Dept. of the
U. S. Treasury. ~~Dept~~.

Press releases. . .

FOR IMMEDIATE RELEASE November 1, 1978

TREASURY POSTPONES NOTE AND BOND AUCTIONS

The Department of the Treasury has postponed the auction of $2,500 million of 10-year notes and $1,750 million of 30-year bonds. The auctions had originally been scheduled for today, November 1 for the notes, and for Thursday, November 2 for the bonds. The auctions have been rescheduled for Thursday, November 2 for the notes and Friday, November 3 for the bonds. The note and bond auction dates have been postponed to allow time for the credit markets to digest the actions announced this morning by the Treasury and the Federal Reserve Board.

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

FOR RELEASE AT 4:00 P.M. November 2, 1978

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $3,587 million, or thereabouts, of 364-day Treasury bills to be dated November 14, 1978, and to mature November 13, 1979 (CUSIP No. 912793 Z8 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 November 14, 1978.

This issue will not provide new money for the Treasury as the maturing issue is outstanding in the amount of $3,587 million, of which $1,878 million is held by the public and $1,709 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 Standard time, Wednesday, November 8, 1978. 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.

(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 November 14, 1978, in cash or other immediately available funds or in Treasury bills maturing November 14, 1978. 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.

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

FOR IMMEDIATE RELEASE November 2, 1978

RESULTS OF AUCTION OF 10-YEAR NOTES

The Department of the Treasury has accepted $2,501 million of $3,162 million of tenders received from the public for the 10-year notes, Series B-1988, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	8.75%
Highest yield	8.90%
Average yield	8.85%

The interest rate on the notes will be 8-3/4%. At the 8-3/4% rate, the above yields result in the following prices:

Low-yield price	100.000
High-yield price	99.020
Average-yield price	99.345

The $2,501 million of accepted tenders includes $ 303 million of noncompetitive tenders and $2,198 million of competitive tenders from private investors, including 65% of the amount of notes bid for at the high yield.

In addition to the $2,501 million of tenders accepted in the auction process, $ 931 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 November 15, 1978.

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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., EST
TUESDAY, NOVEMBER 7, 1978

REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE ASSOCIATION OF AMERICAN
CHAMBERS OF COMMERCE IN LATIN AMERICA
RIO DE JANEIRO, BRAZIL

ECONOMIC RELATIONS BETWEEN THE UNITED STATES AND LATIN AMERICA

Economic relations between the United States and Latin America in the late 1970s are governed by two basic realities, which will clearly continue into the decade ahead.

First, Latin America is part of the universe of developing countries. It continues to suffer from pockets of extreme poverty. It can still be buffeted by external events beyond its control. Hence it must still be viewed as part of the developing world.

Second, however, Latin America is a uniquely successful part of that developing world. Along with a few countries in the Far East and elsewhere, it has moved far ahead of the poor nations of Africa and South Asia. It has become a major partner and, indeed, competitor of the United States in world trade. Hence it must also now be seen as a key actor in the

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world economy, adopting a growing responsibility for the functioning of that economy -- on which its own prosperity so heavily depends -- and deserving of a seat at the table for all important international economic negotiations.

U.S. economic policy toward Latin America must therefore be seen in two lights: as part of our overall approach to the developing world, and as part of our evolving effort to work with the advanced developing countries -- the ADCs -- in ways which take full cognizance of their rapidly changing capabilities and in pursuit of mutual benefit for us and them. Today I will address this issue in terms of its three components:

- -- the impressive progress of Latin America, which sets it well beyond any other region in the developing world;
- -- the efforts of the United States toward Latin America, as part of our policy toward the developing countries both in aggregate terms and as differentiated to respond to the evolving needs of this most advanced region;
- -- possible future developments which might build on the successes to date and exploit still further the rich opportunities for constructive cooperation between the northern and southern halves of our hemisphere.

Latin America in the World Economy

Latin America has become an important actor in the world economy. Its impressive development during the past two decades, while leaving many problems yet unsolved, has thrust it into the forefront of the entire developing world. As a result of their development, several Latin American nations -- particularly Brazil, Mexico, Argentina, and Venezuela -- now play a major and creative role in international trade and finance.

Latin America has outpaced all other developing regions in its rate of economic progress:

-- Between 1965 and 1977, the gross domestic product of the region more than doubled in real terms to nearly $400 billion. This represents an annual growth rate of 6.1 percent -- compared with 5.1 percent for all developing countries, and about 3.9 percent for the industrialized countries.

-- During 1973-1977, the region grew at an average annual rate of nearly 5 percent compared with only 2 percent for the OECD countries. It maintained impressive growth through the world recession, cushioning the impact of the recession on the industrialized countries including the United States.

-- Real per capita GNP in the region has increased by more than half since 1965. It now stands at $1100, as compared with a per capita GNP of $450 for the rest of the developing world.

This rapid progress has sharply increased the importance of the region to the United States, and strengthened our economic relations with it. U.S. exports of goods and services to Latin America reached $25 billion last year, five times more than in 1965. U.S. imports from Latin America totaled $21 billion in 1977, four times as much as in 1965. Latin America is a major supplier of materials to the United States, accounting for 40 percent or more of U.S. imports of several key products. About one-quarter of U.S. petroleum imports now come from Latin America -- a figure that may well rise in the future.

U.S. financial relations with Latin America have also expanded greatly. Total U.S. direct investment in the region approaches $30 billion -- about 80 percent of all U.S. investment in developing countries. U.S. bank lending to Latin America has also risen rapidly, and exceeded $42 billion at the end of 1977 -- 21 percent of all U.S. bank lending abroad.

These trends clearly make Latin America part of a new "international middle class," together with a few other countries in the Far East and Middle East. The continent is of course far from being fully developed.

Indeed, huge pockets of poverty remain even within the most advanced countries of the hemisphere. Income distribution needs improvement in many countries. A few of the smaller nations of the region are still at relatively low levels of development.

The United States recognizes and respects the diversity and individuality of the nations of Latin America. But the region as a whole enjoys living standards far higher than those of developing Africa and Asia. It has become a major factor in key trading and financial markets throughout the world. As a consequence, we see our economic relations with Latin America as the "cutting edge" for new modes of international cooperation between industrial and developing countries -- with real benefits for all participants whether they come from above or below the Rio Grande.

Looking ahead, we expect that both the economies of the region, and U.S.-Latin American economic cooperation, will continue to grow rapidly. We are optimistic about the future of the region, and believe that its dynamic economic growth will continue to exceed that of most of the rest of the world.

This will further strengthen Latin America's position in the world economy. It will increase the region's influence in international economic decision-making.

Its importance as an exporter of increasingly sophisticated manufactured goods seems likely to increase sharply, as it acquires a comparative advantage on world markets for products such as motor vehicles and computers. One need look no further than the changing composition of Brazilian exports -- including the shipment of Volkswagens to Germany -- to see what shifting comparative advantage will mean to Latin America in the years ahead.

The Policies of the United States

As a result of all these changes, the countries of Latin America -- and, indeed, a great many other developing nations -- are clearly an integral part of the global economic system. They, like we, have a vital interest in the future of the international economy, in the continued operation of an open international trading and financial system, in maintaining stable international monetary arrangements, and in ensuring adequate rates of growth of global production. As a result, they have a deep interest in our policies on a whole host of issues -- not just those sometimes characterized as "North/South."

Indeed, a cardinal tenet of the international economic policy of the United States is to take developing-country concerns into account in formulating all of our global economic approaches. Today's mutuality of interests reduces the usefulness of bloc approaches to relations between developed assistance and preferential treatment in international trading arrangements. For ADCs, and particularly for many of the countries of Latin America, a relatively advanced stage of development implies a gradual phasing out of preferential treatment, the beginning of active participation in efforts to assist those countries in less fortunate circumstances, and growing collaboration in molding the evolution of the international economic system.

For its part, the United States is making a major contribution to the developing countries, both those which are more advanced and those which are poorer. In less than two years, I believe that the record of the Carter Administration is truly outstanding in this regard:

-- We have engineered an impressive recovery of the U.S. economy, cutting our unemployment rate from over 8 percent to under 6 percent, thereby restoring growing markets for LDC exports and improving the climate for all types of assistance to them. We have pressed other key industrial countries to do likewise, with some notable successes.

-- We have strongly supported an expansion of international balance-of-payments financing via the Witteveen Facility at the International Monetary Fund, whose more than $10 billion can be used by developing as well as industrialized countries, whereas the and developing nations -- which have too often been characterize by reckless rhetoric instead of pragmatic progress. As President Carter concluded in a speech earlier this year in Caracas: "Real progress will come through specific actions designed to meet specific needs -- not symbolic statements by the rich countries to salve our consciences, nor by developing countries to recall past injustices."

In short, "North-South" relations are far too important to be relegated to a separate niche, isolated from the mainstream of national policies in either industrialized or developing countries. We seek to integrate the needs and concerns of the developing countries into each aspect of our international economic policy -- as we hope they will increasingly recognize our needs and concerns in their policies as well.

We believe that an effective economic relationship between industrialized and developing countries must, in fact, be based on the twin principles of shared responsibilit by all and a right for all to full participation in international economic decisions. These two elements are central to our approach to the developing countries. We recognize that the degree of responsibility assumed by each country will depend on its stage of development. For the poorest developing countries, where extreme poverty is pervasive, we support increased concessional development previous Administration proposed to limit such help to OECD countries via the so-called "Kissinger safety net".

-- We have given our support to a further increase in IMF quotas and the first allocation of Special Drawing Rights since 1972, which was opposed by our predecessors, both of which will provide further financial help for all countries.

-- We have supported a major capital increase and a steady rise in lending by the World Bank, which is now committing almost $9 billion annually in financial resources around the world including $2.3 billion to Latin America, in the year ending June 1978, whereas our predecessors had put a ceiling on the Bank's whole lending program.

-- We have supported a growing role for the World Bank, the regional development banks, and our own Overseas Private Investment Corporation in the search for energy throughout the developing world whereas the previous Administration rejected such a role for the public sector.

-- We have dramatically expanded the financing available from our Export-Import Bank, some of whose major clients are also here in Latin America, whereas the previous Administration had virtually closed down the Bank as an effective lubricant for international trade.

-- We have succeeded in getting world-wide agreement that the Multilateral Trade Negotiations should be concluded by December 15 of this year, thereby opening up new markets for the exports of developing (as well as industrial) countries, after three years in which that effort went absolutely nowhere.

-- We have reversed the traditional U.S. position toward international commodity agreements, and are working hard both to negotiate agreements where price stabilization is technically feasible and to provide our share of the financial resources needed to make them work.

-- We have indicated our willingness to support, and participate in, a Common Fund which would be structured to enhance the aims of individual commodity agreements.

-- We have increased our budgetary allocations for foreign assistance from $5.1 billion in FY 1976 to $7.2 billion in the current year, including more than doubling our contributions to the multilateral development banks.

-- Of particular interest to Latin America, and digressing for a moment into the political arena, we have concluded an equitable treaty with the Government of Panama for orderly transfer of the Canal.

-- We have made concrete progress in our efforts to include advanced developing nations in pragmatic, functional fora heretofore limited to industrialized nations to discuss mutual economic problems, such as the OECD Steel Committee and the International Arrangement on Export Credits.

These accomplishments have not come easily. Increased appropriations for foreign assistance compete with urgent domestic priorities and the need to cut government spending to slow inflation. Our ability to resist protectionist pressures has been severely tested over the past two years, with unemployment still around 6 percent and a trade deficit of over $30 billion. The Panama Canal Treaty was unpopular with a large portion of the American public.

But we are convinced that these achievements are in the interest of the United States as well as Latin America. Indeed, President Carter has embraced each of them personally and adhered firmly to his policy principles, even when it would have been much easier to look the other way. We remain committed to the further expansion of economic cooperation between North and South, with appropriate participation by all nations -- especially in the areas of trade and development finance.

Trade

Trade is probably the most important area of U.S. economic interaction with developing countries. Our focus here is threefold:

- -- rejection of the many proposals to restrict U.S. imports from developing countries, most recently for copper;
- -- support for the Multilateral Trade Negotiations (MTN), where we are working actively to significantly reduce tariff and non-tariff barriers and to improve the rules governing international trade flows;
- -- continued preferential trading treatment in our market for the developing countries.

U.S. trade statistics provide the clearest indication of the openness of our markets. Our imports of manufactured goods from the developing countries have grown from $3 billion in 1970 to nearly $16 billion in 1977 -- an average annual growth rate of 25 percent, accelerating since 1975. Developing countries now supply 50 percent of our imports of consumer goods and 24 percent of all our manufactured imports.

At the same time, the trade area reveals most clearly the importance of policy interdependence among industrial and developing, particularly advanced developing, countries. Our ability to maintain an open trade policy depends increasingly on <u>their</u> willingness to gradually open their markets and play by the agreed international rules. The postwar history of Japan reveals the risks which are posed for an open world economy by a country which views itself as poor and dependent long after it has become a major force in world trade, and fails to take into account the repercussions on its own most vital interests of waiting too long to assume truly reciprocal obligations -- such as opening its own markets to imports and eliminating export aids which are no longer needed. It is our strong hope that today's ADCs will not repeat this serious mistake.

In practice, this means an increasing acceptance by the more advanced developing countries of at least partial reciprocity in the Multilateral Trade Negotiations. For example, they could accept a commitment to limit their government procurement practices which discriminate against foreign suppliers. They could follow the guidelines of the International Arrangement on Export Credits. They could significantly reduce their excessively high tariffs. In general, it means phasing out special treatment as development proceeds so that needier countries can benefit from such preferences more fully.

The acceptance of greater responsibility in trade relations is especially important in the use of government subsidies. One of our most important objectives in the MTN must be to reach an agreement on subsidies and countervailing duties, to avoid the growing use of such practices by many countries and retaliation against them by others:

-- We need to put a lid on the growing use of subsidies to spur export-led growth at the expense of other trading nations.

-- We need to broaden to more countries, and deepen in substance, the commitment previously accepted by most industrial nations not to use export subsidies.

-- We need to strengthen the present GATT provisions on dispute settlement to ensure that these rules are enforced effectively.

Subsidies can of course play an important role in national economic policy, and flexibility in the rules is needed for countries on different rungs of the development ladder. Fully developed countries should subscribe to all provisions of the agreement immediately, whereas developing countries should be accorded special and differential treatment. However, the code should provide for increased acceptance of its obligations by ADCs as their industries become internationally competitive, as well as acceptance from the outset of the principle that their subsidies should not hurt other countries. We fully recognize the evolutionary nature of this process, and hence accept that these obligations can be phased in over time rather than instituted all at once.

We have been working extremely closely with several ADCs -- including Brazil -- on this problem. Indeed, Brazil has played an active role in discussions on the subsidies code, and other aspects of the MTN, in ways which attempt both to defend the legitimate interests of developing countries and to strengthen the global trading system. We hope, and expect, that Brazil and other key developing countries will continue to make positive contributions in the closing stages of the negotiations.

Of course, a large volume of our trade with developing countries already enters the United States duty-free under the existing tariff schedule and generalized system of preferences (GSP) -- which the United States adopted in large part due to the needs of Latin America, most of which was excluded from the extensive system of specialized tariff preferences offered by the European Community. The total value of GSP imports from developing countries in the first six months of 1978 was running at an annual rate of almost $5 billion, of which almost one-third was from Latin America. GSP duty-free imports rose an impressive 31 percent in January-June 1978 over the same period in 1977. In Latin America, particularly strong gains were made by Argentina (up 91 percent) and Brazil (up 56 percent).

Our approach to GSP is designed to assure that the greatest benefits are made available to those who need them most. When a particular product from a country eligible for GSP becomes competitive in the U.S. market, that product reverts to normal tariff treatment on the grounds that special help is no longer needed -- and that its continuance would unfairly hamper less competitive countries from getting an opportunity to enter the market.

<u>Development Finance</u>

Our global policy in the area of development finance is to expand the flow of resources to developing countries, on appropriate terms, to assist them in their efforts to reduce poverty and achieve self-sustaining growth. This approach suggests that countries should, as they progress, move gradually but deliberately from (1) concessional assistance as provided by AID and the soft-loan windows of the multilateral development banks (MDBs) to (2) the non-concessional windows of the latter institutions and the private capital markets into (3) positions where they can assist their poor neighbors through various bilateral and multilateral assistance channels.

As you are aware, this shift is well underway for most of Latin America. The United States has now terminated its AID programs in Argentina, Brazil, Colombia, Chile, Ecuador, Uruguay and Venezuela (and to Korea, Taiwan and Malaysia). A few of these countries have already begun to mount their own foreign assistance efforts to help the poorer LDCs.

As official financing for the more advanced developing countries has declined, the U.S. capital market has become their major source of financing. Open access to such funds has thus become a crucial element in meeting their financing needs. We applaud the success of these countries in tapping this source of funding, which should continue to grow in importance.

For our part, the U.S. Government has taken numerous steps to assure continued access for borrowers in developing countries. Recently, our regulatory agencies have placed increased emphasis on the principle of diversification of cross-border risk -- a sound principle with benefits for both borrowers and lenders. Further possibilities for new sources of finance, such as co-financing with official institutions and tapping the institutional investor markets, seem promising as supplements to bank lending. We have appropriated billions of dollars of callable capital for the World Bank and the Inter-American Development Bank (IDB), and are negotiating sizable expansions of both, so that they can play a growing role of financial intermediation -- especially for borrowers in Latin America, who obtained $4.3 billion from these institutions in the year ending June 1978.

The current negotiations for replenishment of the IDB, which are in their final stages, reveal the growing collaboration between the United States and the ADCs of Latin America in financial matters. The ADCs which still borrow from the Bank -- Argentina, Brazil and Mexico -- have indicated a willingness to limit their shares to enable the poorer countries of the Hemisphere to increase theirs, and to increase their own contribution to the usable resources of the concessional lending window of the Bank. We have therefore indicated a willingness to increase sharply the U.S. contribution to the Bank's capital resources, and we expect the result to be a highly satisfactory basis for IDB lending for the next four years.

Similarly, we are sharply expanding the lending program of our Export-Import Bank -- from only $700 million of direct loans in FY 1977 to about $3.6 billion in the current FY 1979. The primary purpose of the Bank is of course to promote U.S. exports. At the same time, however, it provides borrowing countries with terms which are not available in the private markets and thereby enhances their financial positions. Latin American countries are heavy users of Eximbank, having borrowed almost $1 billion from it during the past twelve months, and therefore benefit jointly with us from its sharply expanded lending program.

The area of development finance also embraces an important, if largely unsung, example of recently enhanced cooperation among industrialized and developing countries. For some years, the Group of 77 -- the caucus of the developing countries -- had taken the position that they should be granted relief from their private debt burdens via generalized moratoria and reschedulings. In late 1977 and early 1978, however, an increasing number of developing countries -- to their great credit -- recognized that any such steps, or even serious discussions thereof, would severely jeopardize the increased access to private capital markets which has become so central to successful development in so many of them. Hence they quietly dropped their "demands" on this issue, scoring an important victory for reality over rhetoric and demonstrating the possibilities for pragmatic cooperation between "North and South". Some of the major countries of Latin America played a key role in that change of positions.

Future Directions

As the development process in Latin America and other developing regions moves forward, continued evolution in economic relations will be necessary. It is clear that the developing countries are going to play an increasing role in the world economy, as producers and exporters both of manufactured goods and of key commodities.

The World Bank projects exports of manufactures by the developing countries to continue growing at an annual rate, adjusted for inflation, of over 12 percent. This would bring their total exports in 1985 to around $110 billion in 1975 prices -- only slightly less than the combined manufactured exports of the United States and Japan in 1975. The ADCs have represented the most dynamic component of the world economy for over a decade, and are likely to do so for at least the decade ahead as well.

The great benefits to the advanced developing countries that will result from this progress require that they make great efforts to support a more open world trading and financial system by moving their own policies in this direction. There are hopeful trends, but there are also dangers that some countries may resist such an opening. Such resistance could create severe problems for the international trade and financial system. It would certainly jeopardize the ability of the United States to demonstrate that cooperation is a two-way street, and thereby to maintain our support for such a system, and I am sure this is true of all industrialized countries.

Such policy interdependence means that our ability to keep our markets open depends importantly on their cooperation in providing access to their markets, and in avoiding subsidized sales to ours.

Correspondingly, the continued progress of the ADCs will require still greater participation by them in international economic affairs. As I have indicated, the United States is already looking for ways in which such participation can be enhanced. We welcome the advent of these new economic powers, and assure them that there is room for them at the center of world economic arrangements.

The specific focus of such arrangements cannot yet be clearly seen. To the extent that both developed and developing countries continue to seek to liberalize their economic relations with the rest of the world, however, it is apparent that additional forms of cooperation will become both necessary and desirable:

-- In the critically important trade field, <u>full participation and membership in the General Agreement on Tariffs and Trade (GATT)</u> are central goals. It is anomalous that important developing countries -- including some in Latin America -- are not members of GATT. Full participation in other functional groups, such as the OECD Steel Committee and the International Arrangement on Export Credits, is also critical to our mutual discussion of these problems.

-- Increased interdependence between developing countries and the rest of the world economy will increase the need for consultation and information exchange about near-term trends in the world economy. We will have to give much thought to how best to carry out this process.

-- We believe possibilities in the investment field are particularly interesting. As the old ideologies that have resulted in widely differing views of foreign investment erode, and are replaced by pragmatic desires to maximize the contribution of such investment to world development, we see considerably greater opportunities for cooperation -- as has already been evidenced in the IMF/IBRD Development Committee. The advanced developing countries fully understand the benefits to both home and host countries in assuring that multinational corporations play a constructive role in the world economy, and are quite able to negotiate effectively with these firms in pursuit of their own national objectives. This new situation may enable us to move toward agreement on new, mutually acceptable "rules of the game" for international investment.

Conclusion

The international economic role of the developing countries, particularly the ADCs, cuts across the entire spectrum of U.S. international economic interests and relationships:

-- They should be assured a larger role in the management of international economic relations.

-- As they reap greater benefits from world trade, their trade practices should increasingly conform to the rules applying to major world economic actors.

-- As their financial positions become more solid, the more rapidly growing developing countries should depend less upon concessional assistance so that increased resources can be made available to their less fortunate neighbors, and they should begin to contribute to those resource flows themselves.

-- In sum, developing and industrial countries must work together more closely for the benefit of both the world economy and for successful pursuit of their own national objectives. Such increased participation will bring joint gains for all countries involved.

The United States has traditionally taken the lead in expanding the network of international economic cooperation.

We remain deeply committed to this effort, and seek to work with as many developing countries as possible to that end.

Recently, the United States has again taken a leading role in policies of cooperation with the developing world. We pledge to continue to do so, and will try to tailor our approaches to the differing needs of different developing countries.

In return, we seek cooperation from the developing countries themselves. Some -- the ADCs -- already have much to offer, and must naturally be the focal point of current efforts to expand the bases of shared responsibility for the effective functioning of the world economy.

This is our basic approach to relations between the industrialized and developing countries, particularly those in Latin America. Its foundation is the dramatic progress of the developing world itself. Its goal is joint progress with mutual benefit. Its method is enhanced collaboration and partnership. Only with such close cooperation can we hope to achieve a peaceful, prosperous and successful international economic order.

partment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 3, 1978

CONTACT: ALVIN M. HATTAL
(202) 566-8381

TAX TREATIES

The Treasury Department today announced the countries with which it is engaged in tax treaty negotiations, 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, negotiations are sometimes scheduled on short notice, making such an announcement 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 the status of treaties and negotiations with the following countries:

I. Income Tax Treaties

Sent to Senate for advice and consent to ratification	Date transmitted
Morocco	May 1978
the Philippines	December 1976
South Korea	September 1976 1/

1/ Approved by Senate Foreign Relations Committee in March 1978 but not voted on by full Senate, so must be reconsidered by Foreign Relations Committee in next Congress.

(MORE)

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Negotiations completed but text not yet signed	Signature expected
France (Protocol)	1978
Hungary	early 1979
Republic of China	n.a.

Ongoing negotiations	Next meeting (or last discussions)
Argentina	February 1979
Bangladesh	December 1978
Brazil	late 1978 or early 1979
Canada	(September 1978)
Cyprus	(June 1978)
Denmark	(September 1978)
Egypt	November 1978
Germany	November 1978
Indonesia	(Correspondence October 1978)
Israel	November 1978
Italy	(May 1978)
Jamaica	(May 1978)
Malta	Spring 1979
Nigeria	n.a. 2/
United Kingdom	(October 1978)

n.a. Not available

2/ Nigeria terminated the existing treaty by diplomatic notice given in June 1978. The termination will be effective for assessment years beginning on or after April 1, 1979.

Negotiations initiated but currently inactive	Last meeting
Australia	July 1977
Botswana	August 1974
India	December 1977
Iran	April 1975
Kenya	January 1977
the Netherlands	December 1972
Singapore	April 1977
Spain	March 1977
Sri Lanka	June 1977
Tunisia	September 1975
Yugoslavia	February 1976
Zambia	May 1974

II. ESTATE TAX TREATIES

Denmark - negotiations held in September 1978

France - signature expected 1978

Germany - negotiations in advanced state but currently inactive

Luxembourg - negotiations in advanced state but currently inactive

United Kingdom - signed October 19, 1978

(MORE)

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 H. David Rosenbloom, International Tax Counsel, U.S. Treasury Department, Room 3064, Washington, D.C. 20220. In addition, the Treasury Department always welcomes comments with respect to the advisability of entering into or revising tax treaties with any country.

This notice will appear in the Federal Register on November 8, 1978.

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partment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 3, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES START OF INVESTIGATION OF MARINE RADAR SYSTEMS FROM THE UNITED KINGDOM

The Treasury Department today said it will begin an antidumping investigation on imports of certain marine radar systems from the United Kingdom.

Treasury's announcement followed a summary investigation conducted by the U. S. Customs Service after receipt of a petition on behalf of the Raytheon Marine Co., Manchester, N.H., alleging that this merchandise is being "dumped" in the United States.

Information contained in the petition indicates that marine radar systems imported from the United Kingdom is being sold in the United States for less than in the home market.

The petition also includes information indicating that the U. S. industry is being injured by the "less than fair value" imports. If "sales at less than fair value" are determined by Treasury, the U. S. International Trade Commission will subsequently decide the injury question. Both "sales at less than fair value" and "injury" must be determined before a dumping finding is reached.

The term "marine radar systems" refers to small ship radar systems used on large pleasure craft and small commercial vessels.

Notice of this action will appear in the Federal Register of November 6, 1978.

Imports of this merchandise from the United Kingdom amounted to approximately $5 million during calendar year 1977.

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

REMARKS OF
PETER D. EHRENHAFT
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR TARIFF AFFAIRS
BEFORE THE
UNIVERSITY OF MICHIGAN LAW SCHOOL
FRIDAY, NOVEMBER 3, 1978

AN ADMINISTRATOR'S LOOK AT ANTIDUMPING DUTY LAWS IN UNITED STATES TRADE POLICY

By
Peter D. Ehrenhaft

I. INTRODUCTION

Trade policy makers, and perhaps even more those in the trenches of its implementation, are, like military strategists, often "fighting the last war." Our present antidumping law was passed in 1921. It was a reaction to trade problems perceived in the years during and after World War I. The related countervailing duty law hearkens back to an even earlier era. Since their enactment we have tinkered with each. And the administration of both statutes has been surrounded by extensive regulations and a body of unwritten practice. But solving the trade problems of today -- if that is what we are doing -- with this elaborate legal corpus will not necessarily provide us with a sensible guide to the laws we need to meet the challenges of the next decade.

Important new trends are discernible even now. Perhaps the old rules will continue to serve us in these new situations; more likely, they will give way to new thinking.

II. PAST TRENDS AND FUTURE PROJECTIONS.

What are some of these important new developments?

A. Looking first at <u>the global economy</u>, I can identify at least six phenomena that affect the administration of our antidumping and countervailing duty laws:

1. <u>World Economic Growth</u>. The volume of world trade has grown almost five-fold since 1970. In the next decade it is likely to expand at the same or even faster rate. The U.S. share of that trade has remained at between 13 to 17 percent of the world total, and is likely to maintain that level or increase slightly in the next ten years. These facts alone make our

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international trade institutions far more important than they have ever been. The percentage of U.S. GNP devoted to foreign trade has also almost doubled since 1970; it can be expected to increase substantially — perhaps even double again — by 1990. This makes domestic firms more susceptible than ever to foreign competition; concurrently it means that new export markets have opened for our products. The international price of the dollar now directly affects about twice as much of the economy as it did in 1970.

One aspect of growth in our trade that is changing with particular rapidity even now is the cast of characters who are playing. Aside from our massive imports of crude oil, most of our trade has been with only a few industrialized states and some of the more advanced developing countries. But other nations will — must, I suggest — play greater roles in world commerce. They are making claims to "special and differential" treatment to accelerate their development, posing unique problems for our antidumping and countervailing duty laws.

Third, the EC and Japan have become much more significant competitive forces to our industrialized economy. Together they now greatly exceed the economic output of the United States, and each has in numerous sectors challenged the technological and marketing prominence once held by us alone.

Finally, growth has also caused depletions of increasing numbers of raw materials and natural resources. It has created needs for national economies to rely upon each other now more than ever. Commodity cartels such as OPEC have emerged among the "haves" to squeeze the "have nots." Perhaps less threatening, cooperative commodity arrangements are evolving, as in sugar. The existence of such international arrangements cannot help but influence countervailing duty or antidumping outcomes concerning the affected commodities.

All of these factors, when added together, yield a sum that must mean greatly enhanced resources devoted to monitoring our trade and dealing with what will be an expanding volume of cases in which claims of unfair practices are made.

2. Spread of Technology. Several nations now have closed, or almost closed, the "technology gap" with the United States. The EC and Japan each compete on a par with the United States in many very high technology items. More importantly for the future, the more "advanced developing countries" (ADC's), such as Brazil and Korea have mastered new technologies and are now changing the kinds of goods they produce for export. These ADC's do not yet have the high wage rates of developed countries, but they are competent to use much of their new technology. Compared with alternative productive activities in their countries, they perceive trade advantages in exporting products such as electronic components and parts and special metals and alloys. As these countries achieve possible comparative advantages in making these goods -- almost exclusively for export — antidumping and countervailing duty laws will be invoked by our industry as a possible brake on their accelerating access to our markets.

3. The End of Colonialism. The age of political colonialism effectively came to an end in the last two decades, even though some remnants can still be found. But most motherlands retained strong economic ties with their former colonies. From time to time, these ties have been criticized as

the economic echoes of earlier exploitations. Partly in response to these claims, the developed nations have espoused active policies of aiding, in an unrequited (or "non-reciprocal") way, the economic development of the world's poorer nations. The United States, Japan and the EC each have set up generalized systems of tariff preferences for developing nations. The developing nations are asking for preferential treatment under the antidumping and countervailing duty laws as well.

4. State Involvement in Economic Activity. In 1970, less than 0.7 percent of our trade was with the "communist bloc countries." Since then, our trade with them has increased six-fold in dollar terms, and has doubled in terms of market shares. Further growth in that sector must be anticipated. This increase in trade has highlighted the fundamental, but tenuous, assumption in our trade laws that prices provide the bellwether for action. Our trade regulations are largely "price driven." That is to say, the measure for determining the existence of dumping is essentially a price yardstick. And we remedy the unfair practice by raising the cost, and, logically, the price of the import through added duties.

What happens when much of our trade occurs with countries where prices are, to use the most neutral term, "centrally administered"? Even if our system depends on costs rather than prices, can it operate in say, the USSR, where capital, labor and raw materials costs are determined by public officials without regard to economic scarcity or demand?

In the past, these problems have been most obvious in the context of trade with Eastern Europe, the Soviet Union and the PRC. And in those contexts, they have provided us with a few — but difficult — conceptual and practical problems as those of you familiar with our case concerning golf carts from Poland surely know. In the future, we can expect even more perplexing issues. The most important will arise from the involvements of governments in only portions of an otherwise free market economy. Key sectors, such as the oil or steel industries, may be under direct state control. In administering our antidumping and countervailing duty laws, we must draw some practical limits on the extent to which we will regard a government's intrusion into the affairs of its domestic economy a distortion for purposes of our "fair trade" laws. We must recognize that there are realms of economic activity in which all modern sovereigns will increasingly intervene as a matter of course to mitigate unemployment, dampen inflation, or achieve economic development of certain key sectors. But if the prices and wages are at least partly controlled by the government, the economic signals of price and cost, which direct our regulatory institutions, have been impaired. Our laws must recognize these facts and our administrators make sense of them.

5. Transnational Enterprises. Paradoxically, it is not only the growing influence of the state that complicates our lives. It is also the growth in the private sector of transnational enterprises (TNE's). Their interests span political frontiers and allegiances and their economic power often dwarfs that of many nations.

TNE's also have changed our perceptions of how private economic activity is organized. In the past, intra-corporate transactions had little international significance. Today, enormous companies may rapidly shift large fund balances and even inventories from one place to another, and thus alter a country's finance and trade accounts. In sorting out these transactions for dumping or countervailing duty purposes, it is often impossible to tell where the foreign interest ends and the domestic one begins. For example, recall that the "injury standard" in dumping cases refers to injury caused by foreigners to "an industry in the United States." We are now being faced with the perplexing problem that TNE's appear on both sides of the border. And, even more difficult is the problem of determing the prices that should be used for finding "home country" or "third country" values for computing dumping margins when related parties deal in all of them. These problems are exacerbated when TNE's produce components in selected jurisdictions for assembly elsewhere or otherwise are integrated backward and forward from mine to retail outlet across national boundaries.

6. Financial Instabilities. Ironically, we face new problems not only when goods are not subject to market pricing, but also when money is. The breakdown in the early 1970's of the Bretton Woods international monetary system began a new age — one in which the value of money itself is the subject of daily change from market forces. The recent tribulations of the dollar, however transitory we hope they are, show that U.S. trade policy will have to account in the future for monetary shifts and changes. Long ago, when these statutes were first written, we were under a gold standard, and such shifts and changes were hardly conceivable.

E. And looking now at the United States, we can note some additional trends and influences. There are at least six that deserve special mention:

1. Domestic Inflation. A few years ago, the United States enjoyed a rate of inflation considerably lower than that of the rest of the world. Now the outlook is not so promising. To be sure, inflation cannot be cured through the antidumping and countervailing duty laws, but these two statutes can have an impact on inflation; in the short run, perhaps adverse, as their immediate tendancy is to increase prices to U.S. consumers, but, in the long run hopefully beneficial, as their real aim is to preserve free competition in the U.S. market for those suppliers able to demonstrate their comparative advantage in real terms.

This is a problem of which we are accutely aware as the Administration attempts to make he control of inflation a priority consideration of all its programs. But not only do the antidumping and countervailing duty laws become harder to adminster in a case in which the U.S. inflation rate is consistently higher than that of the relivant trading partner. The difference between the foreigner's home market and export prices, expressed in real terms, then increases slowly, causing almost daily movement in dumping margins. This may — or may not be — corrected by changes in the exchange rate. But often exchange rates do not reflect inflation rates with respect to the specific commodity in question. Like exchange rates, interest rates may also take up some of the slack, but they too may or may not be fine tuned to the product in question. If the shifts in relative purchasing power caused by inflation are not reflected by these two "normal" admustment mechanisms, then we will see a gradual growth of dumping margins by domestic interests affected from countries with lower inflation rates and a possible increase in the number of cases filed. Yet this stepped up activity may have little to do with the underlying economic and business realities of the actual products under consideration and be counterproductive in our efforts to reduce inflationary pressures.

2. Change in the Labor Force. American labor has a proper legal claim to the protective effect of these laws no less than do providers of capital or raw materials. Moreover, the human impact and cost of labor adjustment is usually more grievous than that for other productive factors. Accordingly, changes in the labor force are bound to have an effect upon the administration of the antidumping and countervailing duty laws.. The removal of the mandatory retirement at age 65 and the increase in the number of families with two wage earners has created a domestic need for more jobs than ever before. This phenomenon may make relocation adjustments harder; make efforts to cling to existing jobs more vocal. On top of this, there have been notable changes in American attitudes toward the kind or quality of work that is satisfying and enriching. To reflect these popular attitudes, trade policy must take into account not only the labor-intensity of imported products, but the quality of that labor and the kinds of U.S. jobs that such imports inevitably displace.

3. Decline in Productivity. Related to the nature of the work force, but sufficiently important to merit separate enumeration, is the observed decline in the value of output per worker in the United States over the past few years. We are now 10th among the leading industrial nations in output per man hour. Whatever the causes of this phenomenon, and many have been postulated, the facts suggest that our growing competitive edge in the rest of the world must be in goods with relatively high R&D value, capital value or materials costs. But to what extent should our trade laws protect the less productive elements of our economy or become more directly connected to efforts to promote structural adaption and change?

4. Scarcity of Resources. Since the oil crisis, and perhaps even earlier, U.S. trade policy has had to take into account the need to trade for some items rather than produce them. Depletion of strategic reserves has always been recognized as a legitimate reason for encouraging trade in some items, even though they might be available domestically at a lower price. Will there be situations in which the government wants to encourage inexpensive imports to supplement a strategic stockpile despite domestic interests in preserving that — and the rest of the U.S. — market to themselves? In other industries we may want protection from imports, to preserve a domestic manufacturing capacity in time of national emergency. The present antidumping and countervailing duty laws allow for no such calculus in their present administration.

5. Change in Economic Values. The depletion of scarce resources is one kind of externality of production, that should influence our analysis of the effects of trade. There are others. Another prominent one is pollution. Just as we might encourage imports of scarce commidities, so also might we wish to import the products of polluting processes rather than make our own populace suffer the costs involved in domestic production. While this may seem to be a rational policy, it cannot be easily woven into the price model of the antidumping and countervailing duty laws, because such costs are not the stuff of conventional production accounting. On the other hand, we are already faced with claims that the failure of foreign governments to require of their own producers the type of real costs that our industry must bear in complying with environmental standards is an unfair "subsidy" to be reached by a countervailing duty.

This is not an idle issue. We are exporting not only goods but economic values. We are concerned not only in the choice of what others will produce or how they produce it; we are concerned about the conduct of business itself. With the encouragement of several sectors of our citizenry, we have attempted to raise the standards of conduct of private business everywhere. Whether the strict enforcement of the antitrust laws, the securities laws and other rules of business conduct have hurt or helped American competitiveness, I cannot say, but obviously they may impact on trade policy. At the moment compliance or non-compliance with such concepts has generally been immaterial to our decisions. Whether we can remain in "blissful" or "benign" neglect is questionable.

6. Change in Social Values. Finally, there has been an undoubted shift in our social values. The spirit of entrepreneurury that reigned in pre-World War I America has been dampened. In these more complicated times, security is as much to be sought as opportunity. And self-help is often displaced by the hope that some public agent will intervene to provide the solution to every problem. The pace of change itself has much to do with this phenomenon. The lesson for us is that more and more private actors will be relying upon public administrators in the 1980's to represent them in protecting them from the chill winds of competition -- including, of course, from imports.

III. THE GENESIS OF THE EXISTING RULES.

This list of trends I have described is hardly exhaustive, but it surely covers enough ground to explain why we are giving a high priority to thinking about the continued ability -- at least in their present form -- of our 1921 and 1897 laws. But before reshaping those statutes to account for what we think we see for the future, it behooves us to see how the antidumping and countervailing duty laws were initially conceived.

A. Antidumping

Dumping was not a "problem in international trade" until the latter part of the nineteenth century. Then it had to do mostly with predatory practices of capturing markets through aggressive pricing. No one had then figured out some of the more sophisticated reasons why dumping or, at least, price discrimination between markets, could be a rational, albeit perhaps unfair, business practice.

There is an historic kinship between the Antitrust Laws and the Antidumping Act. In 1890, Senator Sherman managed to bring a new morality to business by making it illegal, among other things, to "monopolize or attempt to monopolize" trade in the United States. In 1894, attempts were made to place a similar notion into the Wilson Tariff Act. By 1910, the Supreme Court had held in two notable cases that the antitrust morality was not exportable. Congress then tried a new tack to make foreign manufacturers "play fair" in U.S. markets.

In 1916, a criminal antidumping act was passed at the same time that the Tariff Commission was brought into existence. However, as no one has been able even to this date to prove a case under the strict standards of that law, Congress soon passed the Antidumping Act of 1921, to provide an effective administrative approach to the problem.

The 1921 Act defined no offense and punished no crime. Dumping was not made something that one can be "guilty of." The law provided for government investigation of complaints, government calculations of prices (and now costs) to exquisite detail, and the final government imposition and collection of an equalizing customs duty. Unlike the antitrust laws, this law did not encourage private "attorneys general" to enforce the public interest. But, it also provided some looser standards of application and the Act did not recognize certain well-known defenses to claims of unfair or illegal price competition. If a foreigner's price discrimination takes the form of a civil wrong under the Robinson-Patman Act, he can defend on the ground that he reduced his prices to "meet competition." In the case of an antidumping claim, where the gist of the matter is also price discrimination, there is no such defense, although there are some suggestions in ITC decisions and the Senate Finance Committee Report on the 1974 Trade Act that such "technical dumping" ought not to be regarded as "injurious" within the meaning of the Antidumping Act. Likewise, one cannot show that dumping is justifiable under a "rule of reason" analysis, or that it permits the defending supplier to overcome a barrier to entry, or that it is saving a company from going out of business.

I do not mean to imply that all of these possible "defenses" must be recognized under the Antidumping Act. But they have a legitimate tradition in our competition policy with which Antidumping administration should be harmonized.

In 1921, the fundamental objective of the statute was to prevent injury to U.S. competitors in domestic markets. The statute has retained this objective through the intervening years. But there is no requirement to show that the protected market is "free" in any sense. It can be very uncompetitive or heavily regulated. Similarly, little concern (other than in the case of state-controlled economies -- the most extreme situation) is given to the condition of the home market, whose prices are the standard of "fairness." It is controlled by cartels? Is it a developing economy in which goods of the type in question are to be exported for foreign exchange while prices at home are kept high to assure availability of the product for export? We usually do not ask these questions under our current law. Finally, we are not trading in homogeneous products, identical in all markets; often we are dealing in highly differentiated wares tailor-made for separate sale in various markets.

The bedrock principle of antidumping policy <u>ought</u> to be "comparative advantage." If a foreign supplier is capable of selling his wares in the United States at low prices, U.S. consumers certainly benefit. And no one in the U.S. should be concerned much (on these grounds) that the home country purchasers of the same or similar products might pay more. If the foreigner's ability to sell at low prices is an accurate reflection of the comparative costs of producing goods in his home country, then, we, in the U.S., should buy more and produce less of that product. We should shift our resources to what we can do better and more cheaply. There is no intrinsic value in producing "X" rather than "Y." We may decide that for national defense or security purposes or for reasons of tradition or patriotism we should insist on producing a good for a higher cost than it is available through trade. But in such cases, the extra cost must be justifiable in terms of the extra defense

At the same time, based upon a year's labors at Treasury, I see a need not only for finding a way to use cost procedures to determine what we have called "fair values" for antidumping purposes. I see no less the need for expediting our calculations. We are dealing with a law that is to have macro-economic impact on our economy and that of other countries. Surely individual companies may be affected and may benefit (or be denied benefits). But the Act speaks of "an industry." Our concern as a government must be for a U.S. "industry" or a significant segment of it. We must tailor the theories and practice of the law to those realities.

B. Countervailing Duties. I will not speak much about this, but must mention that the first countervailing duty law antedates the first Antidumping Act by nearly 20 years. The distinction between a government subsidy and a private, predatory practice seemed clear back then. The evils to the Commonwealth were different; yet the galvanizing notion was the same: We must protect our industry from unfair advantages enjoyed by foreign competitors. In this case, the source is government aid; in the other, it is the fruits of some home market advantage.

Our current countervailing duty law is different from the Antidumping Act in that for most imports there is no injury test. Dumping was treated as a problem only when industry is threatened. But subsidies were "per se" harmful. Unlike dumping cases, countervailing duty cases inevitably involve foreign governments.

Although the antidumping law does not tell us what "fair value" means, at least it tells us how to compute the essential equivalents of "foreign market" or "constructed" values. The countervailing duty law does not oblige with either a definition or a procedure for determining what a "boutny or grant" is. And the privacy of the process (until the adoption of the Trade Act of 1974) has prevented the creation of any significant jurisprudence.

The negotiations in Geneva have had the benefit of exposing for all of us how complex the problem really is. None among us now believes that governments have no role to play in developing the resources of their countries, promoting development, aiding the unemployed. The number of devices used by governments at every stage of economic development to further such laudable aims is infinite. A simple rule that says all government aids are unfair is not acceptable in world terms today. But no less is it an acceptable principle that each nation may look out only for its own interests and export to others the difficulties of finding suitable employment for its workers or making changes in its economic or social structures. Yet that is what the game is all about. Government investment in redundant steel mills or in price supports paid to farmers of plots too small to yield commercial harvests avoid the solutions of economic problems our laws should correct.

Some progress seems to have been made in Geneva from which our law can and should benefit. We have come to recognize that at least among the industrialized countries of the world that government aids to exports can have deleterious effects not only on the competing industries of importing countries but also on such industries' abilities to compete in third markets and in the country granting the export. Our countervailing duty law has only reached the imports into the U.S. In a sense it must reach further. On the other hand, particularly in the area of domestic subsidies -- regional aids, research and development grants -- we also recognize that unless the industry of an importing country is injured as a result of the foreign aid, we should not invoke the law. But we are properly saying that we will apply that injury test when our trading partners also recognize the potential for injury that may inhere in any subsidy they give. None among us lives on an insulated island.

IV. THOUGHTS FOR FUTURE CHANGES

Based now on a year's experience within Treasury in the administration of both the antidumping and countervailing duty laws, I think I can venture some thoughts about weaknesses in their construction and application -- particularly in light of some of the economic trends I have mentioned.

One of our primary aims must be act more quickly. Redress denied in time may be useless. We must identify the problems, obtain the needed data and make the calculations the law mandates in less time. We cannot allow foreign sellers to take advantage of their dumping or subsidies by fiddling with their facts while our industries burn. The second principle is that antidumping and countervailing duties are part of the trade law arsenal rather than matters apart. Their place is one of protection -- but protection of the market as the forum for the clash of competition. No practical "free-trader" can seriously advocate repealing the antidumping and countervailing duty laws on the ground that they inhibit trade any more than one can seriously call for an immediate abolition of all instruments of war in the name of peace. The question is not one of free versus regulated trade. Rather it is a question of how the U.S. should assure the freedom of the market from the unfair intrusions these laws identify.

Change should evolve to provide the best answers. Radical change could destroy the accumulated learning and insight of the last few active years of enforcement. It would upset interests on all sides. But the time may soon be right for a number of improvements. As the countervailing duty law is so intimately tied to the on-going talks in Geneva at this time, I will not address that here. But with respect to the antidumping law, the following are some personal ideas for possible reforms -- and let me stress that these are my personal ideas and not necessarily the views of the Treasury Department or the Administration:

(1) Integration of Remedies. One problem of long standing is the overlap and duplication that exists among remedies in the field of foreign trade regulation. An aggrieved domestic producer has a confusing number of statutory paths and administrative forums from which to select a remedy. He can file petitions for import relief and complaints of unfair trade practices with the ITC under Section 201 of the Trade Act of 1974 and Sectiuon 337 of the Tariff Act of 1930. He could request the STR to consider an unfair trade practice petition under Section 301 of the Trade Act, or, in some cases, the market disruption provisions of Section 406. He could initiate an antidumping complaint or petition to have a countervailing duty investigation initiated. Adjustment assistance may be available from the Commerce or

Labor Departments. The Agriculture Department, FDA, FTC might all be asked to address specified import-related problems. Even the antitrust laws can be invoked, as witness the most recent decision of the District Court in Delaware in the case of golf carts from Poland. Should, private action — and private recoveries — be encouraged? Should a domestic industry apparently affected by imports be able to file a single petition with the government requesting investigation and possible relief, leaving it to the government to select the source of the problem and the most appropriate one or more remedies? The idea has much to commend it. It also has problems, of course. Comment on the concept would be welcome, but to me it seems to make sense.

(2) Clarification of Policies. We all know that the trade laws are not always consistent. But we need to establish a priority of concerns, so that the administrators have principles to rely upon when the policies conflict. In the era of inflation, why should we resist taking advantage of bargains if foreign governments and manufacturers wish to give them to us? When should we prevent the foreign export of unemployment at the expense of raising prices to our consumers?

I do not suggest here that there is an easy answer to these questions, or even that there exists a consensus among scholars, administrators, or, much less, Congressmen. The point is that we need to ask the questions and order our priorities in any new law. As I suggested earlier, placing the notion of comparative advantage at the head of the list seems to me to provide at least one such approach.

(3) Consideration of Injury First. Under our antidumping law, we consider whether less than fair value imports caused or threaten injury to our industry. This occurs after appraisement is withheld. However, the GATT Antidumping Code requires that there be evidence of injury before an antidumping procedure progresses to the imposition of provisional remedies such as the withholding of appraisement, or the collection of estimated duties. Until 1974, the U.S. approach had been to accept the allegation of the complainant as the requisite "evidence of injury." Since 1974, if these allegations nevertheless leave a "substantial double" of injury in the mind of the Secretary, he may refer the case to the ITC to determine on a preliminary basis, whether there is "no reasonable indication" of injury by reason of the alleged LTFV sales. The allocated period for this determination is 30 days.

I believe more time should be allowed for this determination, and that consideration be given to raising the threshold. If a future Trade Act will create new and even more onerous investigatory tasks for Treasury in making LTFV determinations based on comparative costs, it may make more sense to have the entire injury determination concurrent with, if not ahead of, the LTFV phase. If the finding were negative, then we might avert the often enormous and abrasive task of a thorough going into the costs of foreign manufacturers. If, on the other hand, the finding were affirmative, the LTFV investigation can have moved forward at least partially, as under current procedures. There are some problems with such an approach, since the margin of dumping is often a clue to the critical issue of whether dumping is a cause of injury; margins of 5 percent are a different matter than 50 percent; dumping by 20 percent of the producers may yield a different conclusion than universal margins. Nevertheless, simultaneous investigations -- as foreseen by the Code and followed by the EC and Austrailia, for example -- seem to be a sensible approach. And it might be complemented with a second stage injury inquiry into the "causal link" between the dumping or subsidy found after Treasury's final determination. Such an inquiry ought to be feasible within 30 days. This would reduce the overall antidumping timetable by two months and also place the investigations into a more logical sequence when seen as trade policy laws.

(4) Use of Remedies More Likely to Bring About a Cessation of Dumping. Because the imposition of even provisional measures generally comes more than a year after alleged dumping is first observed, and actual duties are rarely assessed until a year after that, antidumping duties are almost never levied on the shipments that caused the actual injury complained of. If the procedure could be streamlined, if the periods for reaching determinations could be shortened, then the weight of the remedy would fall closer to the occurrence of the damaging sales.

To bring the remedy closer to the offense and offender, the procedure for bringing in goods after a final determination has been made should be changed. Instead of permitting the importer simply to post a bond to cover possible duties, actual estimated dumping duties should be deposited in cash. If the final assessment of duties is less, a refund could be made. This is the practice in the European Community and Canada. There is every reason for us to do the same.

(5) Use of the Historic Dumping Margin as a Basis for Depositing Estimated Duties. If, after a foreign supplier is accused of having made LTFV sales that injure a domestic industry and the shipments from abroad start coming in at a higher price, these shipments will pay less or no antidumping duties. The current Act is remedial and not punitive in this regard. Yet, this practice creates no incentive on the foreign supplier to avoid the dumping that caused injury and

that is beyond the reach of the duties, since those entries will have been liquidated before even appraisement is withheld at the tentative determination stage.

We might go so far as to consider whether there is sense in applying an added duty, based on the historic margin of dumping on all shipments after withholding begins. Thus, the exporter could not avoid being answerable to some degree for "violation" of the Act. He would have an incentive to avoid future LTFV sales, as the prices in any quarter would be relevant for computing the dumping margins for later periods. But such a change would not be consistent with the current version of the Code. It would render more "penal" what is intended to be a remedial law. Nevertheless, the deposit of estimated duties at historic margins would appear to be a reasonable procedure to create greater incentives to avoid dumping, supply timely information and protect the revenue.

(6) Improved "Settlement" Procedures. Concern that foreign exporters may take a "free bite" at our market without concern about antidumping principles led the Treasury in the early 1970's to abandon its prior policy of suspending -- if not terminating -- any antidumping proceedings upon the receipt of assurances from the exporters concerned that further sales at less than fair value would cease. The policy of "discontinuing" proceedings upon the receipt of such assurances has generally been limited for 8 years to exporters whose margins of dumping were deemed "minimal" -- roughly 1-1.5 percent. The Canadian authorities have never discontinued cases upon the receipt of assurances. They were the first to have an antidumping law and are, in a sense, the "true believers." On the other hand, the European Community and Australia, the other two jurisdictions actively applying antidumping measures, are far more flexible, emulating both earlier U.S. practice and the apparent contemplation of the Code.

After some experience with this problem, it may be desirable for us to consider a middle ground: a more liberal policy of settlements quickly to end the problem perceived, without the friction of contested cases, yet not winking at flagrant disregards of the principles of the Act. In that connection we must be particularly careful that any policy of liberalized discontinuance based on assurances does not provide a convenient cover for agreements between domestic and foreign industries concerned to increase prices in the U.S. market with the blessing of a government agency. Therefore, an expanded settlement policy would also appear to demand some earlier and more complete injury determination than now exists, together with the receipt of some significant evidence that sales at less than fair value did, in fact, occur.

(7) Reduced Adjustments. One of the greatest deterents to rapid antidumping action is the need, under present practice, to calculate and verify the adjustments claimed by all sides to the prices we compare. The premise of the law is that the prices of like merchandise, sold at the same level of trade, and at about the same moment of time, in the two relevant markets, will be placed side by side and a simple difference (or similarity) identified. Alas, the world is not so simple. Merchandise -- particularly consumer products -- may differ widely. TV sets sold in Japan are wired differently than those made for U.S. sale; their cabinetry and accessories may differ greatly. Moreover, distribution methods vary widely making the comparison of trade levels difficult. In Austria, so-called wholesalers buy 50 ski bindings for resale to sports shops; a U.S. retailer may buy 5,000 at a time. Can a level of trade adjustment be recognized? Without belaboring the issue, I can say that we spend enormous resources considering claims for warranty expenses, credit costs, after sale servicing and technical advice, advertising expenses as well as for the physical differences in the products being compared. And each of the latter may involve their own small cost of production analysis. The system has become so encumbered with detail -- much of it of ultimately minimal impact on the final result -- that we have begin to consider limiting the adjustments to those that, within recognized categories, are equal to at least some minimally important threshold -- say one percent. The result will favor some exporters; disfavor others. It should expedite all cases and thus help both the domestic industry for whom the law exists and foreign interests with proper rights of access to our market.

