this country. And that is that the system, as it stands today, does not provide adequate incentives for investment in the economy. And it is investment, private investment, that of course creates the jobs that most of us rely on to earn our livelihood. On the contrary, to the extent that current income tax provisions lead to a variety of activities that would not be undertaken except for their ability to reduce taxes, it fosters inefficiency and misallocation of resources. In our remarkably productive American agriculture, there exist some remarkably unproductive farms which exist only for what I would call farming the Internal Revenue Service.

One may question whether in a time of increasing scarcity of national resources, percentage depletion allowances that encourage too rapid exploitation of a scarce resource are efficient or sensible. At the same time our incentives to investment in the productive equipment our economy needs have been too weak. The rate of capacity growth in manufacturing has been dropping in recent years from 4.6 percent between 1948 to 1968 to 4 percent from 1968 to 1973 and to 3 percent in the last few years. Even allowing for cyclical swings, the trend is worrisome. This country needs more -- not less -- investment in the tools of production. And if we are to remain competitive, if we're to create the increasing number of jobs needed for a growing labor force, not only for new entrants but also for second wage earners in a family and part-time wage earners, we have to have a larger base of plant and equipment.

So without going into further detail, we see these major areas of imperfection. And the major targets for substantial reform are simplicity, equity, and incentives to efficiency and investment. The tax reform program that we have been studying and that we are elaborating and have been presenting to the President is intended to achieve these three goals.

We have already taken a step toward achieving simplicity as part of the tax changes enacted this year in the stimulus program by providing a flat standard deduction that will allow the deduction, personal exemptions and the general tax credit to be combined in a single tax table for most taxpayers.

But there is more that can be done. We can eliminate many of the complications that I have mentioned by combining the present general tax credit and the personal exemption into either one larger credit or an exemption. That would have the result that people can go to a simple table, look at their income, look at what the tax would be, take it with the standard deduction, and without having to go through many of those calculations.

At the present moment we have roughly 74 or 75 percent who take the standard deduction. We think we can design the form to bring that number up. We can of course speed the process by eliminating some or all of the itemized deductions, and by coupling the elimination of these deductions with reductions in the tax rates. So we can say, you don't have to specify all these deductions. We won't allow that any more. But we're going to give you a lower rate. Just look that up in your table. And that is something that we're going to be attempting to do.

With a virtual elimination of deductions and exclusions we could raise the same amount of revenue with tax rates of 8 to 38 percent that we now obtain with tax rates from 14 to 70 percent. So you see what the deductions and the exceptions really mean in terms of the final tax tables. Now we can't eliminate all of them clearly. I say that so that Reverend Williams rests easy. But we can eliminate a good many of them.

In some cases events have weakened the rationale for certain of these deductions.

The deduction for medical expenses, for example, is intended to recognize the reduction of the taxpayer's ability to pay that results from unusually high medical costs. Yet just with the disproportionate rise in medical charges, substantial amounts of normal and usual expenses are now deducted. So we must ask ourselves whether this situation could be bettered, for example, by a higher limit on deductible expenses and a rate reduction.

Some itemized deductions, such as sales taxes, for example, are determined by a formula and bear little relationship to the taxpayer's actual expense. You are supposed to be deducting your sales taxes. What you really do is you get that yellow book that you buy for $2.95 and you look up, for my income, what can I deduct in the way of sales taxes, and just stick it in there. Well, that's an unnecessary step. We can put that on the rate table. We can just give you an allowance for that, then everybody benefits without having to make that calculation.

Again, we have to consider whether that isn't a simpler way of doing it.

But the most important single step that we could take to promote tax simplicity and equity is to drastically reform the preferential taxation of capital gains. There are nearly 100 sections and subsections of the Tax Code that are concerned with the preferred treatment of capital gains. A large part of tax planning and the uneconomic activities associated with it is directed at converting ordinary income into capital gains. And much of the variation in taxes paid by people with equal incomes derives from that one factor.

Defenders of the current arrangement argue that its elimination would cause people to hold on to appreciated assets and would reduce savings and investments, thereby undermining our efforts to foster capital formation. Taxation of capital gains at ordinary rates, in combination with a rate deduction, maybe with a top rate of 50 percent, and the elimination of the so-called minimum tax, need not have these effects. Even under present law, capital gains can be taxed as much as 49-1/8th percent. So the increase in taxation would be much less than many people suppose. And this increase can be balanced by other measures that reduce taxes and raise the return to capital without the complications and inequities that are inherent in the present capital gains preference.

Clearly we would have to recognize exceptions. We would have to look at the problem of inflation, and its impact on capital gains. We would have to deal with family property and so forth. But I think that can be done rather simply.

Besides reforming the capital gains preference, there are other steps we can take to increase equity. We could help State and local governments as much as we do today, at less cost to the Treasury, and with greater tax fairness, by directly subsidizing their interest costs in exchange for their issuance of taxable bonds. In other words, we could at least provide a taxable bond option, with a subsidy from the Treasury, to provide for States and localities the choice of either going to a tax exempt or to a taxable security.

We could reduce the inequities related to marriage. However, the simple expedient of treating wage earners as a separate tax unit means that many families with like incomes will be taxed differently. A possibility that straddles the two conflicting concepts of equity would provide a limited tax credit against the earnings of the lower-earning spouse.

The third goal of increasing efficiency and investment in the American economy will benefit from some the the steps taken to foster simplicity and equity. Reduced incentives for tax planning will help channel resources into their most productive use. Reduction of the high marginal rates on unearned income would remove the tax bias against savings and investments. And the elimination of incentives that do not serve a social purpose would end certain uneconomic production.

To increase capital formation we have a number of major options. The arrangement by which corporate income is taxed first at the corporate level and then again when paid as dividends to shareholders creates a bias against corporate business compared to partnerships, against equity financing compared to debt, against corporations' owners, workers, and consumers. One solution is to treat the corporation as though it were a partnership and tax its earnings plus dividends only once. Or we might eliminate the double taxation only on distributed corporate earnings. And again there is a variety of ways that might be done.

There are clearly other things that we could do in order to foster capital formation. We can allow for easier write-offs of plant and equipment and easier depreciation schedules. We could provide for a reduced tax rate on corporate earnings. And of course all of these things could be done in combination with the elimination of some of the loopholes and some of the special provisions. We could thereby provide these benefits and have a lower rate structure for the future as well.

So you see that opportunities really do exist.
simpler for the average taxpayer, for making it fairer, for putting tax benfits into the rate schedule and eliminating the opportunities for tax planning, and for providing a variety of ways for giving incentives for capital formation, without

getting into the complications of the kind of capital gains treatment that we have today, And it is toward these goals that we are directing ourselves. There is not going to be an easy way out. There will have to be compromises, and no doubt there will be a fairly long period of vigorous debate in the Congress. And many special interest groups will be in there fighting for their particular niche and their particular advantage, about which they feel strongly and to which they have become accustomed. The effort that we will attempt is to balance and to compromise these various interests and to come up with a new tax system which all Americans can understand and respect and which fairly and equitably distributes the burden of financing our government at the same time it facilitates the investment in the private sector that is needed to move the economy forward.

A meeting such as this provides me not only the opportunity to explain to you what we're doing, but more importantly provides you the opportunity to question and comment and certainly to criticize. And it is with the hope that you will do so vigorously and freely that I thank you for the honor of allowing me to appear before you and invite you to begin your questioning. Thank you very much.

QUESTION: Over the years there have been many tax incentives provided for industry. If these tax breaks then remain in the tax system, and are both hidden subsidies and other unnecessary, complicating items of the tax structure, would it not make more sense to give an outright subsidy and repeat as needed when an incentive is indicated, and this would also provide sunset aspect to stop a subsidy when no longer needed?

SECRETARY BLUMENTHAL: Well, I think your logic is impeccable, sir. You are absolutely right. If we could start all over again, from the beginning, we would be well advised to eliminate all of these so-called tax expenditures, all of these breaks, that are in the tax code for corporations, for businesses, as well as for individuals, and provide whatever help we want to give in the way of subsidies so that they are out there for everybody to see, maybe with a sunset law so that they have to be rejustified every X years. But the practicalities are different. You just can't do that for many things. For example, imagine if we said that charitable contributions to churches and schools were no longer deductible and we would pay an outright subsidy. It's just impossible. Imagine if we said that interest on the mortgage for homes is no longer deductible. If you go through the list, for both business and private deductions, and exemptions and preference items, you come across a good many that are so deeply imbedded, for some good reasons, that really, you are going to have to leave them. But we look at each one of them and see whether there is not a better way of doing it. And where we can, we are drawing a list of those, we are going to suggest to the Congress that they be eliminated and that an offset be given in a simpler and more visible form.

QUESTION: In anticipation of your program, many advisors are suggesting today that capital gains be taken prior to such a program being announced. Would you discuss the subject of how these developments will be phased in?

SECRETARY BLUMENTHAL: First of all, I'll say in the beginning and the middle and the end of my remarks that no decisions of any kind have been made. We are still in the studying stage. We're still trying to organize our thoughts, develop the package or the packages. And anyone who takes any actions based on what he or she reads reads in the paper at this time, is living dangerously. But be that as it may, even if there is, as there may be, a substantial reform of capital gains preference, it will certainly have to be phased-in over a period of time. The technical complications of just suddenly announcing that as of January 1, there's no more capital gains, simply are overwhelming.

So I would expect that whatever happens in that area will be phased-in over a period of years and if you bear in mind that there is, as I said in my speech, a possibility under certain circumstances of the tax on capital gains going into the 40s and as high as 49-1/8th, anyone who wants to gamble that we will in fact do something and rush in now and sell his or her property, is welcome to it ut it is kind of jumping the gun.

QUESTION: Perhaps you've already answered the question, but I didn't understand it if you did, in the last -- it was my feeling they were floundering, but apparently not so, that Atlantic Richfield is going to make 54 percent on its equity, Union Oil in California are going to make 43 percent, Standard Oil of Ohio is only going to make 17 percent but the average is 23 percent, simply by bypassing Alaska and the Internal Revenue. Because the more they have put in it, the less taxes they will have to pay on the oil that's taken out. This is my understanding. I believe we've lost control of our tax, our international cartel. What about the offshore banks. What are they used for? The gambling interests and the big corporations and so on? (inaudible)is a good example of this. They are bypassing the Internal Revenue. Mr. (inaudible) is sitting there in the (inaudible) hotel and he was investigated by the (inaudible) financial board (inaudible).

SECRETARY BLUMENTHAL: We do feel very strongly that the income system, as it affects businesses, should provide that all companies pay their fair share, and that situations, except in very unusual circumstances, in which large corporations pay little or no taxes, are to be avoided. And I am sure that we will be testing whatever tax reform package is proposed against that goal. And we are aware that there are instances where that has happened. Sometimes there's been a good reason. And sometimes it has been quite unfortunate. And we are looking seriously at ways and means to ensure that all companies, including the very large ones, including those that operate nationally and internationally, pay their fair share of income taxes to the government.

QUESTION: Mr. Secretary, would you tell us a little about the Treasury's thinking as to adjusting incentives for small or medium size businesses to allow for the fact that in general their cost of capital is higher, their ability to raise funds to invest in capital equipment is lower and more expensive and so on. In other words, will there be special incentives to smaller and medium sized businesses?

SECRETARY BLUMENTHAL: We have had very specific discussions with representatives of small and medium sized businesses and we are quite aware of their problems. And there will be an effort to take their interests into account and to have some provisions that are particularly intended to help them, as part of tax reform. Exactly what these will be I really cannot tell you yet, but I have no doubt that there are going to be a number of provisions that will be particularly directed at encouraging capital accumulation for small and medium sized business. They will also encourage access to the equity and the capital market for small and medium sized businesses and will encourage the kind of entrepreneurship and ingenuity of smaller organizations which in the past really have been the engine for developing the American economy. We have that very much in mind.

QUESTION: Secretary Blumenthal, welcome to the wonderful, corrupt world of Ohio. My question, when it comes to the citizen of the most corrupt state in the Union has to do with the enforcement policies of the Internal Revenue Service. Income to me should be income to a Congressman. $10,000 given to the wife of the Governor of Louisiana in an envelope by the Korean pay-off man, should be included as income. Was it included as income, and when are we going to see anything done by your Administration or brought out by the newspapers with reference to the prosecution of these Congressmen, prosecution of these people who get all this income off boondoggle trips in Europe? You're darn right I'm mad when I pay my income tax, because I know I am paying a heck of a lot more than those nice, fine people we elect to public office.

SECRETARY BLUMENTHAL: Well, I'm sure glad I'm appointed and not elected. I hope you will excuse me from commenting on any one particular case. For reasons that you will understand it is quite inappropriate and impossible for me to do so. I would only compromise it. I would say that I am very proud of the new Commissioner of Internal Revenue, Jerry Kurtz and I hope that someday in the not too distant future, you all here in Cleveland will have an opportunity to meet him and to listen to him and to have him discuss his efforts at enforcement, and ensuring, or reassuring if you will, the integrity of the Internal Revenue Service -- which at times, through some of the things that have happened over the last few years, questions have been raised about -- and for continuing to build on the fine professional competence of the Service. He is very interested, very concerned and very energetic, I can assure you -- and in the enforcement of the Code as it stands. And I take personal pride in that.

We have 80,000 people, I believe, in the Internal Revenue Service, and a good many throughout the country, and a good many of those are engaged in enforcement. Now I suppose you could hire another 10,000 and we could do more. But we're not going to do that, or we're not going to do that very quickly. We're trying to just be more effective and to simplify the system so that we can clearly be more effective. Because it is the complexities that allow people to escape, and they shouldn't. And I see no reason, and there is nothing in the Code, that exempts or excepts or gives preference to any one particular group of taxpayers, whether they be in political life or in business life or in unions or in academia or anywhere else. That is the goal and that is the principle from which the Commissioner operates. And, as I said, he is an outstanding individual with many years of experience in the field, and I am very confident that he will be one of the very best we've ever had.

QUESTION: Mr. Secretary, I'm a certified public accountant. I, too, am interested in simplifying the system. But it seems to me that every day we get complications from the Internal Revenue Service. For instance they just issued a new revenue ruling that had to be temporarily postponed on taxing supper money, a ruling that was getting into the fringe benefit area, further complicating an already complicated area. It seems to me you come here and talk about simplifying, but every day, the people who work for your Department, are complicating the system. Can't you do something about it?

SECRETARY BLUMENTHAL: The complication to which you refer, which is the taxation of fringe benefits, is the law. And as the previous questioner implied in his question, the law has to be upheld. And the Internal Revenue Service is attempting to uphold it even where in the past it has not been. But, of course, you then get into the question of definitions, where some of the complexities occur. I don't think we will ever get away from the need to interpret. I think we can get away from a tax code that has 1100 pages and too many sections and sub-sections, and we can have a much simpler one and a much shorter one.

But some of the implementing regulations that spell out what is or is not a fringe benefit, in this particular case, I think are simply unavoidable. The alternative to doing that is to do nothing and I don't think that is fair because then it provides very good opportunities for people -- and you don't need to be overly brilliant to do that -- for figuring out how to provide income for themselves or to others and having it escape from taxation. Why should a worker who gets his meals paid, whether it is supper money or lunch money or breakfast money or anything else, not pay taxes on that, and another person who gets it from his employer in the form of cash pay taxes on it? There is no good logic or reason.

I'm not a CPA but I don't see any good reason or logic for that distinction, and all they are trying to do is to make that point clear, I think.

QUESTION: Mr. Secretary, is there anything that can be done about the present situation where you have legions of people throughout the country who own securities which in many cases don't fit their particular situation, but which they can't get out of because of the capital gains tax they have to pay if they got out. You are faced with the decision really, shall I hold onto this security which doesn't fit me, or do I pay my capital gain and get out? Isn't there something wrong with this, since it forces people to hold securities that aren't right for them?

SECRETARY BLUMENTHAL: I've often wondered at that. Particularly on the days when I looked at my portfolio. I think the question you mention, which is that of the lock-in, permanent lock-in, for people who choose not to pay the taxes -- not that they can't, but they don't want to; it is after all an act of free will on their part; they could if they wanted to -- that question of lock-in is a serious one. Of course there are all kinds of ways of dealing with it. You can deal with it in the form of a rollover which is, I guess, what a lot of people who have that problem would like, and in effect Uncle Sam says: go ahead and sell it, if you buy something else we won't tax you. That could be done. It would be very expensive for Uncle Sam. It would be a major loss in tax revenue and it would have to be made up in some other way. There is another way and I mention that only, if you will, as the other extreme, which is simply to say it is going to be taxed at death anyway, which it is not now. So if you had that kind of capital gains treatment on your assets at death, then you wouldn't be that worried about lock-in because you would be locked out anyway. And I think really the answer has to -- and I'm sorry about that complication -- lie somewhere in between. We do have to find a way to make allowances for assets of a particular kind, those that have been held for very long periods of time. Someone who bought stock 30 years ago for a dollar and today finds that that stock is worth $100, bought it with different dollars 30 years ago, and some allowance for that has to be made.

However, the person who has bought stock for $1.00 or for $10.00 last year and this year or next could sell it for $20.00 or for $30.00 does not face that problem of inflation to nearly the same extent and has had a real gain or real income which perhaps might be treated differently. But you do have that complication and you have a similar complication as to whether you are talking about stock or whether you are talking about personal property such as homes or farms or family businesses. Yes, we are looking at this problem and we are concerned about lock-in, because lock-in also impedes the flow of capital into productive uses, into equity markets, into the investment process within the society and we do want that impediment. We do not, however, wish to and cannot handle the lock-in problem by simply forgetting the notion of taxing an income, which is a true income, that results from having had an asset over a period of time in which it increased in value.

QUESTION: Mr. Secretary, since state tax returns and city tax returns are based very heavily on what federal tax returns say, has tax reform planning given any consideration to the possibility of combining all of the separate returns for state and city and federal on one standard income tax form, and the IRS or federal agency would serve as the collection agency thereby eliminating duplication of the tax administration agencies at state and local levels, which gets very complicated.

SECRETARY BLUMENTHAL: I believe I was at a meeting where somebody suggested that in some such form. The general consensus was that there would be a good many states and a good many governors and state legislators who would shudder at the thought of having the federal government collecting all their taxes and getting its hands first on all that money. And that the right to propose and collect their own taxes was one that was condidered to be of some importance to many of the states involved.

Of course, you know if you go a step further there are city taxes and county taxes. Also it wouldn't be entirely a cost saving, because clearly the expense to the federal government of doing that would be quite large, although there could be some savings. I think what we are hoping for rather is that simplification of the federal income tax system will allow the states and localities to piggyback onto our simplified system and to use in their tax collections similar definitions to what we use. So that as we use a tax table and have one line at the bottom against which the tax is determined, they can do the same. This means that they would refrain from having taxpayers making adjustments to get from what is considered taxable income for one purpose to what is considered taxable income for another purpose. That is about as far as we have gone. We don't really believe that we can do the job for the whole country and I have not noticed any groundswell of enthusiasm on the part of the governors or the legislators encouraging us to do so. If they really wanted us to, no doubt we would consider it.

QUESTION: Would you further discuss the taxation of perquisites? I happen to disagree in part with the rhetorical question of why shouldn't a worker be taxed for an example, for his free meal when first of all in nine cases out of 10, the corporation will be able to have a tax write-off for the meal program, but second of all the worker doesn't have a choice and if he did have a choice, then he would be able to have a different -- there would be a different price mechanism in terms of he might choose not to eat lunch at all, or he might choose to buy a smaller lunch. But the taxation on the lunches would be a flat rate, which again would discriminate against him. But the real question is, could you discuss further the propositions and the arguments that are going on in Washington right now as to cut-off points between middle income and lower income for purposes of being taxed, and upper income and executive for purposes of being taxed?