(8) "Self-Initiation" of Complaints Based on Prior Investigation. One means of solving the delays and complications we have encountered in making elaborate cost investigations in important industries may be to do more of the work ahead of time. In essence, the Steel Trigger Price Mechanism program, was designed to do just that. It is a creative response to a number of problems the steel industry had been experiencing. Steel is a key industry, that had become troubled by low profitability, excess capacity and unemployment. It appeared as if part of its problem was caused by competition from exceedingly cheap foreign steel. But applying the antidumping law "as is" was not an adequate response.

First, the process is lengthy. By the time a set of complaints were filed, investigated and taken to a conclusion, the threatened harm may have already been done.

Second, the process is oriented to specific products and to specific producers. Thus, an unfair practice could easily be shifted to a slightly different product or a different country, causing the whole procedure to be taken up from the beginning. In fact, the steel industry tried to overcome this problem by filing antidumping complaints against more than a dozen steel products from ten different countries. But steel comes in many forms from more than two dozen sources.

The TPM was designed to meet these objections. It is a means of determining the need for, and, if necessary, implementing conventional antidumping remedies in an expedited manner; it is not an alternative to some other kinds of antidumping remedy.

A set of "trigger" prices was established at the level of our best estimates of the costs of the world's most efficient steel industry -- the Japanese -- plus the cost of bringing that steel into the four major importing regions of the country. Using special invoices, importers must report the actual prices of their imports as well as of comparable foreign steel products, and the import prices are compared with our trigger prices. If steel is being imported below the trigger prices, it is a signal for Treasury to consider the matter -- to "trigger" an investigation. If, on reflection, it appears that an antidumping proceding should be initiated, Treasury can do so <u>sua sponte</u>, and many of the demands of the investigation can be satisfied from the special records and research already performed under the TPM.

This procedure has created two new pieces of antidumping jargon. The word used to describe Treasury's response to a case of probable dumping is "self-initiation." What it "self-initiates" is called a "fast-track" antidumping investigation, because it can hopefully be completed in a shorter period than the year taken in conventional cases. How well this will work is now being tested. Three "fast-tracks" were initiated in October 1978 with respect to steel plate sold by companies in Spain, Poland and the Republic of China.

A few points about the TPM must be made clear. First, sales <u>below</u> the trigger prices do not prove that dumping has occurred. The only consequence is that the invoice reflecting the sale will come to the attention of Customs personnel, who will put the information together with a large number of other facts.

Second, the trigger prices are not minimum prices. A foreign exporter is perfectly entitled to sell at below trigger prices if it is above his costs and at least equal to his home market price, and a few Canadian producers have proven they can do so with some items.

Third, selling over the trigger price does not shield a company from an antidumping complaint. Many foreign producers may well have home market prices and costs in excess of our triggers. In such cases, a sale at the reference price may be an LTFV sale. However, the U.S. industry has contended that it could compete with foreign steel if it were priced at least at the full cost of production by the most efficient foreign producters plus their importation costs. Therefore, sales at or above trigger -- even if at LTFV -- are presumably not injurious. Moreover, to the extent a more efficient producer in country "X" has unused capacity, presumably it would fill the gap left by any producer in "Y," whose LTFV sales at trigger prices were halted by a dumping case. To date we have not seen any dumping cases filed with respect to above-trigger price sales. But the TPM has faced, and survived, one legal challenge. In the Davis-Walker case, a producer of wire products sued the Secretary of the Treasury on the grounds that he had no authority to institute the TPM; and even if he had, he violated the requirements of the Administrative Procedure Act. The plaintiff was an importer of steel products, who produced wire rod. The plaintiff's inputs were included in the TPM, but some of its output was not. While the prices of this company's inputs rose, it received no measure of "extra protection" for its output.

In Davis-Walker the court held that the Secretary had the power under the Antidumping Act to "self-initiate" dumping cases, and that the TPM was lawfully implemented.

A system like the TPM could be employed in other lines of commerce should the occasion arise. But the costs are large and we do not regard it as more than a temporary solution to a major industry's critical problem. It is bound to cause -- and has caused -- some increases in import prices. It is bound to cause -- and has caused -- the government to use substantial resources to monitor trade and to investigate imports, with perhaps modest results if measured by the volume of imports. However, it was and is superior to the alternatives. As many of you may know, the earlier approach to the problem -- through Voluntary Restraint Agreements (VRA) -- raised serious antitrust questions and was awkward from a diplomatic standpoint as private foreign manufacturers concluded international trade agreements with the U.S. government. "Orderly marketing agreements" negotiated between governments are essentially quotas, which create worse distortions and have even greater inflationary effects in markets where domestic demand increases. We think the TPM achieves the objectives of the antidumping laws without disrupting the price mechanism altogether. But it is clearly a high cost program to be reserved only for the most unusual situation such as faced the steel industry in 1977.

(9) Publication of Decisions. Finally, let me mention what we hope will be a real improvement in antidumping and countervailing duty administration to be achieved simply by informing those concerned of what we do and indexing the results. Currently the only available means of knowing what happens is to research the unindexed Treasury Decisions and to leaf through the Federal Register. Publication and indexing of the decisions of the Treasury and the ITC should provide us and the rest of the interested world a much greater ability to do the right thing. It will surely give an incentive to the opinion writers to document the basis of their decisions. I am pleased to report that at least one publisher has expressed a strong interest in setting up an information and reporting service on antidumping and countervailing duty cases, and realizing this goal may not be so far off.

Conclusion

Twenty one years ago when I wrote my article on antidumping and countervailing duties, I dealt with an arcane subject in which even a law student could rapidly be an instant expert. Much has happened in the field since then. The words themselves, were then hardly known beyond the trade fraternity. They are now the stuff of daily newspaper articles. So much is happening now that we could spend much more than a weekend discussing just the latest news. But I have outlined some of my thoughts on dumping in the hope of stimulating further comments and suggestions from those who may have greater time than we administrators to think about the long view. We need a sensible and sensitive trade policy. These laws have a sound place within it. Help to secure it.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE
November 3, 1978

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TREASURY DEPARTMENT TO DISCUSS INCOME TAX TREATIES WITH EGYPT AND ISRAEL

The Treasury Department announced today that a delegation headed by Assistant Secretary of the Treasury Donald C. Lubick will meet with representatives of Israel on November 5 in Jerusalem and with representatives of Egypt on November 12 in Cairo to renew discussions concerning the proposed income tax treaties between those countries and the United States.

Proposed income tax treaties with Egypt and Israel were signed in 1975 and submitted to the Senate by President Ford in January, 1976. They have not yet been considered by the Senate Foreign Relations Committee. The Treasury asked the Committee to defer action pending a reexamination of these treaties by all parties in light of changes in the tax laws of each country. The scheduled discussions are intended to focus on the results of this reexamination and to permit any modifications in the treaties that the parties may feel are necessary.

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B-1245

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FOR IMMEDIATE RELEASE
November 3, 1978

Contact: Charles Arnold
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UNITED STATES/UNITED KINGDOM
ESTATE AND GIFT TAX TREATY SIGNED

The Treasury Department today announced that an estate and gift tax treaty between the United States and the United Kingdom was signed in London on October 19, 1978, by Edward J. Streator, Minister of Embassy for the United States, and Frank Judd, Minister of State at the United Kingdom Foreign and Commonwealth Office. The treaty must be approved by the U. S. Senate before entering into effect.

The new treaty will replace the existing estate tax treaty between the two countries, which will continue to apply until the new treaty comes into force.

The new treaty applies in the United States to the Federal gift tax, the Federal estate tax, and the Federal tax on generation-skipping transfers; and it applies in the United Kingdom to the capital transfer tax. The treaty is similar in principle to the U. S. estate tax treaty with the Netherlands, which entered into force in 1971, and to the U. S. "model" estate and gift tax treaty published by the Treasury Department on March 16, 1977.

The general principle underlying the US/UK treaty is to grant to the country of domicile the right to tax estates and transfers on a worldwide basis. The treaty also permits a credit for tax paid to the other country in which certain property was taxed on the basis of its location. The treaty provides rules for resolving the issue of domicile.

The treaty is subject to ratification by the two Governments. Once ratified, it will enter into force on the thirty-first day after instruments of ratification are exchanged and will have effect in the United States with respect to estates of individuals dying and transfers taking effect after that date.

The treaty shall remain in force until terminated by one of the contracting States. It may not be terminated for five years after it enters into force.

A copy of the new treaty is attached.

B-1246

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CONVENTION
BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON ESTATES OF DECEASED PERSONS AND ON GIFTS

The Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland;

Desiring to conclude a new Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on estates of deceased persons and on gifts;

Have agreed as follows:

ARTICLE 1

Scope

This Convention shall apply to any person who is within the scope of a tax which is the subject of this Convention.

ARTICLE 2

Taxes Covered

(1) The existing taxes to which this Convention shall apply are:

(*a*) in the United States: the Federal gift tax and the Federal estate tax, including the tax on generation-skipping transfers; and

(*b*) in the United Kingdom: the capital transfer tax.

(2) This Convention shall also apply to any identical or substantially similar taxes which are imposed by a Contracting State after the date of signature of the 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.

ARTICLE 3

General Definitions

(1) In this Convention:

(*a*) 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;

(*b*) the term "United Kingdom" means Great Britain and Northern Ireland;

(*c*) the term "enterprise" means an industrial or commercial undertaking;

(*d*) the term "competent authority" means:

(i) in the United States: the Secretary of the Treasury or his delegate, and

(ii) in the United Kingdom: the Commissioners of Inland Revenue or their authorised representative;

(*e*) the term "nationals" means:

(i) in relation to the United States, United States citizens, and

(ii) in relation to the United Kingdom, any citizen of the United Kingdom and Colonies, or any British subject not possessing that citizenship or the citizenship of any other Commonwealth country or territory, provided in either case he had the right of abode in the United Kingdom at the time of the death or transfer;

(*f*) the term "tax" means:

(i) the Federal gift tax or the Federal estate tax, including the tax on generation-skipping transfers, imposed in the United States, or

(ii) the capital transfer tax imposed in the United Kingdom, or

(iii) any other tax imposed by a Contracting State to which this Convention applies by virtue of the provisions of paragraph (2) of Article 2,

as the context requires; and

(*g*) the term "Contracting State" means the United States or the United Kingdom as the context requires.

(2) As regards the application of the Convention by a Contracting State, any term not otherwise defined shall, unless the context otherwise requires and subject to the provisions of Article 11 (Mutual Agreement Procedure), have the meaning which it has under the laws of that Contracting State relating to the taxes which are the subject of the Convention.

Article 4

Fiscal Domicile

(1) For the purposes of this Convention an individual was domiciled:

(*a*) in the United States: if he was a resident (domiciliary) thereof or if he was a national thereof and had been a resident (domiciliary) thereof at any time during the preceding three years; and

(*b*) in the United Kingdom: if he was domiciled in the United Kingdom in accordance with the law of the United Kingdom or is treated as so domiciled for the purposes of a tax which is the subject of this Convention.

(2) Where by reason of the provisions of paragraph (1) an individual was at any time domiciled in both Contracting States, and

(a) was a national of the United Kingdom but not of the United States, and

(b) had not been resident in the United States for Federal income tax purposes in seven or more of the ten taxable years ending with the year in which that time falls,

he shall be deemed to be domiciled in the United Kingdom at that time.

(3) Where by reason of the provisions of paragraph (1) an individual was at any time domiciled in both Contracting States, and

(a) was a national of the United States but not of the United Kingdom, and

(b) had not been resident in the United Kingdom in seven or more of the ten income tax years of assessment ending with the year in which that time falls,

he shall be deemed to be domiciled in the United States at that time. For the purposes of this paragraph, the question of whether a person was so resident shall be determined as for income tax purposes but without regard to any dwelling-house available to him in the United Kingdom for his use.

(4) Where by reason of the provisions of paragraph (1) an individual was domiciled in both Contracting States, then, subject to the provisions of paragraphs (2) and (3), his status shall be determined as follows:

(a) the individual shall be deemed to be domiciled in the Contracting State in which he had a permanent home available to him. If he had a permanent home available to him in both Contracting States, or in neither Contracting State, he shall be deemed to be domiciled in the Contracting State with which his personal and economic relations were closest (centre of vital interests);

(b) if the Contracting State in which the individual's centre of vital interests was located cannot be determined, he shall be deemed to be domiciled in the Contracting State in which he had an habitual abode;

(c) if the individual had an habitual abode in both Contracting States or in neither of them, he shall be deemed to be domiciled in the Contracting State of which he was a national; and

(d) if the individual was a national of both Contracting States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

(5) An individual who was a resident (domiciliary) of a possession of the United States and who became a citizen of the United States solely by reason of his

(a) being a citizen of such possession, or

(b) birth or residence within such possession,

shall be considered as neither domiciled in nor a national of the United States for the purposes of this Convention.

Article 5

Taxing Rights

(1) (*a*) Subject to the provisions of Articles 6 (Immovable Property (Real Property)) and 7 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services) and the following paragraphs of this Article, if the decedent or transferor was domiciled in one of the Contracting States at the time of the death or transfer, property shall not be taxable in the other State.

(*b*) Sub-paragraph (*a*) shall not apply if at the time of the death or transfer the decedent or transferor was a national of that other State.

(2) Subject to the provisions of the said Articles 6 and 7, if at the time of the death or transfer the decedent or transferor was domiciled in neither Contracting State and was a national of one Contracting State (but not of both), property which is taxable in the Contracting State of which he was a national shall not be taxable in the other Contracting State.

(3) Paragraphs (1) and (2) shall not apply in the United States to property held in a generation-skipping trust or trust equivalent on the occasion of a generation-skipping transfer; but, subject to the provisions of the said Articles 6 and 7, tax shall not be imposed in the United States on such property if at the time when the transfer was made the deemed transferor was domiciled in the United Kingdom and was not a national of the United States.

(4) Paragraphs (1) and (2) shall not apply in the United Kingdom to property comprised in a settlement; but, subject to the provisions of the said Articles 6 and 7, tax shall not be imposed in the United Kingdom on such property if at the time when the settlement was made the settlor was domiciled in the United States and was not a national of the United Kingdom.

(5) If by reason of the preceding paragraphs of this Article any property would be taxable only in one Contracting State and tax, though chargeable, is not paid (otherwise than as a result of a specific exemption, deduction, exclusion, credit or allowance) in that State, tax may be imposed by reference to that property in the other Contracting State notwithstanding those paragraphs.

(6) If at the time of the death or transfer the decedent or transferor was domiciled in neither Contracting State and each State would regard any property as situated in its territory and in consequence tax would be imposed in both States, the competent authorities of the Contracting States shall determine the situs of the property by mutual agreement.

Article 6

Immovable Property (Real Property)

(1) Immovable property (real property) may be taxed in the Contracting State in which such property is situated.

(2) The term "immovable property" shall be defined in accordance with the law of the Contracting State in which the property in question is situated.

provided always that debts secured by mortgage or otherwise shall not be regarded as immovable property. 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 paragraphs (1) and (2) shall also apply to immovable property of an enterprise and to immovable property used for the performance of independent personal services.

ARTICLE 7

Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services

(1) Except for assets referred to in Article 6 (Immovable Property (Real Property)) assets forming part of the business property of a permanent establishment of an enterprise may be taxed in the Contracting State in which the permanent establishment is situated.

(2) (*a*) 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.

(*b*) The term "permanent establishment" includes especially:

(i) a branch;

(ii) an office;

(iii) a factory;

(iv) a workshop; and

(v) a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources.

(*c*) A building site or construction or installation project constitutes a permanent establishment only if it lasts for more than twelve months.

(*d*) Notwithstanding the preceding provisions of this paragraph, the term "permanent establishment" shall be deemed not to include:

(i) the use of facilities solely for the purpose of storage, display, or delivery of goods or merchandise belonging to the enterprise;

(ii) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;

(iii) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;

(iv) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise;

(v) 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; or

(vi) the maintenance of a fixed place of business solely for any combination of activities mentioned in paragraphs (i)—(v) of this sub-paragraph.

(*e*) Notwithstanding the provisions of sub-paragraphs (*a*) and (*b*) where a person—other than an agent of an independent status to whom sub-paragraph (*f*) 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 sub-paragraph (*d*) 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 sub-paragraph.

(*f*) 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.

(*g*) 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.

(3) Except for assets described in Article 6 (Immovable Property (Real Property)), assets pertaining to a fixed base used for the performance of independent personal services may be taxed in the Contracting State in which the fixed base is situated.

ARTICLE 8

Deductions, Exemptions Etc

(1) In determining the amount on which tax is to be computed, permitted deductions shall be allowed in accordance with the law in force in the Contracting State in which tax is imposed.

(2) Property which passes to the spouse from a decedent or transferor who was domiciled in or a national of the United Kingdom and which may be taxed in the United States shall qualify for a marital deduction there to the extent that a marital deduction would have been allowable if the decedent or transferor had been domiciled in the United States and if the gross estate of the decedent had been limited to property which may be taxed in the United States or the transfers of the transferor had been limited to transfers of property which may be so taxed.

(3) Property which passes to the spouse from a decedent or transferor who was domiciled in or a national of the United States and which may be taxed in the United Kingdom shall, where

(*a*) the transferor's spouse was not domiciled in the United Kingdom but the transfer would have been wholly exempt had the spouse been so domiciled, and

(*b*) a greater exemption for transfers between spouses would not have been given under the law of the United Kingdom apart from this Convention,

be exempt from tax in the United Kingdom to the extent of 50 per cent of the value transferred, calculated as a value on which no tax is payable and after taking account of all exemptions except those for transfers between spouses.

(4) (*a*) Property which on the death of a decedent domiciled in the United Kingdom became comprised in a settlement shall, if the personal representatives and the trustees of every settlement in which the decedent had an interest in possession immediately before death so elect and subject to sub-paragraph (*b*), be exempt from tax in the United Kingdom to the extent of 50 per cent of the value transferred (calculated as in paragraph (3)) on the death of the decedent if:

(i) under the settlement, the spouse of the decedent was entitled to an immediate interest in possession,

(ii) the spouse was domiciled in or a national of the United States,

(iii) the transfer would have been wholly exempt had the spouse been domiciled in the United Kingdom, and

(iv) a greater exemption for transfers between spouses would not have been given under the law of the United Kingdom apart from this Convention.

(*b*) Where the spouse of the decedent becomes absolutely and indefeasibly entitled to any of the settled property at any time after the decedent's death, the election shall, as regards that property, be deemed never to have been made and tax shall be payable as if on the death such property had been given to the spouse absolutely and indefeasibly.

(5) Where property may be taxed in the United States on the death of a United Kingdom national who was neither domiciled in nor a national of the United States and a claim is made under this paragraph, the tax imposed in the United States shall be limited to the amount of tax which would have been imposed had the decedent become domiciled in the United States immediately before his death, on the property which would in that event have been taxable.

Article 9

Credits

(1) Where under this Convention the United States may impose tax with respect to any property other than property which the United States is entitled to tax in accordance with Article 6 (Immovable Property (Real

Property)) or 7 (Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Independent Personal Services) (that is, where the decedent or transferor was domiciled in or a national of the United States), then, except in cases to which paragraph (3) applies, double taxation shall be avoided in the following manner:

(*a*) Where the United Kingdom imposes tax with respect to property in accordance with the said Article 6 or 7, the United States shall credit against the tax calculated according to its law with respect to that property an amount equal to the tax paid in the United Kingdom with respect to that property.

(*b*) Where the United Kingdom imposes tax with respect to property not referred to in sub-paragraph (*a*) and the decedent or transferor was a national of the United States and was domiciled in the United Kingdom at the time of the death or transfer, the United States shall credit against the tax calculated according to its law with respect to that property an amount equal to the tax paid in the United Kingdom with respect to that property.

(2) Where under this Convention the United Kingdom may impose tax with respect to any property other than property which the United Kingdom is entitled to tax in accordance with the said Article 6 or 7 (that is, where the decedent or transferor was domiciled in or a national of the United Kingdom), then, except in the cases to which paragraph (3) applies, double taxation shall be avoided in the following manner:

(*a*) Where the United States imposes tax with respect to property in accordance with the said Article 6 or 7, the United Kingdom shall credit against the tax calculated according to its law with respect to that property an amount equal to the tax paid in the United States with respect to that property.

(*b*) Where the United States imposes tax with respect to property not referred to in sub-paragraph (*a*) and the decedent or transferor was a national of the United Kingdom and was domiciled in the United States at the time of the death or transfer, the United Kingdom shall credit against the tax calculated according to its law with respect to that property an amount equal to the tax paid in the United States with respect to that property.

(3) Where both Contracting States impose tax on the same event with respect to property which under the law of the United States would be regarded as property held in a trust or trust equivalent and under the law of the United Kingdom would be regarded as property comprised in a settlement, double taxation shall be avoided in the following manner:

(*a*) Where a Contracting State imposes tax with respect to property in accordance with the said Article 6 or 7, the other Contracting State shall credit against the tax calculated according to its law with respect to that property an amount equal to the tax paid in the first-mentioned Contracting State with respect to that property.

(*b*) Where the United States imposes tax with respect to property which is not taxable in accordance with the said Article 6 or 7 then

(i) where the event giving rise to a liability to tax was a generation-skipping transfer and the deemed transferor was domiciled in the United States at the time of that event,

(ii) where the event giving rise to a liability to tax was the exercise or lapse of a power of appointment and the holder of the power was domiciled in the United States at the time of that event, or

(iii) where (i) or (ii) does not apply and the settlor or grantor was domiciled in the United States at the time when the tax is imposed,

the United Kingdom shall credit against the tax calculated according to its law with respect to that property an amount equal to the tax paid in the United States with respect to that property.

(*c*) Where the United States imposes tax with respect to property which is not taxable in accordance with the said Article 6 or 7 and sub-paragraph (*b*) does not apply, the United States shall credit against the tax calculated according to its law with respect to that property an amount equal to the tax paid in the United Kingdom with respect to that property.

(4) The credits allowed by a Contracting State according to the provisions of paragraphs (1), (2) and (3) shall not take into account amounts of such taxes not levied by reason of a credit otherwise allowed by the other Contracting State. No credit shall be finally allowed under those paragraphs until the tax (reduced by any credit allowable with respect thereto) for which the credit is allowable has been paid. Any credit allowed under those paragraphs shall not, however, exceed the part of the tax paid in a Contracting State (as computed before the credit is given but reduced by any credit for other tax) which is attributable to the property with respect to which the credit is given.

(5) Any claim for a credit or for a refund of tax founded on the provisions of the present Convention shall be made within six years from the date of the event giving rise to a liability to tax or, where later, within one year from the last date on which tax for which credit is given is due. The competent authority may, in appropriate circumstances, extend this time limit where the final determination of the taxes which are the subject of the claim for credit is delayed.

Article 10

Non-Discrimination

(1) (*a*) Subject to the provisions of sub-paragraph (*b*), 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.

(*b*) Sub-paragraph (*a*) shall not prevent the United States from taxing a national of the United Kingdom, who is not domiciled in the United States, as a non-resident alien under its law, subject to the provisions of paragraph (5) of Article 8 (Deductions, Exemptions Etc).

(2) The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities.

(3) Nothing contained in this Article shall be construed as obliging either Contracting State to grant to individuals not domiciled in that Contracting State any personal allowances, reliefs and reductions for taxation purposes which are granted to individuals so domiciled.

(4) 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 Contracting 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.

(5) The provisions of this Article shall apply to taxes which are the subject of this Convention.

Article 11

Mutual Agreement Procedure

(1) Where a person considers that the actions of one or both of the Contracting States result or will result in taxation not in accordance with the provisions of this Convention, he may, irrespective of the remedies provided by the domestic laws of those States, present his case to the competent authority of either Contracting State.

(2) The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at an appropriate 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 not in accordance with the Convention. Where an agreement has been reached, a refund as appropriate shall be made to give effect to the agreement.

(3) The competent authorities of the Contracting States shall endeavour 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 reach agreement on the meaning of the terms not otherwise defined in this Convention.

(4) The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement as contemplated by this Convention.

ARTICLE 12

Exchange of Information

The competent authorities of the Contracting States shall exchange such information (being information available under the respective taxation laws of the Contracting States) as is necessary for the carrying out of the provisions of this Convention or for the prevention of fraud or the administration of statutory provisions against legal avoidance in relation to the taxes which are the subject of this Convention. Any information so exchanged shall be treated as secret and shall not be disclosed to any persons other than persons (including a court or administrative body) concerned with the assessment, enforcement, collection, or prosecution in respect of the taxes which are the subject of the Convention. No information shall be exchanged which would disclose any trade, business, industrial or professional secret or any trade process.

ARTICLE 13

Effect on Diplomatic and Consular Officials and Domestic Law

(1) Nothing in this Convention shall affect the fiscal privileges of diplomatic or consular officials under the general rules of international law or under the provisions of special agreements.

(2) This Convention shall not restrict in any manner any exclusion, exemption, deduction, credit, or other allowance now or hereafter accorded by the laws of either Contracting State.

ARTICLE 14

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 Washington as soon as possible.

(2) This Convention shall enter into force immediately after the expiration of thirty days following the date on which the instruments of ratification are exchanged, and shall thereupon have effect:

(*a*) in the United States in respect of estates of individuals dying and transfers taking effect after that date; and

(*b*) in the United Kingdom in respect of property by reference to which there is a charge to tax which arises after that date.

(3) Subject to the provisions of paragraph (4) of this Article, the Convention between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on the Estates of Deceased Persons signed at Washington on 16 April 1945 (hereinafter referred to as "the 1945 Convention") shall cease to have effect in respect of property to which this Convention in accordance with the provisions of paragraph (2) of this Article applies.

(4) Where on a death before 27 March 1981 any provision of the 1945 Convention would have afforded any greater relief from tax than this Convention in respect of

(*a*) any gift inter vivos made by the decedent before 27 March 1974, or

(*b*) any settled property in which the decedent had a beneficial interest in possession before 27 March 1974 but not at any time thereafter,

that provision shall continue to have effect in the United Kingdom in relation to that gift or settled property.

(5) The 1945 Convention shall terminate on the last date on which it has effect in accordance with the foregoing provisions of this Article.

ARTICLE 15

Termination

(1) This Convention shall remain in force until terminated by one of the Contracting States. Either Contracting State may terminate this Convention, at any time after five years from the date on which the Convention enters into force provided that at least six months' prior notice has been given through the diplomatic channel. In such event the Convention shall cease to have effect at the end of the period specified in the notice, but shall continue to apply in respect of the estate of any individual dying before the end of that period and in respect of any event (other than death) occurring before the end of that period and giving rise to liability to tax under the laws of either Contracting State.

(2) The termination of the present Convention shall not have the effect of reviving any treaty or arrangement abrogated by the present Convention or by treaties previously concluded between the Contracting States.

In witness whereof the undersigned, duly authorised thereto by their respective Governments, have signed this Convention.

Done in duplicate at London this 19th day of October 1978.

For the Government of the United States of America:

For the Government of the United Kingdom of Great Britain and Northern Ireland:

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

FOR IMMEDIATE RELEASE November 3, 1978

RESULTS OF AUCTION OF 30-YEAR TREASURY BONDS
AND SUMMARY RESULTS OF NOVEMBER FINANCING

The Department of the Treasury has accepted $1,752 million of $4,877 million of tenders received from the public for the 30-year bonds auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	8.82%
Highest yield	8.87%
Average yield	8.86%

The interest rate on the bonds will be 8-3/4%. At the 8-3/4% rate, the above yields result in the following prices:

Low-yield price	99.266
High-yield price	98.747
Average-yield price	98.851

The $1,752 million of accepted tenders includes $163 million of noncompetitive tenders and $1,589 million of competitive tenders from private investors, including 89% of the amount of bonds bid for at the high yield.

In addition to the $1,752 million of tenders accepted in the auction process, $678 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 November 15, 1978.

SUMMARY RESULTS OF NOVEMBER FINANCING

Through the sale of the three issues offered in the November financing, the Treasury raised approximately $2.2 billion of new money and refunded $8.2 billion of securities maturing November 15, 1978. The following table summarizes the results:

	New Issues						
	9-1/4% Notes 5-15-82	8-3/4% Notes 11-15-88	8-3/4% Bonds 11-15-03-2008	Nonmarketable Special Issues	Maturing Securities Total	Maturing Securities Held	Net New Money Raised
Public...............	$2.5	$2.5	$1.8	$ -	$6.8	$4.6	$2.2
Government Accounts and Federal Reserve Banks...............	1.0	0.9	0.7	1.0	3.6	3.6	-
TOTAL..........	$3.5	$3.4	$2.4	$1.0	$10.4	$8.2	$2.2

Details may not add to total due to rounding.

B-1247

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

FOR IMMEDIATE RELEASE November 6, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,301 million of 13-week Treasury bills and for $3,400 million of 26-week Treasury bills, both series to be issued on November 9, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 8, 1979			26-week bills maturing May 10, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.725	9.000%	9.34%	95.244a/	9.407%	10.01%
Low	97.714	9.044%	9.38%	95.233	9.429%	10.04%
Average	97.718	9.028%	9.37%	95.238	9.419%	10.03%

a/ Excepting 1 tender of $160,000

Tenders at the low price for the 13-week bills were allotted 57%.
Tenders at the low price for the 26-week bills were allotted 9%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 47,685,000	$ 46,985,000	$ 62,040,000	$ 47,040,000
New York	3,736,845,000	1,924,220,000	5,019,110,000	2,918,645,000
Philadelphia	19,325,000	19,325,000	18,725,000	18,480,000
Cleveland	29,830,000	28,485,000	91,785,000	66,785,000
Richmond	25,075,000	19,685,000	49,815,000	35,815,000
Atlanta	30,265,000	27,860,000	27,580,000	25,910,000
Chicago	191,770,000	81,400,000	230,925,000	94,925,000
St. Louis	32,945,000	18,645,000	28,130,000	13,730,000
Minneapolis	15,905,000	12,905,000	13,735,000	13,735,000
Kansas City	24,380,000	19,380,000	27,545,000	24,500,000
Dallas	10,945,000	10,445,000	11,625,000	10,625,000
San Francisco	263,095,000	82,495,000	315,100,000	114,900,000
Treasury	8,945,000	8,945,000	15,090,000	15,090,000
TOTALS	$4,437,010,000	$2,300,775,000b/	$5,911,205,000	$3,400,180,000c/

b/ Includes $351,120,000 noncompetitive tenders from the public.
c/ Includes $272,675,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-1248

epartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
(APPROXIMATELY 7:45 P.M., NOVEMBER 6, 1978)

REMARKS BY THE HONORABLE ANTHONY M. SOLOMON
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
B'NAI B'RITH MINING AND METAL INDUSTRY
NEW YORK, NOVEMBER 6, 1978

TONIGHT I WANT TO TALK PRIMARILY ABOUT THE INTERNATIONAL ECONOMIC SITUATION, BUT ALSO ABOUT SOME DIRECTLY RELATED ASPECTS OF THE DOMESTIC ECONOMIC SITUATION. I HAVE THE FEELING THAT ALL OF US AMERICANS ARE UNCERTAIN, EVEN CONFUSED, ABOUT WHERE WE ARE GOING -- ABOUT WHAT'S GOING WRONG WITH THE ECONOMY AND ALSO WHAT IS GOING RIGHT.

THE STARTING POINT FOR UNDERSTANDING WHERE WE ARE GOING AND WHAT IS GOING RIGHT AND WRONG IS THE U.S. DECISION TO ESTABLISH AN OPEN INTERNATIONAL TRADE AND CAPITAL SYSTEM AFTER WORLD WAR II. THIS DECISION WAS TAKEN IN RECOGNITION THAT THE SEVERE AND PROTRACTED DEPRESSION OF THE 1930'S WAS DUE MUCH MORE TO THE TRADE BARRIERS THAT WE AND OTHERS ERECTED THAN TO THE FINANCIAL PANIC OF 1929. THAT POST WORLD WAR II DECISION BY THE UNITED STATES WAS A BRILLIANT AND FAR-REACHING ONE. THE UNITED STATES HAD THE INFLUENCE TO PERSUADE THE REST OF THE FREE WORLD TO JOIN US IN THIS APPROACH AND THE POWER TO IMPLEMENT IT FOR BOTH OUR OWN AND THE WORLD'S PROSPERITY.

B-1249

THIS OPEN INTERNATIONAL ECONOMIC SYSTEM WAS CLEARLY THE BASIS FOR RAPID AND SUSTAINED INCREASES IN OUR OWN WEALTH AND STANDARD OF LIVING, FOR THE RECONSTRUCTION AND UNPRECEDENTED GROWTH OF THE OTHER INDUSTRIALIZED COUNTRIES, AND FOR PROGRESS -- EVEN THOUGH SOMEWHAT MORE LIMITED -- IN THE DEVELOPING COUNTRIES. THE TRADE SIDE OF THIS OPEN INTERNATIONAL SYSTEM WAS IMPLEMENTED PROGRESSIVELY THROUGH MUTUAL REDUCTIONS IN TARIFF BARRIERS WHICH STIMULATED WORLD TRADE AND CATALYZED HIGH AND SUSTAINED DOMESTIC GROWTH IN ALL THE KEY COUNTRIES. THE OTHER MAIN CATALYST WAS THE OPEN CAPITAL PART OF THE SYSTEM, WHICH WAS EQUALLY CRITICAL TO THE PROSPERITY AND STEADY GROWTH ACHIEVED BY THE UNITED STATES AND OTHER COUNTRIES. U.S. DIRECT INVESTMENT ABROAD, THE AVAILABILITY OF OUR CAPITAL MARKETS TO INTERNATIONAL BORROWERS, THE FREEDOM OF OUR BANKS TO LEND ABROAD,ALL COMBINED TO PROVIDE MUCH OF THE CREDIT (AS WELL AS MUCH OF THE MANAGEMENT TECHNOLOGY) THAT FUELED VERY RAPID GROWTH IN THE REST OF THE WORLD. OPEN TRADE AND CAPITAL POLICIES WERE DIRECTLY AND INDIRECTLY MAJOR FORCES IN OUR OWN PROSPERITY, BUT OUR ACTIONS IN IMPLEMENTING THE SYSTEM CHANGED THE COURSE OF THE REST OF THE WORLD AS WELL.

WHAT HAS BEEN THE RESULT OF THE OPEN TRADING AND CAPITAL SYSTEM AND ASSOCIATED WORLD-WIDE GROWTH? AN INCREASING AND INCREDIBLE DEGREE OF ECONOMIC INTERDEPENDENCE, ESPECIALLY AMONG THE INDUSTRIALIZED COUNTRIES, WHOSE INTERNAL INDUSTRIAL AND AGRICULTURAL STRUCTURES ARE NOW HEAVILY DEPENDENT ON FOREIGN SOURCES AND MARKETS.

AT THE END OF THE 1960'S AND DURING THE 1970'S, THE GREAT POST-WAR RECORD OF GROWTH, EMPLOYMENT AND PROSPERITY RAN INTO TROUBLE. YOU ARE ALL FAMILIAR WITH THE BEGINNING OF INFLATION AS WE ESCALATED AND POURED MORE RESOURCES INTO THE VIETNAM WAR; THE DEVALUATIONS OF THE EARLY SEVENTIES; THE SIMULTANEOUS BOOM IN THE INDUSTRIAL COUNTRIES, FEEDING RAPID INCREASES IN COMMODITY PRICES WORLDWIDE; THE SHOCK OF A FOURFOLD INCREASE IN OIL PRICES; ALL FOLLOWED INEVITABLY BY VERY SEVERE WORLD RECESSION IN 1975.

SINCE 1975, THE GROWTH PATHS OF THE KEY COUNTRIES HAVE DIVERGED SHARPLY. WE IN THE UNITED STATES HAVE ACHIEVED A VIGOROUS RECOVERY, ADDING 10 MILLION JOBS AND INCREASING INDUSTRIAL PRODUCTION OVER 30 PERCENT. EUROPE AND JAPAN HAVE EXPERIENCED ONLY SLUGGISH GROWTH, WITH RISING UNEMPLOYMENT, AT LEAST UNTIL RECENT MONTHS. IN THESE RESPECTS, WE HAVE CLEARLY DONE BETTER THAN THE REST OF THE WORLD. BUT BECAUSE OF THE OPEN TRADING AND CAPITAL SYSTEM, AND THE CONTINUING INCREASE IN INTERDEPENDENCE, SOME THINGS HAVE GONE WRONG HERE AT HOME:

-- OUR RAPID GROWTH AND INCREASING OUTPUT HAS LED TO A VERY RAPID CLIMB IN OUR IMPORTS, WHILE SLOWER GROWTH IN THE ECONOMIES OF OUR TRADING PARTNERS HAS MEANT SLOW GROWTH IN OUR EXPORTS.

-- THE SLACK IN PRODUCTION CAPACITY ABROAD HAS MADE OUR COMPETITORS PUSH HARDER THAN EVER TO SELL IN THE FASTER-GROWING U.S. MARKET.

-- AND, BACK IN 1975-76, THE COMBINATION OF OUR RECESSION AND THE ERRONEOUS JUDGMENT THAT WE WOULD BE HURT LESS THAN OTHERS BY THE OIL PRICE INCREASE CAUSED THE DOLLAR TO MOVE UP SHARPLY IN THE EXCHANGE MARKETS. IMPORTS BECAME CHEAPER AND OUR EXPORTS LESS COMPETITIVE. BUT THE FULL EFFECTS OF SUCH EXCHANGE RATE CHANGES TAKE 18 MONTHS OR LONGER TO SHOW UP IN THE TRADE ACCOUNTS AND, IN 1977 AND 1978, THOSE EARLIER EXCHANGE RATE CHANGES CONTRIBUTED TO OUR LARGE TRADE AND CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICITS.

THE OTHER THING THAT HAS GONE WRONG IS THAT U.S. INFLATION IS WORSENING. THROUGH MOST OF THE 1970'S WE HAD BEEN AVERAGING ABOUT 6-1/4 TO 6-1/2 PERCENT INFLATION WHICH -- ALTHOUGH VERY DAMAGING -- WAS NOT AS BAD AS THE PERFORMANCE OF MOST OTHER INDUSTRIAL COUNTRIES. BUT BEGINNING LAST YEAR AND EVEN WORSE THIS YEAR, VARIOUS FACTORS -- INCLUDING THE DECLINING DOLLAR --

INCREASED OUR INFLATION RATE TO WHERE (ALONG WITH CANADA'S) IT IS THE HIGHEST OF THE MAJOR INDUSTRIAL COUNTRIES. WHILE SOME DOWNWARD ADJUSTMENT OF THE DOLLAR FROM THE HIGHLY APPRECIATED LEVELS OF 1975 AND 1976 WAS APPROPRIATE TO REVERSE THE EROSION IN OUR EXPORT COMPETITIVENESS, EXCESSIVE MOVEMENTS CONTRIBUTED TO AN INFLATIONARY PSYCHOLOGY -- WITH DOLLAR DECLINES CONTRIBUTING TO INFLATION, AND WITH EXPECTATIONS OF MORE INFLATION PUSHING WAGES AND PRICES UP AND THE DOLLAR DOWN EVEN FARTHER. EXPECTATIONS OF MORE INFLATION BECAME CEMENTED INTO OUR NATIONAL THINKING.

THE GRADUAL REDUCTION OF TRADE BARRIERS, AND THE GREATLY INCREASED VOLUME OF CAPITAL READY TO MOVE AROUND THE WORLD AT THE PUSH OF TODAY'S SOPHISTICATED COMMUNICATIONS BUTTONS, HAVE COME TO MEAN THAT DIFFERENCES AMONG THE KEY COUNTRIES IN REAL GROWTH AND INFLATION NOW HAVE A MUCH MORE IMMEDIATE IMPACT ON THE DIRECTION AND MAGNITUDE OF TRADE FLOWS AND CAPITAL MOVEMENTS. WE AND THE REST OF THE WORLD ARE THEREFORE MORE VULNERABLE NOW THAN IN THE PAST -- THIS IS THE PRICE WE PAY FOR THE HIGHER WEALTH AND STANDARD OF LIVING THAT THE OPEN WORLD ECONOMY AND INCREASING INTERDEPENDENCE HAVE BROUGHT. TODAY, IMPORT AND EXPORT FLOWS, EVEN IN THE U.S. -- WHICH IS THE LEAST EXTERNALLY DEPENDENT AMONG MAJOR COUNTRIES -- ARE OVER 15 PERCENT OF OUR GNP. THERE IS NO WAY OF RETREATING, EITHER SHARPLY OR GRADUALLY, FROM THIS INTERDEPENDENCE, WITHOUT CAUSING MAJOR DISRUPTION TO OUR ECONOMY.

AN EFFORT TO RETREAT WOULD BRING MAJOR SHORTAGES IN SOME INDUSTRIES, MAJOR GLUTS IN OTHERS, AND HIGH UNEMPLOYMENT. AND WE WOULD, OF COURSE, FORFEIT THE BENEFITS YET TO COME FROM CONTINUING OUR OPEN AND INTERDEPENDENT SYSTEM.

SO WHAT CAN WE DO?

1. WE CAN TRY TO COORDINATE BETTER THE PERFORMANCE OF THE MAJOR COUNTRIES, TO ACHIEVE MORE BALANCE AND CONVERGENCE OF DOMESTIC GROWTH RATES AND REDUCE INFLATION DIFFERENTIALS. WE HAVE MADE SOME PROGRESS AS A RESULT OF EFFORTS AT THE BONN SUMMIT. GROWTH RATES ARE BECOMING BETTER BALANCED. NEXT YEAR, THE OTHER KEY COUNTRIES WILL FINALLY BE GROWING AT HIGHER RATES THAN THE U.S. ECONOMY. THEY WILL BE GROWING SOMEWHAT FASTER THAN BEFORE, AND WE WILL BE TAPERING BACK AFTER 3 YEARS OF VERY FAST AND SUSTAINED RECOVERY. THAT TAPERING OFF DOES NOT MEAN A RECESSION.
2. WE MUST CURB INFLATION AT HOME.
3. WE MUST REDUCE OUR DEPENDENCE ON IMPORTED ENERGY, AND WE MUST IMPROVE OUR COMPETITIVE RESPONSE TO EXPORT OPPORTUNITIES.

4. WE MUST STOP THE DECLINE OF THE DOLLAR AND CORRECT SOME OF THE RECENT EXCESSIVE DROPS. SOME EXCHANGE RATE CHANGES WERE JUSTIFIED AS NATIONAL GROWTH RATES AND INFLATION LEVELS DIVERGED SIGNIFICANTLY, BUT WHAT WE HAVE SEEN RECENTLY IS EXCESSIVE AND NOT JUSTIFIED BY FUNDAMENTAL FACTORS OR TRENDS IN UNDERLYING ECONOMIC CONDITIONS.

WE ARE NOW MOVING FORCEFULLY ON ALL THESE FRONTS. THE UNDERTAKINGS AT THE BONN SUMMIT ARE SUCCEEDING IN BRINGING ABOUT A BETTER BALANCE OF GROWTH AMONG THE MAJOR COUNTRIES. OUR ENERGY LEGISLATION IS AT LAST IN PLACE. WE HAVE INITIATED PROGRAMS TO IMPROVE OUR EXPORT PERFORMANCE. AND THE PRESIDENT HAS MOST RECENTLY ANNOUNCED COMPREHENSIVE NEW POLICIES ON INFLATION AND THE DOLLAR.

WHY DIDN'T WE MOVE BEFORE ON THE DOLLAR? BECAUSE OUR TIMING HAD TO BE RIGHT IF THE EFFORT WAS TO WORK -- WE HAD TO MAKE A REALISTIC JUDGMENT ABOUT THE SUCCESS OF A MAJOR AND BOLD MOVE. VARIOUS FACTORS WENT INTO THAT JUDGMENT -- A KEY ONE WAS THE IMPROVING TREND IN OUR TRADE AND CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT. ALTHOUGH THERE WILL BE SOME INCREASE IN THE PRESENT QUARTER DUE TO SPECIAL FACTORS, WE CAN NOW ENVISAGE A MAJOR DECLINE IN THE CURRENT ACCOUNT DEFICIT FOR 1979, WHICH IS THE KEY FIGURE TO LOOK AT. IF ONE ASSUMES FOR ESTIMATING

PURPOSES THAT THERE IS NO CHANGE IN OIL PRICES, NEXT YEAR'S DEFICIT MAY BE ONLY ONE-THIRD THE 1978 FIGURE. THE UNDERLYING TREND IN OUR PAYMENTS POSITION WAS THEREFORE IMPROVING, AND IT WAS EVIDENT THAT THE MARKETS WERE BEGINNING TO BE READY TO RESPOND TO FORCEFUL AND SUSTAINED ACTION ON VARIOUS FRONTS. IT MAY, OF COURSE, TAKE SOME TIME BEFORE ALL THE PEOPLE WHO MOVE MONEY AROUND ARE CONVINCED OF OUR DETERMINATION, AND BEFORE WE CAN RETURN TO A MORE NORMAL PATTERN OF TWO-WAY TRADING FULLY ELIMINATING THE MUTUALLY INFECTING PSYCHOLOGY THAT IT IS A ONE-WAY STREET DOWN FOR THE DOLLAR. THE RESPONSE TO OUR ACTIONS HAS BEEN IMPRESSIVE EVEN IN THE SHORT TIME SINCE THE ANNOUNCEMENT. AND I WOULD EXPECT THAT THE RESPONSE WILL DEEPEN AND SOLIDIFY AS WE PURSUE THE VARIOUS COMPONENTS OF THE ANTI-INFLATION AND DOLLAR PROGRAMS WITH DETERMINATION AND WITH ALL THE POWERS THE GOVERNMENT CAN MUSTER.

NOW, WHAT ABOUT THE TRADE ASPECTS OF OUR SYSTEM? FIRST, WE SHOULD RECOGNIZE THAT THE TARGET DEPTH OF TARIFF CUTS AGREED ON BY THE INDUSTRIAL COUNTRIES LAST SEPTEMBER WAS 40 PERCENT, TO BE STRETCHED OUT OVER 10 YEARS. SINCE AVERAGE TARIFFS NOW APPLIED TO INDUSTRIAL TRADE BY THE MAJOR COUNTRIES RANGE FROM ABOUT 7 TO 15 PERCENT, WE CAN ENVISAGE AT MOST REDUCTIONS OF ONLY A FRACTION OF ONE PERCENT ANNUALLY IN AVERAGE TARIFF LEVELS. THE MAJOR SUCCESS IN REDUCING TARIFFS IN THE PAST -- AS WELL AS THE MOVE TO MORE FLEXIBLE EXCHANGE RATES -- MEAN THAT WE ARE TODAY LIVING IN A VERY DIFFERENT TRADING ENVIRONMENT. IT IS IMPORTANT TO CONTINUE OUR EFFORTS TO REDUCE

TARIFFS, IN ORDER TO SUSTAIN OUR LONG-RUN POLICY DIRECTION AND CONTINUE PROGRESS ON HIGH TARIFFS IN PARTICULAR SECTORS AND CERTAIN COUNTRIES. BUT THE FOCUS OF ATTENTION IN THE MULTILATERAL TRADE NEGOTIATIONS IS CLEARLY SHIFTING -- MOST IMPORTANTLY FOR THE U.S., TO THE NEGOTIATION OF CODES TO REDUCE OR ELIMINATE NON-TARIFF BARRIERS WHICH HAVE BECOME THE MAJOR IMPEDIMENTS TO TRADE.

SECONDLY, WE MUST STRIVE FOR A BALANCE IN TRADE POLICY BETWEEN, ON THE ONE HAND, FOSTERING A DYNAMIC ECONOMY AND AN INDUSTRIAL STRUCTURE THAT CAN ADAPT TO CHANGES IN COMPARATIVE INTERNATIONAL EFFICIENCY, AND ON THE OTHER HAND AVOIDING SHOCK AND DISRUPTION TO DOMESTIC INDUSTRY. ADJUSTMENT IS ESSENTIAL -- BUT IN CERTAIN INDUSTRIES MORE TIME IS NEEDED FOR AN ORDERLY CHANGE. THE PROBLEM BECOMES BIGGER IF COUNTRIES PREVENT ADJUSTMENT BY EMPLOYING PERMANENT SUBSIDIES WHICH GIVE THEIR EXPORTS AN UNFAIR ADVANTAGE AND BY PROVIDING PERMANENT PROTECTION AGAINST IMPORTS FOR INEFFICIENT INDUSTRIES. THESE PRACTICES ARE A BREEDING GROUND FOR THE KIND OF TRADE CONFLICT WE HAD IN THE 1930'S. ONLY <u>TRANSITIONAL</u> ASSISTANCE BY GOVERNMENT TO INDUSTRY, WHICH WILL LEAD TO A POSITIVE ADJUSTMENT, IS AN APPROPRIATE POLICY AND IS IN EVERYONE'S INTERESTS.

THAT IS THE ENTIRE RATIONALE OF THE U.S. GOVERNMENT PROGRAM FOR STEEL WITH WHICH MY NAME IS ASSOCIATED. THE TRIGGER PRICE SYSTEM, DESIGNED TO PREVENT UNFAIR DUMPING IN VIOLATION OF OUR TRADE LAWS, IS NECESSARY ONLY DURING A TIME OF WORLD STEEL GLUT WHEN SLACK CAPACITY ABROAD INDUCES FOREIGN STEEL MANUFACTURERS TO SELL IN THE U.S. MARKET AT BELOW THEIR PRODUCTION COST. THE TRIGGER PRICE SYSTEM IS NOT A MINIMUM PRICE -- ANYONE WHO HAS PRODUCTION COSTS LOWER THAN THE TRIGGER PRICE LEVELS IS FREE TO SELL STEEL AT THOSE COSTS IN OUR MARKETS. INSOFAR AS INJURIOUS DUMPING IS SUCCESSFULLY DETERRED, IT WILL, OF COURSE, FIRM PRICES IN THE MARKET. BUT ANY EFFECTIVE PROGRAM WOULD HAVE THIS RESULT. WITH THE RIGHT BALANCE OF FISCAL AND MONETARY POLICY, AND WITH A MODERATION OF EXPECTATIONS ABOUT INFLATION THROUGH GRADUAL MODERATION OF WAGE AND PRICE DECISIONS, THE GOVERNMENT AND THE PRIVATE SECTOR, COOPERATING TOGETHER, CAN DEMONSTRATE THAT PREVENTING UNFAIR DUMPING -- AND ENHANCING FAIR COMPETITION -- IS NOT INFLATIONARY.

THE OTHER PARTS OF OUR STEEL PROGRAM EMPHASIZE MODERNIZATION AND COST SAVINGS THAT ARE BENEFICIAL TO THE STEEL INDUSTRY AND THE AMERICAN PUBLIC AND ARE ACHIEVABLE THROUGH NON-DISCRIMINATORY

ACTIONS WHICH DO NOT DISTORT TRADE. THE REDUCTION IN THE DEPRECIABLE GUIDELINE LIFE ON TAXES AND THE LOAN GUARANTEE PROGRAM AT COMMERCIAL INTEREST RATES ARE DESIGNED TO IMPROVE CASH FLOW AND PROVIDE CAPITAL TO SMALLER FIRMS FOR MODERNIZATION OF COMPETITIVE PLANTS. OUR REVIEW OF ENVIRONMENTAL POLICIES AND PROCEDURES WILL ACHIEVE BASIC ENVIRONMENTAL GOALS BUT AT LESS COST TO INDUSTRY -- AND WILL BENEFIT ALL INDUSTRIES, NOT JUST STEEL.

BEFORE I CLOSE, I WOULD LIKE TO MAKE ONE COMMENT ON THE INTERMIXTURE OF TRADE AND CAPITAL FLOWS AND THEIR EFFECTS UPON EXCHANGE RATES WHICH WE HAVE SEEN REFLECTED IN THE RECENT EXCESSIVE DECLINES IN THE DOLLAR. WE SOMETIMES HEAR CRITICISM FROM ABROAD ABOUT THE SO-CALLED DOLLAR OVERHANG -- CRITICISM THAT THE $600 BILLION IN DOLLAR DENOMINATED ASSETS HELD ABROAD IS A RESULT OF U.S. PROFLIGACY, OF A CONSISTENT HISTORY OF SPENDING BEYOND OUR MEANS. THIS CRITICISM DOES NOT SQUARE WITH THE FACTS. OUR NET BALANCE OF TRADE IN GOODS AND SERVICES IN THE POST-WAR ERA HAS BEEN IN SURPLUS. BETWEEN 1960 AND MID-1978, WE HAD ACCUMULATED A NET <u>SURPLUS</u> ON OUR CURRENT ACCOUNT BALANCE OF PAYMENTS OF SOME $34 BILLION. THEREFORE, THE ORIGIN OF THE FOREIGN DOLLAR HOLDINGS HAS BEEN INVESTMENT AND FOREIGN BORROWING, MUCH OF IT FINANCED IN THE OPEN U.S. CAPITAL MARKET, TO FUEL ECONOMIC GROWTH ABROAD. THE U.S. ECONOMY HAS BENEFITED FROM THESE FLOWS, AS HAVE FOREIGN ECONOMIES. MORE BROADLY, THE OPENESS OF THE SYSTEM AS A WHOLE HAS CONTRIBUTED TO THE

POLITICAL STABILITY OF THE MAJOR NATIONS, IN STARTLING CONTRAST TO THE POLITICAL SITUATION IN THE 1930'S AS ECONOMIES DETERIORATED AND WITHDREW FROM EACH OTHER. THE UNITED STATES MAY HAVE EXERCISED A DOMINANT INFLUENCE IN THE ECONOMIC AREA DURING THE POST-WAR PERIOD, IN BRINGING OTHERS TO SHARE OUR VISION OF A BETTER WORLD. BUT WE WERE NOT ECONOMIC IMPERIALISTS -- WE DID NOT ENRICH OURSELVES AT THE EXPENSE OF OTHERS, BUT SHAPED A SYSTEM FROM WHICH ALL COULD GAIN.

FURTHERMORE, IF ONE LOOKS INTO THAT FIGURE OF $600 BILLION IN DOLLAR-DENOMINATED ASSETS HELD ABROAD, ROUGHLY $300 BILLION ARE FOREIGNERS' DOLLAR CLAIMS ON OTHER FOREIGNERS AND NOT ON US -- SIMPLY BECAUSE THE DOLLAR WAS USED AS THE CURRENCY FOR TRANSACTIONS BETWEEN NON-U.S. RESIDENTS. AGAINST THE REMAINING $300 BILLION THAT ARE A TRUE CLAIM ON U.S. RESIDENTS, WE HAVE LARGER CLAIMS ON THE REST OF THE WORLD -- OVER $380 BILLION, THOUGH SOME ARE LESS LIQUID.

THE U.S. MUST BRING INFLATION UNDER CONTROL THROUGH THE WAYS I HAVE INDICATED AND INTENSIFY THE TREND TOWARD ELIMINATING RAPIDLY THE CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT. AS WE DO SO, AND AS FOREIGN DEMAND FOR CREDIT REVIVES WITH FASTER FOREIGN ECONOMIC GROWTH, THE CURRENT TALK ABROAD OF "UNWANTED DOLLARS" WILL DISAPPEAR ONCE AGAIN, AS IT HAS ON MANY OCCASIONS BEFORE. THE U.S. ECONOMY IS THE STRONGEST IN THE WORLD, AND THE PERCEPTION OF THAT REALITY WILL NOT BE CLOUDED FOR MUCH LONGER BY OUR TEMPORARY PROBLEMS. OUR POLICY OBJECTIVES WILL

BE PRUDENT AND BALANCED -- BUT OUR IMPLEMENTATION WILL BE AS VIGOROUS AND BOLD AS THE SITUATION MAY REQUIRE.

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DEPARTMENT OF THE TREASURY

Office of the Secretary

EFFECTS OF IMPORTED ARTICLES

ON THE NATIONAL SECURITY

Publication of Report of Investigation to Determine Effects on the National Security of Metal Fastener Imports

November 1, 1978

Notice is hereby given pursuant to Section 232 of the Trade Expansion Act of 1962, as amended, 19 U.S.C. Section 1862, and 31 CFR Section 9.9, of the publication of a report by the Secretary of the Treasury to the President of an investigation under Section 232 of the Trade Expansion Act of 1962. At the President's direction, the Secretary of the Treasury undertook this investigation to determine the effects on the national security of imports of iron and steel lag screws and bolts, bolts (except mine-roof bolts), nuts and large screws specified in TSUS items 646.48, 646.54, 646.56 and 646.63 (referred to collectively as "screws, bolts and nuts"). The report, dated October 18, 1978, states that, as a result of the investigation, the Secretary has concluded that screws, bolts, and nuts are not being imported in such quantities or under such circumstances as to threaten to impair the national security. Accordingly, the report recommends that the President take no action under Section 232 of the Trade Expansion Act of 1962 to limit imports of screws, bolts and nuts. The report further states that its conclusion in no way pre-judges the merits of the International Trade Commission (ITC) investigation of imports of screws, bolts and nuts under Section 201 (the escape clause) of the Trade Act of 1974 in which a determination was announced by the ITC on October 26, 1978.

The Secretary's report to the President was based on an investigation of the effect of screws, bolts and nuts imports on the national security conducted by the General Counsel of the Treasury Department. The Secretary's report to the President and the General Counsel's report of his investigation are published herein and copies thereof are available through the Office of Public Affairs, Department of the Treasury, by contacting the individual listed at the conclusion of this notice. Documents received from other federal agencies and the public in the course of this investigation are available for public reading at the Library of the Treasury Department, Room 5030, Main Treasury, 15th and Pennsylvania Avenue, N.W., Washington, D.C.

The principal authors of these reports were Robert H. Mundheim, Gary C. Hufbauer, Clyde C. Crosswhite, Leonard E. Santos, Richard B. Self, and Russell L. Munk of the Office of the Secretary of the Treasury. Contact John P. Plum, 202-566-2615.

THE SECRETARY OF THE TREASURY

WASHINGTON 20220

OCT 18 1978

MEMORANDUM TO THE PRESIDENT

SUBJECT: Report on Section 232 Investigation of Metal Fastener Imports

On February 10, 1978, you directed me to investigate, pursuant to Section 232 of the Trade Expansion Act of 1962, whether screws, bolts and nuts* imports are entering the United States in such quantities or under such circumstances as to threaten to impair the national security. I have completed that investigation and have concluded that imports of screws, bolts and nuts do not pose such a threat.

In 1975, the metal fastener industry first petitioned the International Trade Commission (ITC) for escape clause relief but in that case the ITC reached a negative determination on injury. In 1977, the ITC opened a second escape clause investigation, and in December 1977, the ITC found injury and recommended tariff relief. You rejected that recommendation on the grounds that it would be inflationary and not in the public interest. On August 3, 1978, the ITC opened a third escape clause investigation which is now in progress. I understand that the ITC will announce its decision on October 26, 1978. My conclusion that imports of screws, bolts and nuts do not pose a threat to the national security in no way pre-judges the merits of the current escape clause investigation.

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* The term "screws, bolts and nuts" as used in this report means iron and steel lag screws and bolts, bolts (except mine-roof bolts), nuts and large screws specified in TSUS items 646.48, 646.54, 646.56 and 646.63.

I have been guided in the conduct of this investigation by the central legal standard of Section 232: do imports of screws, bolts and nuts threaten to impair the national security. Congress did not intend that Section 232 become an alternative method to Section 201 of the Trade Act of 1974 of achieving relief for industries which believe themselves injured. The health of a particular industry affected by the imported article is not necessarily determinative of the existence of a national security threat.

Although there is clear evidence of increasing screws, bolts and nuts imports into the U.S. and a concomitant decline in U.S. employment in that segment of the metal fastener industry, the evidence does not lead to the conclusion that our increasing reliance on imports threatens to impair the national security.

The basis of this conclusion is that:

- The only scenario for which a threat to the national security has been articulated is based on World War II - type of conflict. Although wartime scenarios are not within our expertise, we think the likelihood of this scenario is debatable

- Assuming a World War II - type of scenario, there is insufficient evidence to document the inadequacy of screws, bolts and nuts production to meet U.S. needs

- The available data does not distinguish between "specials" and "standards" fastener wartime requirements; this distinction is important in view of the fact that the United States currently enjoys a trade surplus in specials screws, bolts and nuts and ship, military vehicle and automotive fasteners are practically all specials; there is no adequate data on exclusively military needs for screws, bolts and nuts in case of a war

- The national security threat articulated for a wartime scenario was based on the questionable assumptions that:

  civilian needs for screws, bolts and nuts would increase;

domestic productive capacity could not be significantly expanded; and

foreign supplies would be seriously interrupted.

Finally, the remedies available to limit imports of screws, bolts and nuts are very expensive. Direct import restraints or the stockpiling of either screws, bolts and nuts or their production equipment would have a significant inflationary impact on the U.S. economy. Our finding is buttressed by our weighing the inflationary costs implicit in available remedies against the likelihood of the wartime scenario in which a national security threat is said to arise.

FINDINGS

I find that screws, bolts and nuts are not being imported in such quantities or under such circumstances as to threaten to impair the national security.

RECOMMENDATION

I, therefore, recommend that no action be taken under Section 232 of the Trade Expansion Act to reduce United States imports of screws, bolts and nuts.

W Michael Blumenthal

W. Michael Blumenthal

REPORT OF INVESTIGATION UNDER SECTION 232 OF THE TRADE EXPANSION ACT, 19 U.S.C. SECTION 1862, AS AMENDED

I. INTRODUCTION

Section 232 (b) of the Trade Expansion Act of 1962 authorizes the President to take action to reduce imports of iron and steel lag screws and bolts, bolts (except mine-roof bolts), nuts and large screws specified in TSUS items 646.48, 646.54, 646.56 and 646.63 (hereinafter referred to collectively as "screws, bolts and nuts") if the Secretary of the Treasury finds that screws, bolts and nuts are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

In 1975, the metal fastener industry first petitioned the International Trade Commission (ITC) for escape clause relief but in that case the ITC reached a negative determination on injury. In 1977, the ITC opened a second escape clause investigation, and in December 1977, the ITC found injury and recommended tariff relief. The recommendation was rejected by the President on the grounds that it would be inflationary and not in the public interest. The directive for the current national security investigation was issued subsequent to that decision. On August 3, 1978, the ITC opened a third escape clause investigation which is now in progress. The ITC plans to announce its decision on October 26, 1978.

This investigation was initiated by the Secretary of the Treasury on February 10, 1978 pursuant to the President's directive to determine whether imports of screws, bolts and nuts threaten to impair the national security. In keeping with the terms of the statute, this investigation has focused on whether imports of screws, bolts and nuts pose such a national security threat rather than whether such imports have affected the health of the metal fastener industry in the United States. While the latter inquiry is not necessarily irrelevant to a national security finding, we have been mindful of the fact that Congress did not intend that Section 232 become an alternative to Section 201 of the Trade Act of 1974 as a means of providing relief to industries which believe themselves injured.

In summary, the conclusion of this report is that screws, bolts and nuts are not being imported in such quantities and under such circumstances as to threaten to impair the national security. This conclusion is based on the absence of persuasive evidence indicating that the nation's requirements for screws, bolts and nuts cannot be satisfied in probable emergency scenarios and on the failure of available evidence to identify with reasonable precision the need for and the capacity to produce the principal categories of screws, bolts and nuts in an emergency.

In the conduct of this investigation, the Treasury Department has requested and received data from the Federal Preparedness Agency (FPA), and the Departments of Defense, Commerce, and Labor. In response to an invitation for public comments published in the Federal Register on March 1, 1978, the Fastener Institute of Japan, the Japan Machinery Exporters' Association, and the United States Fastener Manufacturing Group submitted comments to the Treasury Department concerning the investigation. Several interagency meetings were held to discuss the case and consider the application of Section 232 to imports of screws, bolts and nuts. Agencies represented at these meetings included the State, Treasury, Defense, Commerce, and Labor Departments as well as the Council on Wage and Price Stability and the FPA.

II. STATUS OF METAL FASTENER INDUSTRY AND IMPORTS

Screws, bolts and nuts are basic to the United States economy. The two broad categories of screws, bolts and nuts are "standards" and "specials." There are about five hundred thousand sizes, shapes, strengths, and finishes of standards and 1.5 million specials. Standards screws, bolts and nuts are the common fasteners for multi-purpose uses; practically all imported screws, bolts and nuts are standards. Specials screws, bolts and nuts are made to specification. Practically all ship, military vehicle and automotive metal fasteners are specials. The United States metal fastener industry now concentrates on producing specials and exports substantial quantities falling in this category.

During the first six months of 1978, the United States production of screws, bolts and nuts for domestic use and export was approximately 67% of the total amount of screws, bolts and nuts consumed in the United States.

During this period, the United States imported approximately $181 million of screws, bolts and nuts and exported approximately $60 million of these items. The United States screws, bolts and nuts imports (primarily of standards) have more than doubled in the past nine years. Of this amount, Japan provides approximately 60% to 70%. According to the Commerce Department, idle production machinery accounts for 53.3% (by pounds) of the total 1978 U.S. production capacity for screws, bolts and nuts. Bolts/screws production capacity in the United States is now idle. Workers employed in the production of screws, bolts and nuts have declined by about 44% over the past nine years. Increasingly, U.S. producers have changed their production lines to manufacture specials screws, bolts and nuts.

III. AVAILABLE EVIDENCE FAILS TO ESTABLISH THAT IMPORTS OF SCREWS, BOLTS AND NUTS POSE A THREAT TO THE NATIONAL SECURITY OF THE UNITED STATES.

There is no suggestion that imports of screws, bolts and nuts threaten to impair the national security under current conditions. Screws, nuts and bolts are not in short supply in the United States. Japan and the other suppliers of these items have shown themselves to be dependable sources of supply. While imports of screws, bolts and nuts do contribute to the U.S. trade deficit, they are not a major factor in that deficit. Moreover, such imports do not appear to create the impression of U.S. vulnerability in the eyes of other countries or in the foreign exchange markets.

A study by staff members of the Economic Preparedness Division of FPA carried out in December 1978 and April 1978 has tentatively concluded that despite current import levels, the United States could satisfy its "emergency requirements" for screws, bolts and nuts, except in a "less favorable" case scenario in which a conventional war causes a substantial, and at times total, cut-off of supplies of screws, bolts and nuts from foreign sources other than Canada. We are not convinced by the assumptions and analysis leading to this latter conclusion. In December 1977, the FPA staff issued its study of metal fasteners as the first of a series of reports examining requirements for, and supplies of, selected essential industrial products in a national emergency. The report examines recent market trends, projects future domestic supply, estimates war time supply and compares these elements with "essential emergency requirements." The study was prepared as a possible basis for military stockpiling, and was not geared for the particular objectives of a Section 232 investigation. In April 1978, the FPA staff prepared an addendum to the December 1977 study to the original study focussing on only screws, bolts, and nuts rather than on all metal fasteners.

Although the FPA staff study to some degree distinguishes between screws, bolts and nuts used directly for military hardware and those which are used for non defense essential requirements, the study grouped both categories into one for purposes of determining total wartime requirements. In the absence of a direct computation of defense needs in this sector, this failure to distinguish between the kinds and amounts of screws, bolts and nuts used directly for military hardware and the kinds and amounts of screws, bolts and nuts used for other purposes is crucial. Had the distinction been made for purposes of gauging war time requirements, the study might have found that the United States has sufficient capacity for its emergency (military and non-defense essential) needs even in a "less favorable" scenario since the United States now has a trade surplus with respect to specials screws, bolts and nuts which are the predominant variety used for ships, tanks, and other military equipment. (Metal fasteners of the types used in aircraft and missiles are not included in screws, bolts and nuts which are the subject of this study.)

The World War II-type of conventional war, "less favorable" scenario appears implausible. But even if the plausibility of this scenario is conceded, the study's assessment of emergency requirements is unconvincing. In its analysis of this scenario the study concluded that U.S. domestic production capacity of screws, bolts and nuts could not satisfy "emergency requirements" for both direct military applications and the economy as a whole. The "emergency requirements" projected in the study for a mobilization beginning in 1977 amount to 57% more than actual 1977 U.S. domestic consumption. This projection includes a 24% increase (from actual levels) in non-defense needs during the mobilization year even though the civilian economy would presumably be running on an austerity basis. Based on this projection of "emergency requirements", the study posits that serious shortages could only be avoided if imports of other countries were somehow readily available; the study regards stockpiling alternatives as impractical.

At least one failing of the FPA staff's projection of "essential emergency requirements" in time of a conventional war is the imprecision of the data available for gauging the nation's needs in such circumstances. Existing data indicate that the United States currently enjoys a trade surplus in specials; this surplus would be available to help cover wartime needs. There are no projections available indicating what the military need for standards would be during a time of war. Neither are there any available projections indicating the shortage of standards which may be created in essential civilian industries. Implicit in the FPA staff's "less favorable" conventional war scenario is the assumption that there will be substantial, and at times total, cut off of supplies of screws, bolts and nuts from foreign sources except Canada. Yet during the nation's most recent "war" experience, the Vietnamese Conflict, imports of screws, bolts and nuts were not interrupted. Furthermore, collective security arrangements are now being finalized to afford the United States the support of other countries for defense equipment and supplies.

Also present levels of production of screws, bolts and nuts could be significantly and quickly increased in the event that imports of these goods from countries other than Canada were to be decreased or stopped altogether during a war. According to the Commerce Department, idle equipment capable of producing (in terms of pounds) the same amount of screws, bolts and nuts as are now being domestically produced could be put back into production in 3 to 18 months, thus doubling present production levels. Equipment now producing screws, bolts and nuts could be used for more hours each week, with corresponding increases in production. Preliminary information provided by the Labor Department indicates that operators for machines which produce screws, bolts and nuts could, in many instances, be trained rapidly or obtained from a number of other manufacturing industries in an emergency.

The magnitude of the conventional war-related needs projected in the FPA staff study is highlighted by the comments submitted to the Treasury Department by the United States Fastener Manufacturing Group. The group estimates that total United States screws, bolts and nuts production facilities operating at full capacity could produce only about half of the "emergency requirements" projected in the FPA staff study. Accordingly, it has recommended the imposition of restraints on imports (except from Canada) so that the industry can, over a period of three years, build sufficient capacity to meet all domestic peacetime requirements. However, even if the United States Government were to implement such restraints, capacity would be provided to meet only one half of the conventional war requirements projected by the FPA staff. For the balance of those requirements, the Group suggests that supply might be augmented under other statutory authority, such as the Defense Production Act, which authorizes stockpiling of finished goods and production equipment.

There are important economic costs inherent in these alternatives. Although cost calculations are tenuous, an "adequate" stockpile of screws, bolts and nuts satisfying standards established by the FPA would involve a one-time budget cost of at least 2.9 billion dollars. Moreover, given the large variety of screws, bolts and nuts and the impossiblity of projecting future requirements for a given type of fastener, as well as the fact that screws, bolts and nuts are susceptible to deterioration if stored for substantial periods of time, it would appear uneconomic to spend large amounts of money on stockpiles of these items. The alternative of stockpiling production equipment probably would result in a one-time budget cost of at least $1.8 billion. Import restraints sufficiently restrictive to replace all peace time imports with domestic production would increase cost to U.S. consumers of screws, bolts and nuts by more than $500 million each year. The further need ultimately to provide comparable remedies for other industries which are similarly situated could also aggravate the inflationary impact of import restrictions. Under present circumstances the inflationary impact associated with such increased cost could itself pose a threat to the national security.

Adverse economic consequences may also flow from the possible reactions of our trading partner to such restrictions on imports of screws, bolts and nuts. Any decision to impose import restrictions on screws, bolts and nuts for national security reasons would have to take into account the possible adverse action of our trading partners. For example, it may be possible under GATT for them to withdraw concessions equivalent to those the United States would be imposing on imports of screws, bolts and nuts.

IV. FINDINGS AND RECOMMENDATIONS

Findings

As a result of this investigation, I recommend that the following determinations and recommendations be made by the Secretary of the Treasury and forwarded to the President: the investigation has established that there is insufficient probative evidence indicating that imports of screws, bolts and nuts threaten to impair the national security.

Recommendations

I therefore recommend that no action be taken pursuant to Section 232 of the Trade Expansion Act of 1962 to reduce the United States imports of screws, bolts and nuts.

Robert H. Mundheim
General Counsel
Department of the Treasury.

OCT 18 1978

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HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 7, 1978

HARRY L. GUTMAN IS APPOINTED
DEPUTY TAX LEGISLATIVE COUNSEL AT TREASURY

Secretary of the Treasury W. Michael Blumenthal today announced the appointment of Harry L. Gutman of Boston, Massachusetts, as Deputy Tax Legislative Counsel.

Mr. Gutman, 36, has been attorney-advisor to the Tax Legislative Counsel in the Treasury Department since July 1977. Before joining Treasury, he was an associate at, and then partner in, the Boston law firm of Hill & Barlow. Mr. Gutman was also an instructor at Boston College Law School and a clinical associate at the Harvard Law School.

As Deputy Tax Legislative Counsel, Mr. Gutman will assist the Tax Legislative Counsel in heading a staff of lawyers and accountants who provide assistance and advice to the Assistant Secretary of the Treasury for Tax Policy. The Office of Tax Legislative Counsel participates in the preparation of Treasury Department recommendations for Federal tax legislation and also helps develop and review tax regulations and rulings.

Mr. Gutman was graduated cum laude from Princeton University with the A.B. degree in 1963. He received a B.A. degree in Jurisprudence from University College, Oxford, England, in 1965 and the LL.B. degree cum laude from Harvard Law School in 1968. He has published several articles and is co-author of "Federal Wealth Transfer Taxation; Cases and Materials" (Foundation Press, 1977), and "Tax Aspects of Divorce and Separation" (Tax Management, 1975). He is a member of the Tax Committees of the American, Massachusetts, and Boston Bar Associations.

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epartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. November 7, 1978

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 November 16, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,706 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,300 million, representing an additional amount of bills dated August 17, 1978, and to mature February 15, 1979 (CUSIP No. 912793 W8 5), originally issued in the amount of $3,403 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,400 million to be dated November 16, 1978, and to mature May 17, 1979 (CUSIP No. 912793 Y5 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 16, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,340 million of the maturing bills. 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. 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, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, November 13, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) 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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 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 November 16, 1978, in cash or other immediately available funds or in Treasury bills maturing November 16, 1978. 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 IMMEDIATE RELEASE
November 8, 1978

Contact: John P. Plum
202/566-2615

TREASURY WILL TERMINATE ISSUE OF
$100,000 DENOMINATION TREASURY BILL

The Treasury Department today announced that Treasury bills in physical form will not be available on new offerings after December 31, 1978.

Under Section 350.17 of Department Circular, Public Debt Series No. 26-76, provision was made for the issue of $100,000 denomination bills through December 31, 1978, to investors legally required to hold securities in physical form. The grace period was established to provide an opportunity for appropriate changes in any Federal, State, municipal or local laws or regulations that precluded certain types of investors from holding or pledging securities in book-entry form.

A relatively small number of definitive bills have been issued to institutional investors which were able to establish their entitlement to physical securities. However, there have been no developments that would warrant a continuation of the offering of Treasury bills in definitive form beyond the date established in the regulations. All new Treasury bills offered for sale after December 31, 1978, will be available only in book-entry form.

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

FOR IMMEDIATE RELEASE
November 9, 1978

Contact: John P. Plum
202/566-2615

TREASURY STARTS NEW FOREIGN PORTFOLIO INVESTMENT SURVEY

The Department of the Treasury today initiated a new survey of foreign portfolio investments in securities of United States business and financial enterprises and Federal, State and local governments as of the end of calendar year 1978.

The survey is being carried out under mandate of the International Investment Survey Act of 1976, which requires a review of foreign portfolio holdings in U.S. securities at least once every five years. A similar survey was conducted in 1975 for the year ending December 31, 1974.

The current survey reduces the reporting burden on U.S. business by limiting its coverage to long-term marketable securities. The size of firms that must report foreign holdings of their securities has been raised to $50 million in total consolidated assets for non-banking enterprises, and to $100 million for banking and financial institutions from $20 million and $50 million respectively. However, any firm falling below these asset levels but with assets in excess of $2 million is required to report if there is evidence of foreign ownership or it is notified by the Treasury Department there is such ownership of its securities.

A report is required also from any United States entity acting as a holder of record of domestic securities on behalf of foreign persons (e.g. nominees, fiduciaries, etc.), unless the combined market value of a holder's investments in domestic securities for all foreign customers is $50,000 or less, as of December 31, 1978.

(over)

The Act provides that information collected from the reports will be published only in aggregate form to prevent disclosure of data supplied by individual respondents. Information will be used for analytical and statistical purposes with access to the information restricted to persons designated by the President to perform functions under the Act. Deadline for filing completed reports is March 31, 1979.

Final rules and regulations for the survey were published in the Federal Register on November 6, 1978. Copies of the reporting forms and instructions are being mailed directly to some 10,000 businesses in the United States. Business enterprises that are required to report but do not receive forms by December 8, 1978, should request forms and instructions from the Treasury Department, Foreign Portfolio Investment Survey, Office of the Assistant Secretary for Economic Policy.

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ASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE

November 8, 1978

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $3,587 million of 52-week Treasury bills to be dated November 14, 1978, and to mature November 13, 1979, 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 -	90.602	9.295%	10.14%
Low -	90.556	9.340%	10.20%
Average -	90.584	9.313%	10.17%

Tenders at the low price were allotted 35%.

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

Location	Received	Accepted
Boston	$ 38,460,000	$ 28,460,000
New York	5,045,635,000	2,859,885,000
Philadelphia	59,015,000	58,515,000
Cleveland	105,930,000	57,930,000
Richmond	28,040,000	19,040,000
Atlanta	23,130,000	23,130,000
Chicago	413,365,000	323,565,000
St. Louis	[illegible]	[illegible]
Minneapolis		
Kansas City		
Dallas		
San Francisco		
Treasury		
TOTAL		

The $3,587 mil] noncompetitive tend Federal Reserve Ban international monet

An additional Reserve Banks as ag for new cash.

52-WEEK BILL RATES

DATE: November 8, 1978

HIGHEST SINCE	LAST MONTH
9.564% August 1974	8.272%
LOWEST SINCE	TODAY
	9.313%

The Act provides that information collected from the reports will be published only in aggregate form to prevent disclosure of data supplied by individual respondents. Information will be used for analytical and statistical purposes with access to the information restricted to persons designated by the President to perform functions under the Act. Deadline for filing completed reports is March 31, 1979.

Final rules and regulations for the survey were published in the Federal Register on November 6, 1978. Copies of the reporting forms and instructions are being mailed directly to some 10,000 businesses in the United States. Business enterprises that are required to report but do not receive forms by December 8, 1978, should request forms and instructions from the Treasury Department, Foreign Portfolio Investment Survey, Office of the Assistant Secretary for Economic Policy.

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

FOR IMMEDIATE RELEASE

November 8, 1978

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Richmond	28,040,000	19,040,000
Atlanta	23,130,000	23,130,000
Chicago	413,365,000	323,565,000
St. Louis	36,695,000	12,395,000
Minneapolis	22,970,000	22,960,000
Kansas City	15,810,000	8,810,000
Dallas	6,575,000	6,575,000
San Francisco	329,265,000	160,265,000
Treasury	5,730,000	5,730,000
TOTAL	$6,130,620,000	$3,587,260,000

The $3,587 million of accepted tenders includes $109 million of noncompetitive tenders from the public and $1,573 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 $306 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

B-1255

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

FOR IMMEDIATE RELEASE
November 9, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT REQUIRES PAYMENT OF INTEREST ON BLOCKED ACCOUNTS

The Treasury Department today announced the publication of proposed rules requiring that bank deposits and certain other funds blocked under its foreign assets control regulations be held in interest-bearing accounts.

The new requirement affects blocked accounts in the United States of the People's Republic of China, Viet-Nam, Cambodia, North Korea, Cuba, and certain limited categories of assets that have been in a blocked status since World War II.

The purpose of the amendments is to preserve and enhance the value of blocked assets, which are being held pending possible negotiations and settlement of claims with the countries involved.

These amendments were prepared in consultation with the Department of State. They are an administrative measure applying to all blocked assets and do not represent any change in U. S. foreign policy.

The proposed changes, to be published in the Federal Register on November 14, would amend the Foreign Assets Control Regulations, the Cuban Assets Control Regulations, and the Foreign Funds Control Regulations. Affected parties will have 30 days in which to submit comments on the proposed regulations. A proposed reporting form applicable to blocked accounts subject to the regulations will also be published.

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B-1256

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

FOR IMMEDIATE RELEASE
November 9, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES FIRST QUARTER
1979 TRIGGER PRICE ADJUSTMENT

The Treasury Department today announced an increase of 7 percent in trigger price bases and extras for the major steel mill products covered by the Trigger Price Mechanism (TPM). The new resulting prices will apply to shipments exported on or after January 1, 1979.

Trigger prices are based on the full cost of production of the world's most efficient group of steel producers, the Japanese steel companies. Each quarter the Department updates those estimated costs to reflect changes in, for example, exchange rates, raw material costs, and labor usage rates. The TPM was designed to enable Treasury to rapidly and effectively discharge its responsibilities under the Antidumping Act.

The rapid appreciation of the yen in the past quarter results in a 10 percent increase in the Japanese cost of production. The Steel Task Force Report of December 1977 proposing the TPM contemplated that Treasury would have flexibility to adjust quarterly price changes to smooth out sharp fluctuations. This flexibility band was used to moderate the First Quarter trigger price increases which the TPM would otherwise have required.

Today's upward revision in estimated production costs for the major Japanese integrated producers reflects a yen/dollar exchange rate of 187 (the average for the period September 4 through November 3) rather than 215 (the rate used to calculate Fourth Quarter trigger prices). No other adjustments of cost components from the Fourth Quarter trigger prices were necessary.

Application of the 187 rate to the various cost components in Japanese steel production results in an average cost of $362.51 per net ton of finished product, or a 10.0 percent cost increase over the Fourth Quarter. Only 7 percent of this increase is being reflected in trigger prices for products made by the major integrated producers.

For products produced by the electric furnace producers (who have a larger proportion of yen-denominated costs), the First Quarter trigger base prices and extras will be increased by 9.8 percent. The actual increase for these products would be 12.8 percent if the 187 yen rate were fully applied, but the Department is reducing the exchange rate effect by 3 percentage points -- again using its discretion within the flexibility band.

The Department also announced today a number of new trigger prices for pipe and tube products and wire products, among others. In addition, a number of modifications and corrections to previously published trigger prices have been made.

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DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

NOTICE

Imported Steel Mill Products Trigger Price Mechanism: First Quarter Revision of Trigger Prices

The Department of Treasury hereby revises trigger prices for imported steel mill products for the First Quarter of 1979. These trigger prices are used by the Treasury Department to monitor imports of steel mill products for the possible initiation of antidumping complaints under the Antidumping Act. Each quarter the Treasury Department revises trigger prices to reflect changes in the cost of Japanese steel production, including such components as the dollar-yen exchange rate, raw material costs, and labor usage rates.

First Quarter trigger base prices and extras (effective for all shipments exported on or after January 1, 1979) are adjusted upward by 7 percent for products produced by the major Japanese integrated steel producers and by 9.8 percent for products produced by the electric furnace producers. The latter group of products accounts for under 10 percent of steel imports.

The adjustments announced here are made to account for a portion of the yen's appreciation from the 215 yen/dollar exchange rate (average for May 15 through July 14, used to establish Fourth Quarter trigger prices) to a 187 yen/dollar rate (average for September 4 through November 3).

The Department is utilizing 3 percent of the flexibility band built into the TPM to smooth the exceptionally sharp yen/dollar exchange rate experienced in recent months. Such use of the flexibility band was contemplated by the Steel Task Force Report of December 6, 1977. No other adjustments from Fourth Quarter trigger prices were necessary.

CALCULATION OF FIRST QUARTER REVISIONS

To calculate the First Quarter estimates of Japanese cost of production, a yen exchange rate of 187 ¥/$ was applied to appropriate components of the Fourth Quarter cost estimates. Table I below shows the resulting average cost per ton of finished products for integrated producers.

Tables II-A through II-C show the revised costs for electric furnace producers. The same 187 ¥/$ exchange rate is applied as is applied to the integrated producers' costs. However, the resulting increase in electric furnace producer costs is greater because more of those costs are yen-denominated and hence are more sensitive to the yen's appreciation. The products produced by electric furnace producers are:

Group A Products: Equal angles; unequal angles; channels; and I-beams;

Group B Products: Hot rolled strip from bar mills; merchant quality hot bars; hot rolled round bars, squares, and round cornered squares; and bar size channels;

Group C Products: Concrete reinforcing bars, plain and deformed.

The cost calculations indicate that when valued in U.S. dollars, the production costs of Japan's integrated steel producers have increased by approximately 10.0 percent, and those of electric furnace producers have increased by 12.8 percent for Group A and Group B products, and by 12.7 percent for Group C products.*/

The resulting base prices for the First Quarter for each product covered by the TPM are shown on Table III. Extras accompanying the base product must also be increased by the percentage applicable to the base price of that product. Where Fourth Quarter extras have been increased by a stated percentage over Third Quarter extras, the percentage increase in extras announced today must be applied on top of the previous increase. For example, an extra of

*/ For administrative ease, products of all three groups of electric furnace producers are being increased by the same percentage, since the calculations come within 0.1 percent of being identical.

Table 1

First Quarter 1979

Japanese Costs of Production Estimates: Integrated Steel Producers

(U.S. $/Metric ton of finished product)

	Revised Original (240¥/$)	Fourth Quarter '78 (215¥/$)	First Quarter '79 (187¥/$)[3/]
Basic Raw Materials	$113.17	$116.20	$116.20
Other Raw Materials	63.66	71.06	81.70
Labor	73.14	85.02	97.75
Other Expenses	26.48	29.56	33.99
Depreciation	21.49	23.99	27.58
Interest	21.30	23.78	27.34
Profit [1/]	22.11	24.14	26.37
Yield Credit [2/]	(9.81)	(10.57)	(11.34)
Total $/MT	$331.54	$363.12	$399.59
Total $/NT	$300.76	$329.42	$362.51

[1/] Profit = .08 (Raw materials + labor + other expenses)

[2/] Yield Credit $= \left(\frac{.865}{.827} - 1\right) \left(\text{Raw materials} + \frac{\text{labor}}{2}\right)$

[3/] The new yen rate, 187 ¥/$, is applied to that portion of the average production costs denominated in yen (e.g., labor), as distinguished from the portion denominated in dollars (e.g., coal).

Table IIA

First Quarter 1979

Japanese Electric Furnace Costs of Production Estimated for Group A Products[2/]

(U.S. $/Metric ton of Finished Product)

	Original (240¥/$)	4th Quarter '78 (215¥/$)	1st Quarter '79 (187¥/$)[3/]
Basic raw materials	$115.87	$146.61	$165.76
Other raw materials	31.32	33.10	35.76
Labor	24.52	28.17	32.43
Other expenses	10.06	11.23	12.91
Depreciation	5.47	6.11	7.02
Interest	6.14	6.86	7.89
Profit [1/]	15.32	17.52	19.75
Scrap Credit	(1.94)	(2.59)	(2.98)
Total $/MT	$206.76	$247.01	$278.54
Total $/NT	$187.62	$224.09	$252.69

[1/] Profit = .08 (Raw materials + labor + other expenses)

[2/] Group A products include equal angles, unequal angles, channels, and I-beams.

[3/] The new yen rate, 187 ¥/$, is applied to that portion of the average production costs denominated in yen (e.g., labor), as distinguished from the portion denominated in dollars (e.g., coal).

Table IIB

First Quarter 1979

Japanese Electric Furnace Costs of Production Estimates for Group B Products[2/]

(U.S. $/Metric ton of finished product)

	Original (240¥/$)	4th Quarter '78 (215¥/$)	1st Quarter '79 (187¥)[3/]
Basic Raw Materials	$122.59	$157.62	$178.22
Other Raw Materials	37.00	39.10	42.24
Labor	27.94	32.10	36.92
Other Expenses	12.28	13.71	15.76
Depreciation	6.96	7.77	8.93
Interest	8.78	9.80	11.27
Profit [1/]	17.07	19.40	21.85
Scrap Credit	(2.14)	(2.92)	(3.36)
Total $/MT	$230.48	$276.56	$311.83
Total $/NT	$209.09	$250.90	$282.89

[1/] Profit = .08 (Raw Materials + Labor + Other Expenses)

[2/] Group B products include hot rolled strip from bar mills; merchant quality hot bars; hot rolled round bars, squares, and round cornered squares; and bar size channels.

[3/] The new yen rate, 187 ¥/$, is applied to that portion of the average production costs denominated in yen (e.g., labor), as distinguished from the portion denominated in dollars (e.g., coal).

Table IIC

First Quarter 1979 Japanese Electric Furnace

Cost of Production Estimates for Group C Products[2/]

(U.S. $/Metric Ton of Finished Product)

	Original (240 ¥/$)	4th Quarter '78 (215 ¥/$)	1st Quarter '79 (187 ¥/$)[3/]
Basic Raw Materials	$114.51	$145.28	$164.30
Other Raw Materials	33.82	35.74	38.61
Labor	19.55	22.48	25.09
Other Expenses	12.68	14.15	16.27
Depreciation	5.60	6.25	7.19
Interest	5.63	6.28	7.23
Profit[1/]	15.18	17.41	19.54
Scrap Credit	(2.00)	(2.56)	(2.94)
Total $/MT	$204.97	$245.03	$276.11
Total $/NT	$186.00	$222.29	$250.48

[1/] Profit = .08 (Raw Materials + Labor + Other Expenses)

[2/] Group C products include concrete reinforcing bars, plain and deformed.

[3/] The new yen rate, 187 ¥/$, is applied to that portion of the average production costs denominated in yen (e.g., labor), as distinguished from the portion denominated in dollars (e.g., coal).

Table III

PRODUCT BASE PRICES FOR SHIPMENTS EXPORTED DURING FIRST QUARTER 1979
(All Base Prices Increased 7% Unless Otherwise Noted)

Page*/	Product	Fourth Quarter Base Price ($/Metric Ton)	First Quarter Base Price ($/Metric Ton)
2-1	Wire Rods Commercial Quality AISI 1008 5.5 mm	$ 294	$ 315
2-2	Wire Rods Welding Quality AISI 1008	295	316
2-3	Wire Rods High Carbon AISI 1065 5.5 mm	342	366
2-5	Wire Rods Cold Heading Quality AISI 1038 12.7 mm	353	378
2-7	Wire Rods Cold Finished Bar Quality	353	378
2-9	Spheroidized Annealed Mo Alloy Steel Wire Rod AISI 4037 5.5 mm to 13 mm	516	552
2-13	Spheroidized Annealed Si-Mn-Cr High Carbon Steel Wire Rod AISI 9254 5.5 mm to 13 mm	494	529
2-15	Spheroidized Annealed High Carbon Cr Steel Wire Rod AISI 52100 5.5 mm to 13 mm	567	607
3-1	Wide Flange Beams and Bearing Piling ASTM A-36 12" x 12"	286	306
3-5	Standard Carbon Steel Channels ASTM A-36	251	276**/
3-7	Unequal Leg Carbon Steel Angles ASTM A-36	264	290**/
3-9	Equal Leg Carbon Steel Angles ASTM A-36	238	261**/
3-11	Standard Carbon Steel "I" Beams ASTM A-36	290	318**/
4-1	Sheet Piling ASTM A-328 Arch Web PDA-27	323	346
5-1	Steel Plates ASTM A-36 1/2" x 80" x 240"	295	316
6-1	Heavy Carbon Steel Rails AREA 115, 132 or 136	329	352
6-3	Light Rails 60 lbs./yd.	323	346
6-5	Tie Plates	330	353
8-1	Plain and Deformed Carbon Steel Concrete Reinforcing Bars ASTM A-615	234	257**/
9-1	Hot Rolled Carbon Steel Bar Size Channel ASTM A-36	350	384**/

*/Page references are to the Fourth Quarter Trigger Price Manual published by the Department of the Treasury on October 10, 1978. The first figure of each page reference corresponds to

Table III (Continued)

Page*/	Product	Fourth Quarter Base Price ($/Metric Ton)	First Quarter Base Price ($/Metric Ton)
10-1	Rolled Carbon Bars Special Quality AISI 1045 40 mm round x 4 meters	$ 376	$ 402
10-3	Merchant Quality Hot Rolled Carbon Steel Squares and Round Cornered Squares ASTM A-36 or AISI 1020	291	320**/
10-5	Merchant Quality Hot Rolled Carbon Steel Round Bar ASTM A-36 or AISI 1020	291	320**/
10-7	Merchant Quality Carbon Steel Flat Bars ASTM A-36 or AISI 1020	265	291**/
11-1	Hot Rolled Ni-Cr-Mo Alloy Steel Round Bar AISI 8620 40 mm	433	463
11-6	Spheroidize Annealed High Carbon Cr Steel Round Bar AISI 52100 40 mm to 100 mm	483	517
12-1	Cold Finished Carbon Steel Round Bar AISI 1008 through 1029 19.05 mm (3/4")	460	464***/
12-2	Cold Finished Round Steel Bar (Free Cutting Steel-Sulfur) AISI 1212 through 1215,19.05mm(3/4")	521	524***/
12-3	Cold Finished Round Steel Bar (Free Cutting Steel-Lead) AISI 12L14 and 12L15 19.05mm (3/4)"	544	550***/
14-1	Electric Resistance Welded Carbon Steel Pressure Tubing For Use in Boilers, Heat Exchangers, Condensers, Etc.	483	517
14-6	Continuous Butt Welded Standard Pipe	307	328
14-8	Electric Resistance Welded Pipe, Excluding Oil Well Casing, Without Coupling	344	368
14-13	Submerged Arc Welded Pipe	417	446
14-16	Electric Resistance Welded Structural Tubing to ASTM A-500 Grades A, B & C	360	385
14-22	Electric Resistance Welded Standard Pipe ASTM A-120 (A-53)	332	355

*/Page references are to the Fourth Quarter Trigger Price Manual published by the Department of the Treasury on October 10, 1978. The first figure of each page reference corresponds to the AISI product category for that product.

**/Electric furnace producer. The increase from Fourth to First Quarter is 9.8%.

***/Cold Finished Bar Base Trigger Price has been revised downward. See accompanying notice, "New and Adjusted Trigger Base Prices and Extras for Imported Steel Mill Products".

Table III (Continued)

Page*/	Product	Fourth Quarter Base Price ($/Metric Ton)	First Quarter Base Price ($/Metric Ton)
15-1	Seamless Carbon Steel Oil Well Casing, Not Threaded, up to 7" in Outside Diameter	$ 407	$ 435
15-4	Seamless Carbon Steel Oil Well Casing, Not Threaded, Seven Inches and Over in Outside Diameter	403	431
15-7	Seamless Carbon Steel Oil Well Casing, Threaded and Coupled, Seven Inches and Over in Outside Diameter	457	489
15-10	Seamless Carbon Steel Oil Well Casing, Threaded and Coupled, up to 7 Inches in Outside Diameter	462	494
15-13	Electric Resistance Welded Carbon Steel Oil Well Casing, Not Threaded	363	388
15-15	Electric Resistance Welded Carbon Steel Oil Well Casing, Threaded	428	458
15-17	Seamless Carbon Steel Pressure Tubing Suitable for use in Boilers, Superheaters, Heat Exchangers, Condensers, Refining Furnaces, Feed Water Heaters, Cold Finish	777	831
15-43	Seamless Carbon Steel Oil Well Tubing EUE With Threading and Coupling	608	651
15-45	Seamless Carbon Steel Line Pipe	414	443
15-48	Hot Rolled High Carbon Cr Steel Tube Suitable for Use in Manufacture of Ball or Roller Bearings AISI 52100 60 mm to 100 mm	590	631
15-49	Cold Rolled High Carbon Cr Steel Tube Suitable for Use in Manufacture of Ball or Roller Bearings AISI 52100 60 mm to 100 mm	877	938
15-50	Seamless Stainless Steel Round Ornamental Tube AISI TP 304, 1 1/4 x 0.049"	1989	2128
15-52	Seamless Stainless Steel Square Ornamental Tube AISI TP 304, 1 1/2 x 1 1/2 x 0.065"	2167	2319

*/Page references are to the Fourth Quarter Trigger Price Manual published by the Department of the Treasury on October 10, 1978. The first figure of each page reference corresponds to
[illegible] for that product

Table III (Continued)

Page*/	Product	Fourth Quarter Base Price ($/Metric Ton)	First Quarter Base Price ($/Metric Ton)
16-1	Cold Heading Round Wire AISI 1018 Killed 0.192" Hard Drawn	$ 443	$ 474
16-1	Cold Heading Drawn from Annealed Rods	503	538
16-1	Cold Heading Drawn from Spheroidized Annealed Rods	514	550
16-1	Cold Heading Anneal in Process	518	554
16-1	Cold Heading Spheroidize Anneal in Process	527	564
16-1	Cold Heading Anneal in Process and Drawn from Annealed Rods	558	597
16-1	Cold Heading Spheroidize Anneal in Process and Drawn from Annealed Rods	567	607
16-1	Cold Heading Anneal at Finish Size	503	538
16-1	Cold Heading Spheroidize Anneal in Process	514	550
16-1	Cold Heading Anneal at Finished Size & Drawn from Annealed Rods	542	580
16-1	Cold Heading Spheroidize Anneal at Finished Size and Drawn from Annealed Rods	554	593
16-4	Bright Basic Round Wire AISI 1008 #8 Gauge Rimmed	364	389
16-5	Galvanized Iron Round Wise AISI Type I Coating #8 Gauge	458	490
16-8	Round Baling Wire 14.50	508	544
16-9	Bright Annealed Cold Drawn Stainless Steel Wire AISI 304, 0.080"	2414	2583
16-11	Spring Hard Temper Nickel Copper and Plastic Coat Cold Drawn Stainless Steel Wire AISI 302, 0.040"	3037	3250
16-12	Cold Heading Quality Copper and Molybdenum Coat Cold Drawn Stainless Steel Wire ASTM 493A, XM-7, 0.131"	2603	2785

*/Page references are to the Fourth Quarter Trigger Price Manual published by the Department of the Treasury on October 10, 1978. The first figure of each page reference corresponds to

Table III (Continued)

Page*/	Product	Fourth Quarter Base Price ($/Metric Ton)	First Quarter Base Price ($/Metric Ton)
16-13	Cold Heading Quality Copper and Molybdenum Coat Cold Drawn Stainless Steel Wire AISI 305, 0.131"	$2673	$ 2860
16-14	Cold Heading Quality Copper and Molybdenum Coat Cold Drawn Stainless Steel Wire AISI 410, 0.131"	1728	1849
16-15	Cold Heading Quality Copper and Molybdenum Coat Cold Drawn Stainless Steel Wire AISI 430, 0.131"	1772	1896
16-16	Cold Finished Spheroidized Annealed SI-MN-CR High Carbon Steel Wire AISI 9254 5.5 mm to 13 mm	494	529
16-18	Cold Finished Spheroidized Annealed Mo Alloy Steel Wire AISI 4037 5.5 mm to 13 mm	516	552
20-1	Wire Nails Bright Common 20d # 6 13/32 x 4"	424	454
21-1	Barbed Wire 2 Ply, 12.50	578	618
22-1	Black Plate ASTM A625-76 0.0083" x 34" x Coil	380	407
23-1	Electrolytic Tin Plate SR-25/25 75L x 34" x C	515	551
25-1	Hot Rolled Steel Sheets ASTM A-569 0.121" x 48" x Coil	262	280
25-2	Hot Rolled Steel Band ASTM 569 0.121" x 48" x Coil	250	268
26-1	Electrical Steel Sheets Grain Oriented M-4 0.012" x 33" x C	1106	1183
26-3	Electrical Steel Sheets Non Oriented M-45 0.018" x 36" x C	596	638
26-5	Cold Rolled Sheets ASTM A-366 1.0m/m x 48" x C	328	351
27-1	Electro Galvanized Sheets EGC 10g/M^2 1.0m/m x 48" x C	388	415

*/Page references are to the Fourth Quarter Trigger Price Manual published by the Department of the Treasury on October 10, 1978. The first figure of each page reference corresponds to the AISI product category for that product.

Table III (Continued)

Page*/	Product	Fourth Quarter Base Price ($/Metric Ton)	First Quarter Base Price ($/Metric Ton)
27-4	Galvanized Sheet ASTM A525G90 0.8m/m x 48" x C	$ 390	$ 417
29-1	Hot Rolled Carbon Steel Strip Produced on Bar Mills Cut Lengths	296	317
29-3	Hot Rolled Carbon Steel Strip Produced on Sheet Mills Coils Only	256	274
32-1	Tin Free Steel Sheets SR 75L x 34" x C	441	472
	Product Additions		
12-5	Cold Finished Ni-Cr-Mo Alloy Steel Round Bar, AISI $620	433	463
12-7	Cold Finished Spheroidized Annealed, High Carbon Cr Steel Round Bar, AISI 52100	483	517
14-26	Piling Pipe ASTM-A 252	324	347
14-30	ERW Galvanized Fence Pipe	332	355
14-32	ERW Mechanical Tubing	434	464
16-20	High Carbon Steel Drawn Wire, AISI 52100	772	826

*/Page references are to the Fourth Quarter Trigger Price Manual published by the Department of the Treasury on October 10, 1978. The first figure of each page reference corresponds to the AISI product category for that product.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

NOTICE

New and Adjusted
Trigger Base Prices and "Extras"
for Imported Steel Mill Products

I am hereby announcing (1) new trigger base prices and "extras" for products not previously covered by the Trigger Price Mechanism and (2) adjustments to, and additional "extras" for products for which trigger prices have been previously announced. Attachment 1 lists the specific products involved and describes the action being taken. These trigger prices will be used by the Treasury Department in monitoring imports of these products under the trigger price mechanism. Accordingly, a number of pages in the Steel Trigger Price Handbook are being reissued to reflect these actions.

Description of the trigger price mechanism may be found in the "Background" to the final rulemaking which amended regulations to require the filing of a Special Summary Steel Invoice (SSSI) with all entries of imported steel mill products (43 F.R. 6065).

These base prices, and extras, and adjustments are based upon information made available to the Treasury Department by the Japanese Ministry of International Trade and Industry (MITI), as well as other information available to the Department.

All the trigger prices being announced here will be used by the Customs Service to collect information at the time of entry on all shipments of the products covered which are exported after the date of publication of this notice. However, the following rules will be applied to entries of these products covered by contracts with fixed price terms concluded before the publication date of this notice.

1. Contracts with fixed price terms between unrelated parties: If the importer documents at or before the time of entry that the shipment is being imported under such a contract with an unrelated party, the entry will not trigger an investigation

even if the sales price is below the trigger price, provided that product is exported on or before December 31, 1978. However, failure to initiate an investigation will not diminish the right of affected interested persons to file a complaint with respect to such imports under the established procedures for antidumping cases.

2. Contracts between related parties: If the importer documents at the time of entry that the shipment is to be resold to an unrelated purchaser in the United States under a contract with fixed price terms concluded before the publication date of this notice, the entry will not trigger an investigation even if the sales price is below the trigger price, provided that product is exported on or before December 31, 1978.

While these sales will not as a rule trigger a self-initiated antidumping investigation, information concerning such sales will be kept as a part of the information in the monitoring system and will be available in the event that an antidumping petition is filed with respect to such products sold by that producer or the Treasury Department decided to self-initiate an antidumping investigation of such products based upon subsequent sales.

Robert H. Mundheim
General Counsel

Dated: NOV 9 1978

TABLE OF PRODUCT ADDITIONS AND ADJUSTMENTS

AISI Category/T.P. Handbook Page Number and Product Description	Type of Action	Description of Action
2-6 Wire Rods, Cold Heading Quality	Correction of a previous listing	Grade extras corrected
2-8 Wire Rods, Cold Finished Bar Quality	Correction of a previous listing	Grade extra corrected
2-12 Alloy Steel Wire Rod, AISI 4037	Correction of a previous listing	Size extra dimensions corrected
2-16 High Carbon Steel Wire Rod, AISI 52100	Correction of a previous listing	Size extra for 19mm and over corrected
3-4 Wide Flange Beams	Reclassification of Product	Revised size extras for Junior Beams are found on revised page 3-12. Size extras for Junior Beams shown on p. 3-4 are being deleted. Further study and recent data from MITI indicate that Junior Beams are more appropriately categorized with Standard I Beams as M sections, and accordingly will be recalssified.
3-12 Standard Carbon Steel "I" Beams ASTM-A-36	Reclassification of Product	See above note for p. 3-4. This product is an electric furnace product under the TPM.

TABLE OF PRODUCT ADDITIONS AND ADJUSTMENTS
(Continued)

12-1	Cold Finished Carbon Steel Round Bar, AISI 1008 through 1029	Revised Trigger Price	Revised Base Price downward from $460 to $434 (in terms of 4th Quarter TP). Recent data from MITI confirmed that hot rolled product input costs should be based on 1 part bar and 3 parts rod, and clarified the destinction between these two in Japanese practice. Applying the proper ratio has the effect of lowering the material costs for cold finished bars and consequently the trigger price.
12-2	Cold Finished Round Steel Bar, AISI 1212 through 1215	Revised Trigger Price	Revised Base Price downward from $521 to $490 (in terms of 4th Quarter TP). See above explanation (12-1).
12-3	Cold Finished Round Steel Bar, AISI 12L14 and 12L15	Revised Trigger Price	Revised Base Price downward from $544 to $514 (in terms of 4th Quarter TP). See above explanation (12-1).
12-4	Size Extras for Cold Finished Steel Bars	Revised Page	Published Size extras in terms of 4th Quarter TP). See above explanation (12-1).
12-5,6	Cold Finished, NI-CR-MO Alloy Steel Round Bar, AISI 8620	New Page and Product Coverage	Published base price and grade, size, quality, thermal treatment extras.
12-7,8	Cold Finished Spheroid-ized Annealed, High Carbon Cr. Steel Round Bar, AISI 52100	New Page and Product Coverage	Published Base price and thermal treatment and size extras.
14-7	Continuous Butt Weld Pipe	Revised Page and Extended Coverage	Published new trigger price for sprinkler pipe (sch. 10). Figures shown are expressed in terms of 3rd Quarter prices to be consistent with all other pipe and tube product pages in trigger price handbook.

TABLE OF PRODUCT ADDITIONS AND ADJUSTMENTS (Continued)

14-17,18,19,20 ERW Structural Tubing ASTM-500	Correction of a previous listing	Extra listings for selected O.D./W.T. corrected. Figures shown are expressed in terms of 3rd Quarter prices to be consistent with all other pipe and tube product pages in trigger price handbook.
14-23 ERW Standard Pipe ASTM-A-120 (A-53)	Revised Page	A-53 Pipe sizes from 2 3/8" through 4 1/2" may be found on p. 14-9. These sizes have been deleted from p. 14-23 in order to avoid duplication. Figures shown are expressed in terms of 3rd Quarter prices to be consistent with all other pipe and tube product pages in trigger price handbook.
14-24,25 ERW Standard Pipe ASTM-A-120	New Page	New trigger prices published to cover ASTM-A-120 pipe in sizes from 2-3/8" to 16"; also extras for Extra Strong W.T. on larger size ranges. Figures shown are expressed in terms of 3rd Quarter prices to be consistent with all other pipe and tube product pages in trigger price handbook.
14-26,27,28,29 Piling Pipe ASTM-A-252	New Page	Published Base Price and size and grade extras. Figures shown are expressed in terms of 3rd Quarter prices to be consistent with all other pipe and tube product pages in trigger price handbook.
14-30,31 ERW Galvanized Fence Pipe	New Page	Published Base Price and extras for fence pipe. Figures shown are expressed in terms of 3rd Quarter prices to be consistent with all other pipe and tube product pages in trigger price handbook.

TABLE OF PRODUCT ADDITIONS AND ADJUSTMENTS
(Continued)

14-32,33,34	ERW Mechanical Tubing	New Page	Published Base Price and extras for Mechanical Tubing. Figures shown are expressed in terms of 3rd Quarter prices to be consistent with all other pipe and tube product pages in trigger price handbook.
16-4	Bright Basic Round Wire AISI 1008	New Extras	Published grade extras and annealing extras.
16-5	Galvanized Iron Round Wire, Type 1 Coating	New Extras	Published Extra for Regular or commercial coating; grade extra.
16-6	Bright Basic and Galvanized Wire Size Extras	New Extras	Published Size Extra for additional gauges.
16-20,21	High Carbon Steel Drawn Wire AISI 52100	New Page	Published Base Price and size extras.
21-1	Barbed Wire	Revised Page	Changed title to read "Barbed Wire, 2-ply, 12.50 Gauge". This change is made to assure coverage of all 2-ply barbed wire, rather than merely Iowa-type.
25-3	Hot Rolled Sheet	Correction of Previous listing	Corrected Width Thickness dimensions on Extra Table.
25-12	Hot Rolled Sheet	Correction of Previous listing	Corrected Checker, and Pickled and Oiled Extra.
27-7	Galvanized Sheet	Deleted Extra	Deleted statement pertaining to adjustment due to fluctuation in the zinc price.