SECRETARY BLUMENTHAL: You are rapidly leading me into a field in which I am about as expert as you apparently are and I will leave that to the Internal Revenue Service. I can only speak in generalities, in general principles, because that is really what I get involved in. And I can only reiterate that the general principle that all forms of income are taxed and that they are taxed alike, and that people with like incomes, from whatever source, pay a like amount of tax, is a sensible principle which I think is logical and fair.

Applying that principle to the two situations that you questioned me about, I can only say in generalities, if there is one worker who makes $30 a day and gets a meal and another worker who gets $30 a day and does not get the meal, the former has a higher pay than the latter. That ought to be somehow reflected in the taxes. I think that's fair.

In the second case, I see absolutely no reason why that principle should apply only to one group of taxpayers and not to another. It would apply to those who have a high income, it would apply to executives who have corporate-owned cars or whatever, if an executive uses a country club for private purposes that have nothing to do with business, just as it applies to lunches to a worker who gets some benefit that has to do with lunch. I don't think there should be any distinction. I think both principles are fair and equitable. As it has been pointed out, their implementation is not so simple. And the Internal Revenue Service is feeling its way towards applying those fair principles in an equitable and simple manner.

QUESTION: Mr. Secretary, I'd like to -- the third part of your program, namely to increase the sector of business by improving tax policy. I'd like to relate that to a problem Cleveland faces and other cities in the Northeast, namely the loss of existing business and the loss of investment in new business. Why can't such a tax policy encourage investment which would lead to the further emigration of business from cities like Cleveland, might not a policy which encourages that, which I think is a beneficial policy, actually contravene what the Department of HUD and the Commerce Department are trying to do. Which leads to the question, does the Treasury Department -- are you considering a policy -- what merit would it have to give special tax advantages to businesses which were made and expanded in Cleveland?

SECRETARY BLUMENTHAL: Well, let me answer that in two parts. With a yes and -- a no and a yes. We are not seeking as part of the tax reform program to provide special incentives for cities or for businesses in the city. We are, as I said earlier, in response to the very first question that was asked, trying to cull out the list of tax preferences, to eliminate as many of the special provisions as possible. And instead we would go to direct payments of some form, instead of using the tax system because using the tax system further distorts and brings in further complications and tax havens and all those things that we're trying to get away from. So the answer is no to that part.

The answer is yes to another question which is, are we looking at the urban problem, are we looking at the problem of cities of America and are we interested in developing a program that addresses itself to the common issues that are inherent in that question? And the answer to that is yes. It is not part of fundamental tax reform. It is part of -- and also happens to be in large measure a responsibility of the Treasury -- part of the direction that we have from the President to do something about the urban financing problems of the cities. And there we are going to try to deal with not only emergency financing needs of a seasonal nature such as those which New York City faced over the last two or three years, but also with the question of what can be done to retain business and to attract new business into the city. We want to encourage new business or other kinds of magnets that attract people and jobs into the city and revitalize it. And there have been all kinds of ideas, including the notion of some kind of urban banking mechanism. We are working on that. And that is a separate program which ought to be beneficial in addressing the question you've raised. But it is not part of the fundamental tax reform program on which I have spoken today.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 27, 1977

CAST IRON SOIL PIPE FROM POLAND NO LONGER BEING DUMPED, TREASURY DEPARTMENT ANNOUNCES

The Treasury Department has revoked a dumping order with respect to cast iron soil pipe from Poland after determining that no sales at less than fair value had occurred subsequent to the earlier finding of dumping. The Treasury Department also received assurances from the sole exporter that no sales at less than fair value will occur in the future.

Notice of this action in a "Notice of Modification or Revocation of Dumping Finding" will be published in the Federal Register of July 27, 1977.

The dumping finding in this case was published in the Federal Register of November 2, 1967. On February 10, 1977, the Treasury Department published in the Federal Register a tentative decision to revoke the dumping order. This decision occurred following a determination by the Department that no sales at less than fair value had taken place for five years following the finding of dumping and after receiving price assurances from the exporter. After a period for submission of oral and written presentations, the Treasury Department made the revocation final.

Imports of cast iron soil pipe from Poland during the period January through September 1976 were valued at approximately $30,000.

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B-364

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. July 26, 1977

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $6,000 million, to be issued August 4, 1977, as follows:

91-day bills (to maturity date) for approximately $2,400 million, representing an additional amount of bills dated May 5, 1977, and to mature November 3, 1977 (CUSIP No. 912793 K9 6), originally issued in the amount of $3,307 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,600 million to be dated August 4, 1977, and to mature February 2, 1978 (CUSIP No. 912793 N5 1). The 182-day bills, with a limited exception, will be available in book-entry form only.

Both series of bills will be issued for cash and in exchange for Treasury bills maturing August 4, 1977, outstanding in the amount of $6,008 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,185 million. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. 91-day bills 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), as well as in book-entry form to designated bidders. Bills in book-entry form will be issued in a minimum amount of $10,000 and in any higher $5,000 multiple. Except for 182-day bills in the $100,000 denomination, which will be available in definitive form only to investors who are able to show that they are required by law or regulation to hold securities in physical form, the 182-day bills will be issued entirely in book-entry form on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

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Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Daylight Saving time, Monday, August 1, 1977. Form PD 4632-2 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

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 in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account.

Payment for the full par amount of the 182-day bills applied for must accompany all tenders submitted for such bills to be maintained on the book-entry records of the Department of the Treasury. A cash adjustment will be made on all accepted tenders for the difference between the par payment submitted and the actual issue price as determined in the auction.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities for the 91-day bills and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 182-day bills issued in bearer form, where authorized. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Competitive bidders will be advised of the acceptance or rejection of their tenders. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and the Secretary's action 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 weighted average price (in three decimals) of accepted competitive bids for the respective issues.

Settlement for accepted tenders for the 91-day and 182-day bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 182-day bills issued in bearer form must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on August 4, 1977, in cash or other immediately available funds or in Treasury bills maturing August 4, 1977. Cash adjustments will be made for differences between the par value of the 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 these bills 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 these bills (other than life insurance companies) must include in his or her 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 Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 27, 1977

TREASURY DEPARTMENT ANNOUNCES
TENTATIVE DETERMINATION TO MODIFY OR REVOKE DUMPING FINDING
WITH RESPECT TO CALCIUM PANTOTHENATE FROM JAPAN

The Treasury Department announced today that it has tentatively determined to modify or revoke a dumping finding with respect to calcium pantothenate from Japan produced and sold by Daiichi Seiyaku Co., Ltd. Notice of this action was published in the Federal Register today.

Notice of the finding of dumping in this case was published in the Federal Register on January 17, 1974.

Several conditions must be met before the Treasury Department can issue a notice of tentative determination to modify or revoke a dumping finding. First, the Department requires that the finding have been in effect for a least two years. Secondly, the Department must determine that there be no sales at less than fair value for at least two years following the finding, and, thirdly, the Department must be assured that no future sales at less than fair value will occur. After a period for submission of oral and written presentations, the Treasury Department will decide whether to issue a final modification or revocation.

Imports of calcium pantothenate from Japan during the period July 1, 1975 through June 30, 1976 were valued at approximately $1.3 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
EXPECTED AT 10:00 A.M.
July 27, 1977

STATEMENT BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON FOREIGN ASSISTANCE
SENATE COMMITTEE ON FOREIGN AFFAIRS

Administration Policy Toward the Overseas Private Investment Corporation (OPIC)

Introduction and Summary

The Administration has completed a thorough review of OPIC. This review concluded that OPIC can advance several important U.S. foreign economic policy objectives and should be continued. It also was agreed that, with new program directions, OPIC could play an even more important role in the future than it has in the past.

The Administration concluded that three changes are needed in the emphasis of OPIC programs to enable it to play such a role. First, OPIC should focus much more heavily on the poorer developing countries (LDCs) which really need its assistance. Second, OPIC should develop innovative risk reducing coverage for projects in energy and other raw materials. Third, OPIC cannot successfully pursue its objectives and turn over its entire insurance portfolio to the private sector by the end of 1980; thus, existing legislation should be modified to eliminate the "privatization" objective.

North-South Relations and OPIC

U.S. policy toward foreign direct investment in the LDCs, like our policy toward other international economic relationships with these countries, must be seen in the overall context of North-South relations as they stand today. It has become a widespread view that, increasingly, the LDCs have been acting collectively and voting as a bloc in international organizations. The "Group of 77," a loose coalition of LDC interests (comprising a voting block now substantially larger than the initial 77 LDC members), has emerged within the U.N. framework. This Group is calling for a "New International Economic Order" (NIEO) to increase the share of LDCs in world output and economic influence.

Investment aspects of the NIEO would include the following propositions:

- -- Each state has the right to regulate and exercise authority over foreign investment in its territory in accordance with its laws and national policies.
- -- Multinational Corporations (MNCs) should not intervene in the internal affairs of a host country.

-- Each state has the right to nationalize, expropriate, or transfer ownership of foreign property.

-- Compensation is to be paid by the expropriating state taking into account its relevant laws and regulations and other circumstances that the state may consider pertinent.

-- All investment controversies will be settled under the laws of the host state and in its courts unless there is prior agreement that other peaceful means be sought.

The rhetoric of the NIEO has thus been somewhat hostile to private investment. However, the actual behavior of most individual members of the Group of 77 has been much more moderate. The intense need for capital, technology, and managerial skills has encouraged a pragmatic approach to foreign investment in most countries. The growing ability of the developing countries to harness MNCs to <u>their</u> national development objectives has reduced hostility toward the firms. In multilateral fora, the ideological rhetoric of the U.N. Sixth Special Session has been moderated, and LDC positions in CIEC and the U.N. Commission on Transnational Corporations reflect a growing awareness that foreign investors are not attracted by excessive verbal abuse.

Thus there is ample scope for the continued operation of foreign direct investment throughout the developing world. Well-conceived OPIC programs can help support such investment, if those programs are tailored to the realities of the latter 1970s and early 1980s. The Administration's objective is to recommend changes in OPIC which would further that objective.

Privatization

At present, however, the legislative situation which authorizes OPIC is unstable. Under the 1974 legislation, OPIC must progressively increase private participation in its insurance functions with the aim of withdrawing completely from direct underwriting of inconvertibility and expropriation insurance by the end of 1979, and of war risk insurance by the end of 1980.

It is now clear that this withdrawal schedule cannot be met. OPIC has made heroic efforts to increase private participation in its portfolio. Some increase in participation has resulted, but success has been strictly limited and at the cost of diverting OPIC from the fundamental objectives of its program. If this requirement is not changed, OPIC will be gutted -- and important U.S. policy objectives will lose a helpful policy tool.

OPIC witnesses have detailed their efforts to privatize. Let me simply repeat the results: after three years of effort aimed at obtaining private participation, OPIC has succeeded in interesting private insurance in only a very limited part of its portfolio and has not succeeded at all in interesting them in insuring for catastrophic losses. There is virtually no private willingness to insure land-based war risk, and private insurers will accept no more than a one year renewable commitment in privatization activities. It is thus unrealistic to expect the private insurers to fully replace OPIC's insurance underwriting by the end of 1980.

Moreover, these efforts to obtain private participation have been costly to OPIC in terms of management time. And, most importantly, efforts to obtain private participation have undoubtedly affected OPIC's portfolio decisions. The portfolio which maximizes OPIC's developmental impact is clearly not identical to the portfolio which maximizes private participation. Private insurers are in business for profit, and their interest in OPIC's portfolio is directly proportional to that portfolio's profitability. Thus the pressure on OPIC to turn over its insurance to the private sector by 1981 has led OPIC toward choosing less risky, more profitable, projects even when these are not the best projects for developmental purposes. It is simply ludicrous that OPIC's past management seriously considered insuring projects in developed countries such as Kuwait, Hong Kong, Ireland and Spain.

Yet this was the inevitable result of the mandate that OPIC "privatize." The Administration believes that maximum emphasis should be placed on development, consistent with OPIC's undertaking to be self-sufficient. The issues before the Congress today are whether development in the poorer countries is in the national interest of the United States, whether private direct investment promotes such development, and whether OPIC promotes private direct investment. If the answers to these questions are affirmative, then OPIC should be given new policy direction and a new lease on life.

OPIC Development Policy

The Administration believes that the answers to these questions are affirmative. Private direct investment can play an important role in the economic development process, particularly through:

-- transfer of resources, and of managerial and administrative expertise;

-- the expansion of productive capacity and employment; and

-- establishment of new export markets.

A major barrier to private direct investment is political risk. OPIC insurance pools this risk and reduces it for the investor. This lowering of risk is an effective incentive for investment. Thus projects which appear commercially unacceptable because of high political risk may become profitable when the risk is reduced through insurance. Thus OPIC insurance increases the total flow of U.S. private investment to LDCs.

OPIC-insured investment is most likely to be additional for projects in countries where investors consider the political risk to be high. Since investors, whether rightly or wrongly, tend to perceive higher political risk in the poorer LDCs, OPIC is more likely to add additional investment in these countries than in richer LDCs. The Administration wants OPIC to assign higher priority in the future to the encouragement of investment in the poorer countries.

Between 1966 and 1975, U.S. foreign direct investment in the developing countries rose from $13.9 billion to $34.9 billion, an increase of 151 percent. This expansion is roughly comparable to the 158 percent rise in U.S. investment in developed countries. The bulk of this increase in U.S. investment, however, was concentrated in a few countries. For example, Brazil ($3.7 billion) and Mexico ($1.8 billion) accounted for $5.5 billion, or about 26 percent, of the total $21 billion increase. U.S. direct investment in Brazil increased more than 400 percent, and in Mexico more than doubled, between 1966 and 1975. Countries such as these have demonstrated an increasing capability to attract foreign investment on their own, and do not need a great deal of help from OPIC or other programs in home countries of potential investors.

Relatively little U.S. investment went into other LDCs during this decade, however. Those nations most in need of external resources received very little private direct investment, measured as a percentage of the U.S. total -- though some of them received fairly important amounts relative to their own economies' needs.

In order to further focus OPIC's efforts, the Administration has concluded that OPIC programs should, pursuant to guidelines to be established by the OPIC Board, be confined to the less developed countries, excluding the advanced or "upper middle income" countries except for mineral and fuel projects approved by the Board and exceptions recommended by the Secretary of State on national interest grounds. OPIC should concentrate on the poorer countries, which are most in need of external resource transfers and are least likely to receive investment inflows from the private sector on their own. The program should not generally operate in the upper tier LDCs which are quite able to attract private investment without outside assistance.

Energy and Raw Materials

A second new focus for the OPIC program recommended by the Administration relates to investments in energy and non-fuel raw materials, where additional investment as a result of OPIC coverage is also higher since firms are now reluctant to invest in this area without OPIC insurance. OPIC has already introduced a program to develop innovative, risk-reducing coverage for new types of investments -- joint ventures, service contracts, and the like -- in fuel projects in oil-importing LDCs and in minerals projects. The Administration recommends that OPIC continue, and expand, its use of insurance and guarantees to promote U.S. investment in LDC fuel and nonfuel mineral projects. This would enable it to pursue three important U.S. national objectives:

-- to avoid misallocation of important economic resources,

-- to diversify supply and contribute to a reduction in U.S. vulnerability to collusive price arrangements and interruptions of supply, and

-- to help LDCs deal directly with their own energy needs, one of the major current constraints on their development policies.

There is evidence of global misallocation of resources which, if continued, could significantly increase the cost of raw materials over the long run. A recent World Bank survey found that 80 percent of all exploration expenditures in 1970-1973 were being made in the industrialized countries

-- the United States, Canada, Australia, and South Africa. Private firms are reluctant to invest in LDCs, primarily because of political risks. U.S. firms, for example, prefer to develop a copper deposit with less than one-half percent richness in the United States than deposits which are more than twice as rich in an LDC. Yet the rate of return in minerals projects in LDCs is twice as high as in industrial countries (Table 1). Indeed, for some Fourth World countries, minerals projects may be the only good projects that external private investment could develop.

Private firms have already begun to demonstrate the feasibility of management contracts, service contracts and other nonequity arrangements in oil and mineral projects. These approaches offer economic benefits to host countries and profitable opportunities to American companies, and respond to the desire of many developing country governments to maintain sovereign control over their natural resources. OPIC can play an important role in helping U.S. investors and host countries work out such mutually acceptable arrangements. This will help reduce the tensions which have diverted investment from the most economic sites. Also, by reducing the likelihood of expropriation, it will help avoid the inevitable problems for U.S. policy which arise when expropriations occur, including issues posed by the legal requirements of the Hickenlooper and Gonzalez Amendments and Section 502 of the Trade Act.

However, the dollar amounts of OPIC activity in this field would be small compared with the capital requirements for most energy and raw materials projects. Thus some means of leveraging OPIC's involvement would need to be developed for it to have a significant impact. In this connection, OPIC would seek to coordinate its efforts with similar institutions in the sixteen other countries in which they exist. This coordination would also serve two other U.S. objectives:

-- to minimize the likelihood that host countries will renege on their end of investment bargains, by maximizing the costs to them of doing so by increasing the number of home countries which would be adversely affected.

-- To minimize fears of other materials-importing countries, in Western Europe and Japan, that the United States was unilaterally making "special deals" to outbid them for potentially scarce raw materials.

The Administration thus supports OPIC's efforts to develop risk-reducing coverage for investments in raw materials in the developing countries, and believes that those efforts should be expanded and intensified.

Conclusion

The Administration believes that OPIC can, and should, serve two important policy objectives of the United States: development of the poorer countries, and increased LDC production of energy and other raw materials. We believe that it can remain self-sustaining financially while doing so.

This approach is clearly not compatible with privatization of OPIC, as mandated under current legislation. As noted at the outset of my testimony, however, privatization proved to be impossible even when the program was aimed wholly at achieving that objective. Hence, for policy as well as for practical reasons, we urge the Congress, in framing new legislation for OPIC, to abandon the existing privatization mandates and reaffirm instead the goal of development. With a clear mandate to this end, OPIC can become a more useful instrument of U.S. policy toward foreign direct investment by American firms.

TABLE 1

Rates of Return on U.S. Foreign Direct Investment 1967-1975

(Percent)

Rate of Return 1/	1967	1968	1969	1970	1971	1972	1973	1974	1975
All Countries	10.3	11.1	11.8	11.4	11.6	12.6	17.5	23.0	14.0
Developed Countries	7.7	8.3	9.4	9.3	9.8	11.1	15.0	13.4	11.2
mining and smelting	10.0	11.2	9.3	7.7	5.5	4.5	8.9	10.6	-
petroleum	2.4	2.2	2.4	NA	4.6	4.6	11.8	11.0	8.6
manufacturing	8.7	9.9	11.7	10.5	10.9	13.4	16.5	14.0	11.1
Less Developed Countries	17.3	18.5	17.9	15.9	16.3	17.7	26.2	53.6	23.6
mining and smelting	24.3	22.1	25.6	16.3	9.5	9.0	13.2	18.9	-
petroleum	27.3	29.1	26.9	24.6	28.7	29.5	49.9	133.3	40.2
manufacturing	7.7	10.7	11.1	10.8	9.6	11.3	13.3	13.9	13.4

1/ Adjusted earnings: Direct investment position (yearly average)

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE July 27, 1977

TREASURY DEPARTMENT ANNOUNCES THREE PRELIMINARY COUNTERVAILING DUTY DETERMINATIONS ON LEATHER WEARING APPAREL FROM TAIWAN, ARGENTINA, AND URUGUAY

The Treasury Department today announced three actions under the Countervailing Duty Law with respect to leather wearing apparel imports. In the first action, the Department determined preliminarily that Taiwanese leather apparel imports are not being subsidized. In the other actions, Treasury determined preliminarily that imports of those articles from Argentina and Uruguay are being subsidized by their respective governments.

Notice of these actions will appear in the Federal Register of July 27, 1977.

The Countervailing Duty Law (19 U.S.C. 1303) requires the Treasury Secretary to collect an additional customs duty that equals the size of "bounties or grants" (subsidies) which are paid on the imported merchandise. The law requires that the Secretary make a preliminary determination within six months after receipt of an acceptable petition and a final determination within twelve months.