WIRE RODS - COLD HEADING QUALITY

Extra (Sizes/Grade) Per Metric Ton

GRADE AISI NUMBER)	SIZES 7/32" thru 35/64	over 35/64" to under 39/64"	39/64" to under 3/4"	3/4" and over
005, 1006, 1008 010, 1011, 1012 013 (Rimmed Steel)	Minus $23	$31	$17	NIL
.015, 1016, 1017 018, 1919, 1020 021, 1022, 1023, .025, 1026 (Rimmed Steel)	Minus $23	$42	$30	$ 8
.005, 1006, 1008 .010, 1011, 1012, .013 (Killed Steel)	Minus $ 7	$43	$30	$ 9
.015, 1016, 1017 .018, 1019, 1020 .021, 1022, 1023 .025, 1026	Minus $6	$55	$42	$21
1029, 1030, 1035 1037, 1038, 1039 1040, 1042, 1043	NIL	$43	$31	$ 9
10B18 10B21	20	77	64	41
10B22. 10B23	24	81	69	45
10B30	21	65	51	31
1110	Minus 5	43	30	9
1522	NIL	59	46	24
1524	12	69	55	33
1541	9	53	40	19
15B41	32	75	62	40

Tolerance Extra

If bar tolerances are specified or required for over 35/64" to under 3/4" ... Plus $11/M.T.

Note: All above extras are to be increased 4.86% on all wire rods exported to the United States on or after 10-1-78.

WIRE RODS - COLD HEADING QUALITY

Extra (Sizes/Grade) Per Metric Ton

GRADE (AISI NUMBER)	SIZES			
	7/32" thru 35/64	over 35/64" to under 39/64"	39/64" to under 3/4"	3/4" and over
1005, 1006, 1008 1010, 1011, 1012 1013 (Rimmed Steel)	Minus $23	$31	$17	NIL
1015, 1016, 1017 1018, 1919, 1020 1021, 1022, 1023, 1025, 1026 (Rimmed Steel)	Minus $23	$42	$30	$ 8
1005, 1006, 1008 1010, 1011, 1012, 1013 (Killed Steel)	Minus $ 7	$43	$30	$ 9
1015, 1016, 1017 1018, 1019, 1020 1021, 1022, 1023 1025, 1026	Minus $6	$55	$42	$21
1029, 1030, 1035 1037, 1038, 1039 1040, 1042, 1043	NIL	$43	$31	$ 9
10B18 10B21	20	77	64	41
10B22. 10B23	24	81	69	45
10B30	21	65	51	31
1110	Minus 5	43	30	9
1522	NIL	59	46	24
1524	12	69	55	33
1541	9	53	40	19
15B41	32	75	62	40

Tolerance Extra

If bar tolerances are specified or required for over 35/64" to under 3/4" ... Plus $11/M.T.

Note: All above extras are to be increased 4.86% on all wire rods exported to the United States on or after 10-1-78.

WIRE RODS-COLD FINISHED BAR QUALITY

Extras (Sizes / Grade) Per Metric Ton

GRADE (AISI NUMBER)	SIZES 7/32" Thru 35/64"	Over 35/64" to to Under 39/64"	39/64" To Under 3/4"	3/4" and Over
1015, 1016, 1017 1018, 1019, 1020, 1021, 1022, 1023 1025, 1026	Minus $36	$22	$ 9	Minus $11
1029, 1030, 1035 1037, 1038, 1039 1040, 1042, 1043 1044, 1045, 1046 1049 1050	Minus $19	$23	$ 9	Minus $ 9
1117	Minus $ 5	$51	$38	$17
1141	2	38	25	16
1144	2	43	30	9
1151	4	45	32	12
1212, 1213, 1215	Minus $ 2	$43	$30	$ 9
10L18	Minus $16	$52	$39	$18
10L38, 10145	NIL	43	30	9
11L17	$22	$81	$69	$45
11L37	15	57	44	23
12L14, 12L15	$15	$60	$47	$25

Tolerance Extra

If Bar Tolerances ar specified or required for over 35/64" to under 3/4" -- plus $11 per metric ton.

Note: all above extras are to be increased by 4.86% for wire rods shipped to the U.S. on or after 10-1-78.

Rev. Nov. 1978

2. Size Extras

Size	3rd Quarter Extra ($/MT)	4th Quarter Extra ($/MT
Over 13 mm but less than 19 mm	Minus 26	Minus 27
19 mm & over	Minus 37	Minus 39

3. Thermal Treatment Extras	Extra ($/MT)	Extra ($/MT)
Regular Anneal Only	Minus $21/MT	Minus $22/MT
No heat treatment	Minus $63/MT	Minus $66/MT
4. Aircraft Quality Extra	$26/MT	$27/MT
5. Bearing Quality Extra	$26/MT	$27/MT
6. Vacuum Degassed Extra	$12/MT	$13/MT

(This extra does not apply when requirements are subject to extra for aircraftand/or bearing quality.)

Rev. Nov. 1978

1. Grade Extras (per MT) 3rd Quarter 4th Quarter

AISI NUMBER	Extra ($/MT)	
E50100, E51100	NIL	NIL

Size Extras

Size	Extra($/MT)	Extra ($/MT)
Over 13 mm but less than 19 mm	Minus 26	Minus 27
19 mm & Over	Minus 37	Minus 39

3. Thermal Treatment Extras

Regular Anneal Only	Minus $21/MT	Minus $22/MT
No heat treatment	Minus $63/MT	Minus $66/MT

SIZE EXTRAS
($/MT)

4th Qtr.

SIZE	EXTRA
S12 x 31.8 lb./ft.	Base
S8 x 18.4 lb./ft.	Base
S6 x 12.5 lb./ft.	12
S4 x 7.7 lb./ft.	12
SIZE EXTRAS JUNIOR BEAMS	
M-12" x 11.8 lb./ft.	Base
M-10" x 8.0 lb./ft.	Base
M-8" x 6.5 lb./ft.	12
M-6" x 4.4 lb./ft.	32

NOTE: Above size extras for Junior Beams supercede p.3-4 published October 10, 1978.

Cold Finished Carbon Steel Round Bar
AISI 1008 through 1029, 19.05 mm (3/4")

Category AISI 12

Tariff Schedule Number (s) 608.5015 8½%

	4th Quarter
Base Price Per Metric	$434

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$30	$7	$ 8
Gulf Coast	35	5	10
Atlantic Coast	40	4	10
Great Lakes	58	4	13

Insurance 1% of base price + extras + ocean freight

Extras

Size, See Table p. 12-4

Cold Finished Round Steel Bar (Free Cutting Steel-Sulfur)
AISI 1212 through 1215 19.05mm (3/4")

Category AISI 12

TAriff Schedule Number (s) 608.5005 $8\frac{1}{2}$%

4th Quarter
Base Price per Metric Ton $490

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$30	$7	$ 9
Gulf Coast	35	5	11
Atlantic Coast	40	4	12
Great Lakes	58	4	15

Insurance 1% of base price + extras + ocean freight

Extras
Size, See Table p. 12-4

Cold Finished Round Steel Bar (Free Cutting Steel-Lead
AISI 12L14 and 12L15 19.05 mm (3/4")

Category AISI 12

Tariff Schedule Number (s) 608.5005 8½%

4th Quarter
Base Price Per Metric Ton $514

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$30	$7	$ 9
Gulf Coast	35	5	12
Atlantic Coast	40	4	12
Great Lakes	58	4	15

Insurance 1% of base price + extras + ocean freight

Extras

Size, See Table p. 12-4

Size Extras for Cold Finished Steel Bars ($ Extra/M.T.)

	4th Quarter Shape	
Size	Round	Hexagon
Up to 3/16" inclusive	69	170
Over 3/16" thru 5/16"	46	92
5/16" thru 7/16"	37	56
7/16" thru 5/8"	19	37
5/8" " 7/8"	Base	8
7/8" " 1-7/16"	8	19
1-7/16" thru 1-3/4"	15	33
1-3/4" thru 2-11/16"	19	46
2-11/16" thru 3"	27	--
3" thru 3-3/4"	37	--
3-3/4" thru 4"	46	--

COLD FINISHED, NI-CR-MO ALLOY STEEL ROUND BAR
AISI 8620, 40 MM

Category 12

Tariff Schedule Number (s) 608.5240 10½% additional duties (see Headnote 4, TSUS)

Base Price per Metric Ton 4th Quarter
$433

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$49	$7	$ 9
Gulf Coast	51	5	12
Atlantic Coast	63	4	12
Great Lakes	79	4	15

Insurance 1% of base price + extras + ocean freight

Extras:

(1) Grade Extras
(2) Thermal Treatment Extra
(3) Quality Extra
(4) Cold Finished Extra

COLD FINISHED, NI-CR-MO ALLOY STEEL ROUND BAR (CONTINUED)

Extra

1. Grade Extra - same as hot rolled grade extras, pp. 11-2, 11-3

2. Thermal Treatment Extra - same as hot rolled thermal treatment extra, p. 11-4

3. Quality Extra - same as hot rolled extra, p. 11-4

4. Cold Finish Size Extra

Cold drawn with or without pickling. Smooth Turned (Turned & Polished).

Size (Inches)		4th Quarter Extra ($/MT)
Diameter	Exclusive	
½	5/16	348
5/16	3/8	287
3/8	½	255
½	5/8	194
5/8	1	166
1	1½	149
1½	3	144
3	4	149
4	6	172

COLD FINISHED SPHEROIDIZED ANNEALED, HIGH CARBON CR STEEL ROUND BAR AISI 52100, 50100, 51100

Category AISI 12

Tariff Schedule Number (s) 608.5225 $10\frac{1}{2}$% + additional duties (see Headnote 4, TSUS)

BAse Price per Metric Ton 4th Quarter $483

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$49	$7	$10
Gulf Coast	51	5	13
Atlantic Coast	63	4	13
Great Lakes	79	4	16

Insurance 1% of base price + extras + ocean freight

Extras:

1. Size Extras
2. Thermal Treatment Extras
3. Cold Finish Extra

COLD FINISHED SPHEROIDIZED ANNEALED, HIGH CARBON CR
STEEL ROUND BAR AISI
(Continued)

Extras:

1. Thermal Treatment Extra: $/MT without spheroidize anneal minus $63

2. Cold - Finished Extra
   Cold drawn with or without pickling
   Smooth Turned (Turned & Polished)

Size (Inches)		4th Quarter Extra ($/MT)
	Exclusive	
Dia. $\frac{1}{4}$ -	5/16	348
5/16-	3/8	287
3/8	$\frac{1}{2}$	255
$\frac{1}{2}$	5/8	194
5/8	1	166
1	$1\frac{1}{2}$	149
$1\frac{1}{2}$	3	144
3	4	149
4	6	172

BASE PRICE, INCLUDING O.D./WT., GALVANIZING, THREADED AND COUPLED EXTRAS
($/M.T., 3rd Quarter)

CONTINUOUS BUTT WELDED PIPE

AISI 14 TSUSA 610.32

DESCRIPTION	NOM. (INCHES)					O.D. (INCHES)				
	1/2	3/4	1	1¼	1½	2 3/8	2 7/8	3½	4	4½
STD WEIGHT, BLK, PLAIN END	317	308	302	300	300	293	293	293	300	300
EX STRONG, BLK, PLAIN END	317	317	310	307	307	302	302	302	307	307
STD WEIGHT, GALV, PLAIN END	408	394	383	377	377	377	372	372	377	377
EX STRONG, GALV, PLAIN END	420	405	395	387	387	383	383	383	387	387
STD WEIGHT, BLK T AND C	354	342	329	326	326	320	320	320	331	331
EX STRONG, BLK T AND C	364	351	339	335	335	329	329	329	342	342
STD WEIGHT, GALV, T AND C	446	427	410	403	403	399	399	399	409	409
EX STRONG, GALV, T AND C	459	440	422	416	416	410	410	410	421	421
SPRINKLER PIPE, (SCH. 10)	331	332	316	314	314	308	308	308	314	314

Note: All above prices are to be increased by 4.86% for tubing exported on or after October 1, 1978

BASE PRICE INCLUDING OUTSIDE DIAMETER (OD) / WALL THICKNESS (WT) EXTRAS ($/MT) 3rd Quarter
ELECTRIC RESISTANCE WELDED STRUCTURAL TUBING TO ASTM A 500 GRADE A B & C

AISI 14 TSUSA 610.32

SQUARE WT/OT	.047	.056	.063	.072	.078	.083	.095	.109	.120	.125 .134
1/2	405	405	387	387						
5/8	307	387	365	365						
3/4	375	375	353	353						
7/8	375	375	353	353						
1	375	375	353	353	353	353	353	353	353	
1 1/4	375	375	353	353	353	353	353	353	353	
1 1/2	375	375	353	353	353	353	353	353	353	
1 3/4			353	353	353	353	353	353	353	
2			353	353	353	353	353	353	353	353
2½						343	343	343	343	343
3							343	343	343	343
3 1/2							343	343	343	343
4							343	343	343	343
5										
6										
7										
8										
10										
12										

Note: All above prices are to be increased by 4.86% for tube exported to the United States on or after October 1, 1978

BASE PRICE INCLUDING OUTSIDE DIAMTER (OD) / WALL THICKNESS (WT) EXTRAS ($/MT) (3rd Quarter)
Electric resistance welded Structural tubing to ASTM A 500 Grade A B & C
AISI 14 TSUSA 610.32

SQUARE	WT/OT .156	.180&.1875	.250	.313	.375	.500
1/2						
5/8						
3/4						
7/8						
1						
1 1/4						
1 1/2						
1 3/4						
2	353	353	353			
2½	343	343	343			
3	343	343	343			
3½	343	343	343			
4	343	343	343	356	356	
5	343	343	343	356	356	
6	343	343	343	356	356	365
7	343	343	343	356	356	365
8		343	343	356	356	365
10			343	356	356	365
12			353	365	365	375

Note: All above prices are to increased by 4.86% for tube exported to the United States on or after Octber 1, 1978

Base Price Including Outside Diameter (O.D.1) Wall Thickness (W.T.) Extras ($/MT)
Electric Resistance Welded Structural Tubing to ASTM A 500 Grade A B & C (3rd Quarter)

AISI 14 TSUSA 610.32

Rectangular WT/OD	.047	.056	.063	.072	.078.	.083	.095	.109	.120 & .125
1x1 1/2	375	375	353	353					
1 1/2x3/4	375	375	353	353	353	353	353		
1 1/2 x 1	375	375	353	353	353	353	353	353	353
2x1	375	375	353	353	353	353	353	353	353
2x1 1/2	375	375	353	353	353	353	353	353	353
2 1/2 x 1 1/2			353	353	353	353	353	353	353
3x1			353	353	353	353	353	353	353
3x1 1/2			343	343	343	343	343	343	343
3x2						343	343	343	343
4x2							343	343	343
4x3							343	343	343
5x2							343	343	343
5x3							343	343	343
6x2							343	343	343
6x3									
6x4									
7x4									
7x5									
8x4									
8x6									
9x7									
10x6									
12x8									
14x6									
16x8									

Note: All above prices are to be increased by 4.86% for tube exported to the United States on or after October 1, 1978

Base Price Including Outside Diameter (O.D.1/ Wall Thickness (W.T.) Extras ($/MT)(3rd Quarter
Electric Resistance Welded Structural Tubing to ASTM A 500 Grade A B & C

AISI 14 TSUSA 610.39 610.49

Rectangular WT/OD	.134	.156	.180 & .1875	.250	.313	.375	.500
1 x 1/2							
1 1/2 x 3/4							
1 1/2 x 1							
2x1							
2 x 1 1/2							
2 1/2 x 1 1/2							
3 x 1 1/2							
3x2	343	343	343	343			
4x2	343	343	343	343			
4x3	343	343	343	343			
5x2	343	343	343	343			
5x3	343	343	343	343	356	356	
6x2	343	343	343	343			
6x3		343	343	343	356	356	
6x4		343	343	343	356	356	
7x4		343	343	343	356	356	
7x5		343	343	343	356	356	375
8x4		343	343	343	356	356	375
8x6		343	343	343	356	356	375
9x7			343	343	356	356	375
10x6			343	343	356	356	375
12x 8				353	365	365	375
14x6				393	365	365	375
16x 8				353	365	365	375

Note: All above prices to be increased by 4.86% for tube exported to the United States or after October 1, 1978

Base Price Including Outside Diameter (OD)/Wall Thickness (WT)
Threaded and Coupled Extras ($/MT) (3rd Quarter)
Electric Resistance Welded Pipe to ASTM A 120 (A 53)
(Standard Weight)

	Nom (inches)				
	½	3/4	1	1¼	1½
Blk. P.E.	342	332	328	323	323
Blk. T.& C.	383	371	354	352	352
Galv., P.E.	440	425	415	408	408
Galv. T.& C.	481	462	443	437	437

Note: All above prices are to be increased by 4.86% for tube exported to the United States on or after October 1, 1978.

Electric Resistance Welded Standard Pipe
ASTM-A-120 (larger sizes)

Category AISI 14

Tariff Schedule Number (s) 610.32 0.3¢ per lb.

	3rd Quarter	4th Quarter
Base Price per Metric Ton	$317	$332

Charges to CIF

	Ocean Freight	Handling	Interest
West Coast	see freight table	7	6
Gulf Coast		5	8
Atlantic Coast		4	8
Great Lakes		4	10

Insurance 1% of base price + extras + ocean freight

Extras

A. Outside diameter and wall thickness
B. Galvanizing
C. Threading and Coupling

Base Price Including OD/WT, Thread and Couple
ERW Pipe to ASTM A-120
$/MT (3rd Quarter)

	2-3/8	2-7/8	3½	4	4½	5-9/16	6-5/8	8-5/8	10-3/4	12-3/4	14	16
Black, Plain End, Standard W.T.	317	317	317	323	323	323	323	309	309	309	309	309
Black, Plain End Extra Strong W.T.	-	-	-	-	-	332	332	318	318	318	318	318
Black, Thread & Couple Standard W.T.	345	345	345	357	357	-	-	-	-	-	-	-
Galv., Plain End Standard W.T.	401	401	401	408	408	-	-	-	-	-	-	-
Galv., Thread & Couple, Standard W.T.	430	430	430	443	443	-	-	-	-	-	-	-

NOTE: All above trigger prices are to be increased 4.86% for all pipe exported on or after October 1, 1978.

Piling Pipe ASTM A-252

AISI Category 14

Tariff Schedule Number 610.32 0.3¢ per lb.

	3rd Qtr.	4th Qtr.
Base Price Per Metric Ton	$309	$324

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	see freight table, p. 14-2	7	6
Gulf Coast		5	8
Atlantic Coast		4	9
Great Lakes		4	11

Insurance: 1% of base price + extras + ocean freight.

Extras:

Outside diametric/wall thickness by grade.

Note: In order to be consistent with pipe and tube trigger prices published in the October 10, 1978 Handbook, the trigger prices listed on pages 14-26 and 14-27 are 3rd Quarter prices. So, these trigger prices must be increased 4.86% for all pipe exported to the United States on or after October 1, 1978.

Base Prices Including OD/WT and Grade Extras ($/M.T.)
(3rd Quarter)

Piling Pipe ASTM - A-252

OD	W.T.	Grades 1, 2	Grade 3
6-5/8	.125	332	352
	.141	332	352
	.156	323	342
	.172	323	342
	.188	323	342
	.203	323	342
	.219	323	342
	.250	323	342
	.280	323	342
	.375	323	342
	.432	332	352
8-5/8	.125	318	337
	.156	318	337
	.172	318	337
	.188	309	327
	.203	309	327
	.219	309	327
	.258	309	327
	.277	309	327
	.312	309	327
	.322	309	327
	.344	309	327
	.375	309	327
	.500	318	337

Base Prices Including OD/WT and Grade Extras ($/M.T.)(3rd Qtr.)

Piling Pipe ASTM A-252

OD	WT	Grades 1,2	Grade 3
10-3/4	.156	318	337
	.172	318	337
	.188	318	337
	.203	309	337
	.219	309	327
	.250	309	327
	.279	309	327
	.307	309	327
	.344	309	327
	.365	309	327
	.500	318	337
12-3/4	.172	318	337
	.188	318	337
	.203	309	327
	.219	309	327
	.250	309	327
	.281	309	327
	.312	309	327
	.330	309	327
	.344	309	327
	.375	309	327
	.406	309	327
	.500	318	337

Base Prices Including OD/WT and Grade Extra ($/M.T.)(3rd Quarter)

Piling Pipe ASTM A-252

OD	W.T.	Grades 1, 2	Grades 3
14	.188	318	337
	.203	318	337
	.219	309	327
	.250	309	327
	.281	309	327
	.312	309	327
	.344	309	327
	.375	309	327
	.438	309	327
	.500	318	337
16	.188	318	337
	.203	318	337
	.219	309	327
	.250	309	327
	.281	309	327
	.312	309	327
	.344	309	327
	.375	309	327
	.438	309	327
	.500	318	337

Electric Resistance Welded Hot Dipped Galvanized Fence Pipe and Tubing in Plain Ends

Category AISI 14

Tariff Schedule Number(s) 610.32 0.3¢ per lb.

Base Price per Metric Ton	3rd Quarter	4th Quarter
	317	332

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	see freight table	7	6
Gulf Coast		5	8
Atlantic Coast		4	8
Great Lakes		4	10

Insurance 1% of base price + extras + ocean freight

Extras
- A. Hot Dipped Galvanized
- B. In-line Galvanized
- C. Cut length extra
- D. Swaging

ERW GALVANIZED FENCE PIPE AND TUBING IN PLAIN ENDS
($/MT, 3rd Quarter)

A. OD/WT Extras - Hot Dipped Galvanized Type

WT.(inches) OD(inches)	.047	.055	.069	.079	.104	.116	.128	.144	sch40
1.315	476	453	431	431	418	418	418	---	418
1.660	469	447	425	425	409	409	409	---	409
1.900	---	447	425	425	409	409	409	---	409
2.375	---	437	415	415	403	403	403	403	403
2.875	---	---	415	415	403	403	403	403	403
4.000	---	---	---	---	409	409	409	409	403

B. OD/WT Extras In-Line Galvanized Type

WT (inches) OD(inches)	.047	.055	.069	.079	.104	.116	.128	.144	sch40
1.315	415	403	380	380	374	374	374	---	374
1.660	409	396	374	374	368	368	368	---	368
1.900	---	396	374	374	368	368	368	---	368
2.375	---	390	368	368	361	361	361	361	361
2.875	---	---	368	368	361	361	361	361	361
4.000	---	---	---	---	368	368	368	368	368

C. Cut Length Extra:

5% of base price for specific OD/WT

D. Swaging at One End:

5% of base price for specific OD/WT

ERW Mechanical Tubing ASTM A 513
Type I A.W.H.R.

AISI Category 14

Tariff Schedule Number	610.32	0.3¢ per lb.
	610.31	0.625 C per lb.

Base Price per Metric ton	3rd Qtr.	4th Qtr.
	413	434

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	see freight table	$7	$ .8
Gulf Coast		5	11
Atlantic Coast		4	11
Great Lakes		4	14

Insurance 1% of base price + extras + ocean freight

Extras

A. Outside diameter/wall thickness
B. Cut Lengths
C. Quantity

Note: In order to be consistent with pipe and tube trigger prices published in the October 10, 1978 Handbook, the trigger prices listed on pages 14-30 and 14-31 are 3rd Quarter prices. So, these trigger prices must be increased 4.86% for all pipe exported to the United States on or after October 1, 1978

ERW MECHANICAL TUBING ASTM-A-513 TYPE 1 AWHR
Base Price Including OD/WT Extras($/MT 3rd Quarter)

	3/4	1	1 1/4	1 1/2	1 3/4	2	2 1/8	2 1/4	2 3/8	2 1/2	2 3/4	3	3 1/4	3 1/2	4	4 1/2
0.049	703	641	599	---	---	---	---	---	---	---	---	---	---	---	---	---
0.065	682	579	579	537	537	---	---	---	---	---	---	---	---	---	---	---
0.083	599	579	537	496	475	455	455	455	434	434	434	434	---	---	---	---
0.095	599	537	537	475	455	434	434	434	434	413	413	413	413	---	---	---
0.105	579	517	496	455	434	434	434	413	413	413	413	413	413	413	---	---
0.109	579	517	475	434	413	413	413	413	413	413	413	393	413	413	434	---
0.120	579	517	475	413	413	413	413	413	413	393	393	393	393	393	434	475
0.125	---	517	475	413	413	413	413	393	393	393	393	393	393	393	413	434
0.134	---	517	475	413	413	413	413	393	393	393	393	393	393	393	413	434
0.135	---	517	475	413	413	413	413	393	393	393	393	393	393	393	393	413
0.148	---	---	475	413	413	413	413	393	393	393	393	393	393	393	393	413
0.150	---	---	496	434	413	413	413	393	393	393	393	393	393	393	393	413
0.165	---	---	496	434	413	413	413	413	393	393	393	393	393	393	393	393
0.180	---	---	496	455	413	413	413	413	393	393	393	393	393	393	372	372
0.200	---	---	---	475	413	413	413	413	413	393	393	372	372	372	372	372
0.203	---	---	---	475	434	434	434	413	413	393	393	372	372	372	372	372
0.220	---	---	---	496	434	434	434	413	413	393	393	372	372	372	372	372
0.238	---	---	---	---	455	455	455	434	434	413	413	393	393	393	393	393
0.259	---	---	---	---	496	496	496	455	434	413	413	393	393	393	393	393
0.284	---	---	---	---	---	---	---	---	---	---	---	413	413	393	393	393
0.300	---	---	---	---	---	---	---	---	---	---	---	---	434	413	413	413

Intermediate wall thickness will be priced on the next heavier wall shown.

ERW Mechanical Tubing ASTM A-513
Type I A.W.H.P.

Cut Length Extra

Cut Length	Extra %
10	on inquiry
10 to under 36	Base
36 to under 40	2.5
40 to under 44	7.5
44 to under 48	10
48 and over	on inquiry

Quantity Extras

Weight (pounds)	Extra (percent)
10,000 or more	base
5,000 to 9,999	20
Under 5,000	on inquiry

Bright Basic Round Wire, AISI 1008, #8 Gauge Rimmed

Category AISI 16

Tariff Schedule Number(s) 609.4010 8 1/2%
609.4105 0.3¢ per lb.
609.4125 0.3¢ per lb.

	4th Quarter
Base Price per Metric Ton	$364

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$40	$7	$ 6
Gulf Coast	42	5	8
Atlantic Coast	45	4	8
Great Lakes	60	4	11

Insurance 1% of base price + extras + ocean freight

Extras

(1) Grade Extras: Same as Wire Rod Commercial Quality (page 2-1)

(2) Annealing Extra: $28/MT

(3) Size Extra: See Extra Table page 16-6

(4) Packing Extra: See Extra Table page 16-7

Galvanized Iron Round Wire, AISI Type I Coating, #8 Gauge

Category AISI 16

Tariff Schedule Number(s) 609.4040 8 1/2%
609.4165 0.3¢ per lb.

	4th Quarter
Base Price per Metric Ton	$458

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$40	$ 7	$ 8
Gulf Coast	41	5	11
Atlantic Coast	45	4	11
Great Lakes	60	4	13

Insurance 1% of base price + extras + ocean freight

Extras

(1) Grade Extra: Same as Wire Rod Commercial Qiality (Page 2-1)

(2) Regular or Commercial Coating Extra: Minus $50/MT

(3) Size Extra: See Extra Table p. 16-6

(4) Packaging Extras: See Extra Table 16-7

SIZE EXTRAS FOR BRIGHT BASIC WIRE,
ANNEALED WIRE AND GALVANIZED IRON WIRE

$ EXTRA/MT
(4th Quarter)

GAUGE	BRIGHT BASIC WIRE	ANNEALED WIRE	GALV.IRON WIRE(TYPE I)
4	22	22	35
5	16	16	27
6	8	8	21
7	4	4	16
8	Base	Base	Base
9	6	6	14
10	8	8	18
11	12	12	24
12	14	14	35
13	18	18	43
14	22	22	51
15	33	35	66
16	41	43	80
17	49	52	99
18	60	61	115
19	71	75	141
20	85	89	163
21	100	104	188
22	111	115	210
23	122	126	237
24	133	139	265
25	149	156	306
26	167	174	349
27	175	181	366

High Carbon Cr Steel Drawn Wire in Coil AISI 52100, 50100, 51100, Suitable for use in manufacture of Ball or Roller Bearings

AISI Category 16

Tariff Schedule Number (s) 609.4560 $10\frac{1}{2}$% + additional duties (See Headnote 4, TSUS)

Base Price per Metric Ton 4th Quarter $772

Charges to CIF

	Ocean Freight	Handling	Interest
West Coast	58	7	15
Gulf Coast	69	5	19
Atlantic Coast	72	4	19
Great Lakes	79	4	24

Insurance 1% of base price + extras + ocean freight

Extras:

1 Size Extra

Nov, 1978

. High Carbon Cr Steel Drawn Wire in Coil AISI 52100, 50100, 51100, Suitable for use in manufacture of Ball or Roller Bearings

1. Size Extra

Size (inches)	Extra ($/MT) 4th Quarter
0.688 and over	nil
0.500 - 0.687	nil
0.312 - 0.499	Base
0.250 - 0.311	11
0.188 - 0.249	66
0.174 - 0.187	221
0.094 - 0.173	232
0.083 - 0.093	277
0.062 - 0.082	431

Rev. November, 1978

BARBED WIRE 2-ply, 12.50 Gauge

Category AISI 21

Tariff Schedule Number 642.0200 Free

	3rd Quarter	4th Quarter
Base Price per Metric Ton	$551	$578

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	$42	$7	$ 9
Gulf Coast	50	5	12
Atlantic Coast	55	4	12
Great Lakes	60	4	14

Insurance 1% of base price +extras +ocean freight

Hot Rolled Sheets + Band
Width Thickness Extra ($/MT)

Width/thickress	over 12" up to 24"	From 24" thru 36"	Over 36" thru 48"	Over 48" thru 72"	Over 72" thru 76"	Over 76" thru 84"
over 0.5	---	12 + N	12 + N	12 + N	12 + N	15 + N
from 0,312 thru 0.5	26	12	12	12	12	15
from 0.251 thru 0.3119	26	12	12	12	12	13
from 0.230 thru 0.2509	17	0	0	0	7	13
from 0.180 thru 0.2299	17	0	0	0	6	12
from 0.121 thru 0.1799	17	0	0	0	11	12 + N
from 0.081 thru 0.1209	17	13	7	0	11	---
from 0.071 thru 0.0809	25	19	14	14	11 + N	---
from 0.061 thru 0.0709	38	28	21	21	---	---
from 0.0568 thru 0.0609	41	32	31	21 + N	---	---
from 0.0509 thru 0.0567	41 + N	32+N	31 + N	21 + N	---	---

Note: All above extras are to be increased by 7.38%
for all sheet and band exported to the United States
on or after October 1, 1978.

Rev. July, 1978

3-OTHER EXTRAS

Description	$/MT
Killed	21
Fine Grain	6
Charpy	
+40°F & up	
L	16
T	21
L & T	26
under +40°F	
L	21
T	26
L & T	32
Normalize	74
Quench & Temper	127
Normalize & Temper	127
Checker	21
Pickled & Oiled	
Up to 0.172" Thickness	21
Over 0.172" Thickness	14
Others	To be specified on SSSI

(5) QUALITY

COMMERCIAL	BASE
LOCK FORMING	NONE
DRAWING	11
DRAWING SPECIAL KILLED	27
STRUCTURAL	
GRADE A	3
" B and C	5
" D and E	11

(6) QUANTITY

$20ST \leq W$	BASE
$15ST \leq W < 20ST$	1
$10ST \leq W < 15ST$	3

(7) THEORETICAL MINIMUM WEIGHING --------16

(8) OTHERS -------- SUBJECT TO NEGOTIATION

(9) Corrugating $19

Note: All above extras are to be increased by 7.14% for all sheets shipped to the U.S. on or after 10-1-78.

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

FOR IMMEDIATE RELEASE
November 9, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT ANNOUNCES FINAL COUNTERVAILING DUTY DETERMINATION AGAINST TEXTILE IMPORTS FROM EIGHT COUNTRIES

The Treasury Department today announced its final determination that exports of Uruguayan textile products and of woolen suits from Argentina are subsidized.

Two other investigations also led to the conclusion that "bounties" are being paid. In one of these cases -- concerning Brazil -- a waiver of countervailing duties was granted, based on certain steps taken by the Brazilian Government to reduce the adverse effects of the subsidies. The Colombian Government had been found to pay small bounties on its exported textiles, but the producers renounced the subsidy, resulting in a negative finding with respect to products other than leather wearing apparel.

In four cases -- concerning Taiwan, Korea, India and the Philippines -- the subsidies did not exceed 0.4 percent and, thus, under established Treasury policy are not subject to countervailing duties.

The countervailing duty law requires the Secretary of the Treasury to assess an additional customs duty equal to the net amount of a "bounty or grant" that is paid on exported merchandise.

In the case of Uruguay, the Treasury determined that countervailing duties would be due on all textile exports, which consist principally of woolen apparel.

In the case of Argentina, the Treasury determined to apply countervailing duties to only one category of textiles -- that involving woolen suits. All other textile products from that country were found not subsidized.

In the case of Brazil, the Treasury found that the Brazilian Government had paid subsidies of approximately 37.2 percent on its textile exports. The Treasury waived countervailing duties on these items based on the following steps taken by the Government of Brazil:

(1) An immediate reduction of 25 percent of the subsidy followed by a further 25 percent reduction no later than January 3, 1979;

(2) Elimination of the remaining 50 percent no later than January 1, 1980;

(3) The commitment by the Government of Brazil to an active participation in the Multilateral Trade Negotiations, including its agreement to a number of principles that should be included in a code governing the use of subsidies and countervailing duties and the commitment to seek final agreement on that code during the negotiations in Geneva by the end of this month;

(4) The agreement by the Government of Brazil to make reductions in its overall programs of export incentives as a contribution to more discipline in international trade.

In view of these steps, a waiver of countervailing duties was considered appropriate.

No net bounties were found to exist on Indian textiles, since the export payments made by that country are offset by indirect taxes on the exported products.

These final decisions will appear in the Federal Register of November 16, 1978.

The value of trade from these eight countries in 1977 was approximately $1 billion.

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

FOR IMMEDIATE RELEASE

November 13, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,300 million of 13-week Treasury bills and for $3,401 million of 26-week Treasury bills, both series to be issued on November 16, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 15, 1979			26-week bills maturing May 17, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.836	8.561%	8.87%	95.311	9.275%	9.87%
Low	97.823	8.612%	8.93%	95.299	9.299%	9.89%
Average	97.828	8.593%	8.91%	95.303	9.291%	9.88%

Tenders at the low price for the 13-week bills were allotted 48%.
Tenders at the low price for the 26-week bills were allotted 81%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 43,250,000	$ 33,250,000	$ 65,655,000	$ 40,655,000
New York	3,478,510,000	1,842,510,000	5,095,765,000	2,973,875,000
Philadelphia	24,780,000	24,780,000	22,685,000	12,685,000
Cleveland	26,140,000	26,140,000	64,815,000	50,265,000
Richmond	23,975,000	23,975,000	19,295,000	19,275,000
Atlanta	30,700,000	30,700,000	24,915,000	24,915,000
Chicago	201,090,000	37,590,000	223,625,000	61,210,000
St. Louis	35,230,000	23,230,000	41,450,000	24,275,000
Minneapolis	51,435,000	19,875,000	20,030,000	14,030,000
Kansas City	38,825,000	37,105,000	41,040,000	39,940,000
Dallas	13,160,000	13,160,000	11,570,000	11,570,000
San Francisco	258,290,000	181,045,000	249,755,000	113,550,000
Treasury	6,980,000	6,980,000	14,485,000	14,485,000
TOTALS	$4,232,365,000	$2,300,340,000a/	$5,895,085,000	$3,400,730,000b/

a/ Includes $438,995,000 noncompetitive tenders from the public.
b/ Includes $351,240,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-1259

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

FOR RELEASE UPON DELIVERY
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REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
NATIONAL FOREIGN TRADE COUNCIL
NEW YORK, NEW YORK

Two key issues now dominate the outlook for the world trading system:

- -- the evolution of the U.S. trade balance
- -- prospects for concluding the Multilateral Trade Negotiations (MTN) by December 15, as agreed at the Bonn Summit last July.

The coming year could provide the best news for international commerce for at least a decade if, in 1979, the U.S. trade deficit can be sharply reduced and the MTN package completed. There are good signs that both can be achieved, though much hard work lies ahead to assure their realization. I will address each issue in turn during my remarks today.

THE OUTLOOK FOR THE UNITED STATES TRADE BALANCE

The U.S. trade balance posted a record $45 billion (annual rate) deficit in the first quarter of 1978.

B-1260

The first quarter current account balance, which adds our sizable and growing surplus in services items to the merchandise trade, was in deficit by $27 billion (annual rate). Since that time, however, the tide has clearly turned.

The trade balance improved sharply in the second and third quarters. The trade deficit receded to a $31 billion annual rate, an improvement of $14 billion. The current account deficit also fell about $14 billion, to an annual rate of around $13 billion in the second and third quarters.

Roughly 40 percent of this improvement reflects a sharp rise of almost $6 billion (a.r.) in the level of agricultural exports, which is unlikely to be repeated quarter after quarter. But a substantial portion of the improvement suggests that the underlying trends are also looking up. After 2 1/2 years of sluggish growth, U.S. non-agricultural exports began to pick up in March of this year; by the third quarter non-agricultural export volume had grown at a 29 percent annual rate above the first quarter. In value terms, third quarter exports had risen 47 percent (a.r.) over the first. These are impressive gains in both volume and value terms. Clearly, U.S. exporters are beginning to regain some of their recently lost market shares.

We have also begun to observe the effect of changed competitiveness on the growth of U.S. imports. After growing at a 26 percent annual rate from the third quarter of 1977 to the first quarter of this year, real imports increased at only a 5 percent rate from the first to the third quarter. The comparable drop in nominal values was from 40 to 15 percent. Given the strength of U.S. real growth over the period, this is an impressive performance.

The merchandise trade deficit should be under $35 billion for the full year 1978, declining by roughly 1/3 in the second half of the year to an annual rate of just over $30 billion from the first quarter rate of $45 billion -- even though there is likely to be a substantial pick-up in the volume of oil imports during the fourth quarter.

We believe that the deficit in the trade account will continue to decline in 1979 in both value and volume terms, aided by several special factors including stepped-up gold sales. The trade deficit for the year as a whole should be roughly $25 billion, assuming no rise in oil prices. (A 5 percent rise in oil prices would add about $2 billion to the total.)

The improving trend in the basic U.S. competitive position clearly emerges in projected developments in the trade balance after excluding agricultural and petroleum trade. This balance was in deficit at an annual rate of $31 billion in the first quarter of 1978. It should decline to under $15 billion in the fourth quarter of 1978, and continue to decline to less than $10 billion by the fourth quarter of 1979. This would represent an improvement of over $20 billion within two years in our non-agricultural, non-oil trade performance -- perhaps the best single indication of the improved underlying competitive strength of the U.S. economy in world trade.

Merchandise trade, however, is only part of the picture. As already noted, the United States -- unlike our major competitors in world trade -- runs a sizable and growing surplus on international services transactions. Equilibrium, and even substantial surplus, can be achieved in our current account even when merchandise trade is in sizable deficit.

Even including government grants, which represent a net outflow of $3-4 billion, the surplus on "invisibles" -- as opposed to "visible" merchandise trade -- will probably exceed $17 billion this year and could reach $19 billion in 1979. The main sources of strength in our invisible receipts have been rapidly growing military sales, and net investment income of about $18 billion on our huge stock of foreign investment.

Taking account of all these factors, our latest projections indicate that the U.S. current account deficit -- which is now expected to total about $17 billion for 1978 -- could drop by more than 50 percent in 1979, perhaps to as little as $6 billion in the absence of any increase in world oil prices. This outlook is broadly consistent with those of several other respected forecasters.

I hasten to note that, since I have been at the Treasury Department, I have become much more aware of the tenuousness of balance of payments forecasts. We have never experienced exchange rate movements of the size recorded in the last 18 months, for example, and it is quite possible that such large changes in relative prices will trigger movements in trade volume considerably larger than those estimated by econometric estimates of price elasticities. It is also possible that we will continue to underestimate the level of U.S. farm exports, a consistent error made by most forecasters in recent years. Any specific numbers can therefore represent only rough orders of magnitude, but we are confident that the trend portrayed here is correct.

New Factors in the U.S. Trade Outlook

In fact, despite all the uncertainties, it seems clear that basic improvement in the U.S. trade balance (and hence current account) can be expected to derive from a number of changed conditions:

-- a reversal of relative growth rates, back to the more traditional situation where real growth abroad exceeds that in the United States;

-- regained international competitiveness of U.S. exports;

-- energy conservation and legislation;

-- a sharp increase in U.S. gold sales.

Since the global recession of 1974/75, the U.S. recovery has far outpaced that of all other developed countries. Only the U.S. economy has followed a 'normal' recovery path: led by government stimulus, followed by a pick-up in consumption expenditures, and then turning to expansion when the previous output peak was exceeded as real investment began to play its own role in the cyclical recovery.

By late summer of 1978, the level of U.S. industrial production was roughly 10 percent above its pre-recession peak and about 30 percent above the recession trough. Production performance in other OECD countries has been lackluster. The average level of industrial production in twelve other countries by late summer, by contrast was a scant 1 percent above its pre-recession peak and only 15 percent above the recession trough. This divergence in recovery has had a major negative effect on the U.S. trade balance.

During the 1960's, growth rates were much faster abroad than at home -- the U.S. economy averaged real growth of 4.2 percent, while the rest of the OECD averaged 6.5 percent. From 1975 to 1977, however, U.S. real growth averaged 5.4 percent while that of the rest of the OECD averaged only 3.8 percent. This shift alone caused an adverse swing of $10-20 billion in the U.S. trade balance.

Now we are coming back to a situation where growth abroad will exceed U.S. growth. We now see real growth abroad -- at about 4 percent for 1979 -- at a higher rate than in the United States for the first time since 1974. This reversal will tend to offset the deterioration in the trade balance due to growth differentials that has underlain our recent problems.

In addition, we believe that improvements in the international price competitiveness of U.S. products over the past year and a half are now beginning to show up in the data and will significantly affect trade volumes during 1979. The U.S. dollar depreciated about 13 1/2 percent on a trade-weighted basis between September 1977 and early November of this year. A rule of thumb we frequently use is that a 1 percent depreciation in real terms will be associated with a $1 billion improvement in the trade balance. The time lag involved in adjusting trade flows to exchange rates is something like 1-2 years.

A primary reason why the United States must improve its inflation preformance is to protect these recent gains in our international trade competitiveness resulting from the exchange rate movements. In real terms -- that is, exchange rates adjusted for relative price performance -- the U.S. competitive position has improved nearly 10 percent since September 1977. Over 3 percent of the potential competitive gain due to exchange rate change was lost due to relatively poorer inflation performance.

But we would still expect that the net effect of changes in relative prices of traded goods could improve the trade balance next year by some $5-10 billion.

A third major factor in the trade outlook is the demand for imported oil. As is well known, our rising energy demand -- coupled with declining domestic supply and OPEC price increases -- has been a major cause of the trade balance deterioration.

Recent Congressional action on the energy bill will temper that trend. In addition, the coming on stream of Alaskan oil this year well illustrates the benefits from increasing domestic energy supplies. Current forecasts suggest that the U.S. oil import bill in 1978 will be less than the 1977 bill, a substantial degree of progress at a time when the U.S. economy grew almost 4 percent.

Next year we will not be so fortunate. The volume of oil imports will again rise somewhat. However, the Congressional action on natural gas deregulation should significantly slow that growth. In addition, continued gains in gas mileage and other conservation efforts will continue to temper the growth in demand for imported oil.

Finally, U.S. gold sales contribute directly to reducing the trade deficit. In 1978, these sales will probably total about $800 million. On November 1, we announced that the level of sales beginning in December 1978 would rise to at least 1 1/2 million ounces per month -- five times the level of most of 1978. Assuming sales at the level of 1 1/2 million ounces monthly throughout the year, this would produce a year-over-year gain of about $3 billion for the trade balance at the current market price of gold

The Services Sector

The continuing growth in the surplus on services will also help strengthen the U.S. current account position in 1979. Although the services sector has received little attention in most analyses of the U.S. external position, it has become a large and growing part of our international activity. As recently as 1970, gross flows in the services sector were only about $43 billion. By 1977, total U.S. trade in services had grown to $105 billion. By the end of 1979, they could total $140 billion.

Over the 1970-77 period, the U.S. surplus on services has grown from $3 billion to $20 1/2 billion. The net services surplus could approach $25 billion in 1979, with an "invisibles" balance of over $19 billion when private remittances and government grants are deducted.

Three components of the service accounts are primarily responsible for its strong position: (1) military sales and expenditures; (2) direct investment receipts; and (3) earnings on other private assets (largely bank activity). The net military account has benefitted from strong growth in sales -- up about $5 1/2 billion between 1970 and 1977 -- at a time when the level of U.S. defense expenditures abroad held relatively steady. Sales to OPEC and Middle East countries account for most of the growth in these sales. The direct investment account has recorded the strongest improvement -- about $10 billion net between 1970 and 1977. This growth reflects the profitability of U.S. overseas investments, the effects of oil company nationalizations, and exchange rate changes -- as local currency profits are converted into dollars for repatriation.

Of particular interest is the growth in the net surplus on private assets. These accounts measure interest receipts and payments on privately held assets, on bank loans and deposits, and dividends on portfolio investments. The lion's share of the growth in the surplus parallels the increased intermediation role of U.S. banks in the wake of the oil crisis and the removal of U.S. capital controls.

The outlook is thus for solid improvement in the U.S. trade balance and current account. This of course does not mean that we can in any way relax our efforts to assure the projected gains in 1979, achieve further improvement beyond, and place the U.S. external balance in a stable position for the longer run:

-- the President's anti-inflation program, buttressed by the dollar defense measures announced on November 1, must succeed if our competitive gains are to be preserved

-- the export expansion program announced by the President on September 26 must be carried out effectively, providing opportunities for even more impressive gains if business takes advantage of its new opportunities

-- still greater conservation and domestic production of energy is needed to reduce further U.S. dependence on imported oil.

Successful implementation of these policy actions can assure achievement of the steady, sizable improvements in the U.S. external balance which are essential for a strong dollar, and therefore for the health of both the U.S. economy and the world. At the moment, the outlook is favorable. On this count, 1979 should be a good year for the world trading system.

THE MULTILATERAL TRADE NEGOTIATIONS

International trade policy stands today at a critical crossroads. The Multilateral Trade Negotiations (MTN) in Geneva are in their most sensitive stage, as we approach the December 15 deadline for completion of the Tokyo Round and all major trading nations seek to assure themselves that they have obtained overall reciprocity in the negotiations. Several of the toughest political issues remain to be resolved, but we have come a long way toward designing a future trading system which will be more open and fair for all nations.

The basic Framework of Understanding achieved in July was an important barometer of mutual political resolve to reach agreement on substantial further liberalization of international trade. Success in wrapping up the negotiations is now crucial -- to our economic and political relations with other nations, as well as to our future welfare here at home.

Indeed, maintaining an open trading system is more essential today than ever before. The global community faces the very real risk of retreating into a mutually destructive protectionism if we fail to move forward together. The Multilateral Trade Negotiations are our chosen instrument for helping achieve two general objectives:

-- Reduced inflation: Imports are of great benefit to the United States. They lower prices in the U.S. market, allowing the consumer to stretch his dollar further. Where imported goods can be used as inputs by domestic producers, U.S. production costs can be lowered. Import competition has often spurred American producers to develop more efficient methods and new products. Conversely, new import restrictions would add to inflation, harm consumers, and generate resource misallocations which impose permanent losses on our economy at a time we can least afford them.

-- Expanding trade-related employment: Millions of American jobs depend on the preservation of an open trading system. The erection of new barriers would lead to similar actions by our trading partners, choking off export-related American jobs. It would lead to a direct loss in import-related employment among those engaged in handling, transportation and sale of imports, as well as in the fabrication of finished goods using imported components. A successful MTN, we are convinced, would help preserve and expand such employment on both the import and export sides.

The July 13 Framework of Understanding negotiated in Geneva by Ambassador Robert Strauss and his colleagues took us a substantial distance toward the agreement we seek. We are now working toward the December 15 target mandated at the Bonn Summit for completion of the MTN. The major topics are as follows:

Tariffs. Historically, tariffs have been the major topic of trade negotiations. They have been somewhat overshadowed in the Tokyo Round by the difficult bargaining over subsidies and other non-tariff issues. Nevertheless, they remain important because of their political and psychological importance as barometers of trade liberalization, because tariffs in certain product areas remain high and because they can be used to "fine tune" an agreement for purposes of calculating reciprocity. At present, we have a reasonably good agreement with Japan but still have some distance to go in our talks with Canada and the EC. Negotiations with the LDCs are progressing slowly.

Subsidies and countervailing duties. The increasing level of export subsidization by a number of governments represents a major potential source of trade friction in the next decade. The United States strongly believes that there must be better international discipline over the use of subsidies in order to discourage governments from exporting their economic problems through direct financial aid and other kinds of help to favored industries. If we obtain an agreement providing such discipline, along with effective procedures to ensure implementation, we are prepared to insert an injury test into our countervailing duty law -- the only one among major countries which does not now contain such a test.

The injury test would be incorporated within the framework of a "two-track" approach suggested by the United States and endorsed by our major negotiating partners. If a country were to grant a subsidy in violation of specific commitments not to use certain practices, then the importing country could apply countermeasures without having to demonstrate injury. This is fully consistent with the GATT approach to tariffs: retaliation is authorized whenever a country violates its tariff bindings, with no requirement to demonstrate injury. The other "track" provides for counter-measures against subsidies after a finding of injury.

Before any code can be accepted we must resolve three key issues:

- -- Agriculture: The agreement must deal with subsidized competition in world agricultural export markets.
- -- Provisional measures: We must maintain the right to act against the most blatant subsidy practices pending the outcome of international dispute settlement procedures.
- -- Domestic subsidies: We believe that international guidelines are necessary to minimize trade distortions resulting from subsidies applied for legitimate domestic reasons.

This is a tough, ambitious agenda. But we consider agreement feasible and necessary by the end of the year.

It is necessary particularly because the authority of the Secretary of the Treasury to waive the imposition of countervailing duties expires on January 3, 1979. This could result in the imposition of countervailing duties on a number of politically sensitive foreign products and clearly complicates the negotiation process -- especially with regard to the European Community.

In view of the importance of this matter, the President did everything possible to secure an extension of the countervailing duty waiver authority from the last Congress. We failed largely because of the confusion that often attends the last days of a Congressional session. If substantial agreement on an MTN package, including a subsidy/countervailing duty code, is achieved by December 15, the President is confident that he can secure an extension of the waiver authority from the new Congress or take other measures to mitigate damage to trade pending Congressional review of the agreement. In the absence of such an agreement, cooperation in this sensitive area will inevitably suffer.

I would like to make clear, however, that there has been no change in the underlying situation due to the failure of Congressional action on waiver extension during the past session. Substantial completion of an MTN package -- including a subsidy/CVD code -- is a vital prerequisite to continued cooperation in this area. Even with an extension of seven months, as we had sought, we would have needed a successful MTN package for the waiver to go into effect. If we do not achieve this agreement, there is no basis for waiving countervailing duties and cooperation in other areas of trade will also inevitably suffer.

Safeguards. At present, governments contemplating "escape clause" action to provide relief to import-impacted industries are required by GATT to do so on a most-favored-nation basis. The United States believes that this should continue to be the case, but that the GATT rules should be improved to reflect changes in international practice over the past several years.

The European Community and others, however, want the right to take selective action unilaterally against the trade of specific countries causing the damage. We believe selective action should be permitted only if the exporter agrees, or otherwise under strict conditions including prior international review. To do otherwise would too radically compromise the MFN principle which has served us all so well.

Government Procurement. The GATT now exempts from coverage all purchases by governments of goods for their own use. We believe this large and growing area of economic activity should be brought within the purview of the international trading rules, particularly since governments are increasingly inclined to use it to further their broader economic policy objectives. We are proposing rules which would eliminate discrimination against foreign suppliers and provide greater transparency in government tendering.

Framework. In this "GATT Reform" group, we seek improved international procedures for resolving trade disputes, tighter discipline over trade restrictions imposed for balance of payments reasons to ensure that they are used only when truly justified, and clarification of GATT rules governing the use of export restraints.

Successful conclusion of the MTN can thus provide the first steps in dealing with the whole range of issues which are likely to dominate world trade policy in the 1980s. The heads of Governments and States meeting in Bonn last July pledged to complete the negotiations by December 15 of this year. We believe that it is of crucial importance to meet this timetable, and that there is every likelihood that it can be met. If it is, the trade policy outlook will also augur well for 1979.

EXPORT CREDITS

Although it is not being negotiated in the MTN, I would like to comment finally on a closely related topic -- the International Arrangement on Official Export Credits, concluded by twenty-two countries and the Commission of the European Communities earlier this year. The Arrangement is intended to head off the possibility of a self-defeating export credit war, a very real danger in this time of increased government intervention in trade.

Our hope has been that the new Arrangement would form the basis for cooperation among the major trading nations to curb excessive competition in export credits. It was a welcome first step, but further action is needed to restrain aggressive government financing practices and reduce the element of subsidy in official export credit financing. On September 26, the President directed the Secretary of the Treasury to undertake immediate consultations with our trading partners to expand the scope and tighten the terms of the Arrangement.

Similarly concerned over what it regards as unfair financing of exports by U.S. competitors, Congress last month amended the Export-Import Bank Act to authorize the President to begin negotiations at the ministerial level with other major exporting countries to end predatory export financing programs and other forms of export subsidies, including mixed credits. The President is required to report to the Congress prior to January 15, 1979, on progress toward meeting the goals of this section of the Eximbank Act.

To begin our efforts to carry out these mandates, I visited Bonn, Paris, Brussels and London in mid-October. These consultations and the meeting of Participants in the Arrangement during late October have been constructive. It is too early to determine, however, whether they will result in the improvements in the Arrangement we consider essential.

At a minimum, we hope to achieve some movement in the following areas over the short-term:

- -- an increase in interest rate minimums;
- -- limitations on local cost financing;
- -- requiring adherence to Arrangement interest rate minimums whenever exchange risk insurance is coupled with official export insurance and guarantee cover;
- -- eliminating export credit subsidies on sales to EC markets, as already agreed by all EC member countries;
- -- bringing up-to-date the country groupings under the Arrangement, particularly with regard to the advanced developing nations;
- -- better consultations on tough specific cases; and
- -- better information exchange on sensitive programs.

These are ambitious goals, given the present global economic environment, but they are essential if we are to avoid serious confrontation in this area in the future.

While we pursue a more rigorous international agreement, we are also taking action to maintain our own competitiveness in the export credit market. The Export-Import Bank is increasing its financing fivefold from $700 million in FY 1977 to $3.6 billion in FY 1979. The President has stated he will ask Congress for loan authorizations of $4.1 billion in FY 1980.