The Treasury Department found that the leather wearing apparel industry in the Republic of China received benefits in connection with preferential export financing, tax holiday benefits and exemptions on certain import duties but that the size of these benefits is too inconsequential to have any impact on the value of the imports. All other programs were found not to describe bounties or were not utilized by the leather wearing apparel industry. Accordingly, a preliminary negative determination was reached.

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In the Uruguayan case, The Department found that possible bounties are received in the form of tax certificates issued upon exportation, income tax reductions on some export earnings and preferential export financing. The Treasury investigation on Argentine apparel found that a portion of an export rebate known as the "reembolso" provided to exporters is a bounty. Other possible benefits include preferential loans, income tax benefits and duty free treatment of imported machinery.

Imports of leather wearing apparel from both Argentina and Uruguay enter the United States duty free under the Generalized System of Preferences (GSP). In the event of final affirmative determinations, these investigations would be referred to the International Trade Commission for injury determinations required by the Countervailing Duty Law for duty free merchandise.

A final Treasury decision is required no later than January 21, 1978 in all three cases.

Imports of leather wearing apparel from Taiwan were valued at approximately $28.4 million in 1976. Imports of leather wearing apparel from Uruguay were valued at approximately $21 million in 1976. Imports of leather wearing apparel from Argentina were valued at approximately $8 million in the first ten months of 1976.

*   *   *

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202) 566-2615

FOR IMMEDIATE RELEASE July 27, 1977

Certification Agreement with Brazil

The Department of the Treasury announced today the conclusion of a formal certification agreement with Brazil to permit importation under the Rhodesian Sanctions Regulations of specialty steel products from Brazil. The agreement replaces interim arrangements which have been in effect since March 18, 1977.

Under the new agreement, the Government of Brazil has full responsibility for administration of the detailed control measures provided for in the certification agreement.

CACEX, an agency of the Government of Brazil, will authorize producers of ferrochromium and specialty steel products to state on the commercial invoice covering products being exported to the United States that the goods have been produced under the agreed certification procedures. This special certification will be presented to Customs at the time of importation and will serve to establish that specialty steel products from Brazil do not contain any chromium of Rhodesian origin.

Brazil will subject to laboratory testing its imports of chromium and ferrochromium from South Africa to verify that they do not contain any chromium of Rhodesian origin. In addition, the existence of similar certification procedures in other countries will ensure that ferrochromium and specialty steel mill products exported to the United States by Brazil, which were produced by that country with imported materials, do not contain any chromium of Rhodesian origin.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

Contact: John P. Plum
(202) 566-2615

FOR IMMEDIATE RELEASE July 27, 1977

SPECIAL CERTIFICATES FOR IMPORTS FROM THE UNITED KINGDOM OF FERROCHROMIUM AND CHROMIUM-BEARING STEEL MILL PRODUCTS

The Department of the Treasury announced today that special certificates issued under the certification agreement between the United States and the Commission of the European Communities are available as of July 18, 1977, for imports from the United Kingdom of ferrochromium and chromium-bearing steel mill products under the Rhodesian Sanctions Regulations. Imports of materials from the United Kingdom shipped after that date may only be made when accompanied by such special certificates.

Imports of certifiable materials from the United Kingdom shipped prior to July 18, 1977, may continue to be made under the interim certificates. However, the entry will not be liquidated until the importer presents a special certificate. Such certificate must be obtained from the producer and filed by the importer on or before September 18, 1977, to complete liquidation.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE July 27, 1977

TREASURY AUGUST QUARTERLY FINANCING

The Treasury will raise about $3,000 million of new cash and refund $3,278 million of securities maturing August 15, 1977, by issuing $3,000 million of 3-year notes, $2,250 million of 7-year notes, and $1,000 million of 29-1/2-year bonds. The bonds represent an addition to bonds which are currently outstanding.

The $3,278 million of maturing securities to be refunded in the general offering are those held by the public. Government accounts and Federal Reserve Banks, for their own accounts, hold $1,640 million of maturing securities that may be refunded by issuing additional amounts of new securities. Additional amounts of the notes and the bonds may also be issued, for new cash only, to Federal Reserve Banks as agents for foreign and international monetary authorities.

Details about each of the new securities are given in the attached "highlights" of the offering and in the official offering circulars.

o0o

Attachment

B-371

HIGHLIGHTS OF TREASURY
OFFERINGS TO THE PUBLIC
AUGUST 1977 FINANCING
TO BE ISSUED AUGUST 15, 1977

July 27, 1977

Amount Offered:			
To the public	$3,000 million	$2,250 million	$1,000 million
Description of Security:			
Term and type of security	3-year notes	7-year notes	29-1/2-year bonds
Series and CUSIP designation	Series H-1980 (CUSIP NO. 912827 GW 6)	Series B-1984 (CUSIP NO. 912827 GX 4)	7-5/8% Bonds of 2002-2007 (CUSIP No. 912810 BX 5)
Maturity date	August 15, 1980	August 15, 1984	February 15, 2007
Call date	No provision	No provision	February 15, 2002
Interest coupon rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids	7-5/8%
Investment yield	To be determined at auction	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction	To be determined after auction
Interest payment dates	February 15 and August 15	February 15 and August 15	February 15 and August 15
Minimum denomination available	$5,000	$1,000	$1,000
Terms of Sale:			
Method of sale	Yield Auction	Yield Auction	Price Auction
Accrued interest payable by investor	None	None	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less	Noncompetitive bid for $1,000,000 or less	Noncompetitive bid for $1,000,000 or less
Deposit requirement	5% of face amount	5% of face amount	5% of face amount
Deposit guarantee by designated institutions	Acceptable	Acceptable	Acceptable
Key Dates:			
Deadline for receipt of tenders	Tuesday, August 2, 1977, by 1:30 p.m., EDST	Wednesday, August 3, 1977, by 1:30 p.m., EDST	Thursday, August 4, 1977, by 1:30 p.m., EDST
Settlement date (final payment due)			
a) cash or Federal funds	Monday, August 15, 1977	Monday, August 15, 1977	Monday, August 15, 1977
b) check drawn on bank within FRB district where submitted	Thursday, August 11, 1977	Thursday, August 11, 1977	Thursday, August 11, 1977
c) check drawn on bank outside FRB district where submitted	Wednesday, August 10, 1977	Wednesday, August 10, 1977	Wednesday, August 10, 1977
Delivery date for coupon securities	Monday, August 15, 1977	Monday, August 15, 1977	Monday, August 15, 1977

Talking Points for July 27, 1977,
Financing Press Conference

1. This afternoon we are announcing three securities for sale next week in our regular August quarterly refunding.

a. The first issue, which will be sold in a yield auction on Tuesday, August 2, is a $3 billion, three-year note to mature on August 15, 1980.

b. The second is a $2-1/4 billion, seven-year note, to be sold on Wednesday, August 3, also in a yield auction. This note will mature on August 15, 1984.

c. The final issue is a $1 billion, 29-1/2 year bond. This will be a reopening of the 7-5/8% bonds of February 15, 2007, of which $1.7 billion is already outstanding in private hands. The bond will be sold in a price auction on Thursday, August 4.

2. The maturing issue is a 7-3/4% note, which was originally offered in the August 1970 quarterly financing. It was reopened three years later in the August 1973 quarterly financing. Private investors hold just under $3.3 billion of this note at this time.

3. Since the new securities total $6-1/4 billion, the effect of this financing will be to raise approximately $3 billion in new money.

4. The new money total could be a little higher if foreign official accounts come in for additional amounts under the special allotment arrangement, but we have no estimate at present as to how much this interest, if any, might be. In the May quarterly financing, in which there was no short "anchor" issue, the foreign add-ons amounted to only $100 million. However, foreign accounts have been taking up to $500 or 600 million in our more recent shorter-term coupon offerings.

5. To put this financing in context, we now expect, if we do net market financing in this quarter of about $11 billion, that we will end the quarter with a cash balance on the order of $12 billion. Assuming that foreign add-ons continue at their recent rate, it would appear that this financing could be accomplished entirely in the coupon market.

6. To date, excluding the financing we are announcing today, we have raised about $2.3 billion in the market.

15-year bond		$1.5	billion	July 8
2-year note	regular	1.0	"	August 1
	add-on	0.6	"	
Weekly bills		-0.9	"	July 7, 14, 21
Total		$2.3	billion	

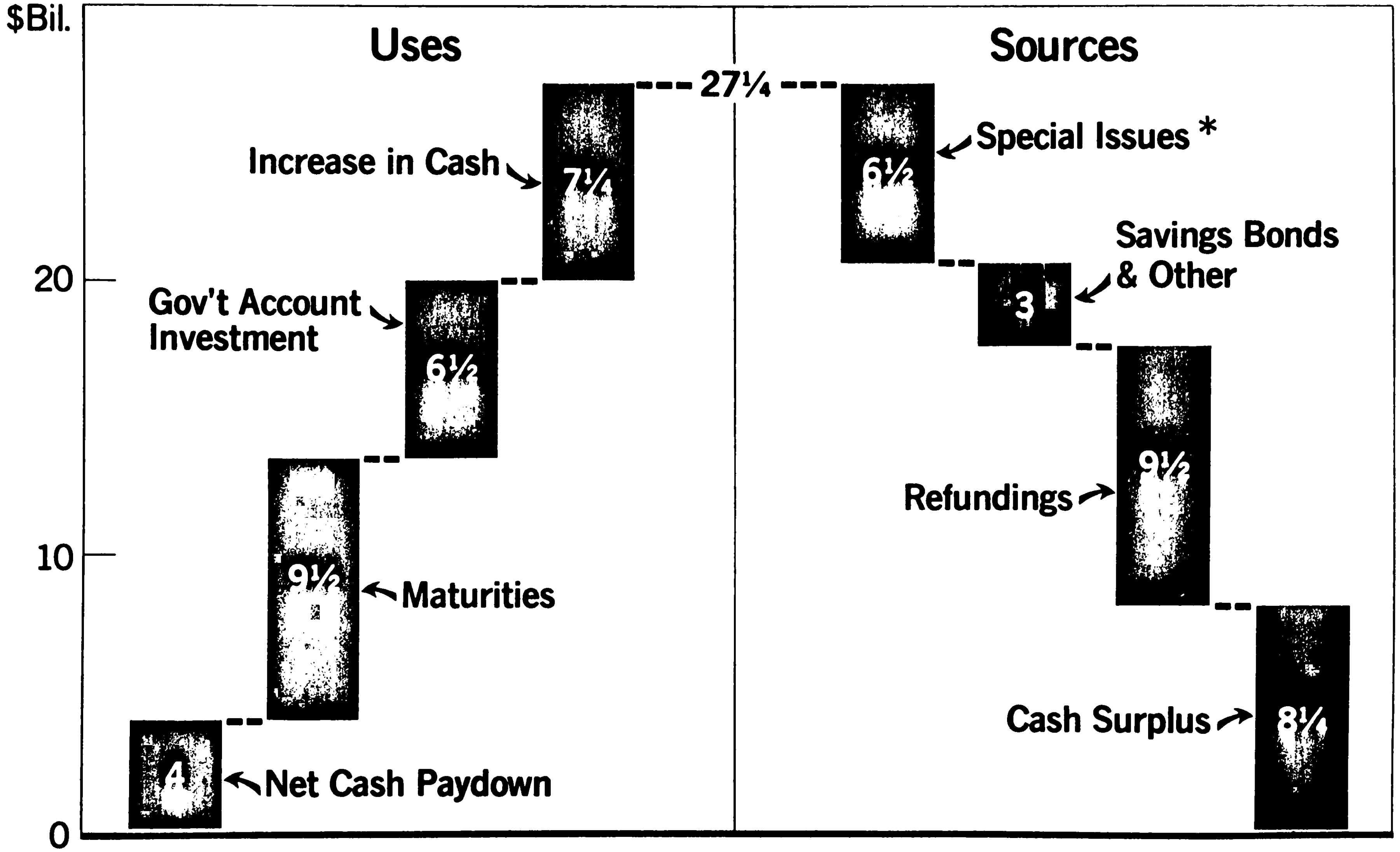
With today's financing the amount raised will be $5.3 billion, leaving some $5.7 billion yet to be done. There are two-year notes at the end of August and September, as well as a regular four-year note cycle date early in September for this purpose.

7. The complicating factor is the outlook for the October-December quarter. Our present estimate is that our market financing needs in the October-December quarter will be in the $20 billion range. This should not be any particular problem. However, at this juncture, it appears to imply some bill financing in that period.

8. To the extent that the opportunity arises, we might want to anticipate some of the fourth quarter need by ending September with a cash balance somewhat higher than the $12 billion figure.

TREASURY FINANCING REQUIREMENTS

April - June 1977



* Net of exchanges for maturing marketable securities of $¼ billion.

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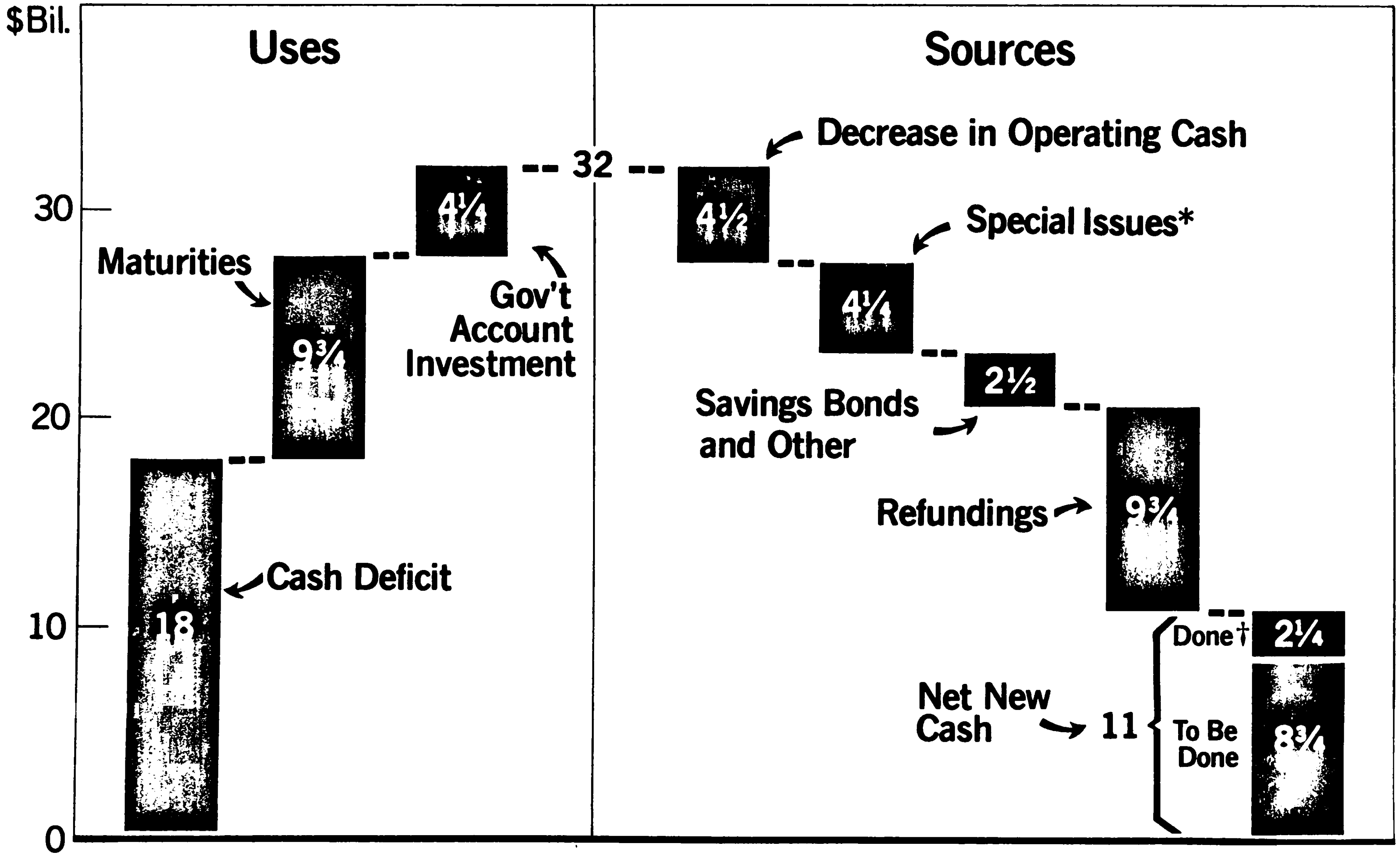
TREASURY FINANCING REQUIREMENTS

July - September 1977 1/



1/ Assumes $12 billion September 30 cash balance.

* Net of exchanges for marketable securities of $½ billion.

† Issued or announced through July 22, 1977.

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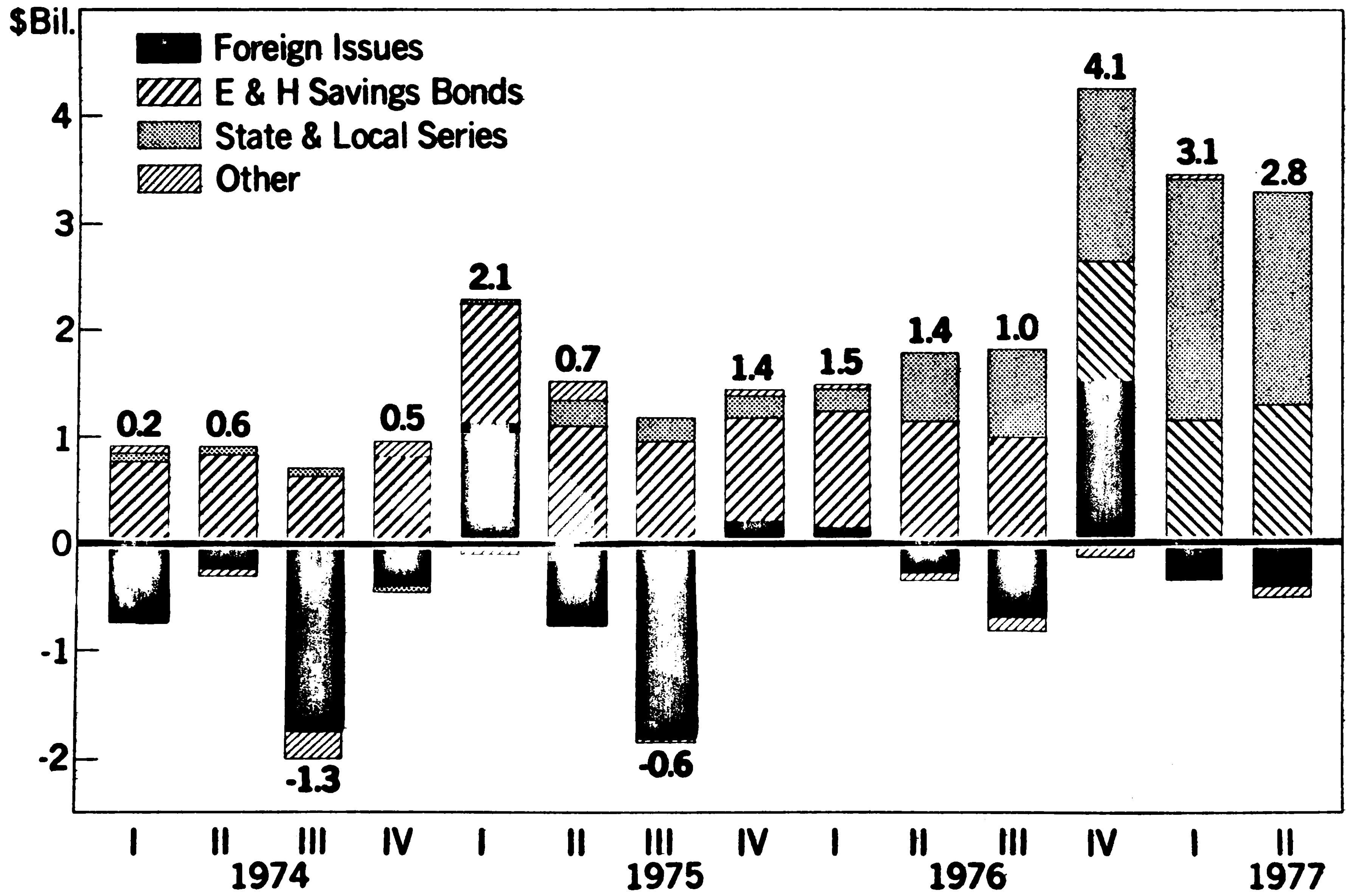
Office of Government Financing

July 26, 1977-21

NET NEW MONEY FROM NONMARKETABLE ISSUES TO PRIVATE INVESTORS



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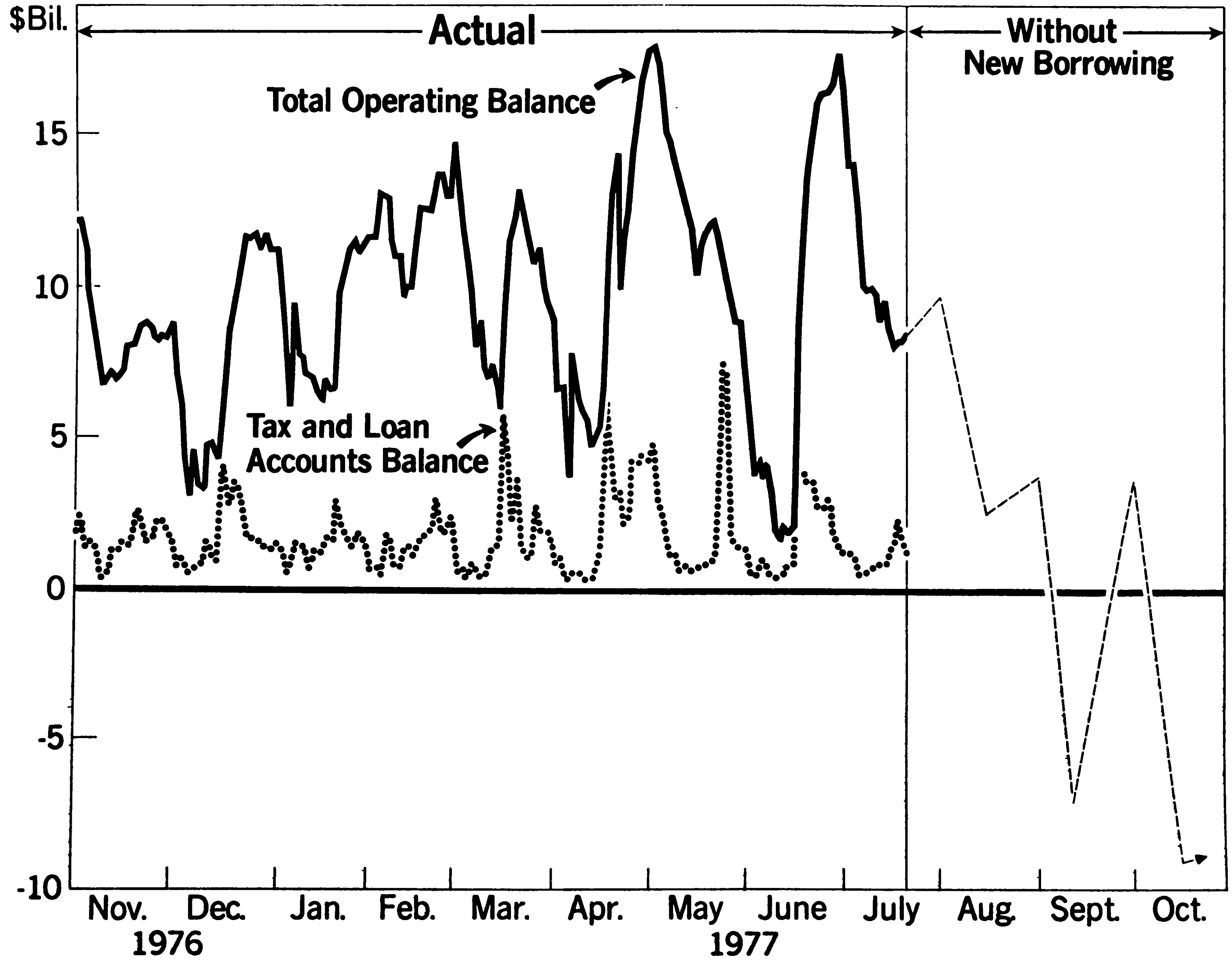
July 26, 1977-2

TREASURY OPERATING CASH BALANCE*



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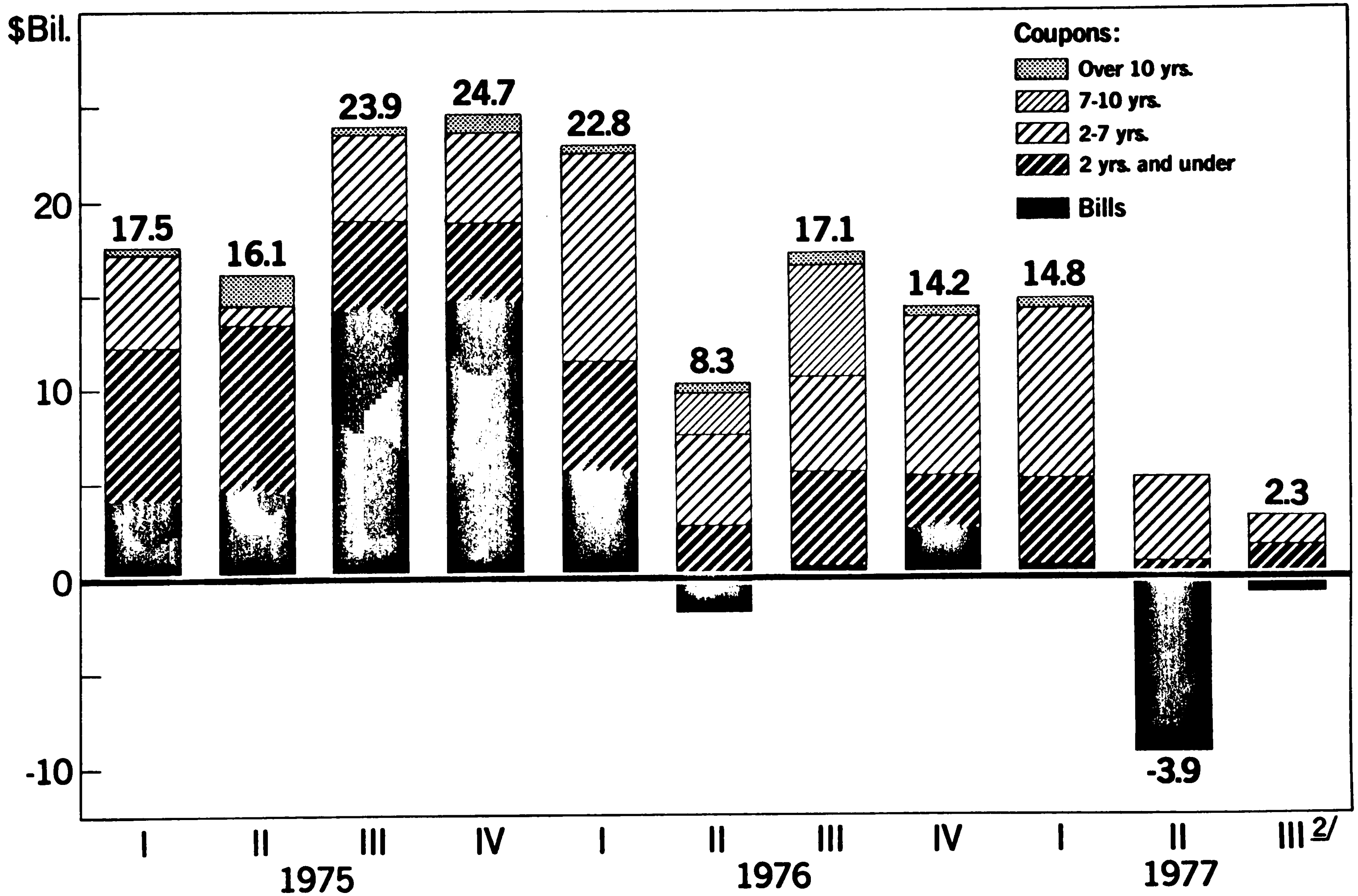
* Daily

July 26, 1977-16

TREASURY NET NEW MONEY BORROWING 1/

Calendar Year Quarters



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1/ Excludes Federal Reserve and Government Account transactions.

2/ Issued or announced through July 22, 1977.

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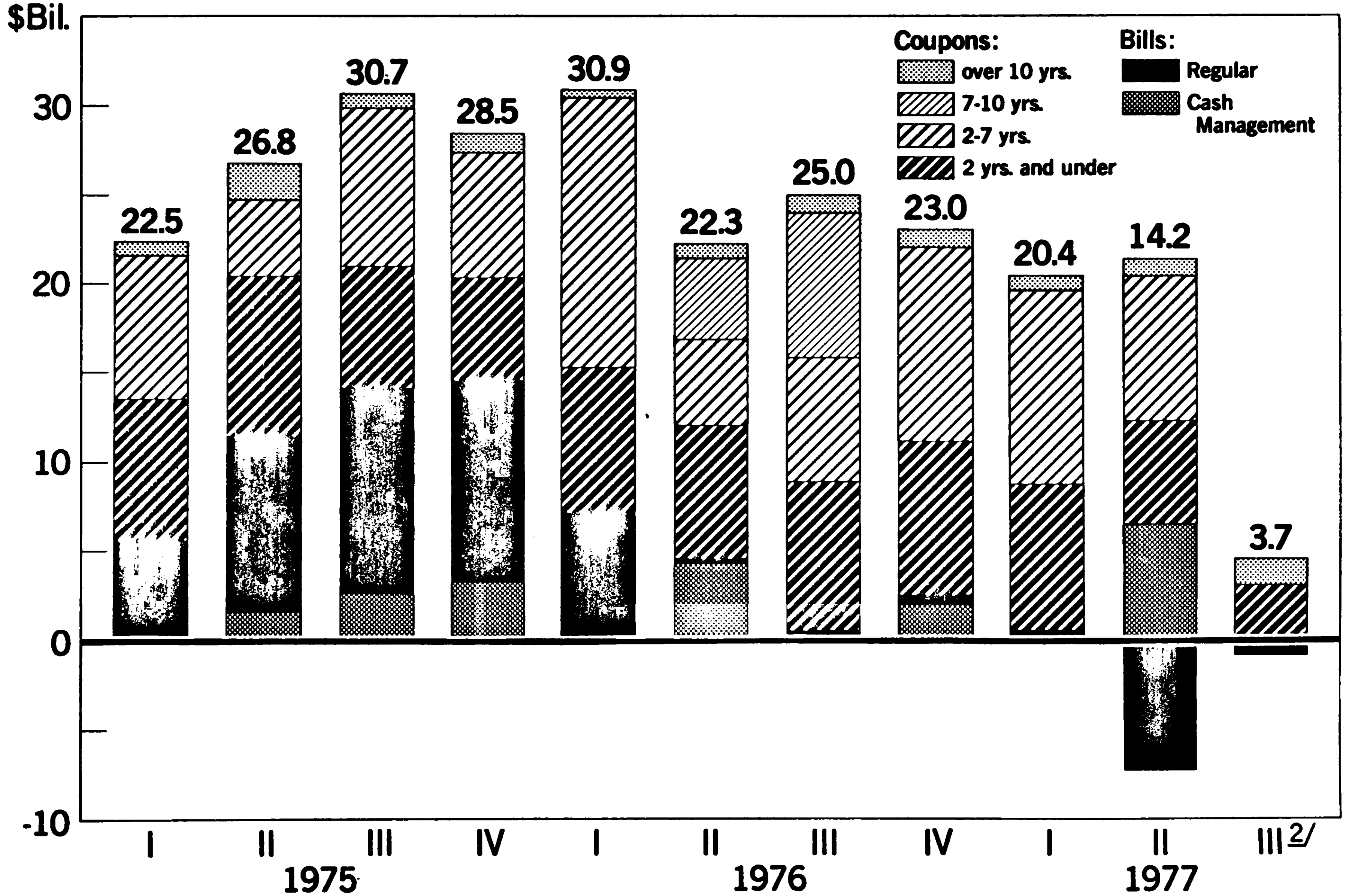
GROSS MARKET BORROWING 1975 - TO DATE 1/

Calendar Year Quarters



1/ Gross public offerings of coupon issues and cash management bills; net offerings of regular bills. Excludes Federal Reserve and Government Account transactions.

2/ Issued or announced through July 22, 1977.

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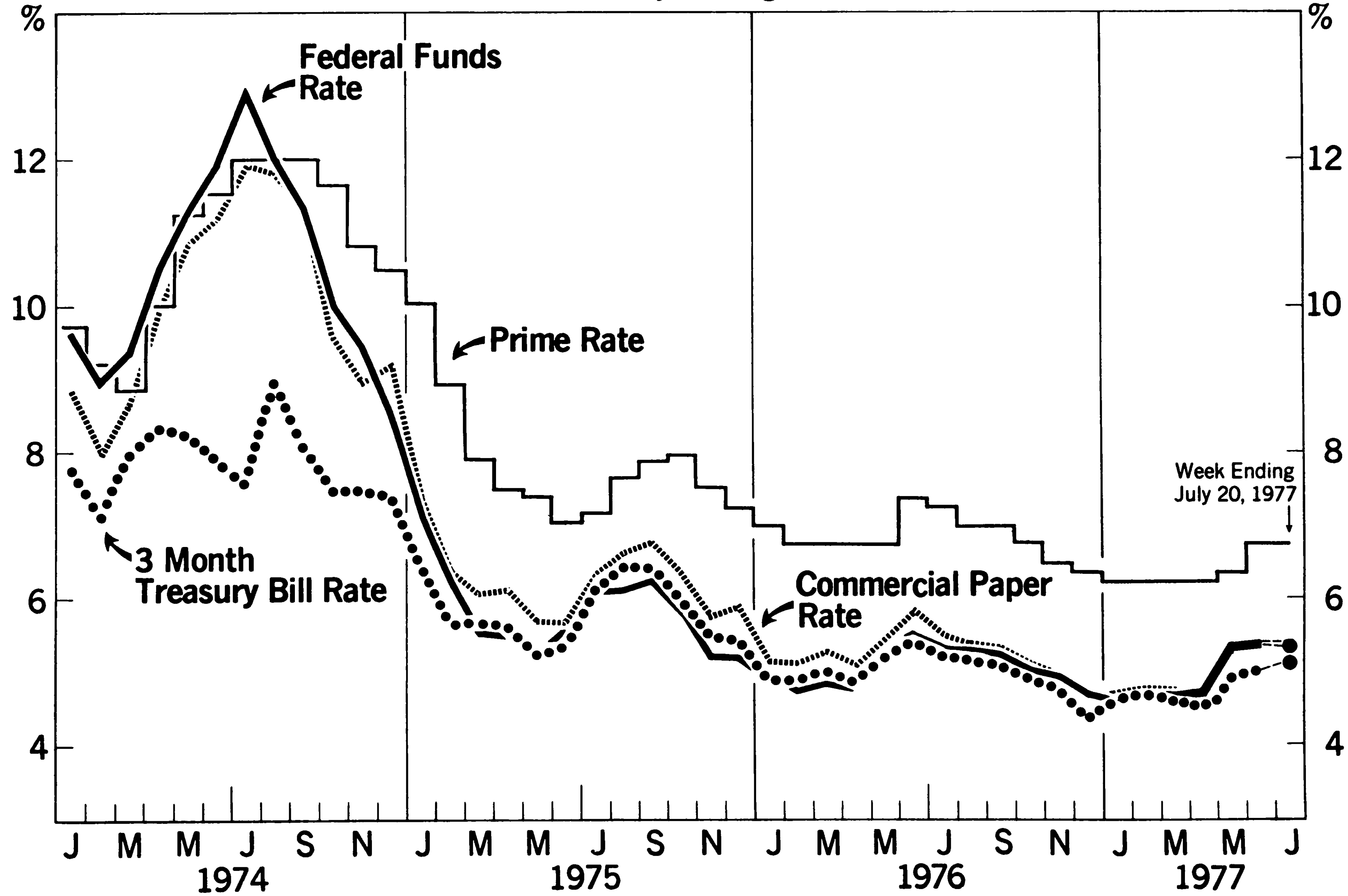
July 26, 1977-11

SHORT TERM RATES
Monthly Averages



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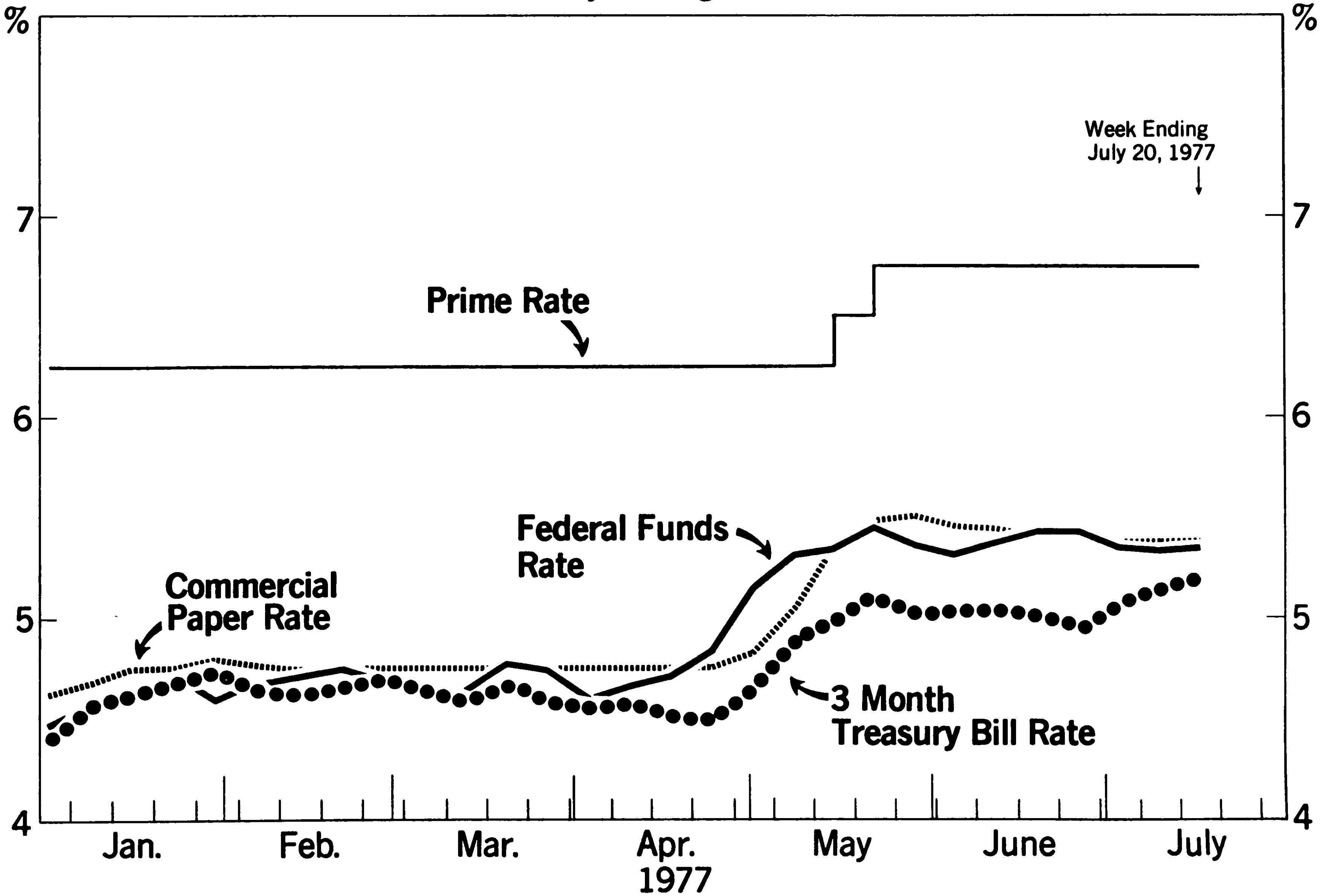
July 26, 1977-8