Congress has also asked the Secretary of the Treasury, in instances of foreign competition with U.S. firms in the U.S. market, to seek the withdrawal of foreign official export credit financing which exceeds the limits of existing standstills or other agreements. If such financing is not withdrawn, the Secretary may authorize the Eximbank to provide competing U.S. sellers with financing to match that available through the foreign official export credit agency. This new authority -- for import-competing, rather than export, finance -- is a clear indication of Congressional concern over predatory export credit practices by foreign governments, and of our intent to meet such unfair financing practices.

Conclusion

We are thus working in a number of areas to restore and maintain a successful U.S. trade position and trade policy for 1979 and beyond:

- sizable and steady reductions in the U.S. trade deficit
- expanding U.S. exports
- further liberalization of international trade, opening new markets to our exports and maximizing the contribution of trade to our fight against inflation
- avoiding the risk of an export credit war.

None of these tasks are easy ones. But all are vital to the national interest of the United States. We believe that we are on the right track and that, with your help, their achievement is in sight. If so, 1979 will indeed be a good year for world trade.

U.S. - ISRAEL JOINT COMMITTEE FOR INVESTMENT AND TRADE

WASHINGTON
November 14, 1978

JOINT STATEMENT

The U.S.-Israel Joint Committee for Investment and Trade met on November 14, 1978, at the Treasury Department in Washington, D.C. The session, which was held in a very friendly and relaxed atmosphere, was co-chaired by Treasury Secretary W. Michael Blumenthal and Finance Minister Simcha Ehrlich. U.S.-Israel Business Council Co-Chairman Augustine R. Marusi and senior officials from both Governments also participated.

The meeting represents a continuation of the close dialogue between the United States and Israel on means for enhancing economic cooperation between the two nations. The Joint Committee is the Cabinet-level body established in 1975 to discuss a wide variety of economic topics. The Committee, which meets annually, held its previous session during Secretary Blumenthal's visit to Israel in October, 1977.

The Business Council, which was formed at the request of the two Governments in 1976, is the private sector counterpart of the Joint Committee. Accordingly the Business Council serves as the primary channel for private sector advice to the two Governments on a wide variety of important trade, investment, and other business topics.

At the meeting Secretary Blumenthal and Finance Minister Ehrlich initialed the new Income Tax Treaty. Additionally the Committee received a report from Mr. Marusi on the revitalization of the U.S. Section of the Business Council. Other principal topics were the MTN Subsidies Code, U.S. Defense Department procurement regulations, and energy cooperation. Details regarding these discussions are noted below.

I. <u>Business Council</u>

U.S.-Israel Business Council Co-Chairman Augustine R. Marusi, who is Chairman of the Board and Chief Executive Officer of Borden, Inc., briefed the Committee on his recent activities to revitalize the U.S. Section of the Council. Mr. Marusi indicated the Council will be undertaking programs to better acquaint U.S. businessmen with the new investment climate in Israel. The Committee expresses deep appreciation to Mr. Marusi for his impressive efforts, especially for the recruitment of new U.S. Section members. The Israeli Section of the Council, which is headed by Chairman of the Board of Elite Ltd. Mark Mosevics, consists of a group of major Israeli business leaders. The Committee strongly believes that a closer relationship between the American and Israeli private sectors will produce a mutually beneficial expansion of trade and investment between the two nations.

II. Tax Treaty

Secretary Blumenthal and Finance Minister Ehrlich initialed the new Tax Treaty which revises the draft 1975 Treaty in order to take account of subsequent tax law changes in both countries and to encourage mutually beneficial trade and investment. The Committee expects that the new Treaty will play an important role in expanding economic relations between the two nations. The two countries will move as promptly as possible towards signature so that the Treaty can soon be submitted to the appropriate authorities of the two nations for ratification.

III. MTN Subsidies Code

The Committee agrees that the successful conclusion of the present MTN negotiations in Geneva is vital to maintaining and expanding the open world trading system which has been of such great global economic benefit during the last generation. The Committee believes that the Subsidies Code now being negotiated is an essential part of any successful MTN outcome. The Code should provide for improved discipline on the international use of subsidies and rules on the use of countervailing measures, while taking into account the special needs of developing countries. The Committee agrees that both Governments will consider in a favorable light the final version of the Code to determine whether they can adhere to it.

The Committee notes that U.S. and Israeli trade experts will meet in Washington in early December to discuss the MTN, GSP, and other trade matters.

IV. Defense Department Procurement

The Committee reiterates the views and policies expressed at its previous sessions regarding purchases of Israeli goods and services by the U.S. Defense Department and its contractors. The Committee carefully examined problems which have recently arisen regarding possible purchases of Israeli items by the DOD and its U.S. suppliers, and decided that at the technical level accelerated examination of possible solutions to these difficulties will be undertaken. The Committee expresses satisfaction with recent progress regarding DOD procurement of Israeli items, as several major DOD contractors have recently stated a desire to purchase Israeli goods.

V. Research Cooperation

The Committee notes with satisfaction that the Agriculture Research and Development Fund, which was agreed to at the 1977 Joint Committee session in Jerusalem, has now been established. The BARD recently held its first Board meeting, and it has already received numerous project proposals.

The Committee expressed satisfaction with the existing binational research and development foundations and discussed the scope of their future activities.

The Committee agrees that an exchange of information regarding energy research would benefit both the United States and Israel. Accordingly the two Governments intend to negotiate an agreement providing for the exchange of information and future collaboration in the energy field. Suitable opportunities for future cooperative research projects may be identified as a result of this information exchange.

The Committee welcomes the establishment of the U.S.-Israel Energy Council, which will advise the Government of Israel on energy matters. The Council membership consists of prominent private sector energy experts from both countries.

VI. <u>Future Work</u>

The Committee noted the usefulness of this meeting and decided that its next annual meeting will take place in Israel on a date to be mutually decided.

W. Michael Blumenthal, Chairman United States Delegation	Simcha Ehrlich, Chairman Israel Delegation

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

FOR RELEASE AT 4:00 P.M. November 14, 1978

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 November 24, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $ 5,708 million. The two series offered are as follows:

90-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated August 24, 1978, and to mature February 22, 1979 (CUSIP No. 912793 W9 3), originally issued in the amount of $3,404 million, the additional and original bills to be freely interchangeable.

181-day bills for approximately $2,900 million to be dated November 24, 1978, and to mature May 24, 1979 (CUSIP No. 912793 Y6 7).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 24, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,038 million of the maturing bills. 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. 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, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, November 20, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) 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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 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 November 24, 1978, in cash or other immediately available funds or in Treasury bills maturing November 24, 1978. 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
000289

FOR RELEASE
EXPECTED AT NOON
Tuesday, November 14, 1978

REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
FORDHAM CORPORATE LAW INSTITUTE
NEW YORK, NEW YORK

The International Investment Policy of the United States

The international investment policy of the United States is based on the premise that the investment process works most efficiently in the absence of government intervention. Intervention by governments in either home or host countries will usually distort the allocation of resources and thereby reduce world output -- an outcome we can least afford at this time of high unemployment and continuing inflationary pressures. Moreover, efforts by one government to tilt the benefits of international investment in its direction through interventionist policies are likely to prompt countermeasures by other governments, with adverse effects on the world economy and on overall international relationships.

Hence the United States has adopted a model approach to international investment, containing three elements. Under normal circumstances, we should:

(1) neither promote nor discourage inward or outward investment flows or activities;

(2) avoid measures which would give special incentives or disincentives to specific investment flows or activities; and

(3) avoid intervention in the activities of individual companies regarding international investment.

This model approach to the investment process must obviously be tempered by the realities of today's world. It is clear that many governments actively intervene in the investment process in an effort to garner benefits for their national economies. Indeed, many state and local governments within the United States, and occasionally our own Federal Government, have embraced such policies. Intervention takes many forms, but it usually combines two basic features -- <u>incentives</u> to attract the particular investor in the first place, and <u>performance requirements</u> to assure that the firm does in fact contribute to the priority economic and social goals of the host government. These performance requirements usually focus on job creation, technology transfer, value added and export levels.

A major objective of U.S. policy, therefore, must be to achieve increased multilateral discipline on incentives and other interventions, both to maintain an open investment environment, and to avoid being forced into the adoption of emulative countermeasures. With offshore output by multinational firms now approaching a value of $1 trillion, it is anomalous that no such disciplines now apply to the international investment process. International trade, which has reached similar levels, is of course governed by long-standing rules and institutional arrangements, embodied both in the GATT and in bilateral treaties.

The development of such disciplines has become an important part of our day-to-day policy initiatives in the international investment area. I and my colleagues in the Administration have recently discussed these problems bilaterally with Canada and our major European allies, and multilaterally in the OECD. The need for additional action was framed in the communique issued at the Bonn Summit last July, in which we joined other participants in emphasizing our willingness to increase cooperation in the field of foreign private investment flows among industrialized countries and between industrialized and developing countries. We also stated in the Summit communique that we will intensify work for further agreements in the OECD and elsewhere.

The basic problem we face in trying to achieve discipline is that most governments have not yet recognized the need for international rules on investment as they did long ago for trade and international monetary policy. In part, this is because direct investment is relatively new as a major vehicle for international economic exchange, and thus its impact has not been as visible as the impact of trade flows and exchange rate changes. The attitude also reflects ambivalent and conflicting views on the jurisdiction of the different sovereign states involved in the broad-gauged activities of multinational companies.

A similar ambivalence exists within the United States. Many of our own laws, regulations, and policies affecting multinational firms have been carried out unilaterally, without full consideration of their international dimensions. Our own states and localities often extend incentives implicitly or explicitly designed to attract investors from abroad. I recently discussed this issue with representatives of state and local governments meeting under the auspices of the Advisory Commission on Intergovernmental Relations.[1/] I was encouraged to learn that most state and local government representatives have considerable sympathy for the federal view that such incentives frequently represent a waste of taxpayers' money, and that all government entities would be better off if a way could be found to eliminate this kind of competition. The Commission is now studying the interaction between such internal U.S. actions and the international investment process, as part of its broader analysis of relations among the states themselves regarding

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1/ ACIR was created by Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. It is a permanent national bipartisan body representing the executive and legislative branches of Federal, State and local government and the public.

investment policies. Similar sub-national issues regarding international investment policy also arise in other countries with federal governmental systems, such as Canada.

The lack of concert among governments in the investment area thus raises increasingly important questions. Beyond the newly important issue of incentives and performance requirements, discord also exists along more traditional lines:

-- Treatment of the investor. Host governments including the United States, often assert the right to control foreign-owned subsidiaries as a normal exercise of jurisdiction over one of their nationals. Meanwhile, home governments feel a responsibility for protecting the foreign property interests of their nationals.

-- Performance of the local affiliate. Governments worry that, because they can only observe affiliates located in their jurisdiction and cannot observe the multinational enterprise as a whole, they are unable to assess the real impact of the "local" firm. This concern arise in the context of investment levels, taxation, competition, and labor relations, as well as in other areas.

-- <u>Behavior of the foreign affiliate</u>. Governments also clash over efforts to influence the behavior of an affiliate in another country's jurisdiction, efforts that sometimes involve commands to the parent to be relayed to a subsidiary.

Fortunately, popular alarm over the power and growth of multinational firms has substantially abated during the past few years. It is now recognized -- for better or worse -- that most governments are quite able to deal effectively with these firms. Hysteria over the "global reach" of multinationals is much abated.

However, this healthy relaxation of concerns has not yet led to the development of new international understandings in this area. With appropriate effort, progress might well be made on many of these traditional issues. And it is clearly time to start working seriously on the growing intervention of governments which affects the location of international investment.

If they are not addressed soon, the underlying problems will likely get worse, simply by force of the growing volume of international investment. Japan and Europe are now beginning to rival the United States as home countries to major multinationals. Some of the advanced developing countries (e.g., Brazil, Mexico, Taiwan, Korea) have become large host countries for foreign investment. And growing investments by Germany and Japan in the in the United States promise to accentuate our own position as second largest host to foreign investment, after Canada. Just as international arrangements became necessary when trade and monetary relationships among nations reached sizable magnitudes, such arrangements now clearly seem called for in the investment area.

I have focused on the problems created by increased government intervention in the international investment process, but we should be aware of one positive aspect of this trend. All interventionist policies rest on an increasing awareness of the importance of increased capital formation, a principle which we strongly support. Coordinated international action to spur investment and capital formation is a highly laudable objective, and one which we are pursuing with other major countries in the OECD and elsewhere.

What is troublesome, however, is the way governments are carrying out this objective. Rather than adopting generalized approaches which will increase total capital formation, they often adopt industry-specific, or even firm-specific, measures which will only redistribute existing investment or divert to a different location investment that would have been made in any event.

The recent Canadian offer of $68 million to the Ford Motor Company to build a plant in Ontario instead of Ohio is a case in point. So is the British enticement of

Hoffman-LaRoche, the giant Swiss pharmaceutical firm, with an incentive package approaching $100 million. A number of advanced developing countries, such as Brazil and Mexico, require foreign companies to produce locally up to 100 percent of the value-added as a condition of participation in their automobile industries -- a requirement which is equivalent to a zero import quota on parts and other imports and which is relaxed only as the companies expand their exports. All of these arrangements, and numerous others like them, have the effect of shifting the location of investment across national borders -- thereby, in essence, exporting one country's problem to another.

If these measures continue to proliferate, more and sharper conflicts between governments appear inevitable. The conflicts will also be harder to resolve in the absence of international arrangements which address these problems. We can easily envisage a spiral of beggar-thy-neighbor competition, in which intervention by one government stimulates both emulation and countermeasures by others to the detriment of all.

If past experience concerning the interplay of national economic policies has taught us anything, it should be the need to identify and devise means to address problems at an early stage -- before vested interests become so strong that a crisis is required to bring forth appropriate international rules. Failure to take early action in the past led to trade wars and competitive exchange rate devaluations, much to the detriment of the international economy.

In the case of international investment, we are not yet at the point where vital interests have been damaged as a result of undesirable national competition for international investment. There is certainly no global crisis, though individual problems -- such as those mentioned above -- have already produced some nasty clashes. Moreover, major intellectual problems will inevitably arise as we try to deal with these issues, for example:

- When is an incentive legitimate as a means to offset the disadvantages of investing in a particular locale, and when does it exceed that bound?
- When does an incentive actually induce a firm to move offshore, as opposed to influencing where, among several offshore sites it might choose?
- In what circumstances can the investment issue be handled through the normal approaches to trade policy, since international investment frequently leads eventually to trade flows, and in what circumstances does it call for separate or additional responses?

We do not pretend to have clear answers to all of these problems at this time. Indeed, we are at a very exploratory point in many of our international discussions. Nevertheless, we believe that the problem is already serious and is virtually certain to become more serious, and that it is therefore our duty to seek ways to deal with it constructively. We are moving ahead in a number of ways, and I would like to report on them today.

OECD Agreements

OECD member countries reached two agreements in 1976 on international investment problems. First, each nation declared that it should treat established foreign investors no less favorably than it treats domestic investors in similar circumstances -- in other words, foreign investors are granted "national treatment." Second, each nation agreed to take into account possible damage to other member countries should it provide official incentives or disincentives to foreign direct investment. Both agreements were accompanied by consultative procedures.

These agreements are limited in scope but they are the first, and so far the only, multilateral agreements on international investment. Both agreements will be reviewed next year, and we are examining the possibilities for improvement.

In addition, we have recently examined whether additional steps might be taken to strengthen the OECD's work concerning incentives and disincentives. I have consulted on this bilaterally in the major European capitals, and Under Secretary of State Cooper has discussed it with our OECD colleagues. We have reached agreement to consider the issue outside, and beyond, the regular 1979 review of the OECD Declaration.

The Development Committee

In the fall of 1977, the Development Committee of the International Monetary Fund and the World Bank decided to include "The Role of Direct Foreign Investment in Development" in its work program. The object was to improve understanding of the problems surrounding direct foreign investment, in the expectation that this might lead to proposals to improve the international investment process.

The Development Committee is a relatively new forum, started in 1974, with representatives from both developed and developing countries. Representatives are drawn from the finance and economic ministries of the member countries, or from their Executive Directors' offices at the IMF/IBRD. Thus it is a forum where controversial issues can be, and have been, discussed in a quiet, relatively non-ideological fashion, with a focus on their economic and financial merits.

The Committee's Working Group on Access to Capital Markets has met three times during the past year, focusing on the economic questions posed by home and host country policies towards direct foreign investment and the effect of such investment on home countries. This has been a useful exercise, and has improved understanding of the difficulties involved in direct foreign investment. As a result of these efforts, we may be moving toward a consensus on certain basic principles. Such agreement among industrialized and developing countries could represent a major step toward dealing more effectively with some important investment issues.

Bilateral Investment Treaties

Some 43 bilateral treaties of Friendship, Commerce and Navigation (FCNs) are presently in force between the United States and other countries, 10 of which are with developing countries. All of the FCN treaties with developed countries were negotiated prior to 1961, however; only two treaties have been concluded since then, with Togo in 1966 and Thailand in 1968.

Recently, the Congress and the private sector have again become interested in these treaties. A 1977 GAO report recommended that: "The Secretary of State should initiate a broad based effort to negotiate treaties of Friendship, Commerce and Navigation, emphasizing protection of private foreign investments, with the developing countries of the world when some significant potential for U.S. private investment exists." The United States has recently decided to enter into negotiations with Singapore on a bilateral investment treaty.

Another aspect of this issue is that several European countries -- especially Germany and Switzerland, but also Britain to some extent -- have recently negotiated an extensive network of bilateral investment treaties to protect their foreign investment. Similar action by the United States would assure our investors of equivalent good offices, and provide a possible basis for joint approaches by major home countries.

The U.S. draft treaty, under preparation for delivery to Singapore, contains a new provision which would advance U.S. aims in the international investment area. This provision provides for consultations between the contracting parties if one of them feels its national interests are, or will be, significantly and adversely affected by the other party's pre-existing or prospective rules and regulations. The object of these consultations is twofold: to seek ways to minimize the adverse impacts of such measures on foreign investors, and to provide a basis for discussing the problem of incentives and performance requirements outlined earlier.

International Cooperation in Taxation

The U.S. Treasury is coordinating international tax rules in various forums as a means of facilitating international investments. We are expanding our network of bilateral income tax treaties and have published a U.S. model income tax treaty which has been widely distributed.

Treasury has also participated actively over the years in the work of several international organizations in an effort to improve coordination among countries in the taxation of international income flows. The Fiscal Affairs Committee of the OECD is a regular forum for exchanges of views and experience on international tax matters. In 1977, the OECD published a revised Model Income Tax Convention which serves as a basis for negotiations of double taxation conventions by many countries.

In a parallel effort, the United States is actively participating in the work of a group of experts convened by the United Nations, which is concluding its development of a manual for the negotiation of tax treaties between developed and developing countries. Finally, we are participating in efforts by the Inter-American Center for Tax Administrators to harmonize tax policy and administration among Western Hemisphere countries.

Until recently, the United States has been notably unsuccessful in negotiating income tax treaties with developing countries. This is the result, principally, of the desire of many developing countries that tax treaties contain some form of U.S. tax incentive for investment in their countries. The tax incentive goal runs squarely against the oft-repeated views of the Senate, and the investment neutrality principles enunciated by several administrations. Fortunately, in recent years, some developing countries have come to recognize that a treaty with the United States, even without an explicit tax incentive element, can make a valuable contribution to their economic development.

The United States has been willing to make a number of modifications in the standard treaty in an effort to minimize its revenue cost to the developing country, while still retaining the positive effects of a treaty on the climate for U.S. investment in these countries. In addition to these benefits, the tax enforcement programs of developing countries can be aided by exchange of information provisions of tax treaties. Treaties with Korea, the Philippines and Morocco are currently awaiting Senate action. We are hopeful that treaties with Egypt and Israel, both signed in 1975, can be moved forward in the coming months. Treaties with several other developing countries, including Jamaica and Bangladesh, are in advanced stages of negotiatons.

Multilateral Trade Negotiations

We also expect to make progress in the Multilateral Trade Negotiations (MTN) in establishing new international rules on government practices in the investment area. One of our major objectives in the MTN is to reach agreement on new international commitments to prevent or limit the effects on trade of export and domestic subsidy programs. Under the proposed arrangement, signatories would sanction appropriate countermeasures when an importing nation determines that any subsidy program of another country threatens or has caused injury to one of the importing nation's industries. In addition, in the case of an outright export subsidy, any adverse effect on another nation's trading interests would be sufficient to justify countermeasures. Some of the incentives currently used to attract foreign investment would be covered under these provisions. If we are successful in reaching agreement on this issue in the MTN, those countries whose production and trade interests are harmed by others' subsidies, including investment incentives will have recourse to an internationally sanctioned means of dealing with the situation.

One might well ask why the entire problem of investment incentives cannot be handled through appropriate modification of trade policy rather than through new arrangements related directly to investment policies. Part of the answer lies in the fact that such incentives, rather than creating trade, may destroy opportunities for trade by creating import substituting investment and thus be hard to reach via trade policies.

More importantly, however, trade policy would frequently represent a case of "too little, too late" in responding to investment incentives. In 1973, for example, the United States responded actively to U.S. imports of Michelin tires from a Canadian tire plant which benefitted from Canadian government subsidies. A trade measure -- such as a countervailing duty -- can only be taken after production is underway and trade is established, long after millions of dollars are invested in the facility and thousands of jobs have been created. When that kind of damage has been done, trade policy and trade measures can't remedy the injury. Preventive medicine is thus needed to avoid the difficulties caused by many investment incentive programs.

International Antitrust Cooperation

In the area of competition policy, the OECD member countries have made a number of multilateral and bilateral efforts to coordinate their international enforcement activities. The OECD Committee on Restrictive Business Practices has been the primary multilateral forum to facilitate exchange of information between government authorities. However, when particular jurisdictional issues arise, consultations are generally bilateral.

Progress has been very slow, however, in gaining acceptance and use of the OECD forum. Thus the United States has recently made efforts to examine whether improved OECD cooperation is feasible. Bilaterally, the U.S. Government has a voluntary agreement with West Germany on information exchange, and periodic consultations are held with Canada on restrictive business practice issues.

We also have underway ongoing bilateral discussions with the United Kingdom, the European Economic Community, and Japan, and have more recently begun such discussions with Australia. We have also had useful discussions with the Mexican and Nigerian governments about antitrust topics of mutual interest. In time, these modest foundations could be improved on considerably.

Codes of Conduct

The United States is also involved in a number of exercises relating to activities of multinational enterprices (MNEs):

-- The OECD successfully negotiated a set of voluntary "Guidelines" for MNEs two years ago (as part of a "package" including the national treatment and incentives/disincentives agreements outlined earlier). These consist of recommended standards of good behavior in the areas of information disclosure, antitrust, employment and industrial relations, and others. The OECD has instituted a consultative procedure in connection with the guidelines.

-- The United Nations Commission on Transnational Corporations began work on a comprehensive code of conduct last year.

-- The United Nations Conference on Trade and Development (UNCTAD) is trying to negotiate a code of conduct on the international transfer of technology.

-- Another UNCTAD group is investigating various aspects of restrictive business practices (RBPs).

-- The International Labor Organization (ILO) has adopted a "Declaration of Principles Concerning Multinational Enterprises and Social Policy."

The United Sates has participated in these negotiations in accordance with its general objective of encouraging multilateral action to maintain an open international environment for investment flows. Codes of conduct that set forth general standards of behavior can serve a useful purpose by helping to shape common views on the wide range of issues relating to foreign investment.

The United States has consistently maintained, however, that any code should satisfy two important conditions: (1) it should be non-binding, at least for an extended trial period; and (2) it should set forth the responsibilities of governments as well as MNEs. In the U.N. negotiatons, developing countries have taken a contrary view -- that the various codes should be binding and be exclusively directed to MNEs. The differences on these and other points make it impossible to say when or whether these exercises will produce results.

Conclusion

As this brief review indicates, there is a substantial amount of ongoing activity designed to relieve tensions in the international investment area. A close analysis of the existing and proposed international initiatives shows that they are steps in the right direction, although of modest magnitude. But a number of serious problems remain to be addressed.

New international arrangements seem necessary to protect firms from the increasing and often inconsistent demands of the many governments they deal with. They are needed to head off conflicts among nations. They are needed to buttress the legitmacy of the MNEs themselves as an effective instrument in the world economy.

The creation of satisfactory arrangements cannot occur overnight. Many countries remain unconvinced of the need for restraint on their freedom of action. Many nations consider investment policy as part of domestic industrial policy and not, therefore, properly subject to international arrangements. The process of negotiaton will probably be at least as lengthy in the investment area as it was in the trade and monetary fields. Yet the United States believes there is an important need for new international arrangements in this area.

Past experience in the trade and monetary spheres has taught us the need to identify and devise means to deal with potential international economic conflicts at an early stage, before they become crises and significantly retard the growth of world economic activity.

We anticipate that the process of developing these arrangements, which has already begun, will be evolutionary in nature. It will involve gradual development rather than the creation of a complete international investment regime at a single stroke. But the need for it is clear, and we are fortunate that we have time to act. We do not intend to lose this opportunity.

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REMARKS OF
THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE
ARCO FORUM OF PUBLIC AFFAIRS
NEW KENNEDY SCHOOL OF GOVERNMENT
HARVARD UNIVERSITY, CAMBRIDGE, MASSACHUSETTS

When Professor Vernon first invited me to speak here tonight, I asked what about. It was suggested that in light of our recent experience with the dollar, I should perhaps update the article I had contributed to last July's Foreign Affairs, (an article which was born of the good work Ray did for me as a consultant to the Treasury). Well....Ray is a close enough friend that I don't think he'll mind my saying that this brought to mind James Thurber's encounter with a reader who proclaimed that she dearly loved his work, especially when published in French. To which Thurber replied, "Madam, you're quite right. My writing does lose something in the original."

I think that I will let that piece and the actions subsequently taken, speak for themselves. But I will take this opportunity to attempt a similar -- though admittedly less studied -- analysis of our domestic economic situation. For as with the international system, the domestic economy is being shaped and complicated by forces which we do not adequately understand. We have rarely experienced a time when the problems faced have been this complicated. Yet we find ourselves as academics, government leaders, and as a people ill-equipped to deal with them.

So let me devote my comments to defining what our underlying problem is and what the Carter Administration is attempting to do about it. I would then like to hear your views.

The Problem of Inflation

It is no secret that inflation is the underlying problem of our economy. While business cycles come and go, inflation continues to defy economic theory by moving inexorably upward along a secular trend. From 1957 to 1967, the average rate of

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inflation for the economy was 1.7%. Inflation rose to average 4.6% during the period 1968 to 1972 and 7.7% between 1972 and 1977. Even after a severe recession, inflation has tended to build up rather than wind down, despite the well paced economic expansion we have been experiencing. The result is that today consumer prices are rising at faster than an 8% rate. Yet no one-not even the academic theorists of this great university--fully understand why. Is this inflationary trend really serious? Yes it is. For inflation is exerting a crippling influence on our economy.

-- In terms of the economy's overall performance, inflation distorts, reduces, delays and prevents needed capital formation; it stultifies long-term business planning; and generates unproductive forms of purely speculative activities.

-- In terms of the allocation of resources, inflation disrupts the essential role of relative changes in prices, and in costs, as guides to efficient production and distribution.

-- In terms of the international position of the United States, inflation impairs the competitiveness of our exports, increases our balance of payment problems, erodes our purchasing power, and undermines our dollar -- and our leadership in world affairs.

-- In terms of the common welfare of the people, inflation discourages thrift and encourages imprudence; it destroys the hopes and living standards of the poor, the unemployed, the retired -- the groups that can least afford it.

We simply must get a better handle on this corrosive phenomenon.

What does this new inflation stem from? Let me posit some hypotheses.

First, it is a legacy of an increasingly sluggish pace of investment activity. Investment has lagged for the simple reason that it has become less profitable. The rational investor, before he leaps, looks to expected returns and the probability of realizing them. Today's investor looks out and sees declining real profit margins; uncertainties about energy costs and availabilities; the necessity to utilize investment funds to meet legislative standards for environmental, health and safety purposes for which there are no measurable economic returns. One does not have to be a right wing ideologue to glean from the data that after-tax rates of return on capital -- reflecting the replacement cost of capital -- have declined from around eight percent in the mid-1960's to between 3 and 3-1/2 percent in recent years. That's a very substantial fall-off. As a percent of corporate product, profits have declined from more than 11 percent in the mid-1960's to around eight percent in recent years. We are underinvesting because it no longer pays enough to invest enough.

Too much capital spending has been going to short-payout, off-the-shelf items such as computers and trucks, and too little into the expansion and modernization of basic productive capacity. The fact was that the stock of productive capital per worker increased every year in the post-war period of 1974. The fact is that since then, the process of capital deepening has come to a complete halt.

And the performance has been no better for research and development. As a share of GNP, R&D spending has declined in the United States by more than 25% between the mid-1960's and today. Scientists and engineers, as a share of the population, have also declined, while the ratio has increased among our competitors, notably West Germany and Japan. The number of U.S. patents granted to foreign residents has doubled. Our acquisition of foreign patents has declined.

We cannot expect to rid ourselves of inflation and continue to improve our real standard of living until we improve our nation's productivity. In the last three years, 10 million jobs have been created. Many of these workers are new to the work force. With training and greater experience, they will improve their performance, better exploit the tools they work with, and provide the economy with more goods. But these developments will be of limited use with investment continuing to lag and R&D declining. In summary, for want of capital formation, productivity growth is falling short of levels required to support improved real standards of living.

Second, today's heightened inflation stems directly from the quadrupling of oil prices in the mid-70's. This sudden quantum jump in energy prices represented a profound structural change. It has brought about a mutation in the production function of the American economy which, as the world's most energy-intensive industrial plant, we have yet to assimilate.

Third, the new inflation reflects the considerable costs imposed by the rapid growth of Federal regulatory activity. Investment in environmental capital -- negligible only slightly over a decade ago -- now accounts for about nine percent of investment outlays in the manufacturing sector. In fact, if you exclude these mandated expenditures, investment as a share of value added has actually declined in the manufacturing sector since 1966. For the economy as a whole, just filling out Federal reports costs businesses $25 to $30 billion a year. And estimates of the capital cost to our economy of Federal regulations range from $60 billion a year to well over $100 billion. A year! These programs do, of course, produce needed social benefits: cleaner air, purer water, a healthier populace. But like every other desirable product, these things come at a cost which translates into an increase in the cost of living.

There is one other source of the new inflation which I would call structural. And that is the growth of the Federal (and I presume state and local) government to dinosaurian proportions. While this growth represents a long term evolution, the process has noticeably accelerated since I last served in Washington in the 1960's. Government today is more than disorganized, it is hopelessly overorganized.

Within the Executive Branch, every interest group and idea has acquired its own department, agency or office. As a result, no single official can do anything, even the slightest thing, without an exhaustive round of consultations and interagency meetings. Decisions are of necessity made--or not made-- through a process of endless talk and compromise and consensus. It is nearly impossible to act quickly on small issues, yet alone on one as complex as inflation.

But the real cost has come from the growth of duplicative bureaucracies throughout the government. In a perceptive lecture entitled "An Imperial Presidency Leads to an Imperial Congress Leads to an Imperial Judiciary." Patrick Moynihan recently spelled what he aptly calls the "Iron Law of Emulation." It states that when any branch of government acquires a new technique which enhances its power in relation to other branches, that technique will soon be adopted by those other branches as well.

Thus, Congress creates a Congressional Budget Office to rival the Executive's OMB. The Congress acquires an Office of Technology Assessment to parallel the President's Office of Science and Technology Policy. The Senate Finance Committee develops a Subcommittee on International Trade to advise the President's Special Representative for Trade Negotiations. The list of analogous functions is long. The result is that in the Office of every Congressional member and committee, there has been an explosion of advisors and experts, to match the specialists in every Executive agency.

The bottom line is a huge and expensive Congressional bureaucracy. A recent report stated that the Senate budget for FY 1978 was greater than the budget of 74 countries. As for the House, $282 million will be spent this year merely to manage the affairs of its 435 members: about $650 thousand per member. In the Senate alone, the number of committees and subcommittees has increased by 50 percent in the last 15 years. Thus, while in the first session of the 85th Congress -- 20 years ago -- there were 107 votes in the Senate and 100 in the House, in the first session of the current 95th Congress there were 636 in the Senate and 706 in the House. A Congressional study committee in 1977 found that for one-third of their day, members of the House were supposed to be in at least two places at the same time. This is hardly a good way to ensure sound decisions.

This impulse to grow and spread out has also been noted in the Judiciary.

A system of checks and balances? Yes. But the kind of check that comes to mind is that used in ice hockey. With elaborate conflicting bureaucracies in place and growing in each branch of government, the result is an abrupt cutting off of forward progress, and a de-facto imposition of sluggishness on the rest of the economy.

We are, moreover, living with the heritage of a decade's neglect and inappropriate treatment of the economy by the Federal Government. Previous Administrations and Congresses have allowed inflation to become a way of life; they have allowed the system of government to complicate itself to such an extent that its ability to undertake the decisive action required to prevent inflation from crippling our great economy has seriously been jeopardized.

To all of these structural changes there has been added a psychological bias for inflation. This is unprecedented in American history. Inflation has become a pattern of behavior, a way of thinking. Thus, labor simply assumes that, try as the President may, the prices his workers pay at the counter will continue to rise. They demand still higher wages. Borrowers expect that inflation will bail them out regardless of debt levels and money will become expensive, but not tight. Similarly, sellers of dollars in the foreign exchange markets take for granted that inflation will continue to cover their short position. All of these practices become self-fulfilling prophesies. They internalize inflation making it all the more difficult to extract.

Finally, the new inflationary foundation defined by the phenomena I have just described, exacerbates the impact of cyclical developments. It now appears that our economy is moving closer to the zone where demand will begin to be met by supply limitations. In labor markets, while the overall unemployment rate is 5.8%, unemployment among married men is down to 2.7%, the same low level reached when the economy was gathering steam in 1955, 1964 and 1972. Help wanted advertising is at an all time peak. And non-union wages have begun to rise more rapidly than union wages as a consequence of increasing strength of market forces. In industrial markets, comparable pressures are beginning to be felt. Tight supply conditions are evident in the construction business -- particularly for single family homes--where strong demand has contributed to sharp acceleration in wholesale prices. Scattered shortages of concrete are being reported. Non-electrical machinery operators are at a higher rate of utilization than ever attained during the 1973-74 capital goods boom. And there are other examples. If we prove unable to counter these influences, still more fuel will be added to the fire of inflationary expectations.

The Action Required

This then explains in good measure the causes of today's inflation. It is perplexing, it is pervasive, it is pernicious. And this Administration is determined to do something about it. The corrective program initiated by President Carter on October 24 and supplemented by the measures announced on November 1, undertakes to strike forcefully at the diverse sources of inflation that I have outlined.

-- it entails a budgetary policy designed to reduce the government's preemption of the nation's real and financial resources. The Federal deficit, which was at $66 billion when we came into office will be reduced to $30 billion or below in FY 1980.

-- this discipline in spending is being reinforced by rigorous controls over the size and complexity of the Federal bureaucracy and a drive to "defossilize" the bureaucracy. The President defied the odds by getting the Congress to enact his program of civil service reform. Now he has ordered a freeze on existing vacancies in government positions, and a limit has been placed on the hiring of employees for vacancies arising in the future.

-- our effort aims to curb regulatory excess. You may be shocked to learn -- as I was -- that no Administration has ever before kept tab of the number of regulations in force or pending, let alone of the capital costs they impose on the economy. There is much scope for the kind of cost benefit analysis that led the Administration to deregulate the airline industry. And this scope will be utilized.

-- the President will continue to parry and veto bills which are plainly inflationary, such as the sugar bill, the textiles bill, the meat import bill, the public works bill, the nurses' education bill, and the recommendations sent forward by the ITC calling for restrictions in the importation of copper, industrial fasteners and other goods.

-- in addition, the tax bill signed by President Carter includes, within a tight framework, important incentives to encourage capital formation via a reduction in the corporate tax rate, enhancements to the investment tax credit, and capital gains relief;

-- These tight - indeed austere - fiscal policies will be supported by and consistent with the monetary policy of the Federal Reserve. This was made abundantly clear on November 1. The Fed will not let down its guard. It will conduct the kind of monetary policy needed to curtail excessive growth in the money supply and buttress the dollar. Chairman Miller's commitment to these goals is unwaivering and the President has clearly shown that he is in full support.

-- Finally, the government's policy is designed to facilitate voluntary wage and price restraint by the private sector, in order to begin rooting out inflationary behavior.

In short, the Carter Administration has pledged itself to a course of austerity. We have committed ourselves to paring back the size of the government. We are committed to exercising restraint on the conduct of monetary policy. We are committed to warding off protectionist legislation. We are acting now to curtail excessive demand. And we are taking steps today to increase productivity tomorrow through increases in output and reduction in costs, rather than through the sustained shrinkage of income and employment to which we might otherwise be condemned.

Now that our program has been announced, it has become fashionable to ask if President Carter has the courage to stay the course. I assure you that none of these are politically pleasant tasks. Yet the President is determined to stick to it. And he must. Because if he fails -- if we fail -- we will only end up pushing inflation to the next highest plateau, making our problem all the more intractable.

Our commitment to the anti-inflation effort has led critics to less than charitably brand Jimmy Carter as a "conservative". But the program he has initiated is rooted neither in conservatism nor liberalism. It is rooted in realism, in the realization that in order to deliver to society the goals that liberal Democrats have long cherished, inflation must be licked.

New problems beset us. New answers are required. And this President aims to provide them.

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Department of the TREASURY NEWS
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RELEASE AT 4:00 P.M.

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury invites the attention of potential bidders in the weekly bill auction to be held on Monday, November 20, 1978, to the change in the relative amounts of 13-week and 26-week bills being offered in this auction. This adjustment was made in light of recent market conditions and is intended to enlarge the potential competitive award of 13-week bills.

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B-1264

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE
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Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT ANNOUNCES FOUR DECISIONS UNDER ANTIDUMPING ACT

The Treasury Department today announced it has determined that viscose rayon staple fiber imported from France and Finland is being sold in the United States at "less than fair value." Appraisement is being withheld in these cases for three months.

The cases are being referred to the U. S. International Trade Commission, which must decide, within 90 days, whether a U. S. industry is being, or is likely to be, injured by these sales. If the decision of the Commission is affirmative, dumping duties will be collectd on those sales found to be at less than fair value.

Sales at less than fair value generally occur when imported merchandise is sold in the United States for less than in the home market.

Interested persons were offered the opportunity to present oral and written views prior to these determinations.

The Treasury also said it has tentatively determined that viscose rayon staple fiber from Sweden and Italy has been sold at less than fair value. The Department is, accordingly, withholding appraisement on imports of that merchandise from those countries. The withholding action will not exceed six months.

The Treasury's final determinations in these two cases are due by February 16, 1979. If affirmative, the U. S. International Trade Commission will then have three months from the publication of those determinations to decide whether such imports have caused, or threatened to cause, injury to an American industry.

Imports of viscose rayon staple fiber from France, Finland, Sweden, and Italy during calendar year 1977 were valued at $1,700,000, $900,000, $2,100,000, and $49,000, respectively.

These four determinations will appear in the Federal Register of November 16, 1978.

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B-1265

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE
November 14, 1978

Contact: Robert E. Nipp
202/566-5328

SECRETARY BLUMENTHAL TO VISIT MIDDLE EAST

Secretary of the Treasury W. Michael Blumenthal this week will head the U.S. delegation to the Middle East to participate in the Fourth Annual meeting of the U.S.-Saudi Arabia Joint Commission for Economic Cooperation and to discuss financial, economic and energy matters.

The Secretary and his party depart Washington Thursday morning, November 16, returning late Wednesday, November 22, or early Thursday, November 23. The group will visit Saudi Arabia, Kuwait, Iran and Abu Dhabi.

In Jidda, the Secretary will participate in the meeting of the U.S.-Saudi Arabia Joint Commission for Economic Cooperation. Also while in Jidda and in visits to Abu Dahbi, Kuwait and Tehran, the Secretary will hold discussions with his counterparts and other government officials on the world economic and financial situation and other subjects of mutual interest.

The Secretary will be accompanied by Assistant Secretaries C. Fred Bergsten, Gene Godley and Joseph Laitin of the Treasury Department. Officials of the Departments of State, Interior, Agriculture, Commerce, Labor, Transportation, Energy, General Services Administration and the National Science Foundation will participate in the U.S.-Saudi Arabia Joint Commission meetings.

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B-1266

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

FOR RELEASE AT 4:00 P.M. November 15, 1978

TREASURY TO AUCTION $2,691 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $2,691 million of 2-year notes to refund the same amount of notes maturing November 30, 1978. The $2,691 million of maturing notes are those held by the public, including $570 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $250 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders. Additional amounts of the new securities may also be issued at the average price, for new cash only, to Federal Reserve Banks as agents for foreign and international monetary authorities.

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

(over)

B-1267

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED NOVEMBER 30, 1978

November 15, 1978

Amount Offered:	
To the public........................	$2,691 million
Description of Security:	
Term and type of security...........	2-year notes
Series and CUSIP designation........	Series V-1980 (CUSIP No. 912827 JF 0)
Maturity date........................	November 30, 1980
Call date............................	No provision
Interest coupon rate................	To be determined based on the average of accepted bids
Investment yield....................	To be determined at auction
Premium or discount.................	To be determined after auction
Interest payment dates..............	May 31 and November 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, November 21, 1978, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds.......	Thursday, November 30, 1978
b) check drawn on bank within FRB district where submitted..................	Monday, November 27, 1978
c) check drawn on bank outside FRB district where submitted..................	Friday, November 24, 1978
Delivery date for coupon securities.	Monday, December 4, 1978

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

FOR IMMEDIATE RELEASE
November 15, 1978

Contact: Alvin Hattal
202-566-8381

TREASURY SAYS GOLD MEDALLIONS CAN BE OFFERED FOR SALE IN 1980

The Treasury Department today said gold medallions bearing the images of American artists could be offered for sale in the spring of 1980 if appropriated funds are provided for their production and sale.

Legislation providing for the issuance of American Arts Gold Medallions is effective October 1, 1979, and requires that medallions containing one ounce and one-half ounce of fine gold, totalling one million ounces of fine gold, be struck and offered for sale in each of the five following calendar years.

The artists to be honored on the medallions are: Grant Wood and Marian Anderson, in 1980; Mark Twain and Willa Cather in 1981; Louis Armstrong and Frank Lloyd Wright in 1982; Robert Frost and Alexander Calder in 1983; and Helen Hayes and John Steinbeck in 1984, on the one-ounce and half-ounce medallions respectively.

The obverse side of each medallion will bear the image of the artist and the reverse side the inscription "American Arts Commemorative Series" and designs representative of the achievements of the artist being honored.

The law specifies that the medallions are to be nine-tenths fine gold and one-tenth alloy and that they be "sold to the general public at a competitive price equal to the free market value of the gold contained therein plus the cost of manufacture, including labor, materials, dies, use of machinery, and overhead expenses including marketing costs."

In the initial year, 500,000 ounces of gold will be struck in medallions of each size. Thereafter, the proportion of medallions in each size will be determined by the Secretary of the Treasury on the basis of expected demand.

Detailed plans for production and sale of the medallions, which will not be legal tender, are being developed but cannot be made final until the required appropriation is enacted.

* * *

B-1268

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

For Release Upon Delivery
Expected at 12:30 P.M.
Thursday, November 16

Remarks by Donald Haider
Deputy Assistant Secretary for State and Local Finance
Department of the Treasury
Before the
Conference Board Session on Business
in The Cities: Profits, Prospects, and Problems

The Mayflower
Washington, D. C.

Urban America: A Challenge for Business

We meet in Washington at a critical time. To paraphrase the opening line of an urban classic written 100 years ago, "It was the best of times and the worst of times."

In the 43rd month of the nation's recovery from its worst post-war recession, we have made significant progress. Total employment has increased by 12%; 10 million new jobs have been created; and unemployment has been reduced from 9% to 6%. Industrial production has increased 31% and real GNP by almost 18% since 1975.

This prosperity plus targeted countercyclical programs directed at areas of high unemployment have stabilized what many perceived to be a rapidly deteriorating urban condition just three years ago. Central city unemployment has been brought down, and for most of the nation's largest cities, deterioration has been stemmed. Take New York City, for example, the primary but not exclusive concern of Treasury's Office of State and Local Finance. Real income and jobs are increasing slightly, the city's FY 1979 budget will be balanced under State law, and, with guarded optimism, we think the city will be able to regain access to conventional borrowing sources for short- and long-term debt by the early 1980s. This week New York City will draw down the first $200 million in the $1.65 billion loan guarantees under the New York City Loan Guarantee Act of 1978.

Eight months ago President Carter announced a comprehensive national urban policy. Built upon the theme of a "New Partnership," it represented a commitment to revitalization of America's communities. As could be expected from such ambitious and sweeping initiatives contained in this announcement, some passed the Congress and some did not. Others were enacted by Executive Orders, and a few still remain to be acted upon. Let me briefly highlight some of the major urban accomplishments over the past year:

- Executive orders required the location of new Federal facilities and jobs in central cities and targeting of more Federal procurement activities to high unemployment areas.

- A targeted employment tax credit replaced the existing jobs credit program. A credit may be elected by employers who hire individuals from seven specified target groups equal to 50% of the first $6,000 of qualified first year wages--or $3,000; and $25% of the first $6,000 during the second year--or $1,500.

. The investment tax credit of 10% has been made permanent, extending beyond investment in equipment and machinery to include rehabilitation and modernization of certain existing industrial and commercial structures.

. The extension of CETA programs includes a "Private Sector Initiative Program" to encourage private employers to hire and train unemployed and low-income individuals. The Youth Employment and Demonstration Projects Act of 1977 created four new youth employment and training programs. The $1.2 billion initiatives represent the largest commitment to youth employment in the post-war period, three times the size, for example, of youth programs during the high point of the War on Poverty.

. Other successful initiatives included: Section #312 housing rehabilitation loans funded at $230 million; a 5-year $750 million urban parks program, and expanded funding for inner-city health clinics, social services, and Title I ESEA.

. The limitation on small issues of tax-exempt industrial development bonds was increased from $5 million to $10 million, and if done in conjunction with a UDAG recipient project the capital expenditure limitation increases to $20 million.

. The Federal Home Loan Bank Board, the independent regulatory agency for the savings and loan industry, established a 5-year community investment fund which will make up to $10 billion available through 12 District Banks to Savings and Loans. Savings and Loans will be able to institutionalize their community investment efforts and to begin the process of revitalizing their communities.

As significant as these accomplishments may be, the fact that important urban programs failed to be passed or to be renewed may be indicative of the shifting national mood specifically, and what might be expected in the 96th Congress generally. The proposals that failed or were not acted upon would have continued extra aid to cities with high jobless rates, created a program of public works maintenance jobs, established a national development bank, and given the states a financial incentive to help their depressed cities.

Clearly economic recovery has been the critical reason why the distressed cities of the country have been able to maintain their fiscal viability. Many did not share equally in the recovery just as they have disproportionately borne greater costs of recessions. These cities also have learned to better manage retrenchment even though this process involved in some cases reduced services, layoffs, and deferred maintenance.

However, an additional reason why large central cities have performed above general expectations these past few years is the massive inflow of direct federal assistance. Three programs alone--Antirecession Fiscal Assistance (ARFA), Local Public Works (LPW), and Public Service Employment (CETA)--from January 1977 to September 1978--provided $15.8 billion in new funds of which $3.2 billion or 20% went to the 48 largest cities. The first two of these programs have been ended. CETA has been capped by the Congress both in numbers of jobs and regulations governing length of participation in public service employment programs.

In short, the first half of the 95th Congress was far more generous to the cities than the second half. The President's 1977 Economic Stimulus Program provided two years of infusion of funds to fiscally strained cities. With the failure to renew these programs or to phase them out gradually, termination has been abrupt. This situation plus the slowdown of State spending will likely result in cities -- at least for the immediate future--learning to cope with slower growth rates of intergovernmental assistance.

As experience has demonstrated from more permanent programs, the price of getting those fiscally strained cities additional funds can be extremely costly. The costs of the economic stimulus programs from January 1977 to September 1978 are roughly equivalent to one quarter of the FY 1978 deficit. As one New York wag put it, "To get us $300 million in Federal Revenue Sharing Funds, you have to spend $6.85 billion annually for allocations to 39,000 other jurisdictions." Distributional equity may carry greater political weight when the pie is expanding than when it is shrinking. That is what we face now in reviewing the FY 1980-81 budgets: innovation amidst scarcity.

Thus, from the public finance side of the ledger, we have cautious optimism. The slowing of economic growth as well as Federal aid flows confronts the evaporation of whatever State-local operating surpluses existed. New State and local expenditure limits and local lid laws auger a further slowing of State-local spending. Without hazarding an economic projection regarding the national economy, we can only hope that the brakes have not been applied too precipitously as to induce severe local fiscal strain.

Turning to the private side of the city-business perspective, let me indicate that much progress in the business environment has occurred over the past two years. However, more durable problems of the competitiveness and productivity of our economy still must be faced:

- The real level of nonresidential fixed investment is still below the peak of 1973. Our investment of productive capital per worker increased in every year in the post war period up to 1974 and declined since.

- Capital investment has fallen short of the level deemed necessary for plant expansion and technological innovation.

- Productivity continues to lag behind major industrialized nations. Not surprisingly, if we were to look at aggregate capital investment and investment per production employee, it is lowest in cities than other geographic areas--lower for older than newer cities.

- Chronic inflation adds an even greater uncertainty to business, especially business in the cities.

Then there are a host of issues the country faces concerning R&D investment, new patents, impact of government regulation, adequacy of business profit margins, and the like. These issues relate not just to business in the cities, but the future prosperity of business in this country generally.

In linking the two, urban America and the business challenge, what can we say? First, inflation is the chief threat to both--ultimately driving expenditures faster than revenues for cities and providing an unfavorable investment climate for business in cities. Inflation, as the President has made clear, is our foremost domestic problem. Efforts aimed at reducing inflation cut across all other priorities and commitments. Recent monetary and anticipated fiscal actions have been and will continue to be painful, but the problem of inflation must and will be dealt with. This means that:

- An FY 1980 deficit of $30 billion or less is likely to require cutting into the base of current expenditure programs;
- New initiatives and unfinished business will be temporarily deferred;
- Efforts will be made to preserve the enormous employment gains achieved over the past two years, but with greater government reliance on the private sector to maintain current employment levels.

Business and government alike understand the risks of the present and future courses of actions. Neither can be wildly confident about the outcome. However, Government and business have contributed to rather short-sighted behavior with respect to the economy. Understandably, elected officials may all too easily operate with short-term returns on investment insofar as elections fall within short time frames of one another. That is one reason why the Administration's goal of steady but more modest growth reflects lessons hard learned over the past decade.

Economic fluctuations have introduced comparable uncertainties into our business and financial communities and their decisions. Cities are the victims of both. Feast and famine or pump priming and contraction have been characteristic of federal fiscal relations with cities for more than a decade. During economic slowdown or recession, industries with declining employment reduce activities more at facilities where operating costs are higher and plants older. This usually means older cities. So, too, businesses die rapidly in central cities under such circumstances. We know this all too well from the experiences of 1973-1975. Cumulatively, a declining economic base depresses revenues, inflation increases the costs of goods and services.

What all this adds up to is the necessity for business and government to approach many of their mutual problems together in a longer term perspective and to begin putting in place the necessary machinery to do so. In the case of inflation, the President's anti-inflationary program represents the beginning of a voluntary effort to gradually reduce the nation's rate of inflation. The extreme alternatives to what the President has proposed--wage and price controls or severe monetary-fiscal policies--have been tried in the past and proven to be ineffectual, or worse still, counter-productive. The President's voluntary program must be made to work for the prospect of failure would result in irreparable harm to cities and American business alike.

In terms of cities, there are limitations to the direct grant expenditure route for providing assistance or using state-local governments as agents of macro-economic policy. Although progress has been made to make tax policy more urban sensitive, there are limits to which tax policy can be used exclusively to promote urban investment. Thus, given new constraints and priorities, we must look again at what city leaders and business interests can begin to accomplish by working together. And this leads to the key message I wish to convey to you this afternoon--your contribution to a long overdue debate on economic development.

When President Carter proposed his National Urban Policy, the National Development Bank stood as the centerpiece for urban economic development. Variations of the bank have been introduced to the Congress before. The U.S. Conference of Mayors first broached the idea of an urban development bank to President-elect Carter as a lending facility to overcome the higher business costs and risks of locating or expanding in inner cities. Broadened by the input of the Urban and Regional Policy Group, an interagency working committee on the President's Urban Policy, a final draft was put together by Treasury and introduced into the 95th Congress in June. Preliminary testimony occurred on the bill and no legislative action was taken.

The proposed Bank should be viewed as a significant effort to rebuild private sector economies of distressed areas. It emerged from what was learned during the year-long process of developing an urban policy. We found that despite the overall increase in national economic activity, many geographic areas have not fully participated in recovery and growth. What was needed was a long-term economic development strategy--one which recognized market forces and the pervasive tides of economic changes, but also could be responsive to those credit worthy businesses who, with financial incentives, could be persuaded by local authorities to remain, expand, or locate in such areas.

The proposed Bank offers a package of incentives which will lower the cost of capital and hence the cost of doing business in cities and other distressed areas. To create jobs and to improve the fiscal and economic base of these areas, the Bank brings together a package of tools to influence private business investment. Briefly, the original Bank legislation contained the following combination of financing incentives for fixed asset investments:

- Federal guarantee of up to 75% of private loans to finance the costs of plant and equipment up to $15 million per project.

- Interest rate subsidies on the guaranteed portion of a project's debt to as low as 2.5%.

- Grants to fund up to 15% of the capital cost of a project to cover the costs of equipment, land acquisition, site preparation, construction and rehabilitation of facilities up to $3 million for each project.

- Taxable development bonds up to $20 million of the capital cost of projects with interest subsidies on the bonds provided by the Bank.

- A liquidity facility to purchase long-term private loans made in distressed areas to encourage the flow of capital into these areas.

As initially proposed, the Bank would have substantial resources, as great if not greater than all existing Federal programs for economic development. Over three years this would include $8 billion in loan guarantee authority, nearly $4.8 billion in interest rate subsidies, nearly $1.7 billion in grants, and $3 billion for the liquidity facility.

Admittedly, there are difficulties in the original Bank structure, defining the Bank's relationship to other Federal programs as well as mix of development tools, eligibility, and overall mission. These problems and others are being given thorough review in OMB, the participating Federal agencies, and within Treasury. However, the proposed National Development Bank did not succeed in stimulating the kind of discussion I feel it warranted. For at the heart of the Bank concept is a rather unique and unprecedented relationship between business and government. The Bank offers a means for building institutional capacities at the local government level among elected officials, financial institutions and business that are needed for both public and private purposes.