SHORT TERM INTEREST RATES

Weekly Averages



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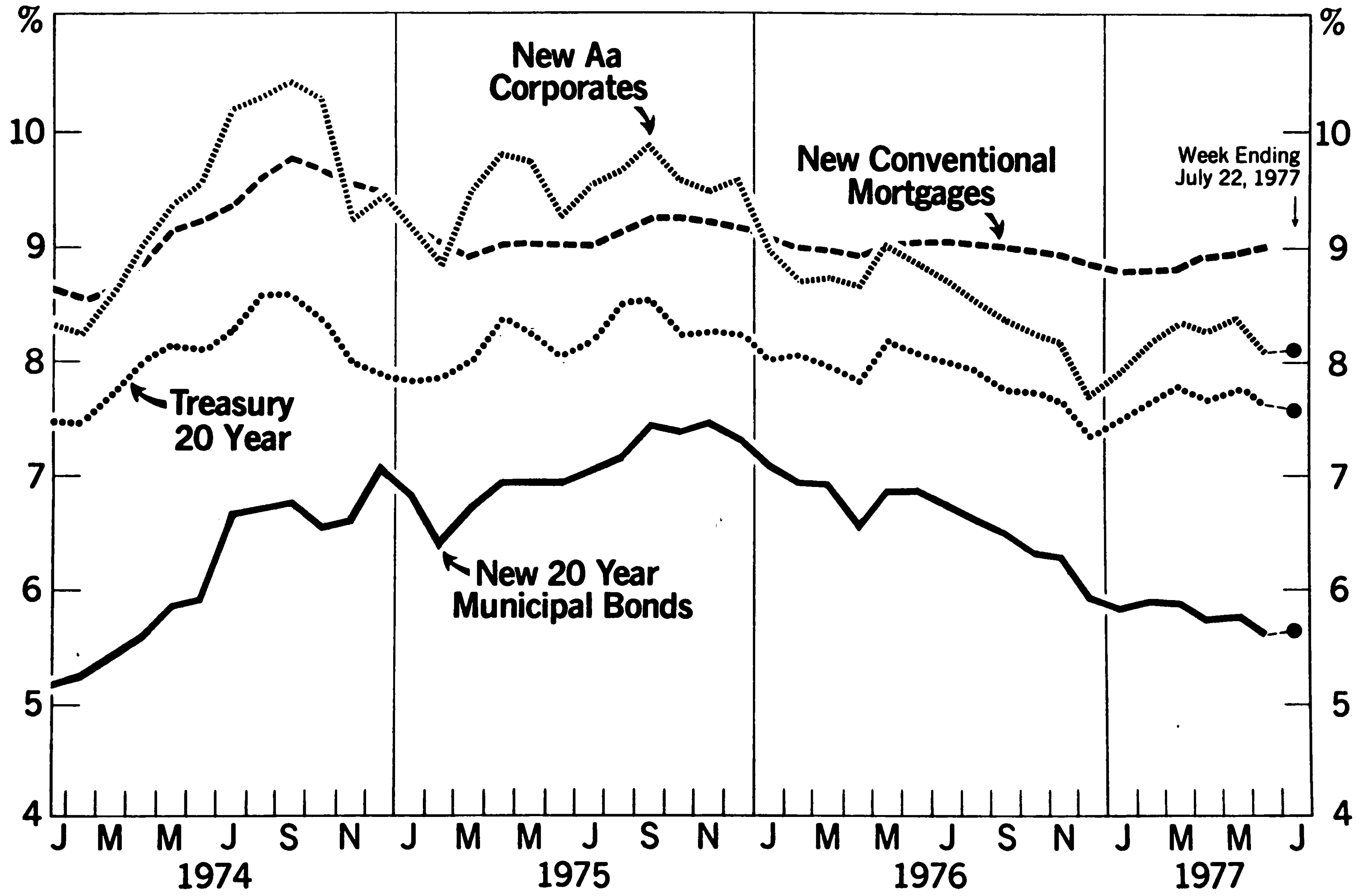
July 26, 1977-7

INTERMEDIATE AND LONG MARKET RATES

Monthly Averages



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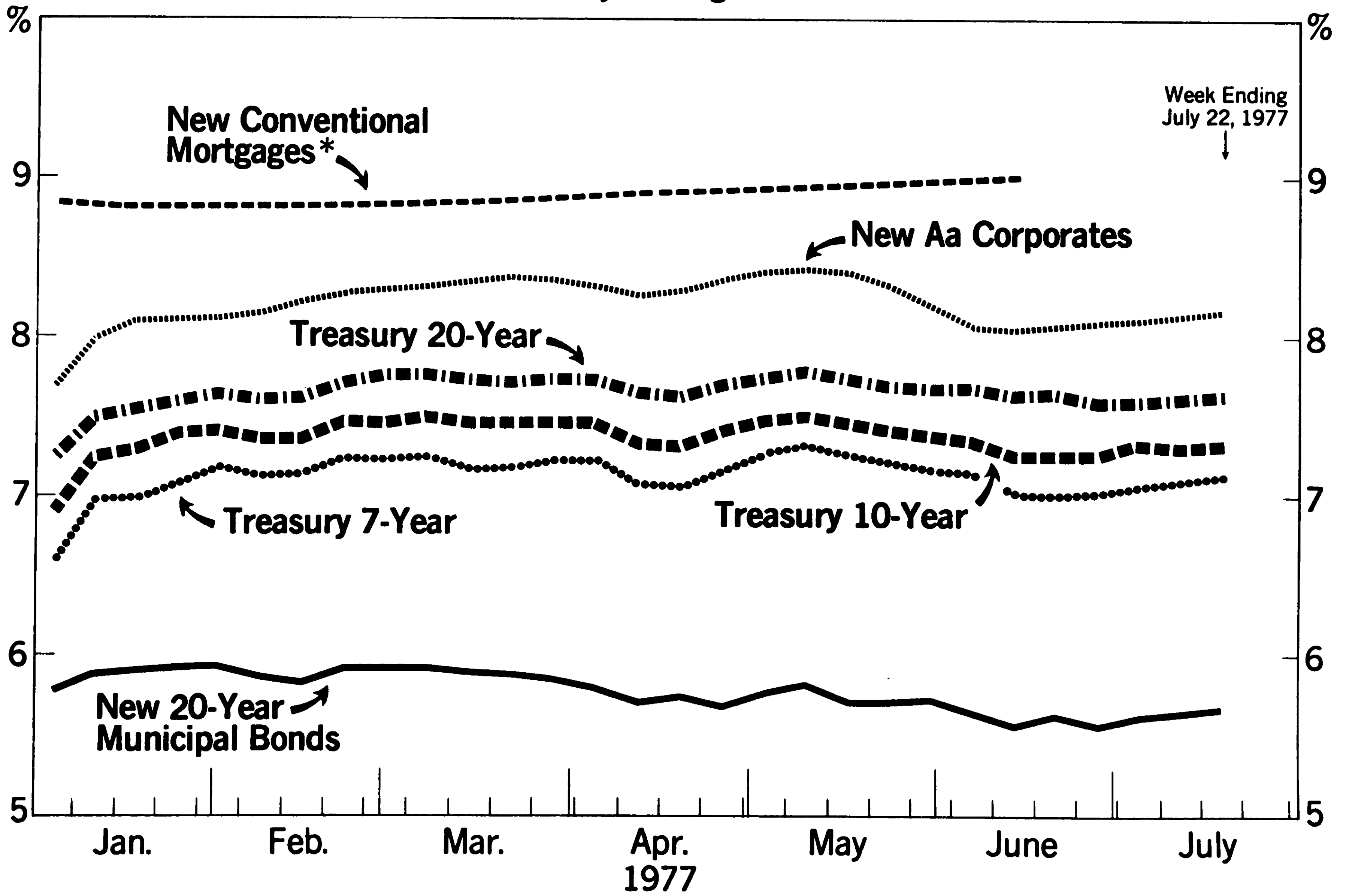
July 26, 1977-6

INTERMEDIATE & LONG MARKET RATES

Weekly Averages



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* Monthly, weekly data not available.

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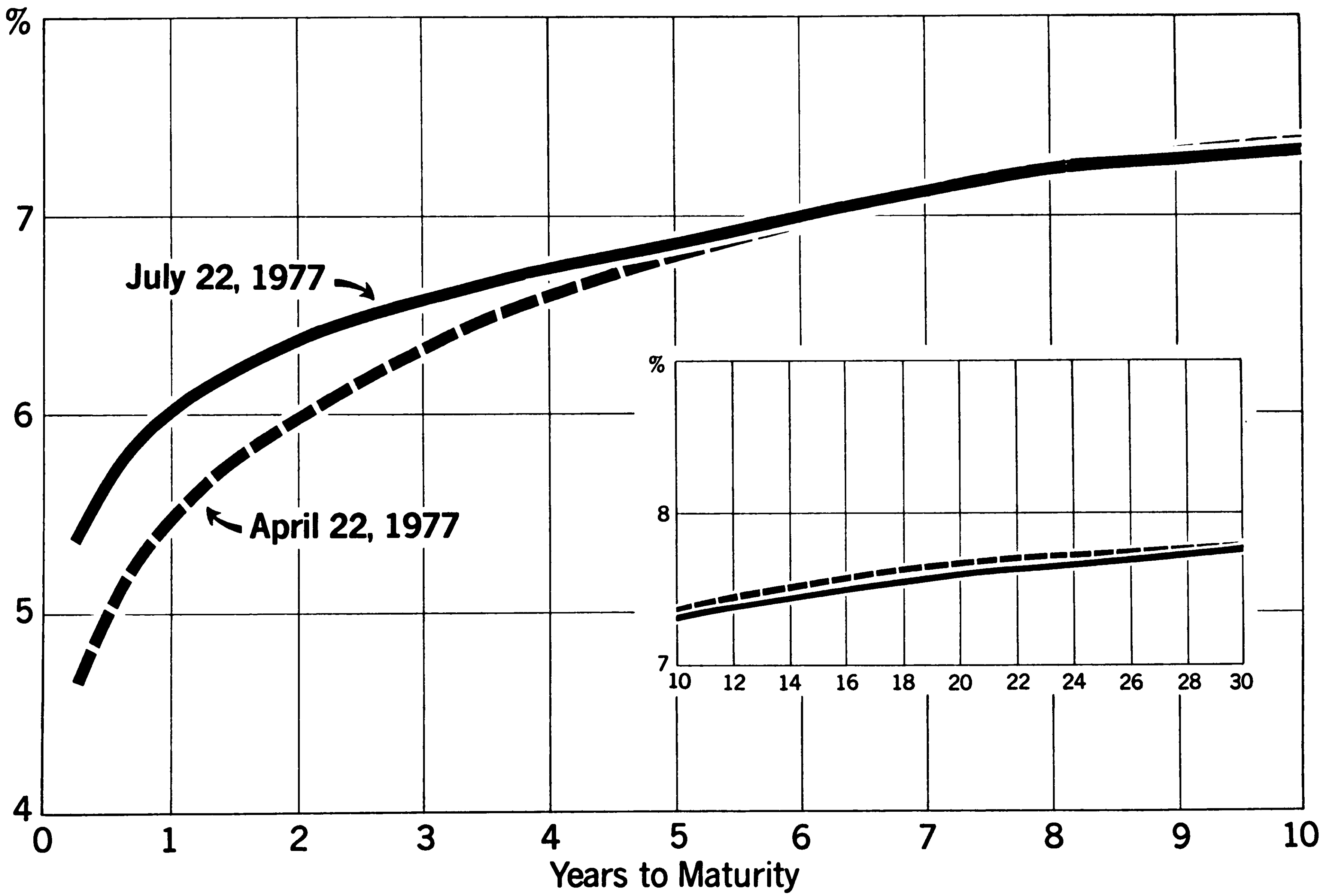
MARKET YIELDS ON GOVERNMENTS

(Bid Yields)



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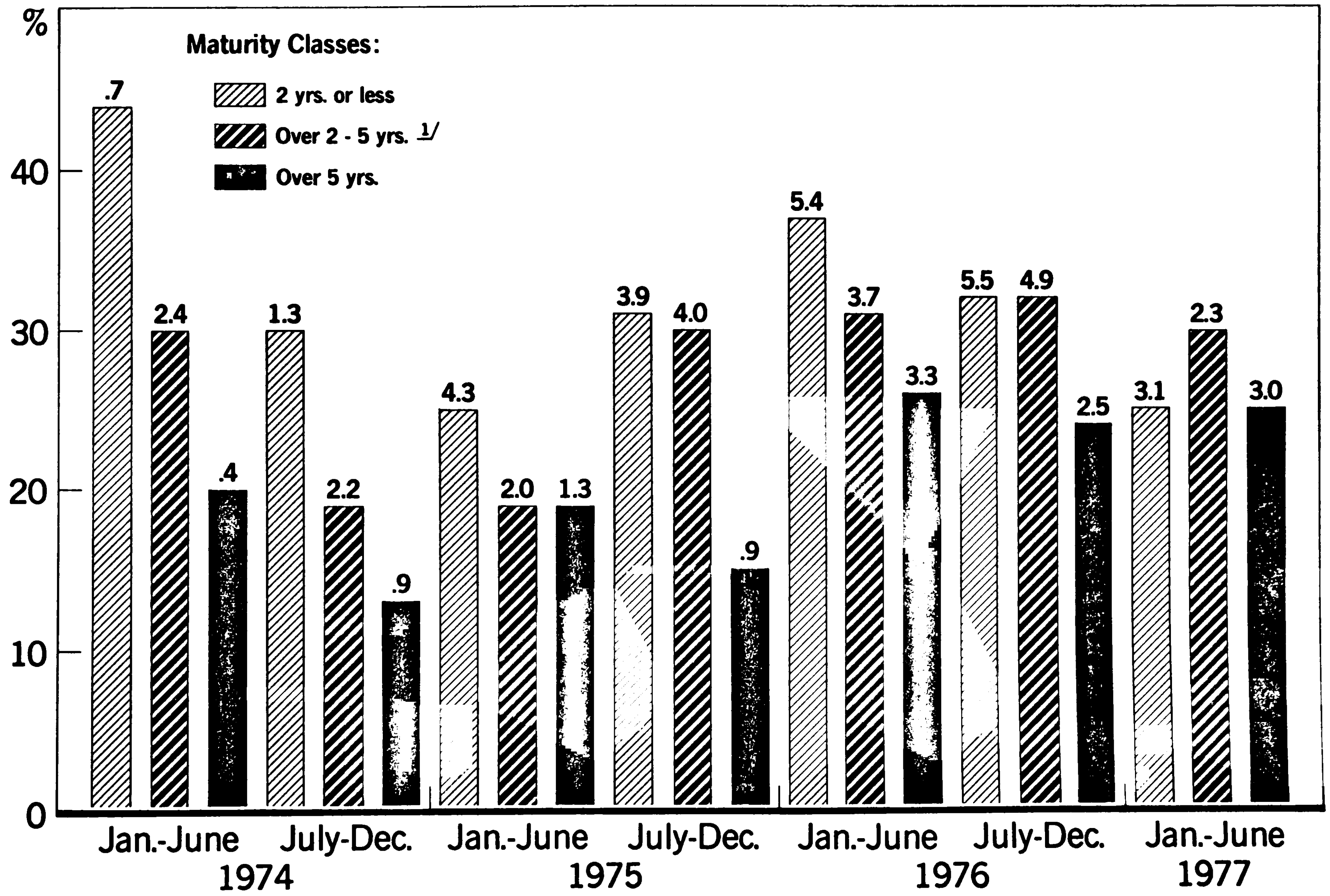
July 26, 1977-23

COMMERCIAL BANK ALLOTMENTS OF NOTES AS A PERCENT OF NOTES ISSUED TO PRIVATE INVESTORS



1/ Includes five year cycle notes.

Note: Amounts are in billions of dollars.

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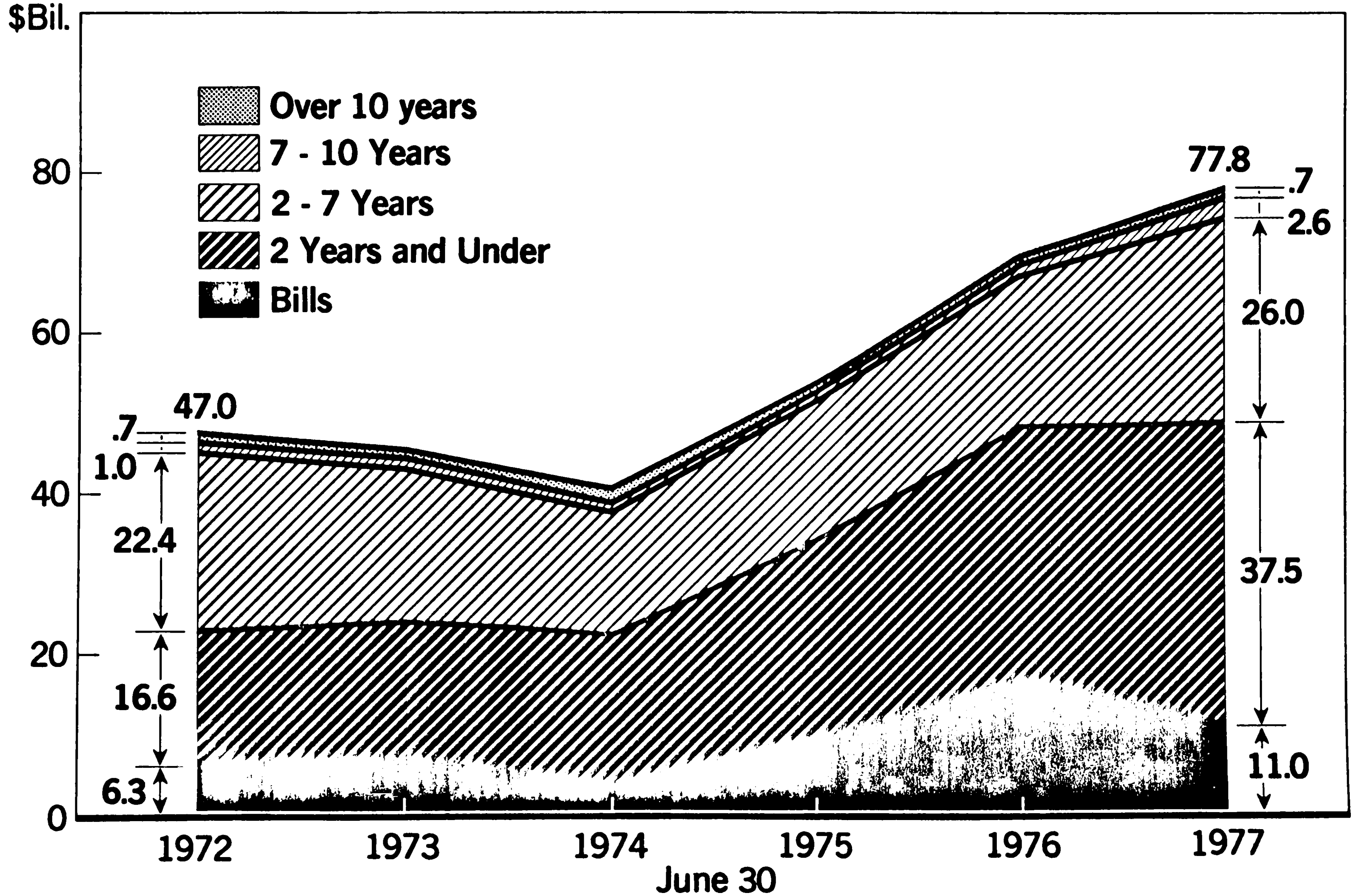
COMMERCIAL BANK HOLDINGS OF TREASURY MARKETABLE SECURITIES*