There are hundreds of cities across this country where such positive relationships have been or are being worked out. The Bank offers a vehicle for promoting this new partnership whereby new tools, new cooperative relationships, new intergovernmental relations, new forms of financing and public-private relationships will be promoted. The Bank introduces the prospect of more efficient use of resources through a leveraging of private resources and a sharing of risks endemic to large economic development undertakings.

Let me suggest to you that the proposed Bank is controversial. It faces numerous competing and cross-cutting pressures. (1) urban and rural interests; (2) differences among agencies, programs, and missions; (3) differences among congressional committees and their jurisdictions; (4) small business and large; (5) loans vs. grants; (6) public sector capital formation and private sector capital formation; (7) grants and loans vs. working capital or venture capital; (8) sectoral borrowing interests within the public sector (housing, hospitals, transportation, etc.), government-aided industries, and overall borrowing demands in the credit markets; (9) reorganization of existing departments and programs vs. reorganization and consolidation of government's loan guarantee and interest subsidy programs; and (10) budgeting constraints vs. new initiatives.

The Federal Government, it should be noted, is already involved in dozens of credit programs whose objectives are to encourage certain types of economic activity by providing individuals, businesses, and government bodies, with credit at more favorable terms than would otherwise be available in the private market. This is particularly the case in the economic development area. So, the Bank ought to be viewed as a major attempt to consolidate resources, coordinate interagency activity, and to minimize direct government involvement where local elected officials, financial institutions, and businesses can draw upon the Bank's resources for economic development objectives.

How these issues will eventually be resolved is anyone's guess at this time. Growing recognition of the need to deal with public and private sector needs on a longer term basis than we have in the past suggests that there will be a healthy debate over these issues in the 96th Congress. We welcome this debate and expect your interests and viewpoints to be fully represented.

Thus, as we scan the horizon, we must conclude that most of our older, hard pressed cities have weathered recent storms intact. Cities and rural areas are learning to live with economic and population decline. They are also learning to stabilize, to innovate, and to work with rather than against economic forces. Still, the short-term future suggests that, until we get inflation under greater control, it will be incumbent on cities to go through another round of belt tightening. Optimism springs from the growing recognition that there exists a certain convergence of interests in dealing with urban economic problems in the context that we deal with the basic problems that afflict American business. This new partnership has been begun in many of our cities and we have been working on means to allow it to thrive.

The key to our country's economic future is our private sector. The key to many of our most pressing domestic problems--particularly jobs, welfare, capital infrastructure, and economic growth--lies largely in our urban areas.

Thus, the challenge to business and government alike is a monumental one. Economic and political pressures are increasingly compelling us to search for common solutions. This, too, should be viewed as a source of optimism. We are in this together and, with your help, the answers we mutually develop will make our cities a better place to live and for business to once again prosper.

As Preesident Carter once observed, "If, a hundred years from now, this nation's experiment in democracy has failed, I suspect that historians will trace that failure to our own era, when a process of decay began in our inner cities and was allowed to spread unchecked throughout society." I suspect the same judgment may also be rendered about our economic system. Should the competitiveness and productivity of our business be unresponsive to the winds of change, it will be largely attributable to the failure to respond to the opportunities and challenge of our urban areas.

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

FOR IMMEDIATE RELEASE
November 16, 1978

Contact: Alvin M. Hattal
(202) 566-8381

TREASURY DEPARTMENT ANNOUNCES TERMINATION OF ANTIDUMPING CASE INVOLVING SPANISH STEEL FIRM AND REAFFIRMS POLICY CONCERNING STEEL IMPORT DOCUMENTATION

The Treasury Department announced today termination of the recently commenced antidumping investigation of sales of carbon steel plate by Empresa Nacional Siderurgica, S.A. of Spain. The investigation of sales by the other two companies named in the Department's notice of October 25, 1978 (43 FR 49875) is unaffected by this action.

In a related action, the Department reaffirmed its policy of exercising Customs Service authority to deny entry, if necessary, to inadequately documented imports of steel mill products covered by the steel trigger price mechanism (TPM).

The antidumping case against Empresa Nacional had been initiated October 25 based upon entries of carbon steel plate below the applicable trigger prices. Delayed or incomplete responses by the company to Customs Service telex inquiries, as well as inadequate documentation by the company of other plate shipments, contributed to the Department's decision to initiate the case.

Upon receiving full documentation from the company, the Customs Service was able to conclude that the below-TP tonnage was limited to two shipments which had narrowly missed an announced grace period and a quarterly shipping date. Since the full documentation confirmed that all other plate sales of the company were at or above the applicable trigger prices, the Treasury Department decided to terminate the investigation involving this company.

In the future, information relevant to monitoring under the trigger price mechanism which could have been provided upon entry or upon initial inquiry by Customs will not be considered once an antidumping investigation is formally initiated.

B-1270

In a related action, the Department announced today action designed to prevent recurrence of situations in which importers fail to provide at entry the data needed to operate the trigger price system effectively. Strong action -- including denial of entry of steel shipments, if necessary -- will be taken if entry documentation, including the Special Steel Summary Invoice (SSSI), is incomplete or inadequate.

The Department said such action is also necessary to improve its monitoring of steel imports generally. The Department indicated that documentation by companies from many countries, particularly in Europe, is inadequate and has made it difficult in many instances for the Customs Service to complete its trigger price analysis of particular sales promptly and thoroughly. Today's action is designed to remove that impediment.

Finally, the Department issued a reminder that Customs Service telexes inquiring into sales below trigger price are sent only to importers of record. Exporters, producers, or governments that wish to be fully informed of these matters should arrange with the appropriate importer of record to receive word of any Customs Service inquiries.

* * * * *

Attached is an errata sheet for recent Treasury Department trigger price announcements.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

CERTAIN CARBON STEEL PLATE

FROM VARIOUS COUNTRIES

Partial Termination of Antidumping Investigation

AGENCY: U.S. Treasury Department

ACTION: Partial Termination of Antidumping Investigation

SUMMARY:

This notice is to advise the public that the antidumping investigation concerning carbon steel plate from various countries is being terminated with respect to sales by Empresa Nacional Siderurgica, S.A. of Spain. The termination with respect to this company is based upon a determination that, with the exception of two shipments described in the body of this notice, all exports of carbon steel plate to the United States by this company during the period April 30 to October 31, 1978, have been proved to be at or above applicable trigger prices.

EFFECTIVE DATE:

FOR FURTHER INFORMATION CONTACT:

Donald W. Eiss, U.S. Treasury Department, Office of Tariff Affairs, 15th Street and Pennsylvania Avenue, NW., Washington, D. C. 20220 (202-566-8256).

SUPPLEMENTARY INFORMATION:

On October 25, 1978, a notice was published in the FEDERAL REGISTER advising the public that based upon information collected under the Department's Trigger Price Mechanism (TPM) the Treasury was self-initiating an antidumping investigation concerning carbon steel plate from various countries (43 FR 49875). The initiation was based upon a determination that imports of carbon steel plate sold by certain companies were entering the United States at prices below applicable trigger prices and that such sales are, or are likely to be, at less than fair value within the meaning of the Antidumping Act of 1921, as amended (19 U.S.C. 160 et seq.).

In the case of imports from Empresa Nacional Siderurgica, S.A. (Empresa), the Department decided to initiate based upon certain below trigger price sales of carbon steel plate. Other entries of carbon steel plate appeared to be at or above the applicable trigger prices. However, inadequate documentation and delayed or incomplete responses by the importer of record to Customs Service inquiries made it impossible to verify that all shipments were in fact at or above the applicable trigger prices.

After the proceedings were formally initiated, Empresa alleged that none of its sales to the United States since the TPM went into effect were below applicable trigger prices. A thorough investigation by the Treasury of all sales by this company of carbon steel plate from April 30 to October 31 revealed that, with the exception of two shipments representing a small portion of Empresa's total shipments, this allegation was correct. The two shipments which entered below applicable trigger prices were identified as such by Customs because, in one case, the shipment entered within hours of the expiration of the Department's grace period for the contracts with fixed price terms, and, in the other the shipment was exported within hours of the change from second quarter to third quarter trigger prices.

Accordingly, I hereby conclude that based upon a thorough examination of all imports of carbon steel plate by Empresa between April 30 and October 31, 1978, and a determination that virtually all such sales have been at or above applicable trigger prices, it is appropriate to terminate the Department's self-initiated antidumping investigation of sales of carbon steel plate by Empresa.

In the future, information relevant to monitoring under the trigger price mechanism which could have been provided upon entry or upon initial inquiry by Customs will not be considered once an antidumping investigation is formally initiated.

The investigation of sales by the other two companies named in the Department's notice of October 25, 1978 (43 FR 49875) is unaffected by this action.

Robert H. Mundheim
General Counsel

NOV 16 1978

ERRATA

A. Errata, November 9, 1978 Release

Base price for cold finished bars during the Fourth Quarter was stated correctly in Table III. Inadvertently the pages to be inserted in the Trigger Price Manual incorrectly stated the base price during the Fourth Quarter. Correct numbers will appear in Federal Register Notice of the November 9, 1978 announcement.

Page #	Product Description	Corrected 4th Quarter Bsse Trigger Price	Corrected 1st Quarter Base Trigger Price
12-1	Cold Finished Carbon Steel Round Bar, AISI 1008 through 1029, 19.05 mm	$460	(Correct as published 11-9-78)
12 2	Cold Finished Round Steel Bar (Free Cutting Steel-Sulphur) AISI 1212 through 1215	$521	(Correct as published 11-9-78)
12 3	Cold Finished Round Steel Bar (Free Cutting Steel Lead AISI 12L14 and 12L15 19.05 mm (3/4")	$544	(Correct as published 11-9 78)
Table III, P.6 Product 29 3	Hot Rolled Carbon Steel Strip Produced on Bar Mills, Cut Lengths	(Correct as published 11-9 78)	$325

B. Errata October 10, 1978 Trigger Price Manual

Certain size extras for Wide Flange Beams which had been previously published were left out of the October 10 Third Quarter/Fourth Quarter Manual. They should be re-inserted as shown below.

		Series	Lbs/Ft	$/MT
3-2	Wide Flange Beams Size Extra Table	30 x 10½	99 to 132	Nil
		14 x 16	605	82

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

FOR IMMEDIATE RELEASE
November 17, 1978

Contact: Robert E. Nipp
202/566-5328

TREASURY-FEDERAL RESERVE TEAM
TO GERMANY AND SWITZERLAND

The Treasury Department today announced that a Treasury and Federal Reserve fact-finding team will leave Washington Sunday to return to Germany and Switzerland for further consultations with the authorities of those countries and to obtain technical advice from the private investment community concerning the sale of U.S. Treasury securities in German deutschemarks and Swiss francs. The team will be headed by Roger C. Altman, Assistant Secretary of the Treasury for Domestic Finance. Team members are Richard M. Kelly, Treasury Deputy Assistant Secretary for Debt Management, and David Heleniak, Treasury Assistant General Counsel, Edwin Truman, Director of International Finance, Board of Governors, Federal Reserve System and Irwin Sandburg, Assistant Vice President, Federal Reserve Bank of New York.

Further decisions with respect to the issuance of U.S. Treasury securities denominated in deutschemarks and francs, including decisions on such questions as methods, terms and conditions of sale and amounts to be sold, will await the report of the fact-finding team when it returns from its second trip late Wednesday.

A Treasury-Federal Reserve fact-finding team had previously visited Frankfurt and Zurich November 6-11.

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B-1271

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

FOR IMMEDIATE RELEASE
November 17, 1978

Contact: John Plum
202-5662615

TREASURY GUARANTEES NEW YORK CITY BONDS

Secretary of the Treasury W. Michael Blumenthal today issued guarantees of $200 million of 15-year New York City serial bonds. The bonds were sold by the City to one New York State and four New York City pension funds as part of an overall $4.5 billion financing plan to help the City achieve budget balance and to return to the credit markets without Federal assistance by 1982.

Under the New York City Loan Guarantee Act of 1978 the Secretary of the Treasury is authorized to issue Federal guarantees on a maximum of $1.65 billion of New York City obligations. This $200 million represents the first installment of the potential $1.65 billion that may be issued over a four year period if the City makes substantial progress towards balancing its budget and meets certain other standards prescribed in the Act.

The bonds guaranteed today are serial bonds that bear an interest rate of 8.9 percent. The first repayment of principal is due November 1, 1979, with equal annual repayments thereafter through 1993. The guarantee lapses upon resale by the pension funds. The bonds are issued under an agreement with New York City which requires the City to pay to the Treasury Department annually a guarantee fee of 1/2 of one percent on the amount of bonds outstanding. Among other conditions, the agreement requires the City to balance its budget over the next four years and to seek access to the public credit markets before that time.

The bonds, which are guaranteed as to both principal and interest, are general obligations of the City and are secured by the full faith and credit of the City. The Guarantee Act also provides that the Secretary can withhold Federal transfer payments from the City or the State, if so needed, to offset payments to the pension funds if the City fails to meet interest or principal payments on the bonds when done.

The guarantees were issued in conjunction with the completion today of an agreement among the City, the Municipal Assistance Corporation, union pension funds, and various financial institutions in New York City, pursuant to which the City will receive, if all conditions are met, an aggregate of $4.5 billion from the sale of securities in the four-year period ending in 1982.

The guarantee of the City bonds represents the first extension of aid to the City under the Loan Guarantee Act. The Secretary has remaining authority to guarantee up to an additional $1.45 billion in City debt through City FY 1982. The financing agreements call for an aggregate of $750 million (including the $200 million guaranteed today) in guaranteed bonds to be issued in FY 1979 and FY 1980 as part of the total financing required by the City.

In addition to the $200 million in guaranteed City bonds, the Municipal Assistance Corporation today sold $401 million of its bonds to both the City pension funds and nearly 60 financial institutions as well as $250 million to underwriters for offering to the public. The financing agreements commit the parties to provide additional financing as part of the $4.5 billion package in the future.

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Missing Press Release

FEDERAL FINANCING BANK ACTIVITY - 11/20/78

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 20, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,800 million of 13-week Treasury bills and for $2,901 million of 26-week Treasury bills, both series to be issued on November 24, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 22, 1979			26-week bills maturing May 24, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.874a/	8.504%	8.81%	95.490	8.970%	9.52%
Low	97.807	8.772%	9.09%	95.472	9.006%	9.56%
Average	97.826	8.696%	9.01%	95.477	8.996%	9.55%

a/ Excepting 2 tenders totaling $210,000

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 23%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 26,125,000	$ 26,125,000	$ 20,625,000	$ 20,625,000
New York	3,588,615,000	2,215,145,000	4,643,365,000	2,639,465,000
Philadelphia	20,640,000	20,640,000	11,955,000	11,955,000
Cleveland	24,670,000	24,670,000	31,455,000	21,455,000
Richmond	19,935,000	19,935,000	17,890,000	16,390,000
Atlanta	26,920,000	26,920,000	52,455,000	28,605,000
Chicago	331,215,000	256,215,000	356,080,000	32,230,000
St. Louis	31,295,000	24,295,000	41,640,000	20,140,000
Minneapolis	20,275,000	20,275,000	29,045,000	25,965,000
Kansas City	23,685,000	23,685,000	32,480,000	32,480,000
Dallas	13,310,000	13,310,000	11,895,000	11,595,000
San Francisco	172,000,000	122,000,000	239,450,000	27,450,000
Treasury	6,825,000	6,825,000	12,175,000	12,175,000
TOTALS	$4,305,510,000	$2,800,040,000b/	$5,500,510,000	$2,900,530,000c/

b/Includes $355,755,000 noncompetitive tenders from the public.
c/Includes $279,045,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-1274

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

FOR RELEASE AT 4:00 P.M. November 21, 1978

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 November 30, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,709 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated August 31, 1978, and to mature March 1, 1979 (CUSIP No. 912793 X2 7), originally issued in the amount of $3,404 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated November 30, 1978, and to mature May 31, 1979 (CUSIP No. 912793 Y7 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 30, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,137 million of the maturing bills. 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. 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, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, November 27, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) 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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 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 November 30, 1978, in cash or other immediately available funds or in Treasury bills maturing November 30, 1978. 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 IMMEDIATE RELEASE November 21, 1978

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $2,692 million of $4,963 million of tenders received from the public for the 2-year notes, Series V-1980, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	9.33% 1/
Highest yield	9.37%
Average yield	9.36%

The interest rate on the notes will be 9-1/4%. At the 9-1/4% rate, the above yields result in the following prices:

Low-yield price	99.857
High-yield price	99.786
Average-yield price	99.804

The $2,692 million of accepted tenders includes $ 650 million of noncompetitive tenders and $1,867 million of competitive tenders from private investors, including 60% of the amount of notes bid for at the high yield. It also includes $ 175 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 to the $2,692 million of tenders accepted in the auction process, $ 250 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 November 30, 1978, and $210 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

1/ Excepting 7 tenders totaling $1,055,000

B-1276

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

FOR IMMEDIATE RELEASE
November 21, 1978

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES RESULTS OF GOLD SALE

The Department of the Treasury announced that 750,000 troy ounces of fine gold were sold today to 17 successful bidders at prices from $197.00 to $201.30 per ounce, yielding an average price of $199.05 per ounce.

Gross proceeds from this sale were $149.3 million. Of the proceeds,$31.7 million will be used to retire Gold Certificates held by Federal Reserve banks. The remaining $117.6 million will be deposited into the Treasury as a miscellaneous receipt.

A total of 110 bids were submitted by 24 bidders for a total amount of 911,600 ounces at prices ranging from $12.50 to $201.30 per ounce.

The General Services Administration will release additional information, including the list of successful bidders and the amounts of gold awarded to each, after those bidders have been notified that their bids have been accepted.

The current sale was the seventh in a series of monthly auctions being conducted by the General Services Administration on behalf of the Department of the Treasury. The next sale, at which 1,500,000 ounces will be offered, will be held on December 19. This sale will be the first in a program announced on November 1 of monthly offerings of at least 1,500,000 ounces. The actual amount to be offered at each sale will be announced about four weeks in advance.

The fine gold content of the bars to be offered in December will be 99.95 percent or more. At the January 16 sale, 500,000 ounces will be offered in bars whose fine gold content is close to 90 percent, with the remainder in bars containing no less than 99.5 percent fine gold. The Treasury expects to include approximately the same amount of such gold bars at each subsequent auction. Sale of these types of bars are being made because they constitute a large portion of the gold stock of the United States.

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B-1277

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

FOR IMMEDIATE RELEASE
November 22, 1978

Contact: Alvin M. Hattal
(202) 566-8381

TREASURY MAKES PRELIMINARY DETERMINATION THAT NON-RUBBER FOOTWEAR FROM INDIA IS NOT BEING SUBSIDIZED

The Treasury Department today announced a preliminary decision that exports to the United States of non-rubber footwear from India are not being subsidized.

The Treasury found that certain practices of the Government of India with respect to the manufacture or exportation of this merchandise do constitute a subsidy but that the benefits received are legally de minimis, or so insignificant in size that they do not warrant the assessment of countervailing duties.

Treasury's investigation was begun after a petition was received on March 10, 1978, from the American Footwear Industries Association. A final decision in this case must be made by March 10, 1979.

Notice of this action will appear in the Federal Register on November 24, 1978.

Imports of non-rubber footwear from India amounted to approximately $10 million during calendar year 1977.

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B-1278

epartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 22, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT FINDS STEEL WIRE ROPE
FROM KOREA IS NOT BEING "DUMPED"

The Treasury Department today announced its final determination that steel wire rope from the Republic of Korea is not being sold in the United States at less than fair value.

"Sales at less than fair value" generally occur when merchandise is sold in the United States for less than in the home market or to third countries. In this case, the petitioner alleged the possibility of sales in the home market, or to third countries, at prices below the cost of producing steel wire rope in Korea. Under the law, if sales below cost are found and insufficient sales remain at prices above the cost of producing the merchandise, the "fair value" is based upon the "constructed value" of the merchandise. Treasury found no sales below cost in this case and therefore made its determination based on comparisons of prices in the home market and the United States.

Notice of this action will appear in the Federal Register of November 27, 1978.

Imports of steel wire rope from the Republic of Korea were valued at $9.7 million during the period investigated, May-October 1977.

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B-1279

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

File Copy

FOR IMMEDIATE RELEASE
November 24, 1978

Contact: Charles Arnold
202/566-2041

UNITED STATES/FRANCE TAX TREATIES SIGNED

The Treasury Department announced the signing today of an estate and gift tax treaty and a protocol to the income tax treaty between the United States and France. The two treaties were signed in Washington by the Assistant Secretary of State for European Affairs, George S. Vest, and the Ambassador of France, Francois de Laboulaye. Both the estate and gift tax treaty and the protocol to the income tax treaty must be approved by the U. S. Senate before entering into effect.

The new estate and gift tax treaty will replace the existing estate tax treaty between the two countries, which has been in effect since 1949. It will apply in the United States to the Federal estate tax, the Federal gift tax, and the Federal tax on generation-skipping transfers, and in France to the duty on gifts and the duty levied on succession. The treaty is similar in principle to the U. S. estate tax treaty with the Netherlands, which entered into force in 1971, and to the U. S. "model" estate and gift tax treaty published by the Treasury Department on March 16, 1977.

The general principle underlying the estate and gift tax treaty is to grant to the country of domicile the right to tax estates and transfers on a worldwide basis. The treaty also permits the other country to tax certain property on the basis of its location there and provides for a credit for tax paid to the other country in these circumstances. The treaty provides rules for resolving the issue of domicile.

Under the new treaty a U. S. citizen who maintains a domicile in the United States but is temproarily resident in France does not become subject to French tax jurisdiction unless he has lived there for five of the seven years preceding his death or the making of a gift. (This rule applies reciprocally).

B-1280

(MORE)

The estate and gift tax treaty will enter into force on the first day of the second month following the month in which instruments of ratification are exchanged, and will remain in force until terminated by one of the Contracting States. It may not be terminated for five years after it enters into force.

The new protocol modifies the income tax treaty of 1967, as amended in 1970. Its principal purpose is to avoid double taxation of U. S. citizens residing in France.

A change in French law effective in 1979 will subject U. S. citizens residing in France to French tax on their worldwide income on the same basis as other French residents, bringing to an end the former special exemption of U. S. citizens. Under French law, a foreign tax credit for U. S. tax paid on U. S. source investment income would extend only to the amount of tax which the treaty authorizes for French residents who are not U. S. citizens. Since the U. S. tax on U. S. citizens is not subject to treaty limitation, the French credit could be inadequate to avoid double taxation.

Under the protocol, the two countries agree to share the responsibility for avoiding double taxation of U. S. citizens residing in France. France will exempt from tax their U. S. source business and employment income, and the United States will credit French tax on their U. S. source investment income in excess of the French credit by treating the corresponding portion of this income as having a French source.

The protocol and an accompanying exchange of letters clarify the French tax treatment of partnership income, pension contributions and benefits, and other matter of concern to U. S. citizens residing in France.

In addition, the protocol provides for reciprocal exemption at source of interest on bank loans, and it amends the income tax treaty in several other respects to bring it more into line with recent tax treaties.

The protocol will enter into force one month after the exchange of instruments of ratification and will take effect for taxable years beginning on or after January 1, 1979. It will remain in force as long as the income tax treaty of 1967, as amended in 1970, remains in force.

A copy of the estate and gift tax treaty and of the protocol to the income tax treaty is attached.

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CONVENTION BETWEEN
THE UNITED STATES OF AMERICA
AND THE FRENCH REPUBLIC
FOR THE AVOIDANCE OF DOUBLE TAXATION
AND THE PREVENTION OF FISCAL EVASION
WITH RESPECT TO TAXES
ON ESTATES, INHERITANCES, AND GIFTS

The President of the United States of America and the President of the French Republic, desiring to conclude a convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on estates, inheritances, and gifts, have appointed for that purpose as their respective plenipotentiaries:

The President of the United States of America: The Honorable George S. Vest, Assistant Secretary of State for European Affairs,

The President of the French Republic: His Excellency François de Laboulaye, Ambassador of France,

who having communicated to each other their full powers, found in good and due form, have agreed upon the following provisions.

CHAPTER I

SCOPE OF THE CONVENTION

Article 1

Estates and Gifts Covered

(1) This Convention shall apply to estates of decedents whose domicile at death was in France and to estates of decedents which are subject to the taxing jurisidiction of the United States by reason of the decedent's domicile therein or citizenship thereof at death.

(2) This Convention shall also apply to gifts of donors whose domicile at the time of making a gift was in France, and to gifts which are subject to the taxing jurisdiction of the United States by reason of the donor's domicile therein or citizenship thereof at the time of making of a gift.

(3) A person who at the time of death or the making of a gift was a resident of a possession of the United States and who acquired United States citizenship solely by reason of (a) his being a citizen of such possession, or (b) his birth or residence within such possession, shall be considered as having been neither domiciled in nor a citizen of the United States for purposes of this Convention.

Article 2

Taxes Covered

(1) This Convention shall apply to:

(a) In the case of the United States: the Federal gift tax and the Federal estate tax, including the tax on generation-skipping transfers; and

(b) In the case of France: the duty on gifts and the duty levied on succession.

(2) This Convention shall also apply to any identical or substantially similar taxes on estates, inheritances, and gifts which are subsequently imposed by a Contracting State in addition to, or in place of, the existing taxes.

(3) The competent authorities of the Contracting States shall notify each other of any substantial changes which have been made in their respective laws relating to taxes on estates, inheritances, and gifts.

CHAPTER II

DEFINITIONS

Article 3

General Definitions

(1) In this Convention:

(a) The terms "Contracting State" and "other Contracting State" mean the United States or France, as the context requires.

(b) The term "United States" means the United States of America and, when used in a geographical sense, means the states thereof and the District of Columbia. Such term also includes any area outside the States and the District of Columbia which is, in accordance with international law, an area within which the United States may exercise rights with respect to the natural resources of the seabed and sub-soil.

(c) The term "France" means the French Republic and, when used in a geographical sense, means the European and Overseas departments of the French Republic. Such term also includes any area outside those departments which is, in accordance with international law, an area within which France may exercise rights with respect to the natural resources of the seabed and sub-soil.

(d) The term "enterprise" means a commercial or industrial enterprise carried on by an individual domiciled in a Contracting State.

(e) Except where expressly stated to the contrary, the term "tax" means the tax or taxes referred to in Article 2 which are imposed by the Contracting State (or Contracting States) as indicated by the context of the term's usage.

(f) The term "competent authority" means:

(i) In the case of the United States, the Secretary of the Treasury or his delegate, and

(ii) In the case of France, the Minister of Budget or his delegate.

(2) Any term not otherwise defined in this Convention shall, unless the context otherwise requires, have the meaning which it has under the tax laws of the Contracting State whose tax is being determined. However, if the meaning of such a term under the laws of one of the

Contracting States is different from the meaning of the term under the laws of the other Contracting State, the Contracting States may, in order to prevent double taxation or to further any other purpose of this Convention, establish a common meaning of the term for purposes of this Convention.

Article 4

Fiscal Domicile

(1) For the purpose of this Convention, the question whether an individual was domiciled in one of the Contracting States shall be determined according to the law of that State.

(2) Where by reason of the provisions of paragraph (1) an individual was domiciled in both Contracting States, then this case shall be determined in accordance with the following rules:

(a) He shall be deemed to have been domiciled in the Contracting State in which he maintained his permanent home;

(b) If he had a permanent home in both Contracting States or in neither of the Contracting States, his domicile shall be deemed to be in the Contracting State with which his personal relations were closest (center of vital interests);

(c) If the Contracting State in which he had his center of vital interests cannot be determined, his domicile shall be deemed to be in the Contracting State in which he had an habitual abode;

(d) If he had an habitual abode in both Contracting States or in neither of the Contracting States, his domicile shall be deemed to be in the Contracting State of which he was a citizen; or

(e) If he was a citizen of both Contracting States or of neither of them, the competent authorities of the Contracting States shall determine the Contracting State of his domicile by mutual agreement.

(3) (a) Notwithstanding the provisions of paragraph (2), an individual who at the time of his death or the making of a gift was a citizen of one of the Contracting States without being a citizen of the other Contracting State, and who would be considered under paragraph (1) as having been domiciled in both Contracting States, shall be deemed to have been domiciled only in the Contracting State of which he was a citizen, if he had a clear intention to retain his domicile in that Contracting State and if he was domiciled in the other Contracting State in the aggregate less than 5 years during the 7-year period ending with the year of his death or the making of a gift.

(b) Nothwithstanding the provisions of paragraph (2) or of subparagraph (a) of this paragraph, an individual who at the time of his death or the making of a gift was a citizen of one of the Contracting States without being a citizen of the other Contracting State, and who would be considered under paragraph (1) as having been domiciled in both Contracting States, shall be deemed to have been domiciled only in the Contracting State of which he was a citizen if:

(i) He was domiciled in the other Contracting State in the aggregate less than 5 years during the 7-year period ending with the year of his death or the making of a gift, provided that he was in that other Contracting State by reason of an assignment of employment or as the spouse or other dependent (personne à charge) of a person present in that other Contracting State for such a purpose; or

(ii) He was domiciled in the other Contracting State in the aggregate less than 7 years during the 10-year period ending with the year of his death or the making of a gift, provided that he was in that other Contracting State by reason of a renewal of an assignment of employment or as the spouse or other dependent (personne à charge) of a person present in that other Contracting State for such a purpose.

CHAPTER III

TAXING RULES

Article 5

Immovable (Real) Property

(1) Immovable (real) property may be taxed by a Contracting State if such property is situated in that State.

(2) The term "immovable (real) property" shall be defined in accordance with the tax laws of the Contracting State in which such property is situated. Mortgages or other claims secured by immovable (real) property shall not be regarded as immovable (real) property.

(3) The provisions of paragraphs (1) and (2) shall also apply to immovable (real) property which forms part of the business property of a permanent establishment or is used for the performance of professional services or other independent activities of a similar character.

Article 6

Business Property of a Permanent Establishment and Assets Pertaining to a Fixed Base Used for the Performance of Professional Services

(1) Except as provided in Article 5, assets (other than ships and aircraft operated in international traffic and movable property pertaining to the operation of such ships and aircraft) used in or held for use in the conduct of the business of a permanent establishment may be taxed by a Contracting State if the permanent establishment is situated therein.

(2) For 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. If an individual is a member of a partnership or other association that is not a corporation which is engaged in industrial or commercial activity through a fixed place of business, he shall be deemed to have been so engaged to the extent of his interest therein.

(3) The term "permanent establishment" shall include especially:

(a) A seat of management;

(b) A branch;

(c) An office;

(d) A factory;

(e) A workshop;

(f) A warehouse;

(g) A mine, quarry, or other place of extraction of natural resources; and

(h) A building site or a construction or assembly project which exists for more than 12 months.

(4) Notwithstanding the provisions of paragraphs (2) and (3), the term "permanent establishment" shall not be deemed 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 person;

(d) The maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or the collection of information, for the enterprise;

(e) The maintenance of a fixed place of business solely for the purpose of advertising, supplying information, conducting scientific research, or similar activities which have a preparatory or auxiliary character, for the enterprise; or

(f) The maintenance of a fixed place of business solely for investment purposes (and not for purposes of engaging in industrial or commercial activity) of an individual, whether by the individual or his employees or through a broker or other agent.

(5) A person who was acting in a Contracting State on behalf of an enterprise--other than an agent to whom paragraph (4)(f) or (6) applies--shall be deemed to have been a permanent establishment of the enterprise in that State if such person had, and habitually exercised in that State, an authority to conclude contracts in the name of the

enterprise, unless the exercise of such authority was limited to the purchase of goods or merchandise for the enterprise.

(6) An enterprise shall not be deemed to have had a permanent establishment in a Contracting State merely because the enterprise engaged in industrial or commercial activity in that State through a broker, general commission agent, or any other agent of an independent status acting in the ordinary course of his business.

(7) The fact that an enterprise controlled a corporation which engaged in industrial or commercial activity in a Contracting State (whether through a permanent establishment or otherwise) shall not be taken into account in determining whether the enterprise had a permanent establishment in that State.

(8) Except as provided in Article 5, assets pertaining to a fixed base used for the performance of professional services or other independent activities of a similar character may be taxed by a Contracting State if the fixed base is situated in that State.

Article 7

Tangible Movable Property

(1) Tangible movable property other than currency may be taxed by a Contracting State if such property is situated in that State and is not taxable by the other Contracting

State pursuant to Article 6. For this purpose, tangible movable property which is in transit shall be considered situated at the place of destination.

(2) Notwithstanding the provisions of paragraph (1), tangible movable property owned by an individual referred to in paragraph (3) of Article 4 and used for his normal personal use or that of his family may be taxed only by the Contracting State in which the individual was domiciled.

(3) Notwithstanding the provisions of paragraph (1), ships and aircraft operated in international traffic, and movable property pertaining to the operation of such ships and aircraft, may be taxed by a Contracting State if such ships and aircraft are registered in that Contracting State. Other ships and aircraft may be taxed by a Contracting State if the harbors and airports most frequently used by such ships and aircraft are situated in that State.

Article 8

Taxation Other than Pursuant to Articles 5, 6, and 7

Except as provided in Articles 5, 6, and 7, property, including shares or stock in a corporation, debt obligations (whether or not there is written evidence thereof), other intangible property, and currency may be taxed by a Contracting State only if the decedent or donor was a citizen of or was domiciled in that State at the time of death or the making of a gift, and if taxable by that State under its laws.

Article 9

Deduction of Debts

(1) Debts, to the extent they would be deductible according to the internal law of a Contracting State, shall be deducted from the gross value of the property which may be taxed by that State in the proportion that such gross value bears to the gross value of the entire property wherever situated.

(2) Notwithstanding the provisions of paragraph (1), for purposes of determining the French tax:

(a) Debts pertaining to a permanent establishment or to a fixed base used for the performance of professional services or other independent activities of a similar character shall be deducted from the value of assets referred to in Article 6.

(b) Debts pertaining to ships and aircraft operated in international traffic and to movable property related to the operation of such ships and aircraft shall be deducted from the value of these assets.

Article 10

Charitable Exemptions and Deductions

(1) A transfer to a legal entity created or organized in a Contracting State shall be exempt from tax, or fully deductible from the gross value liable to tax, in the other

Contracting State with respect to its taxes referred to in Article 2, provided the transfer would be eligible for such exemption or deduction if the legal entity had been created or organized in that other Contracting State.

(2) The provisions of paragraph (1) shall apply only if the legal entity:

(a) Has a tax-exempt status in the first Contracting State by reason of which transfers to such legal entity are exempt or fully deductible;

(b) Is organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes; and

(c) Receives a substantial part of its support from contributions from the public or governmental funds.

(3) This Article shall not apply to transfers to a Contracting State or a political or administrative subdivision thereof unless specifically limited to a purpose described in paragraph (2)(b).

Article 11

Community Property and Marital Deduction

(1) Property (other than community property) which was acquired during marriage for consideration by an individual who at the time of death or the making of a gift was domiciled in, or a citizen of, the United States and which passes to the spouse of such individual shall, for the

purposes of determining the French tax, be treated as if it were community property, unless the spouses expressly elected to have a treatment other than community property treatment provided by French civil law.

(2) In the case of an individual who was domiciled in France there shall, for purpose of determining the United States tax, be allowed the same marital deduction in effect on the date of signature of this Convention, as if such individual were domiciled in the United States, and in such a case the tax rates applicable if the decedent or donor had been domiciled in the United States shall apply. If the tax determined without regard to the preceding provision of this paragraph is lower than that computed under the preceding provision, the lower tax shall apply.

(3) In the event the laws of either Contracting State are changed substantially to reduce the tax benefits of the marital deduction or community property, the competent authorities of the Contracting States shall consult to determine whether this Article shall be modified or shall cease to have effect.

CHAPTER IV

RELIEF FROM DOUBLE TAXATION

Article 12

Exemptions and Credits

(1) Except as otherwise provided in this Convention, each Contracting State shall impose its tax, and shall allow exemptions, deductions, credits, and other allowances, in accordance with its laws.

(2) Double taxation shall be avoided in the following manner:

(a) In determining the French tax where property may be taxed by the United States in accordance with Article 5, 6, or 7, such property shall be exempt from the French tax. However, French tax with respect to property which is taxable by France in accordance with this Convention shall be computed at the rate appropriate to the total of property taxable under French law.

(b) In determining the United States tax:

(i) Where both Contracting States impose tax with respect to property which is taxable by France in accordance with Article 5, 6, or 7, the United States shall allow a credit equal to the amount of the tax imposed by France with respect to such property.

(ii) Notwithstanding the provisions of subparagraph (i), the total amount of all credits allowed by the United States pursuant to this Article or pursuant to its laws or other conventions with respect to all property in respect of which a credit is allowable under subparagraph (i) shall not exceed that part of the tax of the United States which is attributable to such property.

(iii) Any credits for tax imposed by France allowable under this Article are in lieu of, and not in addition to, any such credits allowed by the laws of the United States.

(3) If the decedent or donor was a citizen of the United States at the time of death or the making of a gift and would be considered under Article 4 as having been domiciled in France at such time, the United State shall allow a credit equal to the amount of the tax imposed by France.

(4) Exemption and credits under this Article shall be tentatively allowed by the United States on the basis of statements made in the tax return as to the amount of any tax paid or payable to France. However, such exemptions and credits shall not be finally allowed until any such tax for which the exemption or credit is allowable has been paid.

(5) The provisions of this Convention shall not result in an increase in the amount of the tax imposed by either Contracting State under its domestic laws. A reduction in the credit allowed against United States tax for the tax paid to France which results from the application of this Convention shall not be construed as an increase in tax.

CHAPTER V

SPECIAL PROVISIONS

Article 13

Time Limitations on Claims for Credit or Refund

(1) Any claim for credit or for refund of tax founded on the provisions of this Convention shall be made before the expiration of the latest of:

(a) The time for the making of a claim for refund of tax under the laws of the Contracting State to which the claim for credit or refund is made;

(b) Five years from the date of death of the decedent, or from the making of a gift with respect to which the claim is made; or

(c) One year after final determination (administrative or judicial) and payment of tax for which any credit under Article 12 is claimed, provided that the determination and payment are made within 10 years of the date of death of the decedent or of the making of a gift.

(2) Any refund based on the provisions of this Convention shall be made without payment of interest on the amount so refunded.

Article 14

Mutual Agreement Procedure

(1) Any person who considers that the actions of one or both of the Contracting States result or will result for him

in taxation not in accordance with this Convention may, notwithstanding the remedies provided by the laws of those States, present his case to the competent authority of either Contracting State. Such presentation must be made within the period of time prescribed for the filing of a claim for credit or refund under Article 13. Should the person's claim be considered to have merit by the competent authority of the Contracting State to which the claim is made, it shall seek agreement with the competent authority of the other Contracting State with a view to the avoidance of taxation contrary to the provisions of this Convention.

(2) The competent authorities of the Contracting States shall resolve by mutual agreement any difficulties or doubts arising as to the application of this Convention.

(3) The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of this Article. When it seems advisable for the purpose of reaching an agreement, the competent authorities may meet together for an oral exchange of opinions.

(4) When the competent authorities reach such an agreement, taxes shall be imposed, and refund or credit of taxes shall be allowed by the Contracting States in accordance with such agreement, notwithstanding any procedural rule (including the statute of limitations) applicable under the laws of either Contracting State.

(5) The competent authority of each Contracting State may prescribe such regulations and forms as may be necessary or appropriate to give effect to and implement the provisions of this Convention.

Article 15

Filing of Returns and Exchange of Information

(1) (a) The provisions of Articles 5, 6, 7, or 8, which change the taxability or situs of property or the amount of tax which would have been due in the absence of this Convention, shall not change:

(i) The requirements of the respective tax laws of the Contracting States relating to information or tax returns or notices, transfer certificates or maintenance of records, and

(ii) The applicability and amount of any sanctions of such laws with respect to the requirements referred to in subparagraph (i).

(b) As concerns the United States, notwithstanding the provisions of paragraph (a), the requirements or sanctions found to be unnecessary for the prevention of fraud or fiscal evasion with respect to taxes to which this Convention applies may be eliminated or modified (but not made more burdensome) by regulations prescribed pursuant to paragraph (5) of Article 14.

(2) The competent authority of each Contracting State shall furnish the competent authority of the other Contracting State such information as is pertinent to:

(a) Carrying out the provisions of this Convention or the laws of such other Contracting State concerning its tax insofar as the taxation thereunder is in accordance with this Convention, or

(b) Preventing fraud or fiscal evasion in relation to the taxes which are the subject of this Convention (including information with respect to property exempted from the tax of the first-mentioned Contracting State by reason of Article 8).

However, this paragraph shall not require the competent authority of a Contracting State to furnish information not in the possession of that Contracting State with respect to property exempted from its tax by reason of Article 8. Any information furnished shall be treated as secret and shall not be disclosed to any persons other than those (including a court or administrative body) concerned with assessment, collection, enforcement, or prosecution in respect of the taxes which are the subject of this Convention.

(3) In no case shall the provisions of paragraph (2) be construed so as to impose on one of the Contracting States the obligation:

(a) To carry out administrative measures at variance with the laws or the administrative practice of that or of the other Contracting State;

(b) To supply particulars which are 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.

(4) The furnishing of information shall be either on a routine basis or on request with reference to particular cases. The competent authorities of the Contracting States shall agree on the list of information which shall be furnished on a routine basis.

Article 16

Assistance in Collection

(1) The two Contracting States undertake to lend assistance and support to each other in the collection of the taxes to which this Convention relates, together with interest, costs, and additions to the taxes and fines not being of a penal character according to the laws of the State requested, in cases where the taxes are definitively due according to the laws of the State making the application.

(2) In the case of an application for enforcement of taxes, revenue claims of each of the Contracting States

which have been finally determined will be accepted for enforcement by the State to which application is made and collected in that State in accordance with the laws applicable to the enforcement and collection of its own taxes.

(3) The application will be accompanied by such documents as are required by the laws of the State making the application to establish that the taxes have been finally determined.

(4) If the revenue claim has not been finally determined, the State to which application is made will take such measures of conservancy (including measures with respect to transfer of property belonging to nonresident aliens) as are authorized by its laws for the enforcement of its own taxes.

(5) The assistance provided for in this Article shall not be accorded with respect to estates of citizens of the Contracting State to which application is made.

Article 17

Diplomatic and Consular Officials

(1) Nothing in this Convention shall affect the fiscal privileges of diplomatic or consular officials under the general rules of international law or under the provisions of special agreements.

(2) Insofar as such privileges prevent the imposition of tax in the receiving Contracting State, the right to tax shall be reserved to the Contracting State in whose service the persons concerned exercised their functions and, nothwithstanding any other provisions of this Convention, such persons shall not be deemed to have been domiciled in the receiving Contracting State.

Article 18

Territorial Extension

(1) This Convention may be extended, either in its entirety or with necessary modifications, to all or any of the Overseas Territories of the French Republic or the territories for whose international relations the United States is responsible, if such territories impose taxes substantially similar in character to those referred to in Article 2. Any such extension shall take effect from such date and subject to such modifications and conditions as may be specified and agreed between the Contracting States in notes to be exchanged through diplomatic channels or in any other manner in accordance with their constitutional procedure. In the case of the United States, such procedure shall be that set forth in Article II, Section 2, of the Constitution of the United States (advice and consent of the Senate).

(2) At any time after the expiration of a period of one year from the effective date of an extension made by virtue of paragraph (1) either of the Contracting States may, by a written notice of termination given to the other Contracting State through diplomatic channels, terminate the application of the provisions in respect of any territory to which this Convention has been extended, in which case the provisions of the Convention shall cease to be applicable to such territory on and after the first day of January following the date of such notice.

(3) Unless otherwise agreed by both Contracting States, the termination of the Convention by one of the Contracting States under Article 20 shall also terminate the application of the Convention to any territory to which it has been extended under this Article.

CHAPTER VI

FINAL PROVISIONS

Article 19

Entry into Force

(1) This Convention shall be ratified and the instruments of ratification shall be exchanged at Paris as soon as possible.

(2) This Convention shall enter into force the first day of the second month following the month in which the exchange of the instruments of ratification takes place. Its provisions shall apply to estates of persons dying and to gifts made on or after that date.

(3) The Convention of October 18, 1946, as modified by the Protocol of May 17, 1948, and the Convention of June 22, 1956, shall be terminated on, and shall cease to have effect from, the date on which the present Convention enters into force according to paragraph (2).

Article 20

Termination

(1) This Convention shall remain in force until terminated by one of the Contracting States. However, not earlier than the fifth year following the year in which this Convention entered into force, either Contracting State may, between the first of January and the thirtieth of June, give written notice of termination through diplomatic channels, with effect from the end of the calendar year in which such notice is given. In such an event, its provisions shall not apply to estates of persons dying or to gifts made after the end of the calendar year with respect to the end of which this Convention has been terminated.

(2) Notwithstanding the provisions of paragraph (1), if the effects of this Convention are substantially altered as a result of changes made in the tax law of either Contracting State, either Contracting State may, through diplomatic channels, give a written notice of termination with effect not earlier than 6 months after such notice is given. In such an event, its provisions shall not apply to

estates of persons dying or to gifts made on or after the effective date of the termination.

IN WITNESS WHEREOF, the plenipotentiaries of the two Contracting States have signed this Convention and affixed thereto their seals.

DONE at Washington, in duplicate, in the English and French languages, each text being equally authentic, this 24th day of November 1978.

For the President of the United States of America:

(Signed)

George S. Vest
Assistant Secretary of State for European Affairs

For the President of the French Republic:

(Signed)

Francois de Laboulaye
Ambassador of France

PROTOCOL
TO THE CONVENTION BETWEEN THE UNITED STATES OF AMERICA AND THE FRENCH REPUBLIC WITH RESPECT TO TAXES ON INCOME AND PROPERTY OF JULY 28, 1967, AS AMENDED BY THE PROTOCOL OF OCTOBER 12, 1970

The President of the United States of America and the President of the French Republic, desiring to amend the Convention between the United States of America and the French Republic with respect to taxes on income and property of July 28, 1967, as amended by the Protocol of October 12, 1970, have appointed for that purpose as their respective plenipotentiaries:

The President of the United States of America: The Honorable George S. Vest, Assistant Secretary of State for European Affairs, and

The President of the French Republic: His Excellency François de Laboulaye, Ambassador of France,

who have agreed upon the following provisions.

ARTICLE 1

1. In Article 1, paragraph (1) is replaced by the following:

"(1) The taxes which are the subject of the present Convention are:

(a) In the case of the United States, the Federal income taxes imposed by the Internal Revenue Code and the excise tax on insurance premiums paid to foreign insurers. The excise tax imposed on insurance premiums paid to foreign insurers, however, is covered only to the extent that the foreign insurer does not reinsure such risks with a person not entitled to exemption from such tax under this or another convention.

(b) In the case of France:

(i) the income tax, the corporation tax, including any withholding tax, prepayment (précompte) or advance payment with respect to the aforesaid taxes; and

(ii) the tax on Stock Exchange transactions."

2. Article 2 is amended as follows:

(1) Subparagraph (1)(a) of Article 2 is replaced by:

"(a) The term 'United States' means the United States of America and, when used in a geographical sense, includes the States thereof and the District of Columbia. Such term also includes any area outside the States and the District of Columbia which is, in accordance with international law, an area within which the United States may exercise rights with respect to the natural resources of the seabed and sub-soil.

The term 'France' means the French Republic and, when used in a geographical sense, means the European and Overseas departments of the French Republic. Such term also includes any area outside those departments which is, in accordance with international law, an area within which France may exercise rights with respect to the natural resources of the seabed and sub-soil."

(2) A new subparagraph (1)(e) is added; and the present subparagraph (1)(e) is renumbered (1)(f):

"(e) 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."

3. Article 6 is amended by introducing the following new paragraph (4), the current paragraphs (4) and (5) becoming the new paragraphs (5) and (6):

> "(4) A partner shall be considered to have realized income or incurred deductions to the extent of his ratable share of the profits or losses of the partnership. For this purpose, the character of any item of income or deduction accruing to a partner shall be determined as if it were realized or incurred from the same source and in the same manner as realized or incurred by the partnership. A partner will be considered to have realized or incurred a proportionate share of each item of income and deduction of the partnership, except to the extent that his share of the profits depends on the source of the income."

4. Article 7 is replaced by the following article:

"ARTICLE 7

Shipping and Air Transport

(1) Notwithstanding Articles 6 and 12:

(a) Where a resident of the United States derives income from the operation in international traffic of ships or aircraft, or gains from the sale, exchange or other disposition of ships or aircraft used in international traffic by such resident, such income or gains shall be taxable only in the United States.

(b) Where a resident of France derives income from the operation in international traffic of ships or aircraft, or gains from the sale, exchange or other disposition of ships or aircraft used in international traffic by such resident, such income or gains shall be taxable only in France.

(2) The provisions of this Article shall also apply to the proportionate share of income derived by a resident of a Contracting State from participation in a pool, a joint business or an international operating agency. The proportionate share shall be treated as derived directly from the operation in international traffic of ships or aircraft.

(3) In the case of a corporation, the provisions of paragraphs (1) and (2) shall apply only if more than 50 percent of the capital of such corporation is owned, directly or indirectly:

(a) by individuals who are residents of the Contracting State in which such corporation is resident or of a State with which the other Contracting State has a convention which exempts such income; or

(b) by such Contracting State.

However, if more than 50 percent in value of the shares of a corporation or of its parent are listed on one or more recognized securities exchanges in a Contracting State, and there is substantial trading activity in those shares on such exchange or exchanges, then the provisions of paragraphs (1) and (2) shall apply if it can be shown that 20 percent or more of the capital of such corporation is owned, directly or indirectly, by individuals and the Contracting State specified in this paragraph.

(4) For the purposes of this Article, income derived from the operation in international traffic of ships or aircraft includes:

(a) 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), or

(b) profits of a resident of a Contracting State from the use or maintenance of containers (including trailers, barges and related equipment for the transport of containers) used for the transport in international traffic of goods or merchandise if such income is incidental to other profits described in paragraph (1)."

5. Article 10 is amended by adding a new paragraph (9) as follows:

"(9) Notwithstanding the provisions of paragraphs (2) and (3), and subject to the provisions of paragraph (4), interest on any loan of whatever kind granted by a bank shall be exempt in the State in which such interest has its source."

6. Article 14 is amended by adding a new paragraph (4) as follows:

"(4) Article 6, paragraph (4), shall apply by analogy. In no event, however, shall that provision result in France exempting under Article 23 more than 50 percent of the earned income from a partnership accruing to a United States citizen who is a resident of France. The amount of such a partner's income which is not exempt under Article 23 solely by reason of the preceding sentence shall reduce the amount of partnership earned income from sources within France on which France can tax partners who are not residents of France."

7. In Article 15, paragraph (3) shall be amended as follows:

"(3) Remuneration received by an individual for personal services performed aboard ships or aircraft operated by a resident of a Contracting State shall be exempt from tax by the other Contracting State if the income from the operation of the ship or aircraft is exempt from tax in the other Contracting State under Article 7 and such individual is a member of the regular complement of the ship or aircraft."

8. Article 20 is amended to read as follows:

"Article 20

Social Security Payments

Social security payments (whether representing employee or employer contributions or accretions thereto) paid by one of the Contracting States 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 former Contracting State."

9. In Article 22, paragraph (4)(a) is amended by adding the following sentence immediately after the first sentence:

"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."

6. Article 14 is amended by adding a new paragraph (4) as follows:

"(4) Article 6, paragraph (4), shall apply by analogy. In no event, however, shall that provision result in France exempting under Article 23 more than 50 percent of the earned income from a partnership accruing to a United States citizen who is a resident of France. The amount of such a partner's income which is not exempt under Article 23 solely by reason of the preceding sentence shall reduce the amount of partnership earned income from sources within France on which France can tax partners who are not residents of France."

7. In Article 15, paragraph (3) shall be amended as follows:

"(3) Remuneration received by an individual for personal services performed aboard ships or aircraft operated by a resident of a Contracting State shall be exempt from tax by the other Contracting State if the income from the operation of the ship or aircraft is exempt from tax in the other Contracting State under Article 7 and such individual is a member of the regular complement of the ship or aircraft."

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Social security payments (whether representing employee or employer contributions or accretions thereto) paid by one of the Contracting States 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 former Contracting State."

9. In Article 22, paragraph (4)(a) is amended by adding the following sentence immediately after the first sentence:

"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."

10. Article 23 shall be replaced by the following new article:

"Article 23

Relief from Double Taxation

Double taxation of income shall be avoided in the following manner:

(1) In the case of the United States: 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 citizen, resident or corporation of the United States as a credit against its tax specified in paragraph (1)(a) of Article 1 the appropriate amount of income taxes paid to France. Such appropriate amount shall be based upon the amount of French tax paid but shall not exceed that portion of the United States tax which net income from sources within France bears to the entire net income.

(2) In the case of France:

(a) income referred to below derived by a resident of France shall be exempt from the French taxes mentioned in subparagraph (1)(b)(i) of Article 1:

(i) income (other than income referred to in paragraph (2)(b) of this Article) which is taxable in the United States under this Convention other than by reason of the citizenship of the taxpayer; and

(ii) in the case of an individual who is a citizen of the United States,

(a) income dealt with in Articles 14 or 15 to the extent the services are performed in the United States;

(b) income which would be exempt from United States tax under Articles 17 or 18 if the recipient were not an individual who is a citizen of the United States;

(c) income dealt with in paragraph (1) of Article 19, to the extent attributable to services performed while his principal place of employment was in the United States.

(b) As regards income taxable in the United States under Articles 9, 10, 11 or 12 and income to which paragraph (4)(b) of Article 22 applies, France shall allow to a resident of France a tax credit corresponding to the amount of tax levied by the United States under this Convention other than by reason of citizenship. Such tax credit, not to exceed the amount of French tax levied on such income, shall be allowed against taxes mentioned in subparagraph (1)(b)(i) of Article 1 of the Convention in the bases of which such income is included.

(c) Notwithstanding the provisions of subparagraphs (a) and (b), French tax may be computed on income chargeable in France by virtue of this Convention at the rate appropriate to the total of the income chargeable in accordance with French law.

(3) In the case of an individual who is both a resident of France and a citizen of the United States:

(a) the amount of the tax credit referred to in subparagraph (b) of paragraph (2) shall be equal to the amount of tax which the United States would be entitled to levy in respect of the item of income if the individual deriving the income were not a citizen of the United States, but shall not exceed the amount of French tax levied on such item of income;

(b) the United States, in determining the amount of credit allowable for foreign taxes, shall consider as income from sources within the United States only that portion of each item of income referred to in subparagraph (b) of paragraph (2) which is equal to the ratio of $\frac{X}{Y}$ where:

(i) X is the rate of tax which the United States would be entitled to levy if the individual deriving the income were not a citizen of the United States, and

(ii) Y is the effective rate of tax (before reduction by investment tax credit or foreign tax credit) which the United States levies for the year on the individual's gross income.