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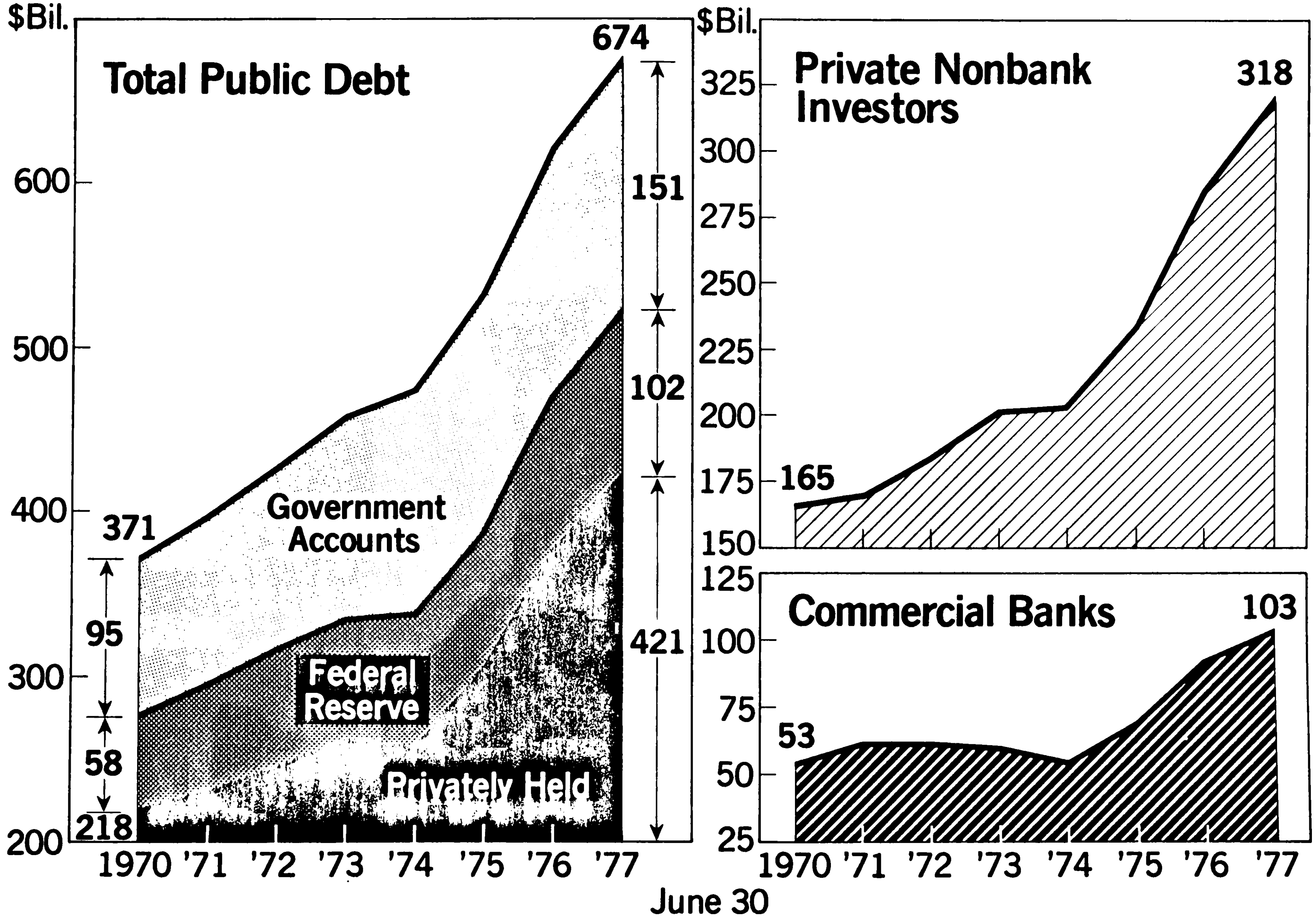
* Treasury Survey of Ownership Data

July 26, 1977-24

DEBT OWNERSHIP TRENDS



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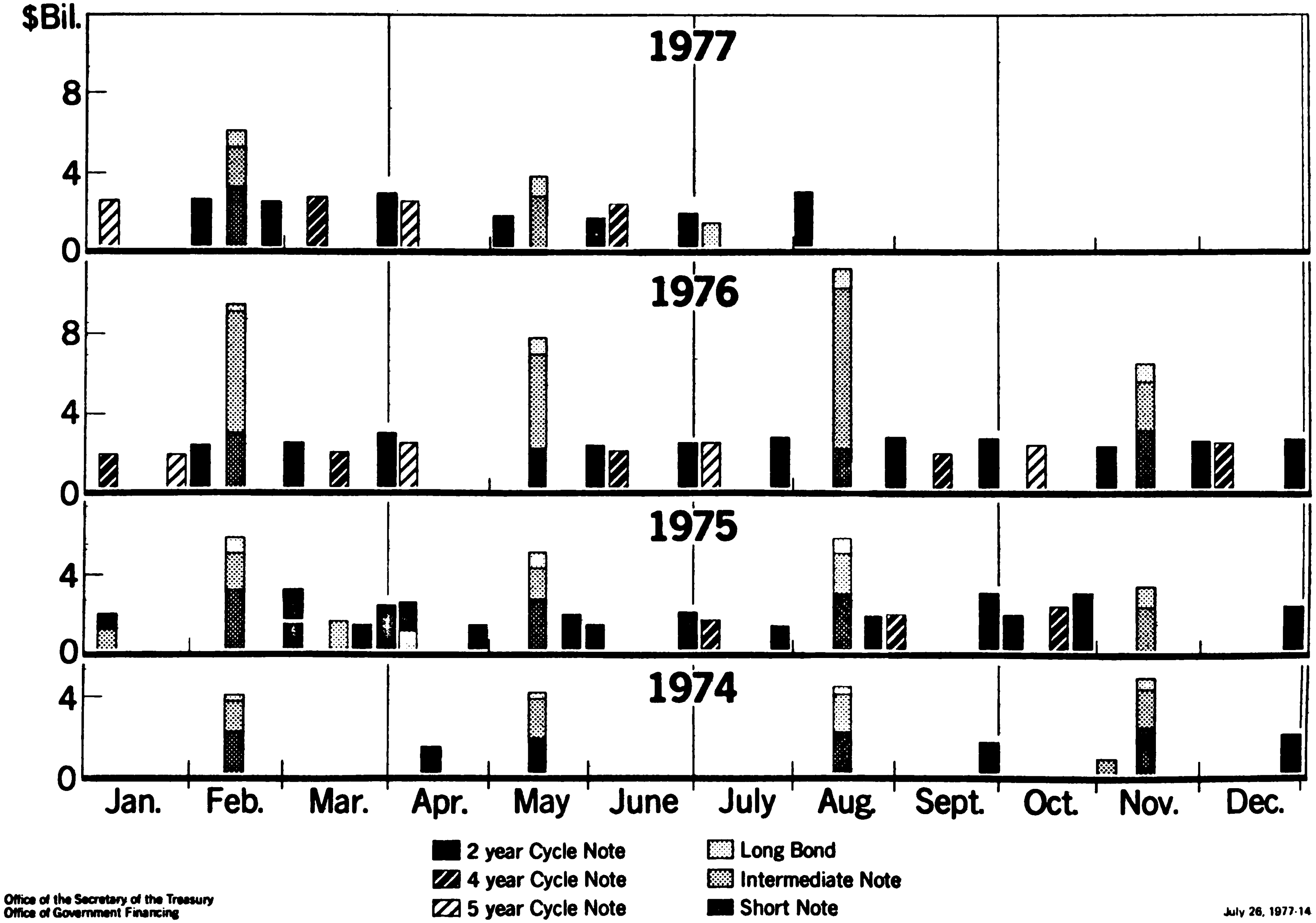
TREASURY MARKETABLE COUPON ISSUES TO PRIVATE INVESTORS



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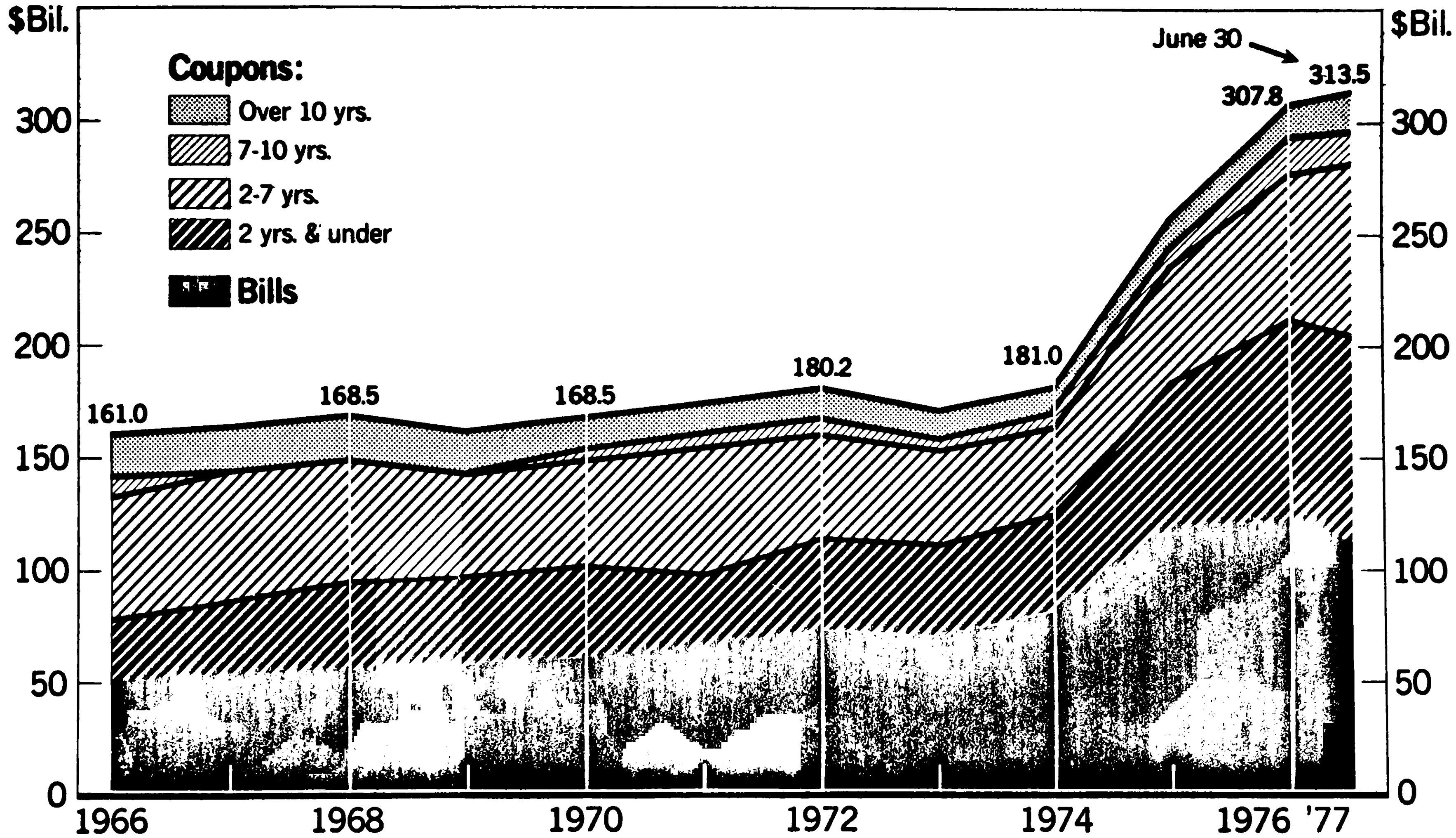
July 26, 1977-14

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY



December 31

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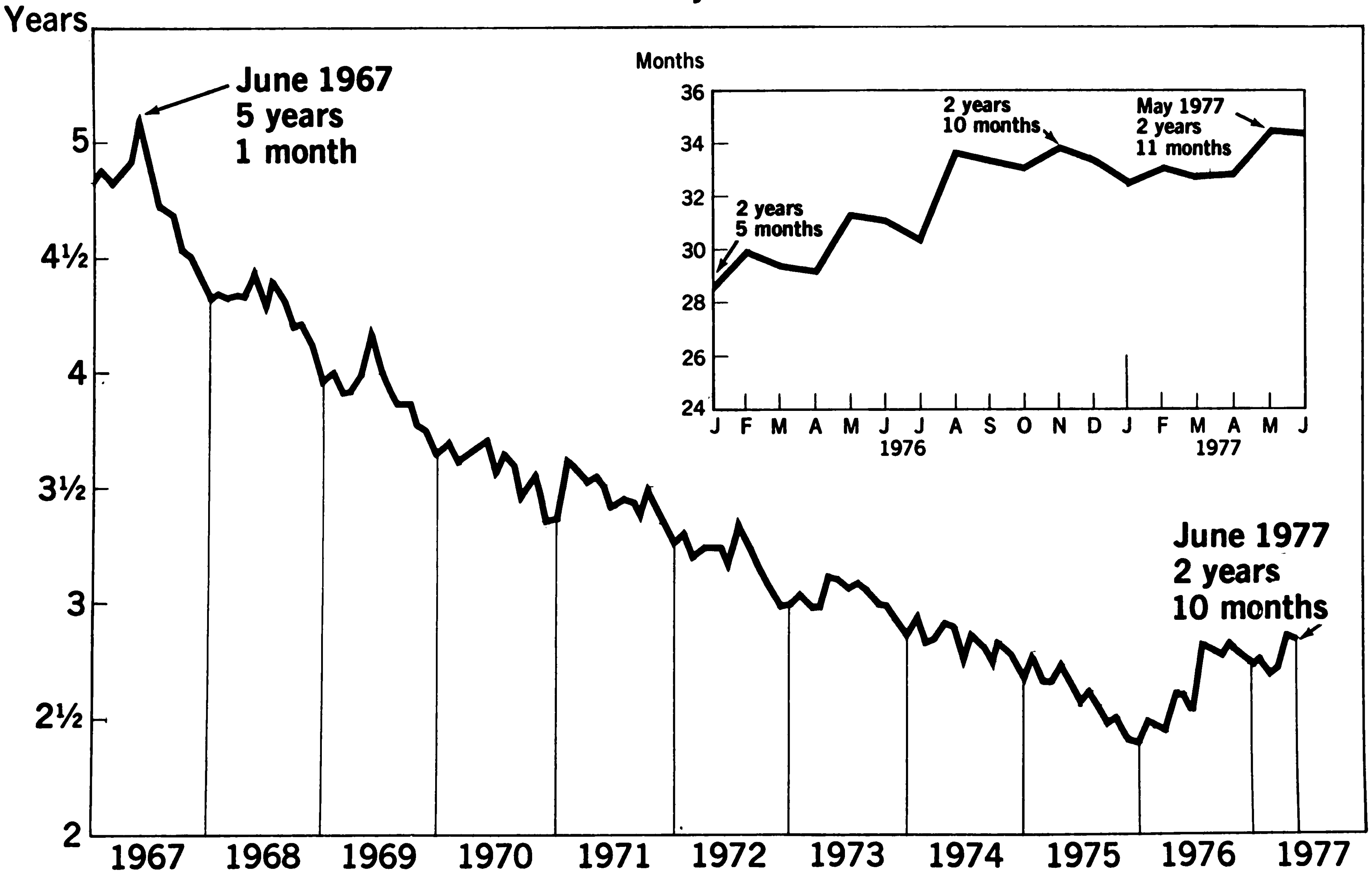
July 26, 1977-9

AVERAGE LENGTH OF THE MARKETABLE DEBT
Privately Held



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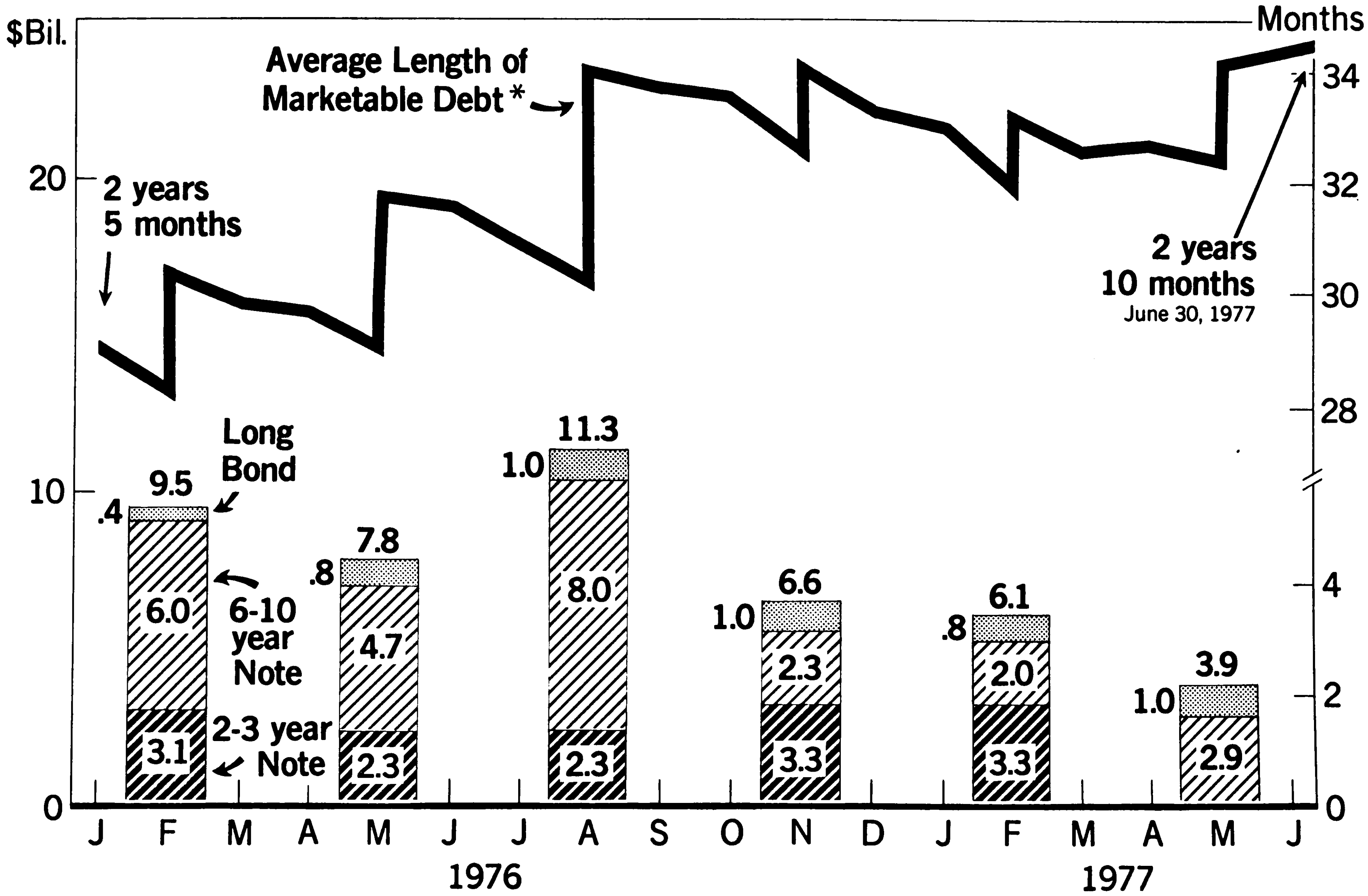
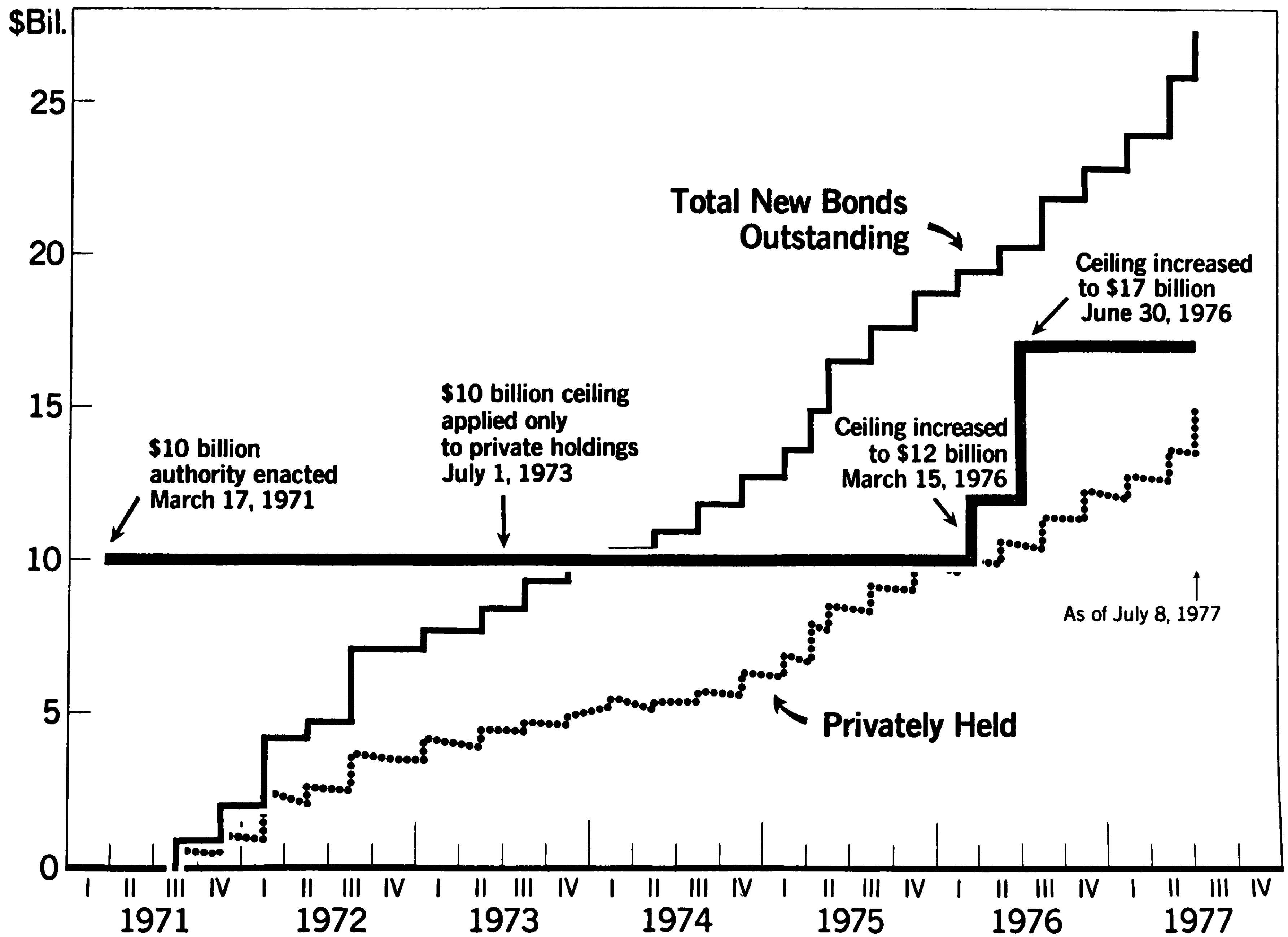
July 26, 1977-1