The proportion of each item of income which is not considered as from sources within the United States under this subparagraph shall be considered as from sources within France. The provision of this subparagraph shall apply only to the extent that an item of income is included in gross income for purposes of determining French tax.

(c) If for any taxable year a partnership of which an individual member is both a resident of France and a citizen of the United States so elects, for United States tax purposes,

(i) any income which solely by reason of paragraph (4) of Article 14 is not exempt from French tax under this Article shall be considered income from sources within France; and

(ii) the amount of income to which subparagraph (i) applies shall reduce (but not below zero) the amount of partnership earned income from sources outside the United States which would otherwise be allocated to partners who are not residents of France. For this purpose the reduction shall apply first to income from sources within France and then to other income from sources outside the United States.

This provision shall not result in a reduction of United States tax below that which the taxpayer would have incurred without the benefit of deductions or exclusions available solely by reason of his presence or residence outside the United States.

(4) A resident of a Contracting State who maintains one or several abodes in the territory of the other Contracting State shall not be subject in that other State to an income tax according to an "imputed" income based on the rental value of that or other abodes."

ARTICLE 2

This Protocol shall be ratified and instruments of ratification shall be exchanged at Paris. It shall enter into force one month after the date of exchange of the instruments of ratification.

Its provisions shall for the first time have effect with respect to taxable years beginning on or after January 1, 1979.

ARTICLE 3

This Protocol shall remain in force as long as the Convention between the United States of America and the French Republic with respect to taxes on income and property of July 28, 1967, as amended by the Protocol of October 12, 1970, shall remain in force.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed the present Protocol and affixed thereto their seals.

DONE at Washington in duplicate, in the English and French languages, both texts being equally authoritative, this 24th day of November , 1978.

For the President of the United States of America:

George S. Vest
Assistant Secretary of State
for European Affairs

For the President of the French Republic:

Francois de Laboulaye
Ambassador of France

DEPARTMENT OF STATE
WASHINGTON

Excellency:

In connection with the Protocol signed today, I should like to state our understanding with respect to two important unresolved issues and certain other matters concerning the application of the Protocol.

1. The United States takes the position that the tax credit (avoir fiscal) available to French investors in French corporations should extend on a nondiscriminatory basis to United States investors in French corporations. Under the terms of the Protocol signed in 1970 to the income tax convention between our two countries, the avoir fiscal is extended to United States portfolio investors. But in the absence of a similar extension to United States direct investors, the United States Government considers that the French tax credit system discriminates against investments made in France through the intermediary of a United States parent corporation, as compared to investments made by a French parent corporation.

We recognize the revenue concerns of France with respect to this issue and are prepared to accept, in the case of dividends from French subsidiaries to United States parent corporations, one half of the credit available to French shareholders less the 5 percent withholding tax at source allowed by the treaty (Article 9).

We are very concerned that the Government of France is not able to agree at this time to extend one half of the avoir fiscal to United States direct investors. We have agreed to conclude the Protocol without such a provision only because the change in French tax law which takes effect January 1, 1979 would otherwise subject United States citizens residing in France to double taxation, and we do not want them to be so penalized. We appreciate, however, that the Government of France will continue considering this issue and agrees to reopen discussions on the subject of the avoir fiscal as soon as feasible, and in any event if the credit is extended in full or in part to direct investors of other countries.

His Excellency
Francois de Laboulaye

2. It is the position of the Government of France that the so-called "unitary apportionment" method used by certain states of the United States to allocate income to the United States offices or subsidiaries of French corporations, results in inequitable taxation and imposes excessive administrative burdens on French corporations doing business in those states. Under that method the profit of a French company on its United States business is not determined on the basis of arm's length relations but is derived from a formula taking account of the income of the French company and its worldwide subsidiaries as well as the assets, payroll, and sales of all such companies.

For a French multinational corporation with many subsidiaries in different countries to have to submit its books and records for all of these corporations to a United States state, in English, imposes a costly burden.

It is understood that the Senate of the United States has not consented to any limitation on the taxing jurisdiction of the states by treaty and that a provision which would have restricted the use of unitary apportionment in the case of United Kingdom corporations was recently rejected by the Senate. The Government of France continues to be concerned about this issue as it affects French multinationals. If an acceptable provision on this subject can be devised, the United States agrees to reopen discussions with France on this subject.

3. The Explanatory Note issued by the French and American Governments will cease to have effect for periods to which this Protocol applies. With respect to the taxation of American residents in France under this Convention, the two governments have agreed that:

a. Contributions to pension, profit-sharing, and other retirement plans which qualify under the United States Internal Revenue Code will not be considered income to an employee and will be deductible from the income of a self-employed individual, to the extent that such contributions are required by the terms of the plan and are comparable to similar French arrangements;

b. Payments received by the beneficiary in respect of the plans referred to in (a) will be included in income for French tax purposes, to the extent not exempt under subparagraph (2)(a)(ii)(c) of Article 23 of the Convention, at the time when, and to the extent that, such payments are considered gross income under the Internal Revenue Code;

c. Benefits received by reason of exercise of stock options will be considered compensation for French tax purposes at the time and to the extent the exercise of the option or disposition of stock gives rise to ordinary income for United States tax purposes;

d. United States state and local income taxes imposed in respect of income from personal services and any other business income (except income which is exempt from French tax under the Convention) shall be allowed as

e. The French Government will attempt to reach a reasonable solution with American residents of France regarding the taxation of employer-provided benefits which are not considered income by the United States;

f. In applying the provisions of French law referred to by paragraph 2(c) of Article 23, the French Government clarified how the exemption with progression provision applies. The tax due is that proportion of the tax on total income which taxable (non-exempt) income bears to total (exempt plus taxable) income. For example, if a taxpayer has a total income of $20,000 of which by reason of this Convention only $12,000 is taxable by France, the French tax will be 60 percent (12,000/20,000) of the tax computed on a total income of $20,000.

If this is in accord with your understanding, I would appreciate a confirmation from you to this effect.

Accept, Excellency, the renewed assurances of my highest consideration.

George S. Vest
Assistant Secretary
for European Affairs

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

FOR IMMEDIATE RELEASE
November 27, 1978

Contact: John P. Plum
202/566-2615

TREASURY ISSUES THIRD PROTOTYPE
CONSOLIDATED FINANCIAL STATEMENT

The Treasury Department today issued the third prototype consolidated financial statement of the Federal government.

The report presents government financial data on the accrual basis. This is not an official financial statement of the U.S. Government, but rather a part of continuing experimental efforts aimed at stimulating new thinking on government accounting procedures.

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B-1281

partment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 27, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES PRELIMINARY DETERMINATION THAT AMPICILLIN TRIHYDRATE FROM SPAIN IS BEING SUBSIDIZED

The Treasury Department today announced its preliminary determination that the Government of Spain is subsidizing exports of ampicillin trihydrate to the United States. This product is a semi-synthetic form of penicillin.

The countervailing duty law requires the Treasury to assess an additional duty equal to the amount of the "bounty or grant" (subsidy) paid on imported merchandise. Treasury must make a final decision in this case no later than March 23, 1979.

Treasury's preliminary investigation showed that certain payments made as a result of the operation of the "Desgravacion Fiscal" system of remitting or rebating certain elements of the Spanish turnover tax appear to be subject to countervailing duties. As indicated in the August 29, 1978, issue of the Federal Register (43 FR 38658), Treasury's policy regarding the Spanish tax system is currently under review.

Notice of the present action will appear in the Federal Register of November 28, 1978.

Imports of ampicillin trihydrate from Spain in 1977 are estimated to have been valued at $13,000.

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B-1282

epartment of the TREASURY
NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 27, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES PRELIMINARY DETERMINATION THAT OLEORESINS FROM INDIA ARE BEING SUBSIDIZED

The Treasury Department today announced its preliminary determination that the Government of India is subsidizing exports of oleoresins to the United States. This product is a thick, liquid extract of the flavor of a spice used primarily as a seasoning in the food industry.

The countervailing duty law requires the Treasury to assess an additional duty equal to the amount of the "bounty or grant" (subsidy) paid on imported merchandise.

Treasury must make a final decision in this case no later than March 21, 1979.

Treasury's preliminary investigation showed that certain payments made as a result of the operation of the "Export Cash Assistance Program" appear subject to countervailing duties. Treasury has preliminarily determined that the grant by India of import permits for materials required for the manufacture of oleoresins does not constitute a subsidy.

Notice of this action will appear in the Federal Register of November 28, 1978.

Imports of oleoresins from India in 1977 were valued at approximately $1.5 million.

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B-1283

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

FOR RELEASE AT 4:00 P.M. November 28, 1978

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 December 7, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,612 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,700 million, representing an additional amount of bills dated September 7, 1978, and to mature March 8, 1979 (CUSIP No. 912793 X3 5), originally issued in the amount of $3,408 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated December 7, 1978, and to mature June 7, 1979 (CUSIP No. 912793 Y8 3).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 7, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,392 million of the maturing bills. 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. 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, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, December 4, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) 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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 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 December 7, 1978, in cash or other immediately available funds or in Treasury bills maturing December 7, 1978. 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 IMMEDIATE RELEASE November 27, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,801 million of 13-week Treasury bills and for $2,900 million of 26-week Treasury bills, both series to be issued on November 30, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 1, 1979			26-week bills maturing May 31, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.689a/	9.142%	9.49%	95.299b/	9.299%	9.89%
Low	97.678	9.186%	9.53%	95.273	9.350%	9.95%
Average	97.683	9.166%	9.51%	95.283	9.330%	9.93%

a/ Excepting 1 tender of $410,000
b/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 14%.
Tenders at the low price for the 26-week bills were allotted 98%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 22,485,000	$ 22,485,000	$ 24,630,000	$ 24,630,000
New York	4,360,800,000	2,474,800,000	3,924,065,000	2,617,365,000
Philadelphia	18,645,000	18,645,000	7,060,000	7,060,000
Cleveland	27,565,000	27,565,000	13,990,000	13,990,000
Richmond	18,900,000	16,900,000	13,615,000	13,615,000
Atlanta	27,800,000	25,800,000	17,470,000	17,470,000
Chicago	376,045,000	68,810,000	271,195,000	110,845,000
St. Louis	40,350,000	26,920,000	29,815,000	17,815,000
Minneapolis	3,380,000	3,380,000	4,360,000	4,360,000
Kansas City	22,600,000	18,515,000	14,550,000	14,550,000
Dallas	10,670,000	10,500,000	5,740,000	5,740,000
San Francisco	233,620,000	79,620,000	186,970,000	43,870,000
Treasury	7,060,000	7,060,000	9,090,000	9,090,000
TOTALS	$5,169,920,000	$2,801,000,000c/	$4,522,550,000	$2,900,400,000d/

c/Includes $314,360,000 noncompetitive tenders from the public.
d/Includes $183,805,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-1285

November 29, 1978

Statement by
U.S. Secretary of the Treasury W. Michael Blumenthal

Preliminary analysis of the trade figures just released indicates continued progress toward the improved trade configurations we have been anticipating. Imports held steady, continuing at essentially the September level. Exports declined by $415 million, but a substantial part of the decline is accounted for by a reduction in exports of gold; physical exports of gold (which have been very erratic) were unusually high in September. Exports continued to hold along the much improved trend that has been evident in recent months. Importantly, our balance of trade in the area of manufactured goods and industrial materials is continuing to show substantial improvement.

The October trade deficit appears to be consistent with, if not below, our expectations for the fourth quarter. We continue to anticipate a current account deficit for 1978 of about $17 billion. And we expect the current account deficit to be less than half that amount in 1979.

It should be noted that the $1 billion advance payment from Japanese utility companies for the purchase of uranium enrichment services which we received in October did not affect the October export data. It will affect our trade statistics only as the enriched uranium is exported over a period of several years.

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

FOR IMMEDIATE RELEASE
November 29, 1978

Contact: Robert E. Nipp
202/566-5328

SECRETARY BLUMENTHAL TO LEAD U.S. DELEGATION TO JOINT U.S.-U.S.S.R. COMMERCIAL COMMISSION IN MOSCOW

Secretary of the Treasury W. Michael Blumenthal leaves this weekend for Moscow to participate, together with Secretary of Commerce Juanita M. Kreps, in the Seventh Session of the Joint U.S.-U.S.S.R. Commercial Commission and to discuss bilateral issues including trade relations and economic cooperation. The Secretary also will join with U.S.S.R. Minister of Foreign Trade Nikolai Patolichev in addressing a meeting of the U.S.-U.S.S.R. Trade and Economic Council.

Secretary Blumenthal and his party depart Washington Saturday, December 2, returning Friday, December 8. Following discussions in Moscow, Secretary Blumenthal will stop overnight in Bonn for informal talks with Chancellor Schmidt and Finance Minister Matthoefer.

The Moscow sessions, designed to foster the expansion of mutually beneficial trade and economic cooperation between the United States and the Soviet Union, will center on discussions of Soviet-American economic relations; measures for fostering industrial cooperation; and facilitation of business activities.

Secretary Blumenthal will carry with him a message to the Soviets from President Carter noting that closer economic ties can contribute to world peace.

The Joint Commercial Commission was established in 1972 by agreement between the United States and the Soviet Union to improve commercial relations between the two countries. It meets alternately in Washington and Moscow. Its last session was in June 1977.

The U.S.-U.S.S.R. Trade and Economic Council, a binational organization whose membership includes hundreds of U.S. companies and their Soviet counterparts, was created in 1973 to facilitate and broaden business transactions between members in both countries. It has offices in New York and Moscow.

The Treasury delegation includes Under Secretary Anthony M. Solomon and General Counsel Robert H. Mundheim, both Commission Members, and Assistant Secretaries Daniel H. Brill and Joseph Laitin. Other officials of the Departments of State, Agriculture and Commerce will also participate in the Joint U.S.-U.S.S.R. Commercial Commission and Trade and Economic Council sessions in Moscow.

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B-1286

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

FOR RELEASE AT 4:00 P.M. November 30, 1978

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $3,838 million, or thereabouts, of 364-day Treasury bills to be dated December 12, 1978, and to mature December 11, 1979 (CUSIP No. 912793 Z9 0). 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 December 12, 1978.

This issue will not provide new money for the Treasury as the maturing issue is outstanding in the amount of $3,838 million, of which $1,753 million is held by the public and $2,085 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 Standard time, Wednesday, December 6, 1978. 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.

(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 December 12, 1978, in cash or other immediately available funds or in Treasury bills maturing December 12, 1978. 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.

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

FOR IMMEDIATE RELEASE December 4, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,701 million of 13-week Treasury bills and for $2,900 million of 26-week Treasury bills, both series to be issued on December 7, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 8, 1979			26-week bills maturing June 7, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.734	8.964%	9.30%	95.349	9.200%	9.78%
Low	97.727	8.992%	9.33%	95.330	9.237%	9.82%
Average	97.729	8.984%	9.32%	95.339	9.220%	9.80%

Tenders at the low price for the 13-week bills were allotted 61%.
Tenders at the low price for the 26-week bills were allotted 54%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 30,515,000	$ 25,515,000	$ 34,905,000	$ 34,865,000
New York	4,666,960,000	2,379,240,000	4,309,340,000	2,510,540,000
Philadelphia	20,730,000	20,380,000	9,570,000	9,570,000
Cleveland	34,870,000	33,050,000	39,915,000	39,915,000
Richmond	36,410,000	25,825,000	27,715,000	27,715,000
Atlanta	36,650,000	34,025,000	29,355,000	27,355,000
Chicago	218,200,000	35,235,000	213,700,000	63,700,000
St. Louis	31,725,000	17,725,000	28,515,000	15,595,000
Minneapolis	12,820,000	4,820,000	11,685,000	9,845,000
Kansas City	25,960,000	23,560,000	22,215,000	21,235,000
Dallas	11,770,000	11,770,000	6,945,000	6,945,000
San Francisco	262,605,000	80,025,000	258,585,000	118,585,000
Treasury	9,650,000	9,650,000	14,140,000	14,140,000
TOTALS	$5,398,865,000	$2,700,820,000a/	$5,006,585,000	$2,900,005,000b/

a/Includes $390,055,000 noncompetitive tenders from the public.
b/Includes $257,700,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-1288

partment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. December 5, 1978

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 December 14, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,719 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated September 14, 1978, and to mature March 15, 1979 (CUSIP No. 912793 X4 3), originally issued in the amount of $3,395 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated December 14, 1978, and to mature June 14, 1979 (CUSIP No. 912793 Y9 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 14, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,097 million of the maturing bills. 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. 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, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, December 11, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-1289

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 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 December 14, 1978, in cash or other immediately available funds or in Treasury bills maturing December 14, 1978. 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
WASHINGTON, D.C. 20220
TELEPHONE 566-2041
NEWS

FOR RELEASE UPON DELIVERY
EXPECTED AT 2 P.M.
Thursday, December 7, 1978

STATEMENT OF DAVID J. SHAKOW
ATTORNEY-ADVISOR, OFFICE OF TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman and members of the Committee:

I am pleased to have the opportunity to inform you of the status of the Treasury Department's implementation of the Outer Continental Shelf Lands Act Amendments of 1978 ("OCS Amendments"). The Treasury Department is concerned with the Offshore Oil Pollution Compensation Fund created by section 302(a) of the Act and collection of the fees which are deposited in the Fund. The Act also authorizes the establishment in the Treasury of a Fisherman's Contingency Fund.

I. Creation of Offshore Pollution Compensation Fund and Its Administration.

The Offshore Oil Pollution Compensation Fund will be established on the books of the Treasury. Payments into the Fund will, in accordance with the deposit requirement of oil owners for other excise taxes, be made semimonthly on an estimated basis. Adjustments will be made to reflect actual amounts due after the quarterly returns are tabulated. Payments from the Fund will be made under a standard procedure which involves our writing checks to payees as directed by the certifying officer in the Department of Transportation.

B-1290

Under section 302(e)(2) of the OCS Amendments, the Secretary of the Treasury may invest excess balances in the Fund (as determined by the Secretary of Transportation) in interest-bearing special obligations of the United States. Such special obligations may be redeemed in accordance with the terms of the issue and in accordance with Treasury regulations.

In investment authorizations such as this, the Treasury acts as a fiscal intermediary, purchasing and selling securities at the request of, and as recommended by, the program agency. In this instance, the Secretary of Transportation will determine the sums to be invested and will select the maturity ranges of the obligations. The Treasury will invest all such sums in market-based special issues, which are book-entry Treasury securities identical in every respect (except transferability) to a specific outstanding marketable note, bond, or bill. The mechanics of purchase and sale of these issues will be covered by agreements between the Treasury and the Department of Transportation, which can be consummated at any time following commencement of operation of the Fund.

II. Collection of Fees Deposited in Offshore Pollution Compensation Fund.

The task of collecting the fee imposed by section 302 of the OCS Amendments will be delegated to the Internal Revenue Service, which already collects several taxes on finished petroleum products. Some of those liable for the new production fee already are paying one or more of these taxes, and audit and other enforcement activities for the fee then could be coordinated with auditing of the other petroleum excises.

Since the prescribed fee is similar to an excise tax, we propose to adapt our collection procedure for the manufacturers and retailers excise taxes to the collection of the fee. A copy of the Form 720, which is already used for those excise taxes, is attached as an exhibit to my testimony.

The excise collection system has two phases: the deposit of the taxes and the filing of the return. If the taxpayer had liability of $2,000 or more for all excises included on Form 720 for the prior quarter, amounts due for each semimonthly calendar period must be deposited in an approved depository by nine days after the end of the semimonthly period.

The semimonthly deposit need not be the exact amount due.* Any deficiency for a quarter must be deposited by the end of the quarter. At the end of the quarter, a return is filed summarizing the deposits and any balance due remitted with the return. If full deposits are made as specified in the instructions, the return may be filed by the tenth day of the second month following the end of the quarter. Less elaborate rules are prescribed for those not required to make semimonthly deposits.

The tax law has a panoply of specific rules and penalties (civil and criminal) for failure to file and pay a tax, late filing, underpayment, and fraud. The new fee substitutes its own self-contained penalty provisions. Failure to collect or pay the required fee can result in a civil penalty assessed by the Secretary of the Treasury of not over $10,000 plus the interest on the unpaid fee that would have been earned if paid when due and invested in the special Treasury securities which are to be purchased by the Fund. Since the special obligations will bear differing rates of interest, the computation of the rate of interest to be levied on underpayment of fees will have to be based on the interest rate of securities last purchased prior to the time each underpayment occurred.

One problem that always arises where a new levy is imposed is informing all those required to pay of their obligation to do so. All oil produced on the Outer Continental Shelf is already subject to a royalty payment made to the Department of the Interior. Payment is made for all the owners by the lease operators, which we understand number less than 50. Aside from the publicity which trade publications will give to the fee, we can obtain the names and addresses of the lease operators from the Interior Department and request the operators to notify the other owners of the oil of their liability.

The great number of changes in the tax law which are contained in the Revenue Act of 1978 and the Energy Tax Act of 1978, many of which will go into effect this month or in January, require the IRS to promulgate many significant regulations in the next two months. As a result, the IRS

*The tolerance rules are set forth in the central column of page four of Form 720.

may not be able to complete regulations on the instant fee. However, we believe the instructions which will be appended to the fee payment form will provide sufficient guidance for those required to pay the fee. The form will be available in adequate time for the making of the first required deposit.

One final comment. Since the three cent fee will bring in roughly $8 million a year at present levels of production, and the law prescribed keeping the minimum level of the Fund at $100 million, there is little likelihood in the foreseeable future of any need to exercise the discretionary power granted in section 302(d)(2) of the OCS Amendments to reduce the fee.

III. Creation of Fisherman's Contingency Fund and Its Administration.

The Fisherman's Contingency Fund provided for by section 402(a) of the OCS Amendments will be established on the books of the Treasury at the request of the Secretary of Commerce. Amounts to be paid by Outer Continental Shelf leaseholders are to be determined by the Secretary of Commerce, collected by the Secretary of the Interior, and deposited by the latter in the Fund. The detailed transactions of the Fund will, however, be reflected in the administrative accounts of the Department of Commerce. Treasury will report only summary transactions as it does for other appropriation, fund, and receipt accounts of the Government.

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Attachment

Form **720** (Rev. March 1978)

Department of the Treasury—Internal Revenue Service

Quarterly Federal Excise Tax Return

Use to report Excise Taxes for 1978

Facilities and Services	Rate	Tax	IRS No.
Toll telephone service; Teletypewriter exchange service; Local telephone service	4%		22
Transportation of persons by air	8%		26
Use of international air travel facilities	$3.00 per person		27
Transportation of property by air	5%		28
Policies issued by foreign insurers	(*)		30
Manufacturers			
Coal:			
a Underground mined @ 50¢ per ton			
b Underground mined @ 2% of price per ton	(*)		39
c Surface mined @ 25¢ per ton			
d Surface mined @ 2% of price per ton			
Truck, bus, and trailer chassis and bodies; tractors	10%		33
Parts or accessories for trucks, etc.	8%		48

*See instructions on page 2.

Manufacturers—Con.	Rate	Tax	IRS No.
Fishing rods, etc., and artificial lures, etc.	10%		41
Bows and arrows	11%		44
Pistols and revolvers	10%		32
Firearms	11%		46
Shells and cartridges	11%		49
Products and Commodities			
Diesel fuel and special motor fuels	(*)		61
Gasoline (manufacturers tax)	4¢ gal.		62
Fuel used in noncommercial aviation — Fuel other than gasoline	7¢ gal.		69
Fuel used in noncommercial aviation — Gasoline (retailers tax)	3¢ gal.		14
Lubricating oil	6¢ gal.		63
Tires — highway vehicle type	10¢ lb.		66
Tires — laminated	1¢ lb.		
Tires — other	5¢ lb.		
Inner tubes	10¢ lb.		67
Tread rubber (camelback)	5¢ lb.		68
TOTAL TAX (Enter here and in item 1 below.)			

*See instructions on page 2.

1 Total tax. *(Before making entries in items 1 to 9, complete your total tax above.)*

2 Adjustments. *(See instructions. Attach statement explaining adjustments.)*

3 Tax as adjusted. *(Item 1 plus or minus item 2.)*

4 (a) Record of Tax Liability. *(See instructions on page 4.)* — (b) Record of Federal Tax Deposits

	Period	Amount of Liability		Date of deposit	Amount
First Month	1st–15th day				
	16th–last day				
	Total for month				
Second Month	1st–15th day				
	16th–last day				
	Total for month				
Third Month	1st–15th day				
	16th–last day				
	Total for month				
(c) Total Liability for Quarter					

(d) Final deposit made for quarter (see note under item 7)

(e) Total deposits for quarter (including final deposit made for quarter)

5 Overpayment from previous quarter →

6 Total deposits (item 4(e) plus item 5) →

7 Undeposited taxes due *(item 3 less item 6; this should be $100 or less)*. Pay to Internal Revenue Service →

Note: If undeposited taxes due at the end of the quarter are more than $100, the entire balance must be deposited. This deposit must be entered in the deposit schedule above in item 4(d).

8 If item 6 is more than item 3, enter excess here ▶ $ and check if you want it: ☐ applied to your next return, or ☐ refunded to you.

9 If not liable for returns in succeeding quarters, write "FINAL" here ▶ and return this form to your Internal Revenue Service Center.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Signature ▶ Title (Owner, etc.) ▶ Date ▶

Please enter your name, address, employer identification number, and calendar quarter of return, if not printed. (If not correctly printed, please change.)

Quarter ending

Employer identification number

T
FF
FD
FP
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T

If your address is now different from previous return, check here ▶ ☐

Please return this form to your Internal Revenue Service Center

(See last item of instructions, "Where to File")

Instructions

Additional information on excise taxes is contained in Publication 510 available free from any Internal Revenue Service office.

Name, address, and employer identification number.—After you first file Form 720, a preaddressed return will be mailed to you every three months. Please use the preaddressed form. If it is lost, request another. Unless already shown on the preaddressed form, enter at the right of the space provided for the taxpayer's name, the ending month and year of the calendar quarter for which the return is filed. If you must use a non-preaddressed form, type or print your name, address, and employer identification number exactly as shown on previous returns. Do not use an employer identification number assigned to a prior owner.

You must file a return for each quarter whether or not you incurred any liability. If you have no tax to report, enter "None" in item 3.

Adjustments.—Generally, an adjustment may be allowed for all the taxes reported on Form 720 to correct mathematical errors or to adjust payments of tax on transactions, charges, or processing that are entitled to be made tax free.

Enter in item 2 the total of any adjustments claimed. If you claim an adjustment, attach a statement explaining the basis for it and state that you have the required supporting evidence. You must identify the IRS Numbers being adjusted, the amount of adjustment claimed for each, and the period in which the tax liability was previously reported.

Exemptions.—Some transactions are exempt from tax. As an illustration, certain exemptions are provided for export transactions and for transactions involving States, political subdivisions, certain nonprofit educational organizations, and certain aircraft museums.

Records.—Keep on file at your principal place of business or some other convenient location, duplicate copies of your return and accurate records and accounts of all transactions. They must contain sufficient information to indicate whether the correct amount of tax has been computed and paid. Also, keep records and information in support of all adjustments claimed and all exemptions. In the case of most taxes reportable on Form 720, keep your records at least four years from the date: (1) the tax becomes due, (2) the tax is paid, (3) an adjustment is claimed, or (4) a claim for refund is filed, whichever is later. If required, your records must be available for inspection by the Internal Revenue Service.

Penalties and Interest

Avoid penalties and interest by correctly filing, depositing and paying tax when due. The law provides a penalty of from 5 percent to 25 percent of the tax for late filing unless reasonable cause is shown for the delay. If you are late filing a return or depositing tax, send a full explanation with the return. Penalties are provided for willful failure to collect and pay tax, keep records, file returns, and for filing false or fraudulent returns.

Penalties are also provided for late payment of tax and for not depositing the proper amount of tax when due. Neither penalty applies if you can show reasonable cause for failure to pay or deposit when due.

Taxes not deposited when due.—The penalty for failure to make deposits when due is 5 percent of the amount of the underpayment, without regard to how long the underpayment continues.

Taxes not paid when due.—The penalty for failure to pay taxes when due is ½ of 1 percent of the unpaid amount for each month or part of a month it remains unpaid—up to 25 percent of the unpaid amount. The penalty applies to any unpaid tax shown on a return. It also applies to any portion of additional tax shown on a bill if it is not paid within 10 days from the date of the bill.

These penalties are in addition to the interest charge on late payments.

Facilities and Services

In determining the amounts paid for communications services, do not include the amount of State or local taxes imposed on these services, if the amount is separately stated in the bill to the customer.

Policies issued by foreign insurers.—The rates of tax not shown on the face of the form are:

(1) Casualty insurance and indemnity bonds.—Four cents on each dollar, or fractional part thereof, of the premium paid on the policy of casualty insurance or the indemnity bond.

(2) Life insurance, sickness and accident policies, and annuity contracts.—One cent on each dollar, or fractional part thereof, of the premium paid on the policy of life, sickness or accident insurance, or annuity contract.

(3) Reinsurance.—One cent on each dollar, or fractional part thereof, of the premium paid on the policy of reinsurance covering any of the contract taxable under *(1)* or *(2)*.

Manufacturers

Effective April 1, 1978, a new tax is imposed on the sale of coal by the producer. The tax is $.50 per ton for underground mined coal and $.25 per ton for surface mined coal. The tax per ton may not exceed 2% of the price at which a ton of coal in each category is sold. See Notice 476 for further information.

Light-duty Trucks.—The 8 percent tax on truck parts and accessories is to be refunded or credited to the manufacturer if the part or accessory is sold on, or in connection with, the first retail sale of a light-duty truck (gross vehicle weight of 10,000 pounds or less.)

The resale of an article taxable as the chassis or body of a truck, truck tractor, or truck-trailer is not subject to additional manufacturers tax, if before the resale the chassis or body was merely combined with certain named items such as a fifth wheel, wrecker crane, or loading and unloading equipment. For full list of such items, see section 4063.

These taxes apply to the sale or use by the manufacturer, producer, or importer of the articles listed.

Basis for tax and adjustments.—Generally, the tax is computed on the price for which the taxable article is sold or leased. If a taxable article is sold or leased under a conditional sales contract, installment payment contract, or chattel mortgage arrangement, compute and pay tax on each payment received during the quarter covered by the return. For exclusion from the sale price of finance charges, and local advertising charges, consult your District Director. There are also special rules that apply to the lease of any article.

If charges for transportation, delivery, insurance, installation, and retail dealer preparation costs are included in the manufacturer's sale price, you may adjust the price by deducting the actual amount paid or incurred for such expenses. For the circumstances under which adjustments may be made and about the evidence required to support such adjustments, consult your District Director or the applicable regulations. Adjustment of the manufacturer's sale price may also be made for discounts, rebates, and other similar allowances granted to the purchaser. But such discounts, etc., may not be anticipated. Adjustments may only be made if the purchaser has taken advantage of the discount, etc., before the return is required to be filed.

If the adjustments are made or the required evidence is obtained after the return is filed, the amount of tax involved may be considered an overpayment and you may then take a credit for that amount on a later return, or file a refund claim.

Tax shall be computed on a price established by the Commissioner of Internal Revenue if an article is sold by the manufacturer or producer at retail, on consignment, or otherwise than through an arm's-length transaction at less than the fair market price, or if the article is used by the manufacturer or producer in a manner subject to tax.

A tax of 11 percent is imposed upon the sale by the manufacturer, producer or importer of any bow with a draw weight of 10 pounds or more, and of any arrow which measures 18 inches or more in overall length. Included in this category are any parts or accessories suitable for inclusion in, or attachment to, a taxable bow or arrow, and any quiver suitable for use with such arrows.

Products and Commodities

These taxes apply to the retail sale or use of diesel fuel, special motor fuels and fuel used in noncommercial aviation; the sale of gasoline, tread rubber, or the sale or lease of tires or inner tubes, by their manufacturer, producer, or importer; and the sale of lubricating oils by their manufacturer or producer. These taxes may also apply to one part of an otherwise untaxable item, such as tires on imported vehicles.

The rates of tax not shown on the face of the form are as follows:

Diesel fuel and special motor fuels:

(a) Four cents a gallon if sold for use or used as a fuel in a highway vehicle, except that the tax is 2 cents a gallon if sold for use or used in a highway vehicle which (A) at the time of sale or use, is not registered and is not required to be registered for highway use under the laws of any State or foreign country, or (B) in the case of a highway vehicle owned by the United States, is not used on the highway.

(b) If fuel is sold subject to tax at the 2 cents a gallon rate, an additional tax of 2 cents a gallon is imposed on the user if the fuel is used in a highway vehicle which (A), at the time of use, is registered or is required to be registered for highway use under the laws of any State or foreign country, or (B) in the case of a highway vehicle owned by the United States, is used on the highway.

(c) Two cents a gallon on special motor fuels sold for use or used as a fuel in a motor boat or other vehicle that is not a highway vehicle.

Aviation fuel.—A tax is imposed on aviation fuel sold for use or used in noncommercial aviation. The retailers tax on aviation gasoline is in addition to the manufacturers tax. If fuel was taxed on its sale as a special motor fuel but subsequently it is used as aviation fuel, the tax on the user would be the difference be-

(Instructions continued on page 4.)

Form **720** (Rev. March 1978)

Department of the Treasury—Internal Revenue Service

Quarterly Federal Excise Tax Return

Use to report Excise Taxes for 1978

Facilities and Services	Rate	Tax	IRS No.
Toll telephone service / Teletypewriter exchange service / Local telephone service	4%		22
Transportation of persons by air	8%		26
Use of international air travel facilities	$3.00 per person		27
Transportation of property by air	5%		28
Policies issued by foreign insurers	(*)		30
Manufacturers			
Coal: a Underground mined @ 50¢ per ton; b Underground mined @ 2% of price per ton; c Surface mined @ 25¢ per ton; d Surface mined @ 2% of price per ton	(*)		39
Truck, bus, and trailer chassis and bodies; tractors	10%		33
Parts or accessories for trucks, etc.	8%		48

*See instructions on page 2.

Manufacturers—Con.	Rate	Tax	IRS No.
Fishing rods, etc., and artificial lures, etc.	10%		41
Bows and arrows	11%		44
Pistols and revolvers	10%		32
Firearms	11%		46
Shells and cartridges	11%		49
Products and Commodities			
Diesel fuel and special motor fuels	(*)		61
Gasoline (manufacturers tax)	4¢ gal.		62
Fuel used in noncommercial aviation: Fuel other than gasoline	7¢ gal.		69
Fuel used in noncommercial aviation: Gasoline (retailers tax)	3¢ gal.		14
Lubricating oil	6¢ gal.		63
Tires: highway vehicle type / laminated / other	10¢ lb. / 1¢ lb. / 5¢ lb.		66
Inner tubes	10¢ lb.		67
Tread rubber (camelback)	5¢ lb.		68
TOTAL TAX (Enter here and in item 1 below.)			

*See instructions on page 2.

1 Total tax. *(Before making entries in items 1 to 9, complete your total tax above.)*

2 Adjustments. *(See instructions. Attach statement explaining adjustments.)*

3 Tax as adjusted. *(Item 1 plus or minus item 2.)*

4 (a) Record of Tax Liability. *(See instructions on page 4.)* (b) Record of Federal Tax Deposits

Period		Amount of Liability		Date of deposit	Amount
First Month	1st–15th day				
	16th–last day				
	Total for month				
Second Month	1st–15th day				
	16th–last day				
	Total for month				
Third Month	1st–15th day				
	16th–last day				
	Total for month				
(c) Total Liability for Quarter					

(d) Final deposit made for quarter (see note under item 7)

(e) Total deposits for quarter (including final deposit made for quarter)

5 Overpayment from previous quarter →

6 Total deposits (item 4(e) plus item 5) →

7 Undeposited taxes due *(item 3 less item 6; this should be $100 or less)*. Pay to Internal Revenue Service →

Note: If undeposited taxes due at the end of the quarter are more than $100, the entire balance must be deposited. This deposit must be entered in the deposit schedule above in item 4(d).

8 If item 6 is more than item 3, enter excess here ▶ $ and check if you want it: ☐ applied to your next return, or ☐ refunded to you.

9 If not liable for returns in succeeding quarters, write "FINAL" here ▶ and return this form to your Internal Revenue Service Center.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

Signature ▶ Title (Owner, etc.) ▶ Date ▶

YOUR COPY

Type or print in this space your name, address, and employer identification number as shown on original.

Return for calendar quarter ending (Enter month and year as on original)

Instructions (Continued)

tween the 7 cents rate and the 4 cents or 2 cents rate previously paid on the sale of the fuel to the user.

Depositary Method of Payment

If you are liable in any calendar quarter for more than $100 of excise taxes, you are required to make semimonthly, monthly or quarterly deposits with an authorized financial institution or a Federal Reserve bank, in accordance with specific instructions on the back of the Federal Tax Deposit Form.

If you are liable for $100 or less of taxes for a calendar quarter (or your total liability for a calendar quarter, less any deposits for the quarter, is $100 or less), you must either pay the taxes with your quarterly return or deposit them with an authorized financial institution or Federal Reserve bank.

Deposit Requirements

Record of deposits and liabilities.—If you are required to make semimonthly deposits, as discussed below, you must also record your semimonthly tax liabilities in item 4, unless you come within the exceptions discussed in the section below headed "Important Notes." If you come within these exceptions, or are liable only for monthly deposits, you may record your liabilities in the monthly totals.

Monthly deposits.—If you are liable in any month (except the last month of a calendar quarter), for more than $100 of taxes reportable on Form 720 and you are not required to make semimonthly deposits, you must deposit the amount on or before the last day of the next month. In the case of air transportation and communications taxes, the tax computed on the basis of amounts billed (communications) or tickets sold (air transportation) ~~for a monthly~~ period is considered as collected during the succeeding monthly period.

Semimonthly deposits.—If you had more than $2,000 in excise tax liability for any month of a calendar quarter, you must deposit taxes for the following calendar quarter (regardless of amount) on a semimonthly basis as follows:

(A) If the amount is for air transportation or communications taxes and the tax is computed on the basis of amounts billed (communications) or tickets sold (air transportation), the tax computed for a semimonthly period is considered as collected during the second succeeding semimonthly period. Deposit the tax on air transportation or communications services within three banking days after the close of the semimonthly period for which it is considered collected or for which it actually is collected. A "semimonthly period" means the first 15 days of a calendar month or that part of the month after the 15th day.

(B) If the amount is for tax on policies issued by foreign insurers, deposit it:

a. On or before the first day of the next month if the tax is for the first semimonthly period of a month; or

b. On or before the 15th day of the next month if the tax is for the second semimonthly period of a month.

(C) If the amount is for taxes other than those described above in (A) or (B), deposit it on or before the ninth day following the semimonthly period for which it is reportable.

You meet the semimonthly deposit requirements if the amount you deposit for the semimonthly period is:

1. Not less than 90% of the total tax collected during (or reportable for) the semimonthly period;
2. Not less than 45% of the total tax collected during (or reportable for) the month;
3. Not less than 50% of the total tax collected during (or reportable for) the second preceding month (first preceding month for air transportation and communications taxes); or
4. For manufacturer's and retailer's taxes only—in the case of an amount you deposit for the second semimonthly period in the month, when added to the deposit for the first semimonthly period, not less than 90% of the total taxes reportable for the month.

In addition, if the semimonthly period is in either of the first two months of the quarter, you must deposit the underpayment for the month by the following date:

(a) The first day of the second month following such month in the case of tax on foreign insurance policies;

(b) The ninth day of the second month following such month in the case of manufacturer's and retailer's taxes; and

(c) The last day of the following month in the case of air transportation or communications taxes.

Important Notes:

(1) If you use option 2, 3, or 4 to meet semimonthly deposit requirements, you may not be required to keep books and records (except as to deposits) on a semimonthly basis or record your tax liability on a semimonthly basis in item 4. (See Sec. 48.6302 (c)–1 and Sec. 49.6302(c)–1 of the Regulations.)

(2) You may not use option 2 or 3 if you collect more than 75 percent of the air transportation or communications taxes or if you incur more than 75 percent of the monthly liability for other taxes in the first semimonthly period in each month.

Quarterly deposits.—If your excise tax liability for a quarter (reduced by any monthly or semimonthly deposits for the quarter) is more than $100, you must deposit the unpaid balance on or before the last day of the first month following the quarter. If however, the unpaid balance is for communications or air transportation taxes only, deposit the unpaid balance on or before the last day of the second month following the quarter. You may make deposits of $100 or less, but are not required to do so.

This provision does not extend the time for depositing the taxes for the last semimonthly period of the quarter, nor relieve you of penalties for failure to make other required timely deposits.

Federal Tax Deposit Form 504.—You must deposit all excise taxes reportable on Form 720, in an authorized financial institution or a Federal Reserve bank, as explained on the back of Federal Tax Deposit Form 504, unless the total liability for any calendar quarter less the amount of taxes previously deposited, is $100 or less.

If you are paying a tax for the first time or need additional forms, contact the District Director or the Director of a Service Center (see "Where to File" below) in time to make required deposits. Any tax due and not deposited must accompany the return.

Overpayment.—If you deposited more than the correct amount of taxes for a quarter, you may elect to have the overpayment applied to your next return or refunded to you. Show the appropriate amount in the space provided in item 8. Any amount you elect to have applied to your next return should be entered in item 5 of your next return.

When to File

A return must be filed for each quarter of the calendar year as follows:

Quarter covered	All excise taxes other than air trans. and comm. due on or before	Air trans. and comm. due on or before
January, February, March	April 30	May 31
April, May, June	July 31	August 31
July, August, September	October 31	November 30
October, November, December	January 31	February 28

For all excise taxes other than those on air transportation and communications, you are allowed an additional 10 days for filing your return if it shows timely deposits in full payment of the taxes due for the quarter.

Where to File

If your principal business, office or agency, or legal residence in the case of an individual, is located in	Use this address
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Internal Revenue Service Center Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Internal Revenue Service Center Andover, MA 05501
District of Columbia, Delaware, Maryland, Pennsylvania	Internal Revenue Service Center Philadelphia, PA 19255
Alabama, Florida, Georgia, Mississippi, South Carolina	Internal Revenue Service Center Atlanta, GA 31101
Michigan, Ohio	Internal Revenue Service Center Cincinnati, OH 45999
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	Internal Revenue Service Center Austin, TX 73301
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Internal Revenue Service Center Ogden, UT 84201
Illinois, Iowa, Missouri, Wisconsin	Internal Revenue Service Center Kansas City, MO 64999
California, Hawaii	Internal Revenue Service Center Fresno, CA 93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	Internal Revenue Service Center Memphis, TN 37501

If you have no legal residence, principal place of business or principal office or agency in any Internal Revenue district, file your return with the Internal Revenue Service Center, Philadelphia, PA 19255.

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

FOR IMMEDIATE RELEASE
December 5, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DECIDES NOT TO IMPOSE COUNTERVAILING DUTIES ON BROMINE AND BROMINATED COMPOUNDS FROM ISRAEL

The Treasury Department today announced its final determination not to impose countervailing duties on imports of bromine and brominated compounds from Israel.

Treasury's investigation involved Dead Sea Bromine Company, Ltd., the sole Israeli manufacturer of bromine, and Bromine Compounds, Ltd., the sole Israeli manufacturer of brominated compounds.

The investigation revealed that each of these firms received benefits in the form of property tax rebates given by the Israeli Government to manufacturers whose products are exported but that the size of the benefits received by each firm, 0.06 percent for Dead Sea and 0.12 percent for Bromine Compounds, is de minimis, or too inconsequential to have any impact on the value of imports.

Imports of bromine and brominated compounds from Israel during fiscal year 1978 were valued at approximately $2 million.

This decision was published in the Federal Register of December 4, 1978.

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B-1291

Public offer of Deutsche Mark Schuldscheine (DM denominated Treasury Notes) of the United States of America on fixed terms

The United States of America, acting by and through the Secretary of the Treasury, is offering for its account through the Deutsche Bundesbank, acting as its agent, Schuldscheine denominated in Deutsche Mark (for text, see the Annex) against the extension of corresponding loans to the United States of America, on the following conditions:

(1) Designation:
Schuldscheindarlehen (DM denominated Treasury Notes)

(2) Borrower:
United States of America

(3) Volume:
Approximately DM 2.5 to DM 3 billion in aggregate amount and allocated at the discretion of the borrower between the two maturities being offered. The exact amount will be determined after receipt of the subscriptions. The borrower reserves the right to allot more or less than the aggregate amounts set forth above and to accept or to reject any or all subscriptions in whole or in part.

(4) Maturities:
Subscriptions will be received for each of the following maturities (with respect to each maturity, the "maturity date"):

(a) 3 years, due December 15, 1981
(b) 4 years, due December 14, 1982.

Subject to the provisions of section 247 of the Civil Code of the Federal Republic of Germany, the Schuldscheindarlehen shall

The purpose of the borrowing is to raise a portion of foreign currencies which the Treasury and the Federal Reserve System are mobilizing in amounts up to $30 billion to support intervention by the United States in the foreign exchange markets as announced on November 1.

The Department of the Treasury is also planning a Swiss franc denominated offering in the Swiss credit markets in January, 1979. This borrowing will be restricted to Swiss residents, and the offering will be made through the Swiss National Bank acting as agent on behalf of the United States.

The Treasury is also giving consideration to a yen denominated borrowing in Japan in 1979.

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

IMMEDIATE RELEASE
December 5, 1978

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES DM NOTE SALE

The Department of the Treasury today announced that on Tuesday, December 12, 1978, it will offer notes denominated in Deutsche marks in an aggregate amount of approximately 2.5 to 3.0 billion DM.

The notes will have maturities of three and four years and will be allocated between those maturities at the discretion of the Treasury. This offering represents the first DM-denominated borrowing pursuant to the joint Treasury and Federal Reserve Board announcement on November 1, 1978, concerning measures to strengthen the dollar.

The notes are being offered exclusively to, and may be owned only by, residents of the Federal Republic of Germany. The notes will be registered with the Bundesbank and may be transferred among German residents up to four times in amounts of 500,000 DM or multiples thereof.

The offering will be made exclusively in Germany through the Deutsche Bundesbank (German Central Bank) acting as agent on behalf of the United States. The notes will be offered at par, and the interest rates for both the three-year and four-year notes will be determined and announced no later than 9:00 A.M. Frankfurt time on December 12, 1978. Subscriptions will be received by offices of the Bundesbank until 12:00 noon on December 13. For each maturity, subscriptions must be for amounts of 500,000 DM or multiples thereof. Payment for and issuance of the notes will be on December 15, 1978. They will not be listed, and it is not expected that prices of the notes will be publicly quoted.

Under the Double Taxation Agreement between the Federal Republic of Germany and the United States of America, natural persons resident in the Federal Republic of Germany and German companies within the meaning of this Agreement are not subject to the withholding tax on interest income payable under U.S. law.

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partment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
December 6, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT FINDS
SILICON METAL FROM CANADA SOLD
HERE AT LESS THAN FAIR VALUE

The Treasury Department today announced it has determined that silicon metal imported from Canada is being sold in the United States at "less than fair value." The case is being referred to the U. S. International Trade Commission, which must decide within 90 days whether a U. S. industry is being, or is likely to be, injured by these sales.

If the decision of the Commission is affirmative, dumping duties will be collected on sales found to be at less than fair value.

Appraisement has been withheld since the tentative decision issued on August 29, 1978. The weighted average margin of sales at less than fair value in this case was 2.7 percent computed on all sales.

Interested persons were offered the opportunity to present oral and written views prior to this determination.

Sales at less than fair value generally occur when imported merchandise is sold in the United States for less than in the home market.

Imports of silicon metal from Canada during the period January 1-October 31, 1977, were valued at approximately $7 million.

Notice of this determination will appear in the Federal Register of December 7, 1978.

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FOR IMMEDIATE RELEASE
December 6, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES FINAL DISCONTINUANCE OF
ANTIDUMPING CASE REGARDING CUMENE FROM ITALY

The Treasury Department announced today a final discontinuance of its investigation concerning imports of cumene from Italy.

Under the Antidumping Act, a final discontinuance may be granted if the dumping margins involved are minimal in relation to the volume of exports and if appropriate assurances are received that future sales will not be made at "less than fair value."

Cumene is a white, liquid chemical used in the manufacture of other chemicals from which various types of blotters, adhesives, plastics, solvents and pharmaceutical products are produced.

Sales at "less than fair value" generally occur when imported merchandise is sold in the United States for less than in the home market or to third countries.

Notice of this action will appear in the Federal Register of December 7, 1978.

Imports of cumene from Italy were valued at $10 million during the period investigated, September 1977 through February 1978.

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B-1294

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

FOR IMMEDIATE RELEASE
December 6, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY FINDS CUMENE
FROM THE NETHERLANDS
IS NOT BEING "DUMPED"

The Treasury Department today announced its final determination under the Antidumping Act that cumene imported from the Netherlands is not being sold in the United States at "less than fair value."

Cumene is a white, liquid chemical used in the manufacture of other chemicals from which various types of blotters, adhesives, plastics, solvents and pharmaceutical products are produced.

Sales at "less than fair value" generally occur when imported merchandise is sold in the United States for less than in the home market or to third countries.

Notice of this action will appear in the Federal Register of December 7, 1978.

Imports of cumene from the Netherlands were valued at $16.7 million during the period investigated, September 1977 through February 1978.

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FOR IMMEDIATE RELEASE
December 6, 1978

Contact: Robert E. Nipp
202/566-5328

MEMORANDUM TO CORRESPONDENTS

Attached for your information is the Joint Communique on the Fourth 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 Jidda, Saudi Arabia on November 18 - 19, 1978.

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B-1297

JOINT COMMUNIQUE

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

JIDDA, SAUDI ARABIA
NOVEMBER 18-19, 1978

The United States-Saudi Arabian Joint Commission on Economic Cooperation concluded its fourth formal session today with both sides expressing satisfaction at the significant progress of joint efforts in carrying out a wide variety of economic and social development programs. Saudi Arabia and the United States agreed that the Joint Commission should expand its role in the development of key sectors of the Saudi economy at the same time that both sides were promoting increased mutual trade and private business activities.

The Joint Commission delegations evaluated the progress made on the 17 major projects being implemented under the aegis of the Joint Commission, involving the active cooperation of ten U. S. Government agencies. At the meeting, three new technical cooperation agreements were signed, in the areas of transportation, agriculture bank operations, and executive management development. Special attention was given to program objectives and how these goals might best be met.

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 Jidda, November 18-19, 1978, was chaired by Minister of Finance and National Economy Muhammad Al-Ali Abalkhail. Secretary of the Treasury W. Michael Blumenthal, the U. S. Joint Commission Co-Chairman, led the United States delegation. Ambassador West, the American Ambassador to Saudi Arabia, also participated in the meeting. A list of the two delegations is attached as an annex.

The American delegation held meetings outside the framework of the Joint Commission with Saudi Ministry of Finance and National Economy officials, and calls were paid by Secretary of the Treasury Blumenthal on several senior Saudi Government officials. These meetings provided fine opportunities to review the multiple aspects of bilateral relations, as well as to hold comprehensive discussions on the global economic and financial situation. The congressional members of the delegation appreciated the opportunity to visit Saudi Arabia and to have frank talks with key officials of the Saudi Arabian Government. It was agreed that these sessions served to strengthen the already strong feelings of friendship and cooperation between the two countries.

The two delegations noted the impressive progress which has been made since the last meeting in implementing existing technical cooperation agreements and in undertaking new project activities. Presently there are 135 American professionals working on Joint Commission projects in the Kingdom. These experts are involved in five major program areas: Agriculture and Water Resources, Science and Technology, Manpower and Education, Information and Administration, and Industrialization and Infrastructure. The financing of these projects is accomplished through a Saudi Arabian Trust Account in the U.S. Department of the Treasury.

The representatives of seven U. S. firms participating in Joint Commission programs were present at the opening and closing ceremonies of the Fourth Session.

1. Specialists in Agriculture and Water

Work continues to move ahead in all areas with special emphasis this next year on the following project activities: conducting detailed soil surveys in agricultural development areas; preparation of a base map depicting general soil conditions for the entire Kingdom; implementing a land allocation and record-keeping system for the Kingdom; activating native range and grazing improvement projects; installing a computerized water data base; overseeing the collection and analysis of water supply and demand data for a national water plan.

The first phase of activating the Ministry's Agriculture and Water Research Center was completed with the replacement of the American Technical Director by a Saudi national. This is one of the first steps in achieving a major Joint Commission goal of institution building.

2. <u>Asir National Park</u>

Progress continues on the development of the seven park sites in the Asir Province. The construction tender was advertised in September and bid openings are scheduled for late November. The construction phase will take about two years. The U.S. National Park Service will continue to assist the Ministry of Agriculture and Water in establishing this first national park in Saudi Arabia.

3. <u>National Center for Science and Technology</u>

During the past year the Saudi Arabian National Center for Science and Technology (SANCST) project has made significant progress in developing an institutional framework for the national development of the Kingdom's scientific potential and utilization of research results in a coordinated endeavor for social and economic betterment. Specifically, the SANCST project with NSF initiated work in major areas which will lay the groundwork for future activities at the Center. Within the next year SANCST intends to build upon these efforts by accomplishing the following:

<u>Inventory of science and technology resources</u>

--To complete the inventory analysis and evaluation of S&T activities in the Kingdom and to code the data for automated data processing.

<u>Science and Technology Information Center</u>

--To initiate work establishing and maintaining a Saudi Arabian science and technology base.

--To implement on-line searching of U.S. science and technology data bases.

<u>Science and Technology Research Plan</u>

--To complete work on a comprehensive plan for applied science and technology in the Kingdom.

The achievement of the above major objectives together with work on the institutional development of SANCST will constitute a major step in optimizing the science and technology contributions to the development of the Kingdom.

4. Solar Energy Research

Progress under the agreement on technical cooperation in solar energy has concentrated on projects that will have a demonstrable utility in the Saudi Arabian context in that they meet the needs of the people of Saudi Arabia even as they advance the development and application of solar technology in the United States. This will ensure that the goals are attainable within the framework of available resources; that the results of solar energy technology are readily transferable for widespread application to address the energy needs of U. S. and Saudi Arabian economies and those of developing countries throughout the world.

In the above framework, five initial programs have been selected for implementation:

--The application of photovoltaic electricity generation for a remote Saudi Arabian village.

--A study of the energy needs of the village to help determine the optimum mix of solar energy technologies.

--Development of a solar radiation map of the Kingdom through establishment and operation of a network of solar insolation measurement stations.

--Establishment of experimental test facilities for urban cooling systems at Saudi Arabian Universities and a parallel effort in the United States involving innovative cooling systems in areas with similar climatic conditions to those of Saudi Arabia.

-- Initiation of research and development in solar desalination technology.