EFFECT OF MID-QUARTER FINANCINGS ON DEBT EXTENSION



* Privately Held

USE OF AUTHORITY TO ISSUE TREASURY BONDS WITH INTEREST RATE OVER 4¼ PERCENT



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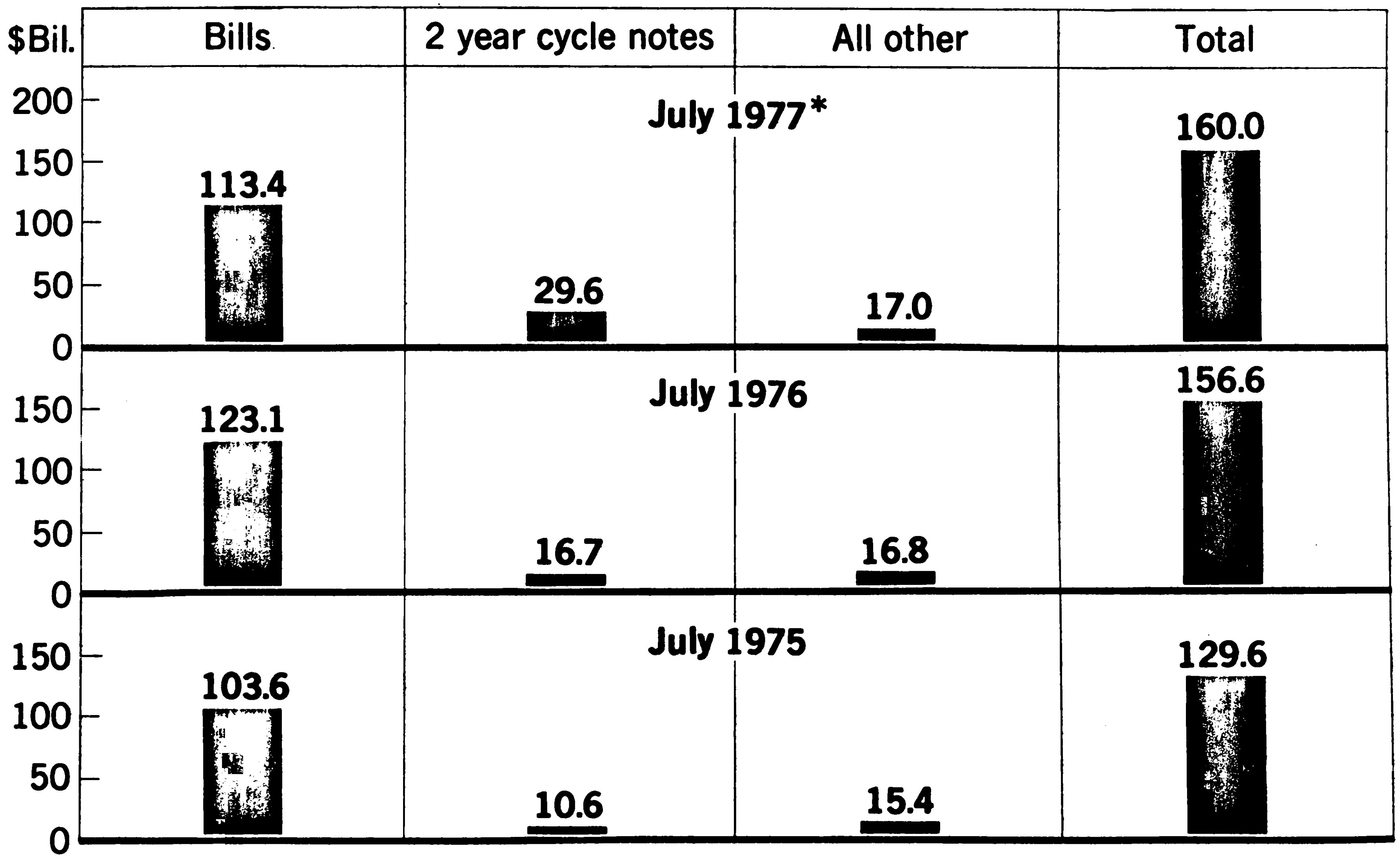
July 26, 1977-22

MARKETABLE MATURITIES WITHIN 1 YEAR

Privately Held



*Estimated

OWNERSHIP OF THE MATURING ISSUES
AUGUST 1977 — JULY 1978*

(In millions of dollars)

Maturing Issues	Total Privately Held	Commercial Banks	Savings Institutions: Long-term Investors 1/	Savings Institutions: Intermediate-term Investors 2/	State & Local General Funds	Corporations	Foreign	Other Private Holders
7¾% Nt. Aug. 1977	3,278	1,406	60	198	282	119	144	1,069
8¼% Nt. Aug. 1977	1,898	1,115	29	154	37	41	115	407
8⅜% Nt. Sept. 1977	3,136	1,441	33	286	173	88	172	943
7½% Nt. Oct. 1977	2,943	1,497	50	311	92	316	305	372
7¾% Nt. Nov. 1977	2,363	1,264	53	131	105	297	81	432
6⅝% Nt. Nov. 1977	2,525	1,388	62	301	195	205	250	124
7¼% Nt. Dec. 1977	2,473	1,368	31	251	98	148	226	351
6⅜% Nt. Jan. 1978	2,240	924	36	235	133	202	210	500
6¼% Nt. Feb. 1978	5,034	2,022	120	530	395	190	591	1,186
8% Nt. Feb. 1978	2,062	741	20	93	67	89	203	849
6¾% Nt. Mar. 1978	2,871	1,531	62	423	93	262	207	293
6½% Nt. Apr. 1978	2,194	950	3	303	83	24	341	490
7⅛% Nt. May 1978	3,010	1,742	74	376	325	103	215	175
7⅞% Nt. May 1978	2,901	1,351	50	334	227	113	130	696
7⅛% Nt. May 1978	2,397	1,490	7	190	125	190	315	80
6⅞% Nt. June 1978	2,589	1,372	11	341	325	196	205	139
6⅞% Nt. July 1978	2,617	1,515	6	325	340	175	203	53
Total	46,531	23,117	707	4,782	3,095	2,758	3,913	8,159

* Amounts for investor classes are based on the May 1977 Treasury ownership survey.

1/ Includes State and local pension funds and life insurance companies.

2/ Includes casualty and liability insurance companies, mutual savings banks, savings and loan associations, and corporate pension trust funds.

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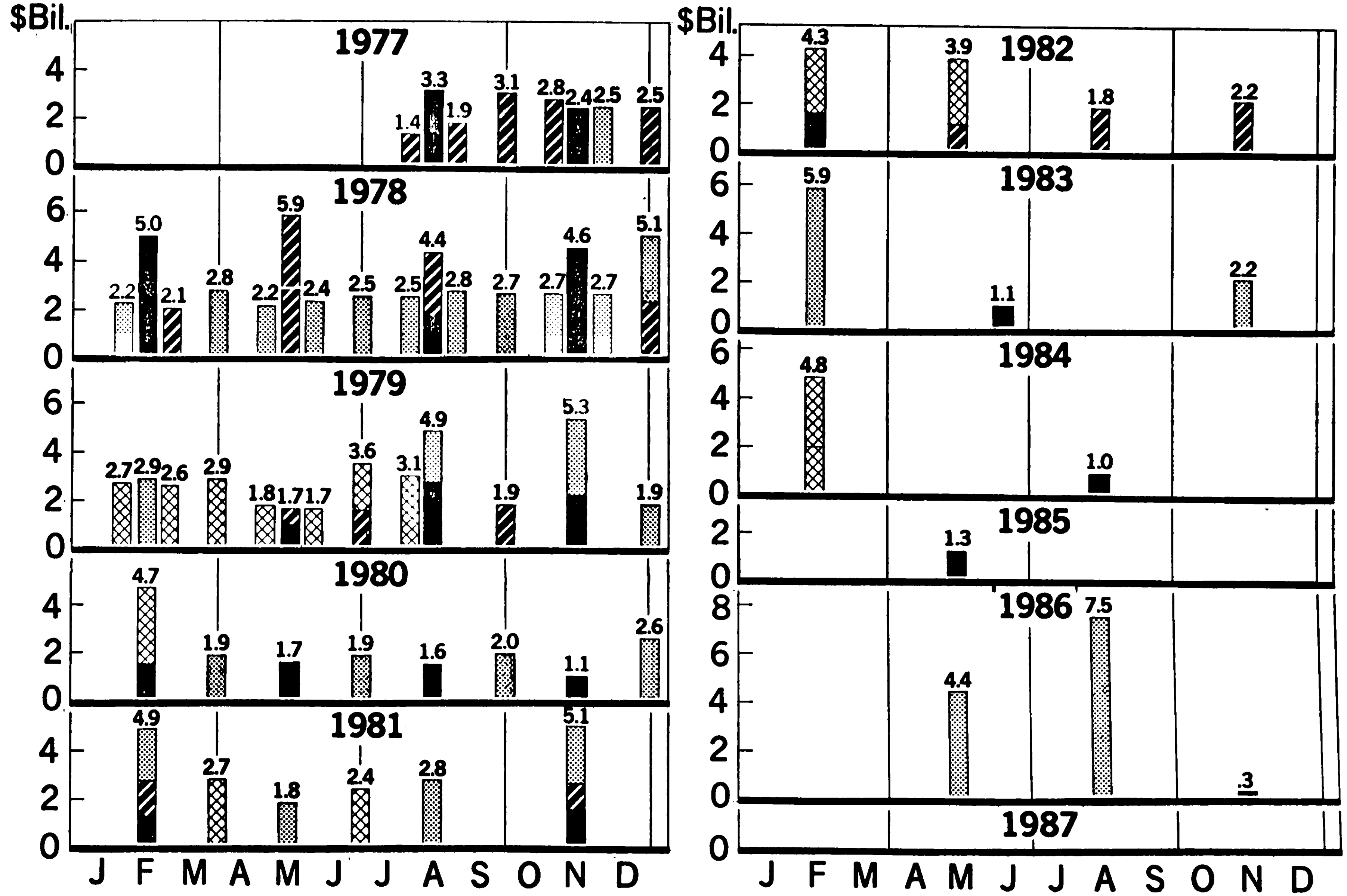
TREASURY MARKETABLE MATURITIES
Privately Held, Excluding Bills and Exchange Notes



Securities issued prior to 1975.
New issues calendar year 1975.
New issues calendar year 1976.
Issued or announced through July 22, 1977.

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Office of Government Financing

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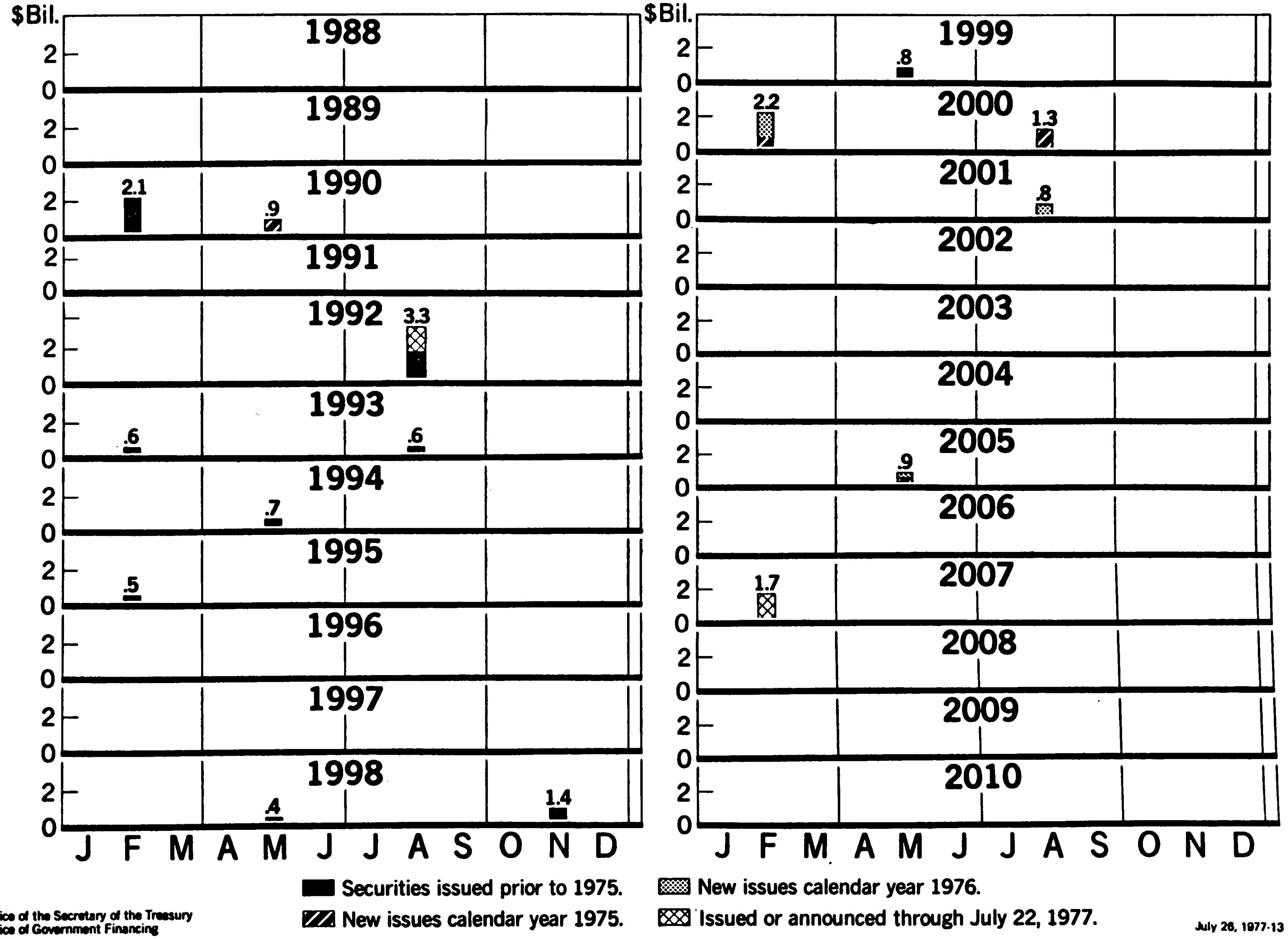
TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes



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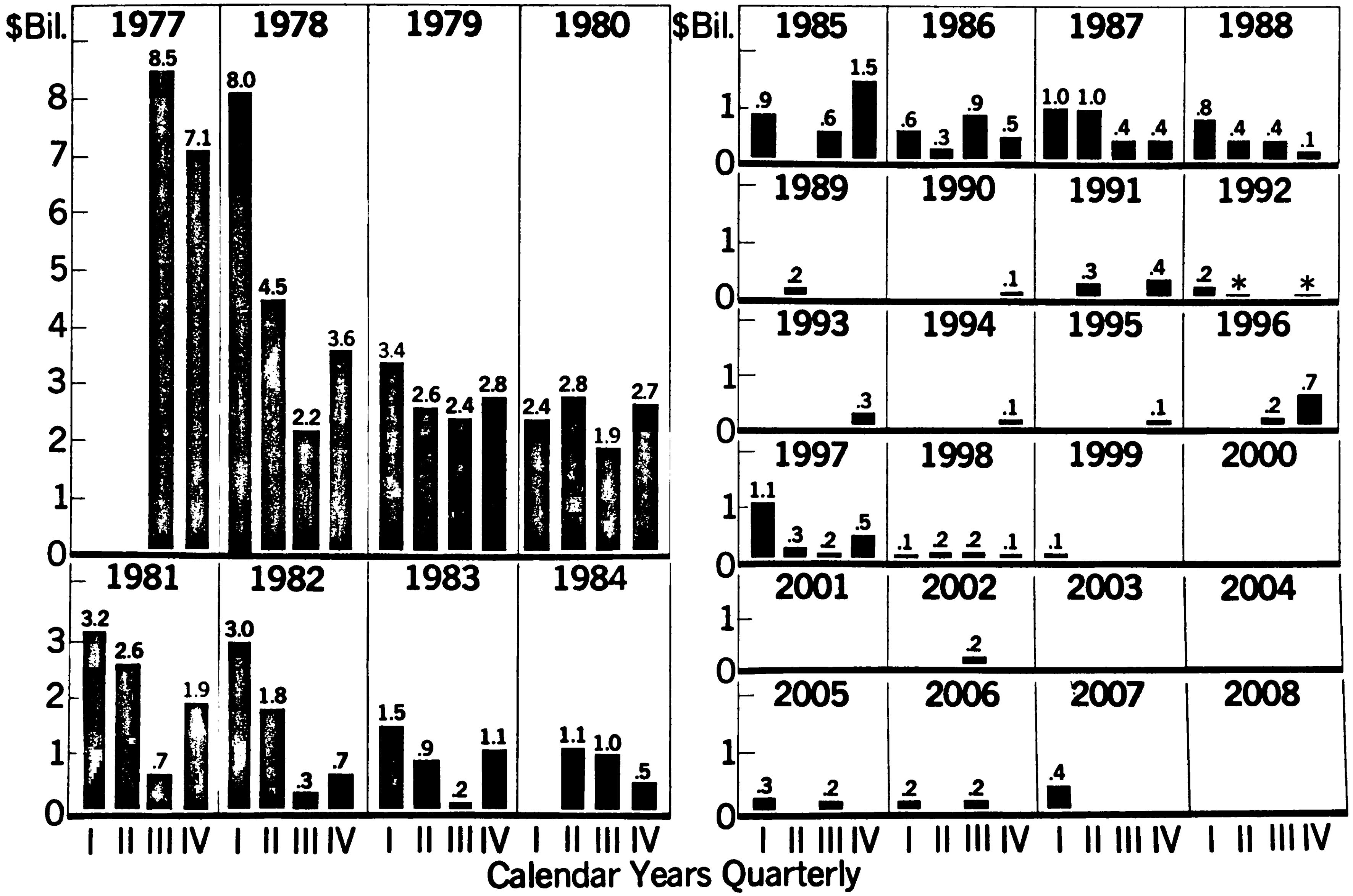
AGENCY MATURITIES[1]

Privately Held



[1] Issued or announced through July 15, 1977.

* Less than $50 million.

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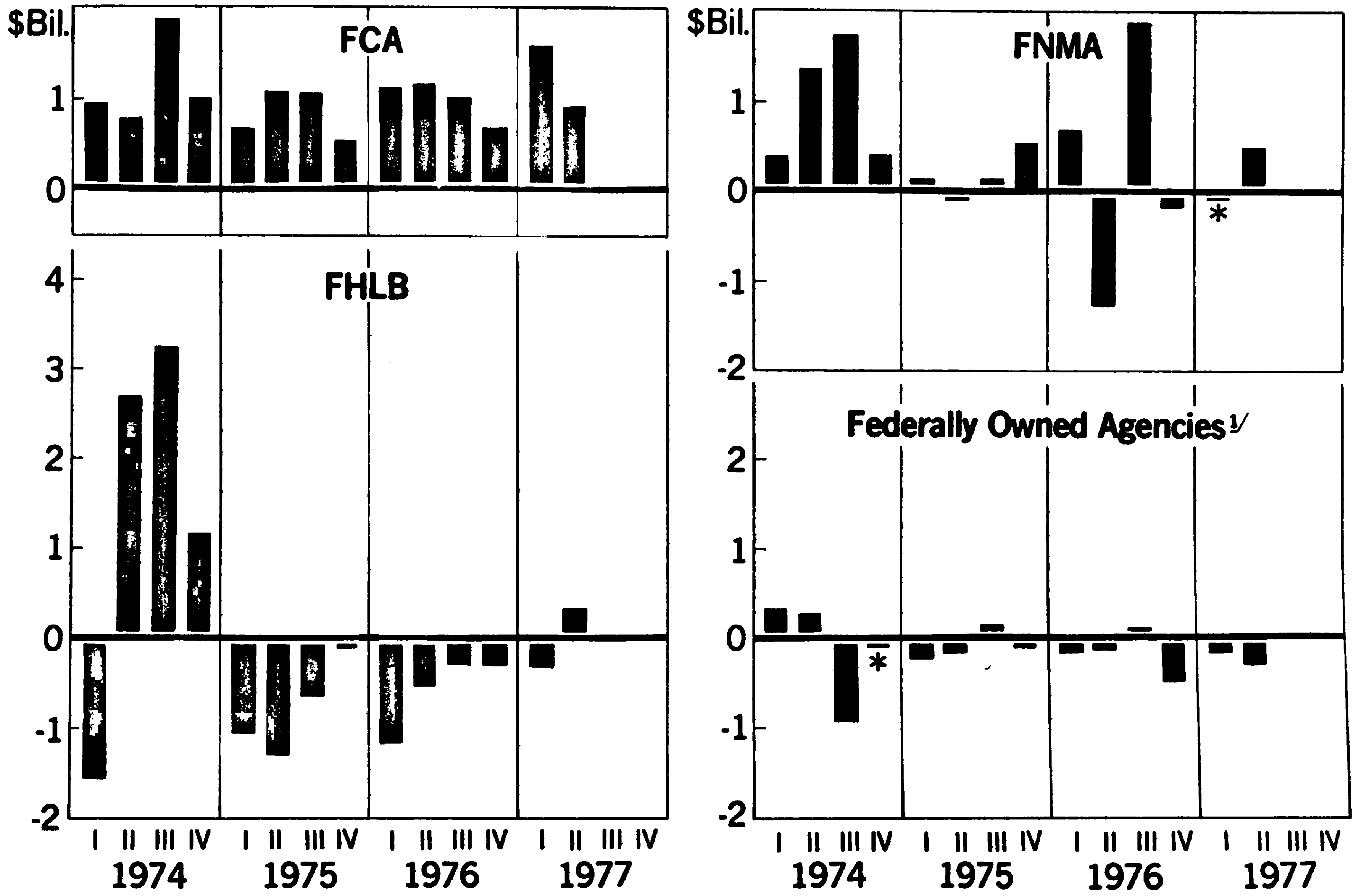
NET NEW MONEY IN AGENCY FINANCE, QUARTERLY

Privately Held



1/ Includes Ex-Im Bank, TVA, Postal Service, GNMA PC's, FHA debentures, and Defense Family Housing mortgages.

*Less than $50 million.

Office of the Secretary of the Treasury
Office of Government Financing

July 26, 1977-4

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR AUTOMATIC RELEASE
12:30 P.M., EDT

REMARKS BY
W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
TO THE
CHAMBER OF COMMERCE
LOUISVILLE, KENTUCKY
July 28, 1977

If I appear a bit dazzled I hope you'll forgive me. I've just been down the road to inspect the nation's gold stock at Fort Knox.

First, I can report it's still there. If that comforts you, think what it does for me -- the man who has legal responsibility for its security.

Second, it's beautiful and impressive. But I couldn't help but reflect that the great pile of gold there is a monument to a by-gone era in monetary policy and economic thinking.

Today it plays no role at all in U.S. domestic monetary policy -- and virtually every country in the world has agreed to reduce its role in the international monetary system.

In the old days of commodity money, people believed that the strength of a currency depended on the country's stock of gold or other monetary commodity. But we understand today that the value of our currency, at home and internationally, depends not on our holdings of those metals, but on our fundamental economic performance. That means we must concentrate on those fundamentals in order to assure a strong dollar -- and a strong dollar is of major importance not only to the United States but also to the rest of the world. By concentrating on fundamentals, I mean that the way to assure the strength of our currency, and the only way to assure a strong dollar, both at home and in international money markets, is by following sensible economic policies, by keeping inflation under control and introducing an effective program for conserving energy and by improving the vitality and efficiency of our economy. The Carter Administration is following this approach, and I am happy to report that recent indicators show continued and welcome progress. In particular:

-- Our performance on inflation -- while not as good as we would like, and a key target of Administration policy -- is substantially better than that of most of our trading partners.

-- The economy is expected to grow at a reasonable rate in the second half of this year and carrying through 1978.

-- The unemployment rate was pulled down by nearly a full percentage point since last November, and employment has made strong gains.

-- Industrial production has continued to score large increases, and corporate earnings have been rising. The outlook for business fixed investment is good and the prospects for housing and inventory investment are particularly strong.

We are of course concerned about the increase this year in our trade balance deficit and, in particular, the very large deficit of $2.8 billion registered in the month of June. Clearly, we cannot be indifferent to these large numbers and we are carefully watching developments on a continuous basis.

The figures show that a number of factors are responsible. By far, the greatest and most serious cause of our burgeoning deficit is the increased imports of energy. Out of increased imports in June over May of $1.3 billion, for example, over $800 million went for more enery imports alone. For the year as a whole, the proportions are about the same.

This underscores the great importance of the energy program and of the need for all of us to conserve energy and reduce our dependence on foreign oil. This is the single most important step we can take to deal with our trade imbalance problem.

Apart from energy, another reason why our trade deficit has been increasing is simply the fact that the U.S. economy has been growing faster than that of many other countries. More growth is always accompanied by higher imports. While our traditional export markets are lagging behind in demand for our products, this is a temporary situation which should correct itself as economic recovery in the rest of the world proceeds.

We cannot be indifferent to a continuing large deficit in the balance of trade and we will not be. At the same time, we must not forget that the U.S. economy is vigorous, healthy, and growing.

This strength of our economy is important not only to us but to the entire world. I am optimistic about the economic prospects for our country and I have no doubt that Americans and everyone throughout the world have reason to be confident about the soundness of our economic performance.

But my main topic today is our income tax system and the possibilities we are considering for making that system better.

It is certainly no news that we need tax reform in this country. President Carter has made it a major commitment and the Treasury Department has been at work for months. Now, a new public opinion poll, conducted by the Roper Organization for H&R Block, underlines how <u>much</u> we need fundamental tax reform. It makes the finding that "The American public in general and taxpayers in particular consider the federal income tax system to be unfair to most taxpayers." That, of course, is hardly surprising.

What is more interesting about the survey is that it reveals that the complexity and unfairness of the present system have bred public minunderstanding that is both deep and widespread.

The survey shows that Americans believe that our system is less progressive than it really is. They believe that IRS tax audits are more lenient for those in higher income brackets. They believe that complex loopholes exist which they are unable to use only because they do not have the expertise. It is interesting to ponder why these beliefs exist.

What lies behind the perception of differential treatment, I suspect, is the fact that as you move up the income ladder the opportunities for tax planning and tax avoidance proliferate. Higher income taxpayers have more opportunities and more incentive to avoid taxes. It pays them to hire lawyers and accountants and other tax experts to search out the loopholes that will lower their taxes.

It is also true, however, that there are some provisions of the tax code that are so complex or require so much investigation that they cannot be enforced with any reasonable number of personnel. An example is the requirement for substantiation of business meals and entertainment which creates substantial and costly and administrative burdens for the IRS.

So we could say the system is biased in favor of those who have income in those forms, and they are generally high income people.

So you see that the public's perceptions are rooted in reality, that they grow out of the problems and shortcomings that exist in our system today.

And the fact that these perceptions exist, whatever their cause, is itself a basis for concern and action. Because one of the great things about the American tax system is that it is essentially a voluntary system. The average American believes in paying a fair share of income in taxes and does so more conscientiously than in perhaps any other country. That is a value we must not lose. Yet lose it we will if people lack faith in the fairness of the system. And in order to have that faith they must be able to understand the system and know what it requires of them and of their neighbors.

So you see why the Carter Administration is so strongly committed to fundamental tax reform.

Our goals are clear.

First, we want to make the system much simpler. We want to make it possible for the vast majority of all taxpayers -- perhaps 85 or 90 percent -- to use the standard deduction and read their tax out of a table or compute it easily. For those who still itemize deductions, we want to make the calculations simpler and the record-keeping requirements less onerous.

Second, we want to close loopholes and make the tax system fairer. That means that we must give particular attention to the provisions that allow the huge variation in taxes among high income taxpayers.

Third, we want to encourage business to invest to create new jobs and foster higher productivity and growth in the American economy. So we will recommend some means of increasing the after tax return to capital. And we will give special attention to steps to benefit small business.

And fourth, we want to lighten the tax load on the lower and middle income groups.

For months, we have been studying and analyzing what we could do to achieve these goals. We have been seeking advice and counsel from a broad cross-section of the public. And we have been describing many of the possibilities we have under consideration with the hope of stimulating reactions and dialoque.

Let me continue that process today by mentioning some of the specific changes we are considering, recognizing that at this stage we have not made final decisions on what to include.

In our quest for greater simplicity, we have already taken an important step in the President's economic stimulus program. In that legislation, we provided a flat standard deduction which can be combined with personal exemptions and the general tax credit in a single tax table. That arrangement, together with an increase in the deduction for most taxpayers, will boost the share of returns using the standard deduction to around three quarters.

We could also make tax preparation simpler by eliminating some of the existing deductions. We are examining all of them to see whether the tax benefits they provide could be given more easily be getting rid of the deduction and reducing the tax rates. A strong case for that approach exists when the deduction is based on a formula or table rather than actual expenses, such as the sales or gasoline taxes. The latter, of course, would be eliminated to foster energy conservation under the Ways and Means Committee version of the President's energy legislation.

At the same time, we recognize that some deductions may still be needed to encourage valid social objectives. And some -- such as the deduction for real estate taxes on homes -- are so deeply embedded in economic relationships and the structures of industries that a change would be highly disruptive.

So we will be balancing conflicting considerations in deciding how far to promote simplicity by reducing deductions.

We are also reviewing deductions, exclusions and preferences in terms of their effects on tax fairness.

We are considering business expenses -- such as meals, travel and entertainment expenses. We will decide whether to recommend any changes in the present deductibility of such expenses as club dues, theatre tickets and travel to conventions outside the United States.

We are weighing the possibility of changes related to the exemption of interest on state and local bonds. One possible change would not eliminate this arrangement but would allow state and local governments to issue, at their option, taxable bonds with a direct interest subsidy from the Treasury.

And we are looking closely at the present preferential treatment of capital gains to see whether capital gains should not in most respects be treated more like ordinary income. The capital gains preference is probably the largest single source of complexity in the tax system. Nearly 100 sections and subsections of the code are needed to deal with the subject. A large part of the variation in taxes on people with like incomes and much of the uneconomic activity associated with tax planning result from the capital gains preference.

In considering this issue, we have in mind the effects of inflation on nominal capital gains, the impacts on home ownership, and the possible effects on savings and investment. We know there is concern that drastically reducing the capital gains preference would discourage capital formation. But with the so-called minimum tax and related provisions, taxation of capital gains can already rise as high as 49-1/8 percent. With lower tax rates, including a reduction in the 70 percent rate on unearned income, the increase in taxation would not be as large as many people expect and could be offset by fairer and less complicated means of improving the return to capital.

If we were to eliminate virtually all deductions, exclusions and preferences, we could raise the same amount of revenue with tax rates of 8 to 38 percent that we now obtain from rates of 14 to 70 percent and do it with approximately the same distribution of the tax burden among income classes. So you see that we have considerable scope for rate reductions as part of tax reform. I do not mean we will reduce rates that much. But I am confident that we will propose significant rate cuts, which, in turn, will contribute to our third goal of fostering investment and growth.

Lower rates will provide an incentive to terminate uneconomic activities carried on only to lower taxes and encourage the shift of those resources to more productive uses.

Elimination of the high marginal rates on investment income would remove a tax bias against savings and investment.

But we must also take positive steps to encourage more spending on the productive equipment and factories our economy needs. In recent years our investment in new plant and equipment has been lagging, compared to earlier periods. And we have seen a related decline in the rate of growth in productivity which is the ultimate source of higher incomes and better living standards in this country.

Our response can take a number of possible forms. We could eliminate the so-called double taxation of corporate income, either entirely or with respect to some or all dividend payments. We ould reduce corporate tax rates, provide accelerated depreciation, allow write-offs of certain capital items such as pollution abatement equipment, or increase the investment tax credit.

We are evaluating these possibilities in terms of their revenue losses, their effectiveness in accelerating investment, their impacts on our other goals of simplicity and equity, and their neutrality among different kinds of investment, different firms and industries, and different types of financing. In general, we expect greater efficiency and greater economic gains if the tax system is unbiased, allowing investment to respond to market signals that reflect consumers' demands for different goods and services.

In balancing out the advantages and disadvantages of these possibilities we may choose some combination of methods -- for example, partial relief from double taxation together with cuts in corporate tax rates or a larger investment tax credit.

At the same time, we are examining existing business tax preferences to see whether they should be continued in their present form. For example, the so-called Domestic International Sales Corporation or DISC, that was intended to promote U.S. exports through tax deferral, the provision for tax deferral on the earnings of foreign subsidiaries of U.S. corporations, and the special bad debt reserves of financial institutions are being reviewed.

An important element of our tax proposal will be a special effort to help small business because we recognize that small business is a vital source of innovation, of entrepreneurship and of competition in the American economy.

There will be provisions to encourage capital accumulation by small- and medium-sized businesses and to improve their access to equity markets.

Among the possibilities under consideration are changes in the corporate tax rates and in depreciation provisions that could benefit small business. Tax provisions related to Subchapter S Corporation could be modified in a number of ways that would lessen the tax obstacles those companies face.

The changes that the President finally decides to propose to increase the simplicity and fairness of the system and to encourage investment will obviously alter the distribution of the tax burden. At that point we must adjust the tax rates to assure that lower and middle income taxpayers will be the principal beneficiaries of the changes that are made, including any overall tax reductions.

I have mentioned many possibilities today. As I believe is obvious, we cannot adopt all of them. And I stress that they are only possibilities, no proposals. Some that we do adopt may be phased-in to limit revenue losses or to provide for orderly adjustments. The decision on what to include have not been made and when they are they merely initiate the long process of Congressional consideration and action.

I know the road ahead is uncertain and long. Yet in my talks with many citizens such as yourselves, in the spirit that pervades our effort, and in the determination and commitment of the President, I see the promise of a major accomplishment that will fundamentally improve our tax system and through it strengthen our economy and the quality of life of our people.

We are doing our best to achieve that objective and we ask your understanding and help. Thank you.

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TESTIMONY OF RUSSELL L. MUNK
ASSISTANT GENERAL COUNSEL FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON SEPARATION OF POWERS OF
THE SENATE COMMITTEE ON THE JUDICIARY, JULY 29, 1977

Mr. Chairman, I am happy to have the opportunity this morning to testify before the Subcommittee on Separation of Powers. In your letter inviting a Treasury representative to testify, you expressed concern that the Senate be placed in a position to advise and consent with repect to any financial arrangements with the Government of Panama related to the proposed Canal treaty. My statement addresses that concern.

At the outset I want to assure you on three counts:

First, the Administration will, as it already has, keep Congress fully informed of the progress of treaty negotiations and any related matters.

Second, at the time the Senate is asked to act on the treaty, full information on all financial arrangements which have any relation to the treaty negotiations will be given to the Senate so that it can take these arrangements into account in its deliberations.

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In any event, the Administration fully appreciates the necessity of keeping the Congress informed of the progress of the treaty negotiations and any related measures. It has had extensive consultations with members of Congress on the negotiations, and as soon as types and amounts of financial arrangements are brought into clearer focus we will be consulting with Congress on them.

The Senate will be provided with the details of any and all economic arrangements agreed upon by the U.S. Government and the Panamanian Government when the proposed Canal treaty is presented to the Senate for its advice and consent. It is too early to tell whether all such arrangements should be included in the proposed treaty, but, at the very least, the entire Senate and the House will be fully informed of any financial arrangements made in connection with the treaty by the U.S. Government. The Senate will be able to take those arrangements into consideration when deciding whether or not to give its advice and consent to the ratification of the treaty. Further, any proposed measures which will require implementing legislation would of course be subject to Congressional review and approval.

In summary, I cannot over-emphasize the importance the Administration places on the Senate's role concerning the treaty. It recognizes that without Senate support the efforts that have been made and will be made to negotiate a mutually satisfactory treaty with the Panamanians will come to nought. The Administration has every intention of conducting the negotiations in a manner worthy of the full trust of the Congress.

This concludes my statement. Are there any questions?

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