5. Desalination Technology

Work is progressing on the two projects under the Desalination Agreement: 1) the establishment of a desalination research, development, and training center; 2) the establishment of a technology development program which will produce designs and specifications for a new generation of large-scale flash desalting plants. The ongoing study to assess the requirements for the center will be completed this year, while the near-term objectives for the technology development project include the awarding of three concurrent contracts for conceptual designs and the development and implementation of an intermediate stage test program.

6. Vocational Training and Construction

Over 40 specialists from the U.S. Department of Labor are currently working with the Saudi Ministry of Labor and Social Affairs to improve vocational training programs in the Kingdom. In addition, through an inter-service agreement with the Department of Labor, five specialists from the U.S. General Services Administration are in Riyadh providing engineering oversight services for the project. The construction of 10 new Saudi vocational training centers and the expansion of 15 existing centers is planned with work on master plans and designs for these facilities now underway and actual construction expected to start early next year. The Department of Labor is also working with the Saudi education mission in Houston to monitor skill-upgrading programs being held for instructors from the Ministry's vocational training centers. Forty Saudi instructors currently are in the U.S. participating in this type of training.

7. Consumer Protection

A five-man U.S. team currently is providing technical expertise in the area of food quality control. It also has been working with the Ministry to expand capabilities in three presently operational laboratories and at the newly built laboratory in Riyadh. Graduate-level educational programs for a number of Ministry employees in chemistry, microbiology, and food science are underway in the U.S.

8. Customs

Members of a four-man team of experts from the U.S. Customs Service will begin arriving in Riyadh in January to work with the Ministry of Finance and National Economy's Customs Department in expanding its overall capabilities. A major training program for up to 95 Saudi customs inspectors a year is also scheduled to begin in the U.S. early next year.

9. Financial Information Services

There are now seven U.S. professionals working in the Financial Information Center. Private sector firms are carrying out the design and construction of the Ministry's new $24 million multi-media financial information center in Riyadh which is expected to be completed in April 1980. This center will provide the Ministry with expanded library facilities, will give it printing and many audio-visual production capabilities, and will give it on-line access to major bibliographic and economic data bases in the U.S. through a dedicated communication link. About 30 Saudis, under the guidance of this staff, now are planning to attend universities in the U.S.--both at undergraduate and graduate levels--in order to manage and operate the new center.

10. Statistics and Data Processing

The project under which the U.S. Bureau of the Census is working with the Saudi Ministry of Finance's Central Department of Statistics and National Computer Center to achieve an effective statistics and data processing capacity is now entering its fourth year. Twenty U.S. project personnel are now permanently stationed in Riyadh with two more expected within the next two months.

Major project accomplishments in conjunction with the Central Department of Statistics include completion of the 1976 census of establishments, initiation of an integrated economic survey program, significant improvement in the timely release of foreign trade statistics and the initiation of a continuing household survey program which is collecting a variety of social and economic data on the population. Project work in conjunction with the National Computer Center has included improvement in management and overall capacity to process an ever-increasing volume of work, and execution of a continuing program to provide selected Saudi officials with mid-career professional training at the Bureau of the Census in Washington, D. C.

11. Central Procurement

The U.S. General Services Administration will have a four-man team of procurement and supply specialists working in the Ministry of Finance and National Economy shortly to improve its procurement capabilities. Efforts are now underway to enroll Saudis in appropriate GSA training courses in the U. S.

12. Audit Management Specialists

The first of four U.S. experts assigned to work with the Saudi General Control Board will arrive in Riyadh early in December. In addition to the assistance to be provided by the team, provision has been made for training a number of Saudis in the Kingdom and in the United States.

13. Electrical Services Projects

A comprehensive 25-year electrification plan for the entire Kingdom has been completed and will be formally presented to the Ministry of Industry and Electricity in Riyadh late in November. Projects in the electrical field have also provided extensive advisory services and procurement assistance to the Ministry of Industry and Electricity, the Riyadh Electric Company, and the Nasseriah Power Station of the Ministry of Finance and National Economy. After completion of nearly all elements of the electrical procurement and installation project, a contract has been signed for substantial additional work at the Nasseriah Power Station.

14. National Highway Program

Seven U.S. professionals from the Department of Transportation Federal Highway Administration are now in Riyadh working with the Ministry of Communications in transportation-related areas such as highway design and maintenance, traffic safety, bridge structure and maintenance, and overall highway planning. Five additional team members are expected to arrive before the end of the year, bringing the total team size to 12.

15. New Projects

New project agreements were signed in the following areas:

1. Technical Cooperation in Transportation

A project agreement signed at the Joint Commission meeting provides for technical cooperation between the U.S.

Department of Transportation and the Saudi Ministry of Communications in the transportation field. A team composed of eight Department of Transportation specialists will be assigned to work with the Ministry of Communications to develop a strong organization capable of guiding and monitoring the creation of a national system of public transportation.

2. Agricultural Bank

A second project agreement signed at the meeting provides for technical cooperation in assisting the Saudi Arabian Agricultural Bank to modernize its administrative and operational functions. It was agreed that nine American professionals would be assigned to work with bank officials and that a number of bank employees would be sent to the United States for training.

3. Executive Management Development

A third agreement establishes a new program under which selected senior Saudi Government administrators will participate in a management development program in the United States. The program will provide an opportunity for American and Saudi public service administrators to meet and exchange views on professional issues of mutual interest.

16. New Areas for Cooperation

1. Health Manpower Development

An initial team of U. S. specialists in the public health area is expected to go to Riyadh in the near future for discussions with representatives from the Ministries of Health, Planning and Higher Education.

2. Assistance to King Faisal University

A four-man team of educational specialists met with King Faisal University officials to assess University curricular and physical plant plans in the areas of agriculture, veterinary science, and medicine. The team is completing a report recommending the establishment of appropriate programs in these disciplines at new university campuses planned at Dammam and Hofuf. The report also will cover longer term assistance in the areas of planning and administration.

17. <u>U.S.-Saudi Arabian Business Cooperation</u>

The United States and Saudi Arabia agreed, during a meeting between Minister of Commerce Solaim and Secretary of the Treasury Blumenthal, to expand their already close bi-lateral trade and business ties through increasing the flow of information between both countries on the requirements of the Saudi economy, on appropriate U.S. suppliers of goods and services, and on mutual trade problems and policies. It was further agreed that the interests of both governments lie in encouraging and facilitating private sector contacts in both countries through expanded trade promotional efforts and by the exchange of information and views through trade associations in both countries.

OVERALL ASSESSMENT

The Commission considered the forth session, with its accent on future objectives rather than past accomplishments, to have been the most successful to date. The three new agreements signed during the session bring the number of active project agreements to 20. It was noted that these programs represent positive contributions to the ever closer U.S.-Saudi Arabian bilateral economic and commercial relationships.

The Commission thanked all participating Saudi Arabian ministries and American departments and agencies, as well as the private sectors in both countries, for their outstanding efforts and directed them to continue mutually to explore possible new areas of cooperation.

The co-chairmen agreed to hold the next Joint Commission meeting in Washington, D.C. in 1979.

Jidda, Saudi Arabia

November 19, 1978

ANNEX

List of Delegations

SAUDI ARABIAN DELEGATION

U.S.-SAUDI ARABIAN JOINT COMMISSION
ON ECONOMIC COOPERATION

FOURTH SESSION

NOVEMBER 18-19, 1978

Muhammad al Ali Abalkhail, Minister of Finance and National Economy and Co-Chairman of the Joint Economic Commission

Rida Obaid, Chairman and Director of the Saudi Arabian National Center for Science and Technology

Mansoor Al Turki, Deputy Minister, Ministry of Finance and National Economy, and Joint Economic Commission Coordinator

Mohammad Al Fayez, Deputy Minister, Ministry of Labor and Social Affairs

Nasser Al Salloum, Deputy Minister, Ministry of Communications

Ahmad Twaijri, Deputy Minister, Ministry of Industry and Electricity

Faisal Al Bashir, Deputy Minister, Ministry of Planning

Abdallah Al Gholaikah, Deputy Minister, Ministry of Agriculture and Water

Abdallah Muhammad Alireza, Deputy Minister, Ministry of Foreign Affairs

Tawfiq L. Tawfiq, Deputy Minister for Supplies, Ministry of Commerce

Mohammad Dhalaan, Director General of Training, Ministry of Labor and Social Affairs

U. S. DELEGATION

U.S.-SAUDI ARABIAN JOINT COMMISSION FOR ECONOMIC COOPERATION

FOURTH SESSION

NOVEMBER 18 - 19, 1978

Treasury Department

W. Michael Blumenthal, Secretary of the Treasury and Co-Chairman of the Joint Economic Commission

C. Fred Bergsten, Assistant Secretary for International Affairs and Joint Economic Commission Coordinator

Lewis W. Bowden, Deputy for Saudi Arabian Affairs

Bonnie Pounds, Director, Office of Saudi Arabian Affairs

Department of State

Joseph W. Twinam, Country Director for Arabian Peninsula

Department of Interior

Guy R. Martin, Assistant Secretary, Land and Water Resources

Department of Agriculture

Quentin West, Special Assistant for International Scientific Technical Cooperation

Department of Commerce

Census Bureau

Martin J. McMahon, Chief, Overseas Consultation and Technical Services

Department of Labor

Howard Samuel, Deputy Under Secretary for International Affairs

Department of Transportation

Chester Davenport, Assistant Secretary for Policy, Plans and International Affairs

Department of Energy

Eric Willis, Deputy Assistant Secretary for Energy Technology

General Services Administration

Paul Goulding, Acting Deputy Administrator

National Science Foundation

Harvey Averch, Assistant Director, Scientific, Technological and International Directorate

American Embassy

John C. West, U.S. Ambassador to Saudi Arabia

E. Gordon Daniels, Deputy Chief of Mission

USREP/JECOR

Wallace M. Riley, Director

Theodore A. Wahl, Deputy Director

ADMINISTRATION STATEMENT

The United States believes the new European arrangements announced on December 5 for closer monetary cooperation within the European Community represent an important step toward the integration of Europe, which we have long supported. We believe that the new arrangements will be implemented in a way which will contribute to sustainable growth in the world economy and a stable international monetary system. The U. S., Germany, Switzerland and Japan will continue to cooperate in a forceful and coordinated way to assure stability in exchange markets. The United States looks forward to continued close consultations with its European trading partners as these arrangements evolve.

December 6, 1978
Contact: Robert E. Nipp
202/566-5328

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

FOR IMMEDIATE RELEASE
EXPECTED AT 10:00 A.M., EST
THURSDAY, DECEMBER 7, 1978

STATEMENT BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT
INSTITUTIONS AND FINANCE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES PARTICIPATION IN THE MULTILATERAL DEVELOPMENT BANKS IN 1979

Mr. Chairman, I am very pleased to appear before this Subcommittee today to consult with you regarding amounts and shares of U.S. participation in prospective replenishments of several of the multilateral development banks (MDBs). You will recall that we consulted with you and many other individual members of Congress last April concerning replenishment of the Asian Development Fund and the African Development Fund, including for the first time in such consultations a formal hearing -- before this Subcommittee. We subsequently concluded those negotiations on terms fully consistent with the consultations, from which we benefitted enormously.

B-1298

Since that time, we have held discussions with other countries concerning an increase in resources for the Inter-American Development Bank (IDB); a General Capital Increase (GCI) for the World Bank; and the opening of membership in the African Development Bank to non-regional countries. We have already discussed these issues informally with a number of individual Congressmen, but we want to consult on them in some detail with the Subcommittee so that we can have the benefit of your views before concluding these negotiations. I will place the individual replenishments in the context of overall U.S. participation in the MDBs, so that they can be seen in proper perspective.

As you know, it is our firm view that vital U.S. national interests are inextricably linked to the future of the developing world. Those interests range from avoiding nuclear proliferation and preventing outbreaks of conventional conflicts to securing essential supplies of raw materials and promoting our most rapidly expanding export markets. The non-oil developing countries now account for about one-quarter of our total exports -- more than the entire European Community.

One of our most effective instruments in promoting LDC growth and stability, and hence U.S. interests vis a vis the developing world, is the multilateral development banks. As their share of lending to developing countries has increased, the MDBs are increasingly able to effectively encourage sound development projects and programs in recipient countries. Their policy advice is readily accepted by developing nations due to their multilateral, apolitical character. The banks are able to respond promptly to important new international needs as they arise; for example, the World Bank is currently providing greatly expanded support for energy production in LDCs.

Moreover, the MDBs offer an extremely cost-effective means to advance U.S. interests in the developing world. On the one hand, the MDBs' borrowings in private capital markets enable every $1 of U.S. budget outlay to result in $20 in actual lending by the World Bank and the hard windows of the regional banks. On the other hand, more than two and a half dollars have been returned to the United States in bank expenditures for every dollar we have contributed to the banks over their lifetimes.

There is of course a tradeoff inherent in our participation in the MDBs: because of their multilateral character, we cannot dictate their policies. Nevertheless, because our view of the fundamental objectives of these institutions is shared by most other member governments, and because we have a major voice in each of the banks, we have obtained positive, cooperative responses from other members and the banks' managements for our policy priorities.

In this regard, I am extremely pleased to report that major progress is being made on a number of concerns about

the banks which are shared by the Congress and the Administration: reaching the poor more effectively, enhancing human rights, achieving greater and more equitable burden-sharing among donor countries, graduating countries from concessional assistance as their economic status improves and establishing a more objective focus for setting compensation levels.
I would be pleased to discuss any of these issues in detail, and will illustrate several of them in discussing the specific replenishments later in my statement.

I would stress, at the outset, that in all cases we have had in mind the critical need to limit and, where possible, reduce U.S. budgetary outlays. The proper focus of both the President and the Congress on fighting inflation requires this program, like all others, to make its contribution to budget stringency:

-- Our FY 80 budget request for the MDBs will result in significantly smaller paid-in contributions than our FY 79 request of a year ago.

-- The IDB replenishment to be described shortly calls for smaller annual U.S. paid-in contributions over its four-year life (1979-1982) than the U.S. pledge to the previous IDB funding (1975-1978).

-- In expanding the capital of the World Bank, we will seek to avoid budget outlays entirely by relying wholly on callable capital; in any event, we expect to minimize paid-in amounts by relying to the maximum extent on callable capital.

Upcoming Legislation for the MDBs

We thus sincerely believe that we can effectively pursue U.S. policy goals in the banks while avoiding any rise in budget costs. To demonstrate this, and before going into detail on prospective replenishments, I would like to take a few moments to present the outlines of possible Administration requests for the MDBs over the next three years. My objective is to provide an overall framework within which you can better judge the merit of our individual proposals.

For FY 1980, the Administration's request for MDB appropriations can be expected to be about the same as requested for FY 1979 -- $3.5 billion -- even though FY 1980 will be the first year of new replenishments in four MDB windows. Fully one-half of the FY 80 proposal will be for callable capital so the eventual budget outlays emerging from it, at about $1.8 billion, would be well short of those called for in our FY 79 request (about $2.1 billion). As in all recent years, the FY 1980 budget proposal will include two components: current U.S. obligations to the banks (about $2.6 billion) and prior obligations not yet funded (about $1 billion). Final determination of the precise level of the budget request for the MDBs will be made by the President for his FY 1980 Budget Presentation.

During the course of 1979, we will also be coming to the Congress -- via this Subcommittee and its counterpart in the Senate -- for authorization of the latest replenishments: for both the capital and concessional lending window of the IDB, and for the concessional lending programs of the Asian Development Fund and African Development Fund. Unlike 1978, we will thus have both authorizing and appropriating legislation in 1979.

During 1979, we will also have to complete negotiations for two major MDBs which will not require legislation until later. For reasons to be explained later, agreement is needed early next year on increasing the capital of the World Bank although Congressional authorization will not be needed until 1981 and appropriation until FY 1982 or even FY 1983. By late 1979, we also will need to reach agreement on the sixth replenishment of the International Development Association (IDA VI) as a basis for both authorizing and appropriating bills in 1980.

We of course do not know how these latter negotiations will turn out. If the arrearages can be dealt with this year, however, it appears that the Administration's request for the MDB's in FY 1981 would fall to the range of $2.5-2.6 billion -- a drop of 25-30 percent from the levels requested in FY 1979 and FY 1980, because of the four-year plateau in current contributions on which we are now resting.

For FY 1982-1984, the request can be expected to settle on a new plateau somewhere around $4 billion, depending primarily on the size of any General Capital Increase for the World Bank. However, the paid-in amounts would be no higher than for FY 1978-1981 because all or most of the GCI will be financed by callable capital. Even in terms of budget authority, such an outcome would imply that the Administration's request for the MDBs would have grown only by 7-9 percent per annum in nominal terms from FY 1978, when the request was $2.6 billion, to FY 1984; this growth rate is virtually nil real terms. Excluding callable capital, the growth rate for paid-in amounts from FY 1978 through FY 1984 would be under 2 percent in nominal terms -- a sharp decline in real terms. The program is thus fully consistent with the stringent requirements of our own budgetary situation, while permitting significant continued growth of the lending of the banks.

This, then, is the overall MDB agenda as we see it, and on which we seek your views. Let me turn now to the specific issues of greatest immediacy.

The Inter-American Development Bank (IDB)

The impressive development of most of Latin America has moved it far ahead of the poor regions of Africa and South Asia. Economic progress is visible on a broad spectrum of indicators -- growth rates, international trade, investment, and GNP. However, Latin America still suffers from many of the problems of the developing world -- pockets of poverty even within the more advanced countries, low levels of development in some countries and inadequate capital, to mention a few.

These considerations, along with concerns mentioned previously by this Subcommittee and others in the Congress, have governed our approach to the latest replenishment of the IDB. We have had a series of meetings since April of this year with other member countries concerning the Bank's lending program for 1979-1982. A general understanding has now emerged which has substantial advantages for the United States:

- -- Increased emphasis on lending to poor countries and to poor people in all recipient countries
- -- Increased burden-sharing by both developed and developing countries
- -- Reduced paid-in contributions by the United States.

The <u>lending program</u> of the Bank will undergo a significant restructuring as a result of this replenishment negotiation, based on the principle of graduation as economic conditions warrant. Indeed, three clear stages of graduation are recognized in this restructuring.

First, a number of countries have progressed sufficiently so that they no longer need to borrow at all from the concessional window of the Bank, the Fund for Special Operations (FSO).

In addition to the five countries which had already volunteered not to tap the FSO for convertible currencies during the last replenishment period, Chile and Uruguay will no longer do so. The financing requirements of the

Bahamas and one or two others might also now be met wholly through the Bank's conventional resources.

Due to this impressive extent to which Latin American countries no longer need concessional resources, the annual size of the FSO replenishment can be smaller than the last replenishment. We are proud of the fact that this is one foreign assistance program which, because of the economic progress of its recipient countries, can be -- indeed, by agreement should be -- allowed to decline.

Moreover, the FSO's concessional funds will be devoted increasingly to the poorest and least developed countries in the hemisphere. During the first two years of the replenishment period, at least 75 percent of convertible FSO resources would go to them. During the second half of the period, this minimum allocation level would rise to 80 percent. All countries outside this poorest and least developed group, which will continue to tap the FSO at all, agree to limit their borrowing from it to projects which directly benefit poor people within their borders. Thus, under the terms of the proposed replenishment, scarce concessional funds would be focused much more sharply on both the poorest countries and on the poorest people than has been the case in the past.

The second graduation step is that, in the capital window of the Bank, the largest and more prosperous Latin countries -- Argentina, Brazil and Mexico -- would receive no increase in borrowing in light of their widespread access to private capital markets. Thus they will sharply reduce their percentage share of IDB lending, although retaining sizable amounts in absolute terms. The Bank will help them adjust to this change by arranging an increased amount of co-financing for them with IDB projects, improving still further their access to private capital.

This constructive step by the advanced developing countries (ADCs) of Latin America permits the third phase of graduation. In it, the poorer countries will attain a five percent annual increase in their real rate of borrowing to help cushion their moving from primary reliance on the concessional funds of the FSO to the harder lending terms of the capital window. Three clear categories of Latin American borrowers thus emerge: the poorest, who will borrow most of the funds of the FSO; the most advanced, who will limit their total borrowing from the Bank to recent levels; and the middle group, who will draw on most of the growth in capital lending as they move away from reliance on the FSO. Venezuela and Trinidad and Tobago will not borrow at all during this replenishment period.

Another important feature of the replenishment agreement is that the Bank will take action to better target its hard window loans to poorer people in recipient countries. It is agreed that fifty percent of all lending from the IDB during the replenishment period would directly benefit the poorest people in recipient countries, compared with thirty-seven percent at present. This is a major step forward in achieving a key goal shared by the Administration and the Congress: targeting MDB lending on the poorest people in recipient countries.

More equitable burden-sharing by both developed and developing countries is a major objective for the United States in all of the multilateral development banks. In the current IDB replenishment, we have made major progress in achieving that objective:

-- The developed non-regional members of the Bank (Europe and Japan) will bring their cummulative share of IDB capital from 4.4 percent to 7.2 percent, by taking 11 percent of this replenishment.

-- Two-thirds of the paid-in capital subscriptions of Latin American and Caribbean members will be provided on a fully convertible basis; in previous replenishments, only one-half was in convertible currencies.

-- The ADCs of Latin America -- Argentina, Brazil, and Mexico -- will triple the convertible proportion of their contributions to the Fund for Special Operations, from 25 percent to the equivalent of 75 percent.

These major changes in the IDB lending program and burden-sharing arrangements will permit a reduction in United States paid-in contributions which is fully consistent with the Bank's continuing to play its proper role in development in Latin America. To implement the lending program, the overall replenishment levels would amount to $1,750 million for the FSO and slightly more than $8 billion for the increase in capital for the four-year period 1979-1982. The U.S. shares would be those called for by the Sense of the Congress resolution attached to the FY 1979 appropriation bill -- 40 percent for the FSO and 34.5 percent for IDB capital.

In the FSO, the United States would thus contribute $175 million per year. This is an absolute reduction of twelve and one-half percent from the $200 million annual contribution which the United States agreed to make under the current replenishment.

Seven and one-half percent of the capital is to be paid in, down from ten percent under the current replenishment. This means that $635.8 million of our annual subscription of $862.3 million would be in callable capital, requiring budgetary authority but <u>no</u> actual paid-in amounts. The amount paid in for each year's capital subscription would be $51.5 million.

The sum of these FSO contributions and paid-in capital subscriptions means that budgetary obligations for the United States would be limited to $226.5 million for each year of the replenishment period. This is an absolute reduction of $13.5 million from the annual obligations required for the last replenishment, which was negotiated in 1976. The reduction in real terms is, of course, much more substantial. For both capital and concessional funds, the actual budgetary outlays would as always be spread over a number of years because drawdowns are made only as needed to cover actual disbursements by the Bank or on the basis of an agreed schedule.

In our view, this package meets a number of key U.S. policy goals and deserves strong support: it increases lending to the poorest people and countries of Latin America, with reduced budget costs for the United States and with larger shares taken by other donors. The Board of Governors of the Bank will meet before the end of the year to approve the proposed replenishment. Any pledge by the United States would of course be made subsequent to the necessary legislative actions, and we would return to Congress for authorization and appropriation early next year.

The World Bank

The World Bank Group is the most important source of development resources in the world. In FY 1978, the IBRD, IDA and the International Finance Corporation (IFC) combined committed over $9 billion to the world's developing nations. Two-thirds was from the IBRD alone. The Group also plays a leadership role in international economic efforts, chairing consultative groups or aid consortia in about 20 countries and participating in several more. The development expertise of the World Bank provides valuable policy guidance for the development efforts which members undertake themselves, as well.

The World Bank has been an invaluable instrument for promoting equitable burdensharing of development assistance with other donors, sustainable levels of private financial flows, efficiency in the use of resources, international cooperation, and an open world economy. These are all objectives that the United States itself has sought to achieve. And the price has been right: since 1947, the IBRD has made loans totaling $45 billion yet the United States has paid in only $840 million - less than two percent of the loan total. Most IBRD lending is financed by bond sales, largely in private capital markets.

If the IBRD is to maintain its vital place in the world economy, a General Capital Increase (GCI) will be required in the 1980s. Agreement on such an increase must be reached soon, although the capital would not start to be needed until FY 82 or FY 83, or else the IBRD would have to trim its lending plans almost immediately to avoid a sharp fall-off in future years.

Failure to approve a GCI would mean that Bank lending would level off at the present rate of about $6 billion annually, and decline in real terms. The results would be extremely negative for world development prospects, for overall North-South relations and for a wide range of U.S.

interests. It is in the interest of the United States to support continued growth and development in the LDCs, and one of the most cost-effective ways to do so is a major increase in the IBRD's capital.

As a result, President Carter announced U.S. support for a GCI at the Annual Meeting of the Board of Governors of the Bank and Fund this past September -- as did all participants in the Bonn Summit last July. Most of the discussion has centered on proposals for an increase of $30-$40 billion. This would provide the Bank with lending capability for five to six additional years, until the late 1980s.

The U.S. share, again in keeping with the Sense of the Congress resolution in the FY 79 appropriation bill, would be no more than 24 percent -- perhaps less, if other countries are willing to raise their shares as may well be the case. Hence the amount of U.S. contribution would range between $7.2 billion and $9.6 billion, to be made available over a five or six-year period.

The subscription might be made entirely in callable capital, entailing no budgetary outlay at all. However, some argue that there should continue to be some paid-in capital to promote financial market confidence in the Bank. At this point, we see no need for paid-in provided the GCI is of adequate size to demonstrate donor confidence in the IBRD. This will be an important topic of discussion in the coming months, along with the total size of the GCI and country shares in it.

IDA

Talks are at a much earlier stage on the sixth replenishment of the International Development Association (IDA VI), which provides concessional assistance for the World Bank Group. About 90 percent of IDA loans go to the poorest countries, with GNP per capita below $295. Country contributions to IDA are paid in three-year cycles, and the current cycle will be complete in June 1980.

At the Bonn Summit, the President and his colleagues pledged support for a replenishment of IDA that would allow it to increase its lending in real terms over the three years beginning July 1980. At the first replenishment meeting on December 11, we will primarily be seeking to learn the views of other countries on the proper size of IDA VI, and stressing the need for further reductions in the U.S. share. We will consult closely with the Congress before adopting any positions on the size or U.S. share of the IDA VI replenishment.

The African Development Bank

Finally, I would like to mention briefly the opening of membership in the African Development Bank (AFDB) to non-regional members.

This Bank is unique among the MDBs in that its membership has been drawn entirely from regional developing nations since its establishment in 1964. It has no members from the ranks of the industrial countries. The Bank makes loans on non-concessional terms. Its subscribed capital is currently $957 million and its cumulative loans total $662 million.

Although the Bank's membership is entirely African, it has established a concessional lending affiliate -- the African Development Fund -- in which industrial nations participate. The United States and other industrial countries have made $450 million available for lending on concessional terms to some of the world's poorest countries in Africa, and for projects designed to benefit some of the world's most disadvantaged people.

At the May 1978 annual meeting, the Governors of the Bank authorized the beginning of negotiations on non-African membership in the Bank itself. The Administration strongly supports the efforts of the African Development Bank to expand its base of resources. Although it is too early to develop a specific position on U.S. participation in the Bank, we have participated positively and constructively in discussions with other non-African countries considering membership.

U.S. membership in the African Development Bank would help promote our relations with the countries of Africa.

The crucial importance of Africa to the global management of international political and economic affairs is now well-recognized. Our support for the African Development Fund reflects the strong commitment which the Administration and Congress share in supporting the aspirations of African peoples for a better life. We would welcome your views on possible U.S. participation in the Bank as the Administration develops a more specific position on this issue.

Conclusion

Mr. Chairman, in this testimony I have attempted to lay out the current thinking of the Administration toward the multilateral development banks -- including both overall U.S. participation levels and the U.S. role in the specific replenishment discussions which are current.

We now seek your reactions, and those of your colleagues in the Congress. I believe that we have made every effort to proceed on these matters only on the basis of the fullest possible consultations with the Congress, and I assure you that we will continue that approach. We deeply appreciate the opportunity to participate in these hearings, and look forward to working with you actively during the 96th Congress.

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

FOR IMMEDIATE RELEASE
December 7, 1978

Contact: Charles Arnold
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PUBLIC MEETING ON UNITED STATES-CANADA TAX TREATY ISSUES

The Treasury Department today announced that the December 13, 1978, public meeting on United States-Canada tax treaty issues will be held at 2:00 p.m. in the Cash Room on the Second Floor of the Main Treasury Building, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C.

The public meeting was announced in a Treasury Press Release B-1221, dated October 19, 1978. That announcement of the meeting appeared in the Federal Register of October 24, 1978.

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B-1299

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

EMBARGOED FOR RELEASE
EXPECTED AT 2:00 P.M.
Thursday, November 7, 1978

REMARKS BY DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL MONETARY AFFAIRS
F. LISLE WIDMAN
BEFORE THE INTERNATIONAL BUSINESS CONFERENCE
PACE UNIVERSITY GRADUATE SCHOOL OF BUSINESS
NEW YORK, DECEMBER 7, 1978

The So-Called "Dollar Overhang"

When Dr. Parks invited me to address the group today, he very courteously offered me a free choice of topics. In response, I undertook to advise him of my choice in time for inclusion in the conference announcement. You can guess what happened.

What I would like to do today is to focus quite directly on the central theme of this conference -- "World Money and Capital Markets." The last few months have witnessed a revival of talk about a so-called "dollar overhang". I'd like to examine that concept and its implications.

The concept of dollar overhang is usually not defined, but the connotation is that all of the dollars involved are being held with at least some reluctance. Thus all of these dollars, it is implied, "overhang" the foreign exchange market. It is asserted that if this "overhang" of unwanted dollars, this "vast atomic cloud" as it has been called, could only be frozen in some way or rendered illiquid, that the pressure on the dollar would be eliminated and the world monetary system could be saved.

I have a lot of difficulty with the "overhang" image. I think it embodies a number of misconceptions which can lead to erroneous conclusions and divert the attention of policy makers away from more fundamental problems. Obviously, this is a very comlex subject and I do not pretend to have all the answers. But I want to cast doubt on several popular conceptions and suggest the need for further thinking abut the implications for policy makers of the existence of a large stock of dollars in foreign hands.

My first problem arises out of the tendency to link the amount of this so-called overhang with the Eurodollar market. Too many of those who speak about an overhang seem to assume that <u>all</u> the dollars deposited with banks outside the U.S. -- the Eurodollars -- are unwanted dollars. By implication, dollars placed with head offices of U.S. banks in the U.S. which are not included in the Euro-dollar figures must be "wanted" dollars. Obviously this distinction between the Eurodollar market and the domestic U.S. market makes no sense whatsoever.

Nevertheless, some people measure the amount of dollar overhang by just this approach -- referring to the amount of the dollar liabilities of Eurodollar banks as the amount of overhang. Some use the $500 billion figure which Morgan Guaranty uses as the "gross size" of the Eurodollar market at the end of 1977. Some are content with a smaller figure of around $300 billion which could be arrived at by deducting from the $500 billion figure an estimate of the liabilities of the reporting banks to other reporting banks -- which could be viewed as double counting.

Others who talk about dollar overhang have used a figure of $600 billion which they may derive by adding the foreign dollar claims on banks in the U.S. to the gross Eurodollar figure. But whatever the figure used, and whatever the derivation, it has no underlying logic. This is simply no way to quantify the so-called "dollar-overhang."

Whether a particular dollar holder considers his dollar assets insufficient, appropriate, or excessive will vary from time to time and circumstance to circumstance. For the private bank, firm or individual, the appropriateness of his dollar claims will be related to such factors as his preference for goods over financial assets, the relative return on dollar investments and investments denominated in other currencies, the desired maturity structure of his holdings, the prospect of gain or loss on capital value in relation to the currency of his own country, etc. Dollars are still the principal currency used in international trade; a private trader needs working balances in dollars. The dollar money and capital markets (those in the U.S. and in the Euro market) are still the largest, most open, most flexible and most diversified in the world. There are clearly some advantages in having dollar assets.

For years something over 80 percent of the total foreign exchange reserve of the world's central banks has been held in dollars. There are excellent investment facilities for the dollar; foreign exchange markets operate primarily using the dollar as a vehicle currency. If the dollar holdings of a particular central bank have grown large it is because that central bank chose to accumulate foreign currencies as an alternative to an appreciation of the country's currency, and the dollar was the currency in which to operate.

The point is that whether dollar holdings are excessive or scarce depends on the preference of the individual holder among the investment choices available to him. It does not depend on the absolute amount which the holder has. At the same time that some holders may have more dollars than they feel are necessary, others may consider themselves short. Holdings which might be considered excessive under one set of conditions may be highly valued under others. There certainly was no talk about "dollar overhang" in the aftermath of the oil price increase at the end of 1973. Thus, to assume that all the dollar claims on banks outside the United States are at all times unwanted and "overhang" the market is, therefore, fallacious and seriously misleading.

Another common misconception about the so-called dollar overhang is that these dollars were forced on their present non-resident holders by an undisciplined America which was a profligate wastrel of the world's resources, piling up deficits on current account. This is simply not in accord with the facts. True, the United States has had a current account deficit for the last two years -- a deficit which has been much too large. But between 1960 and mid-1978 there have been only 3 1/2 years of current account deficits. Over that period the U.S. has had a cumulative <u>surplus</u> of $34 billion.

Actually, the dollar denominated claims of foreigners are the outgrowth of a money and capital market which functions as a world market, mobilizing savings from throughout the world and providing the credit that enables the world economy to grow and prosper.

Initially, the market operated basically out of the continental United States. But, in the mid-sixties when the U.S. current account weakened and the gross outflow of capital was large and exchange rate change was not available as an adjustment mechanism, central banks of major surplus nations asked the U.S. to act to slow down the capital outflow. The United States imposed restraints. One result was that the intermediary function came increasingly to be performed offshore, partly by foreign banks and partly by branches of American banks. Although the volume of transactions in some foreign currencies has been increasing, most of the intermediation has continued to be denominated in dollars.

The most spectacular illustration of this intermediation came in the aftermath of the oil crisis of 1973/74.

OPEC invested a large part of their receipts in dollar denominated assets, partly in U.S. government securities, partly in time deposits in banks here and in the Euro dollar markets, partly in other instruments. Oil-importing nations simultaneously faced sharp increases in their need for external finance, especially to pay for their oil bills and to cover their large overall current account deficits. U.S. and Euro-dollar markets provided the bulk of the intermediation function of exchanging OPEC deposits for foreign loans. They saved the world from collapse of the open trade and payments system. If these funds were frozen, wouldn't countries desperate for finance simply come back to the U.S. money market for new credit? It is no more difficult for a foreigner to get credit in the U.S. than for an American.

This intermediation role produced, in a statistical sense, a sharp rise in the dollar asset holdings of foreigners and a sharp increase in claims by U.S. or Euro-banks on foreigners. The allegations about the so-called dollar overhang typically look only at the gross amount of foreign claims denominated in dollars without reference to foreign liabilities denominated in dollars -- as though none of the claims constituted cover for dollar denominated liabilities.

As of last December, United States residents had gross claims on foreigners of $381 billion, whereas total liabilities of U.S. residents to foreigners were only $311 billion. (It is worth noting that the figures used for dollar-denominated liabilities of banks outside the United states -- with or without the double-counting -- substantially overstate the total amount of their lending to U.S. residents. Many of the bank loans are claims on other foreigners.)

It is appropriate to keep in mind the different maturity structure of U.S. external claims and liabilities. Of the $381 billion of U.S. claims on foreigners, the major components are: $149 billion in the form of direct investments; $48 billion in government loans, $49 billion in securities, some $18 billion in bank and non-bank long-term claims, and $96 billion in short-term form. In contrast, of the $311 billion total of foreign claims on the United States, $143 billion is held by foreign official institutions primarily in U.S. Government securities, $66 billion is in short-term claims of private foreigners reported by banks, and only $34 billion in direct investment. In other words, about 70 percent of our liabilities were short-term while 70 percent of our claims were longer-term in form. One should keep in mind, however, that the form of the claim instrument is not necessarily correlated with volatility. Most of the holdings of official institutions are not truly volatile.

It is also valid to note that foreign claims on the United States tend to be held by countries in strong financial condition, those which tend to run current account surpluses with the world. A relatively high percentage of U.S. claims on foreigners, on the other hand, tends to be held against weaker countries or developing nations which are traditionally net importers of capital. One could contend that the quality of the U.S. portfolio of claims on others was somewhat less than the quality of claims on the U.S.

A few strong surplus nations have accumulated quite large claims on the U.S. If their current accounts continue to be in surplus they will be seeking outlets for the additional surpluses as well as reinvesting maturing claims. Their problem is one of seeking the most desirable outlets for their funds in day-to-day market conditions. Some may feel that world markets are too liquid and that they have more dollars than they need. This may occur at the same time as other nations face current account deficits or the need to refinance debt and are approaching the U.S. capital market for additional dollar credits. They may feel that there aren't enough dollars in international markets.

The demand for dollars is a result of the various functions which the dollar has come to serve throughout the world. There is a built-in increase in the demand for dollars -- in the form of working balances, trade finance and increases in desired official reserves -- as the world economy and world trade grow. There is also a private investment demand for dollars as wealth grows and savings are available for investment.

To the extent that alternatives to dollars exist, the decision to hold dollars for all these purposes will be affected by cost (e.g., the possibility of exchange rate changes which impose losses) less the rate of return on dollars relative to to other assets, and relative convenience. These, in turn, are influenced by such factors as the relative tightness of U.S. monetary policy (especially the level of U.S. interest rates), and the performance and prospects for U.S. growth and inflation compared with prospects for other economies. These are what we call the "fundamentals"; they apply to U.S. as well as foreign dollar holders.

The supply of dollars to foreigners is also a function of a range of factors, including the U.S. current account position and the relative monetary and credit demand situations in the U.S. and abroad that determine the movement of capital into and out of dollar capital markets.

In the circumstances of recent months when the U.S. current account was in substantial deficit and U.S. inflation was relatively high, the supply of dollars to private foreigners has been increasing via both current and capital account transactions. Foreign demand was eroded by inflation expectations and the range of other factors affecting the prospects for a reduction in the U.S. current account. Pressure on the dollar exchanges rate developed.

The change in supply-demand relationships, which may lead to attempts to dispose of current dollar earnings, may be magnified by the existence of a stock of dollar assets in foreign hands. But the same conditions might also lead U.S. residents to reduce their dollar asset holdings. Freezing dollars already held by foreigners could not be relied on to remove pressure on the exchange rate if the fundamentals are not right. We must remember that there is no wall between the U.S. domestic money market and either the Euro-dollar market or the credit demands of other nations.

Private foreigners were not only willing, but anxious to to hold a very large stock of dollars --and add to it -- as recently as 1975-76. What is the difference today? Is there some sort of mystical "point of no return" in terms of the acceptable volume of dollars in private hands?

There is a much more logical, plausible answer, in the factors affecting the demand for and supply of U.S. dollars. We can see this clearly by looking at the events of the past year or so.

Recall the previous episode of dollar weakness, which covered the fourth quarter of 1977 and the first quarter of this year. As of early September -- the dollar exchange rate was several percentage points above its level of late 1974, despite a substantial deterioration in the U.S. current account. The appearance in September of projections of a continuing large U.S. current account deficit for 1978, plus delays in implementing the President's energy program, triggered a slide which ended in April 1978, with the President's action on energy and exports. The swings on capital account during this period were truly massive -- official foreign dollar holdings increased by over $30 billion between September, 1977, and April, 1978, but fell nearly $5 billion in the second quarter.

What was the cause of the difference? A perception of a U.S. policy stance which would improve our performance on the "fundamentals" -- energy, growth and inflation, export performance.

The emergence of renewed inflationary pressures in the U.S., the persistence of the U.S. current account deficit though at a reduced rate, and a growing fear that U.S. policies were not adequate to deal with the "fundamentals", touched off a severe bout of dollar weakness in October; this one threatened to get completely out of hand.

Our analysis was, and is, that this recent episode was not justified by the "fundamentals". It was time to put a stop to the decline and we did, taking firm action to strengthen the dollar both at home and abroad, joining with others to correct the excessive decline of the dollar.

The changes in relative supply of and demand for dollars which will flow from the coming improvement in the fundamentals will strengthen the dollar on the exchange markets without any action to freeze the stock of dollars now in foreign hands.

SUMMARY

(1) The numbers popularly cited as measuring the "overhang" have no validity as a measure of the amount of foreign-held dollars which are considered "excess" at any point in time. At times, some foreigners will actively seek to increase their holdings of dollars while others believe there are too many dollars. At other times, the potential amount of "excess" dollars, (dollars which holders want to exchange for other assets) can include not only a portion of foreign holdings but also some portion of dollar assets held by Americans.

(2) An approach which looks at the level of gross -- or net -- Euro dollar liabilities is misleading in another sense. So long as growth continues in the world economy one should expect growth on both sides of the balance sheet. Any attempt to stop that growth would cut-off the world's single most important capital market. Attempts to control the market on only one side of the ledger -- to limit the size of dollar liabilities to foreigners -- would be to reduce investment opportunities and an important source of financial capital to the global economy. There is no way to make dollars

"scarce as hens' teeth" to the major surplus countries of the world without starving the weak deficit countries to the point of economic and social disaster -- a disaster which would inevitably affect us all.

(3) Foreign-held dollar balances do not constitute an independent source of dollar instability. Foreign holders of dollars respond to the same factors as domestic holders of dollars, or holders of DM, or pounds, or any other currency. These factors are what we refer to as the "fundamentals" -- performance and prospects for growth, inflation, relative interest rates, trade and current account, etc.

(4) Performance, and prospects, are the result of policies -- monetary and fiscal, wage and price, energy, export promotion. We now have a set of policies directed at each of these areas:

-- we are drastically reducing the budget deficit;

-- we are tightening the availability of credit and allowing interest rates to rise;

-- we are attacking inflation directly through wage-price guidelines;

-- we are reducing our dependence on imported oil;

-- we are embarked on a long-term campaign to promote exports;

The outlook is clearly moving the right direction:

-- the competitiveness of our industry has been significantly enhanced by past exchange rate movements.

-- The relative growth picture has turned around completely. For the first time since 1974, U.S. growth will be lower than that of our major trading partners in 1979.

-- Our current account outlook is much improved;

-- The major surplus countries, sharing this assessment, have joined in a coordinated program of intervention in the foreign exchange markets to correct the excessive decline of the dollar. We are mobilizng up to $30 billion for our share in this joint effort.

We are pleased with the market response to the November 1 measures. We intend to perservere. We are confident that we will see a continuation of the more recent, favorable tone of the market and the dollar. As this happens, I would anticipate much less talk about the so-called "dollar overhang".

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SHINGTON, D.C. 20220 TELEPHONE 566-2041

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STATEMENT OF EMIL M. SUNLEY,
DEPUTY ASSISTANT SECRETARY OF THE TREASURY (TAX ANALYSIS)
BEFORE THE SUBCOMMITTEE ON OVERSIGHT OF
THE HOUSE WAYS AND MEANS COMMITTEE
ON FEDERAL TAX INCENTIVES TO ENCOURAGE HISTORIC PRESERVATION
ST. LOUIS, MISSOURI

I am pleased to appear before you to discuss the impact of provisions in the Federal income tax designed to encourage historic preservation. These incentives represent one way in which the income tax affects economic activity in urban areas. Before discussing their specific impact, I would like to place these provisions in an overall perspective by reviewing briefly the effects of the Federal income tax on cities. My introductory discussion will focus particularly on the important urban tax incentives proposed by the Administration in 1978 and enacted, in somewhat altered form, by the Congress.

In general, the Federal income tax appears to have neither a pro-urban nor an anti-urban bias. Unlike other Federal programs such as revenue sharing and many grant programs, the Federal income tax, as of last year, did not include any provisions specifically tied to geographic location. The President, as part of the Administration's urban program, proposed geographical targeting of Federal tax incentives in 1978.

Of course, even in the absence of explicit geographical targeting, tax incentives can have differential impacts by region. Provisions of the tax code that provide incentives assistance to those regions in which subsidized industries or favored individuals are located. Some provisions of the income tax such as more rapid depreciation for low income rental housing, probably aid central cities because cities have a large share of low-income multifamily housing. Other provisions, such as the tax benefits to homeownership, may provide relatively greater assistance to suburbs, even though they are also available to homeowners in central cities. While such examples, and more, may be cited, most incentives in the tax code are not designed specifically to affect the geographical location of economic activity, and in many cases the net impact on cities, when all direct and indirect effects are accounted for, is difficult to assess.

Regardless of the net impact of the entire income tax on cities, one way of altering the pattern of economic activity is to enact new tax incentives specifically designed to benefit distressed urban areas. The Administration's 1978 urban tax initiatives were aimed in that direction. Though modified by the Congress, the urban proposals enacted as part of the Revenue Act of 1978 will be beneficial to urban areas such as St. Louis.

The Administration's urban tax initiatives included three proposals: 1) a targeted employment tax credit to replace the new jobs credit enacted in 1977, 2) an increase in the limit on tax-exempt small issue industrial development bonds (IDBs), combined with a restriction of such tax-exempt borrowing to economically distressed areas, and 3) a differential investment tax credit to be made available to some projects in economically distressed areas.

1) Targeted Jobs Credit

The employment tax credit proposed by the Administration, and enacted in slightly modified form by the Congress, was not targeted as such to particular geographical areas. However, the definition of employees eligible for the credit assures that a large share of the benefit from the credit will be used to stimulate employment of youth and minorities in central cities.

Under the Administration's proposal, a credit would be paid to employers of certain eligible employees. As modified by the Congress, the credit will equal one-half of the first $6,000 of an eligible employee's wages, up to a maximum of $3,000 in the first year and 25 percent of such wages, up to a maximum of $1,500, in the second year. Wages eligible for the credit will be limited to 30 percent of all FUTA wages paid by an employer.

The Administration proposed that the credit be available for employment of young persons aged 18-24 from low income households and handicapped individuals referred by vocational rehabilitation programs. Local agencies designated by the Department of Labor would certify eligibility. The Congress broadened the definition of eligibility to include additional disadvantaged groups.

2) Industrial Development Bonds (IDBs)

The Administration proposed to limit tax-exempt "small issue" IDBs solely to the acquisition or construction of land or depreciable property in "distressed" areas, but to increase the size of projects that may be financed with tax-exempt IDBs from a maximum of $5 million to $20 million. A set of criteria for defining a "distressed" area was developed at the Treasury Department, and a preliminary computer listing of eligible areas was released. These eligible areas, which encompassed approximately one-third of the Nation's population, included almost all central cities in the Northeast and Midwest, including St. Louis and Cincinnati.

Instead of limiting "small issue" IDBs to distressed areas, Congress increased the small issue limit from $5 million to $10 million without any geographical restriction. In addition, Congress increased the capital expenditure limitation to $20 million for projects which have received an Urban Development Action Grant (UDAG). This supplemental provision introduced a targeting feature similar to the one proposed by the Administration. Most of the older central cities in the Northeast and Midwest are included among cities eligible to apply for UDAG.

The Department of Housing and Urban Development has recently approved a $10.5 million Federal grant to St. Louis under the UDAG program. This grant, which includes $8.0 million for a downtown commercial mall and $2.5 million for a housing development at Columbus Square, is one of the largest awards in the past year under the UDAG program. If the project materializes as planned, a private participant would be able to borrow up to $10 million in tax-exempt small issue IDBs so long as the total capital expenditures on the project do not exceed $20 million .

Many other cities will benefit from this provision. For example, Cincinnati has received approval for these UDAG grants in 1978, amounting to over $15 million of Federal assistance. For these projects, also, private participants will benefit from the increase in the capital expenditure limit for small issue IDBs.

3) Differential Investment Tax Credit

The Administration also proposed an additional investment credit of 5 percent, beyond the 10 percent credit of current law, for certain investments in distressed areas. The additional credit was to be allowed only for those projects for which the Department of Commerce issued a "certificate of necessity." Certificates would be limited in 1979 and 1980 to $400 million of additional credits for eligible investments.

Congress did not enact the differential investment credit. However, the Revenue Act of 1978 did expand the investment credit in a manner that is likely, on balance, to aid older central cities. The 10 percent investment credit was extended to rehabilitation of commercial and industrial buildings which have been in use for at least 20 years. New buildings are still not eligible for the investment credit.

A significant portion of the tax relief under the rehabilitation credit will directly benefit investments in older central cities. Although the credit will also be available for rehabilitation of older structures in suburbs and in growing cities, it will provide some relative advantage to cities such as St. Louis.

4) Incentives for Historic Preservation

Apart from these new initiatives, the Code, through existing tax incentives designed to foster historic preservation, provides additional encouragement to the preservation and restoration of our cities. While these incentives are not confined to urban areas, and while many historic structures exist outside of urban locations, there is doubtless a high concentration of structures of historic significance in older urban areas.

The principal incentives, brought into the Code with the Tax Reform Act of 1976, are sections 191 and 167(o). Under section 191 the costs of a "certified rehabilitation" of a "certified historic structure" may be amortized, in lieu of depreciation, over 60 months. (Normal depreciation is permitted for the portion of the taxpayer's basis not attributable to the certified rehabilitation.) As an alternative, section 167(o) permits a taxpayer to depreciate the cost of a "certified historic structure" that has been "substantially" rehabilitated as though original use of the property had commenced with the taxpayer. Treating the taxpayer as the original user permits depreciation using the

150 percent declining balance method (rather than the straight-line method) if the property is not residential property, and permits use of the double declining balance method (rather than the 125 percent declining balance method) if the structure is residential rental property.

These provisions, particularly section 191, are similar to provisions by which Congress has sought to use the tax system to subsidize (and thereby encourage) certain activities. For example, the cost of rehabilitating low and moderate income housing may be amortized over 60 months (section 167(k)); similar treatment is available for the cost of pollution abatement facilities retrofitted to plants subjected to new pollution emission requirements after the plant had been placed in service (section 169). In the case of low and moderate income housing, the statute requires only that the dwellings be held for occupancy by low and moderate income individuals; in the case of eligible pollution abatement facilities the taxpayer is required only to obtain certification that the facility is in compliance with applicable pollution abatement programs.

The Department of the Interior is heavily involved in determining eligibility for the benefits of sections 191 and 167(o). Structures eligible for "certified rehabilitation" include those listed in the National Register and those located in either a Federally or state certified historic district. If the district is a state or local district, it must be designed under a <u>statute</u> that has been approved by the Secretary of the Interior; and, designation of the <u>district</u> itself must be approved by the Secretary. Regardless of whether the structure is located in a Federal or state (or local) district the building, to be eligible, must also be certified by the Secretary of the Interior as being of historic significance to the district. Finally, in all cases, the Secretary of the Interior must certify the proposed rehabilitation as "being consistent with the historic character of such property or the district in which such property is located." Through these measures, the Department of the Interior maintains close control over the availability of the benefits of either section 191 or section 167(o). The tax system is used solely to pay the subsidy.

As you know, these provisions have been in effect for only two years. Consequently, it is far too early to tell to what extent they will provide an effective incentive for the rehabilitation of historic structures, and whether the controls that have been vested in the Secretary of the

Interior will be sufficient to insure that the benefits to historic preservation outweigh the potential tax shelter abuse.

The 1976 amendments to the Code also provide disincentives to the demolition or substantial alteration of historic structures. Generally, the cost of demolishing an historic structure must be capitalized and added to the value of the land on which the structure was located (section 280B). Depreciation of any building subsequently constructed on the site of such a structure is limited to the straight-line method (section 167(n)). The Revenue Act of 1978 modified these provisions to permit the Secretary of the Interior to certify after the beginning of demolition or alteration that the structure was not an historic structure and not of significance to the historic district where it was located, in which event the disincentives do not apply.

We understand that concerns have been expressed over the discouraging effect these disincentives may have on commercial land development and redevelopment. This effect, we are told, stems from the fact that the designation of an area as an historic district may subject developers to the risk of inadvertently running afoul of sections 167(n) and 280B and thereby may inhibit needed development of the district. Alternatively, it is possible that in the interest of development, a state or local government may decline to designate as historic an otherwise eligible district for fear of discouraging commercial development.

While one may speculate about possible effects, it is too early to tell to what extent designation of areas as historic districts in fact will inhibit commercial development or vice versa. The ameliorating provisions of the Revenue Act of 1978 are designed to, and may have the effect of, minimizing the possibility that innocent developers will be penalized by reason of inadvertent acts. Of course, to the extent that developers are inhibited from land development, not by the risks of inadvertently demolishing an historic structure, but rather because the land they wish to develop is occupied by a structure of genuine historical interest, then the disincentives would be accomplishing precisely the goal for which they were designed.

In any event, however, I think it is important to point out that divining the proper balance to be struck between preserving our architectural heritage, on the one hand, and not inhibiting commercial land redevelopment, on the other, is not one of the traditional institutional concerns of the Treasury. It is more properly an area in which the Department of the Interior has both an institutional expertise and concern. It is only because these goals have been sought to be accomplished through the tax system that the Treasury has been drawn into this issue.

I must therefore confess that a resolution of just where the appropriate balance should be struck is a matter on which I must defer to the Department of the Interior. For the Treasury, I can say that our principal concern is that, if disincentives of this sort are to be preserved in the Code, they be preserved in an administrable form. I say this because these provisions may present problems of enforcement that the Internal Revenue Service does not normally encounter. For example, the Service will have no automatic source of information that would permit it to conclude that either section 280B or section 167(n) applies. The burden of ascertaining that a certified historic structure has been demolished or altered, and of bringing that information to the attention of the Service in a form that will permit it to identify the taxpayers to be audited, will necessarily fall to those whose prime interest is in historic preservation. There is, as I noted, insufficient experience with these disincentives to ascertain just how effective this will be.

We expect to review these provisions as we acquire greater experience in their operation and impact. Should any unexpected problems develop we will of course bring them to the attention of this Committee.

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

FOR IMMEDIATE RELEASE

December 11, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,800 million of 13-week Treasury bills and for $2,901 million of 26-week Treasury bills, both series to be issued on December 14, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 15, 1979			26-week bills maturing June 14, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.750	8.901%	9.23%	95.326 a/	9.245%	9.83%
Low	97.741	8.937%	9.27%	95.314	9.269%	9.86%
Average	97.743	8.929%	9.26%	95.317	9.263%	9.85%

a/ Excepting 1 tender of $500,000

Tenders at the low price for the 13-week bills were allotted 32%.
Tenders at the low price for the 26-week bills were allotted 84%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 41,905,000	$ 31,905,000	$ 38,605,000	$ 18,605,000
New York	4,279,670,000	2,324,290,000	4,113,600,000	2,375,300,000
Philadelphia	19,065,000	18,625,000	10,025,000	10,025,000
Cleveland	41,155,000	30,135,000	82,810,000	50,710,000
Richmond	24,685,000	17,300,000	34,375,000	34,375,000
Atlanta	31,845,000	29,750,000	27,865,000	27,275,000
Chicago	266,255,000	181,275,000	300,770,000	226,770,000
St. Louis	45,010,000	30,010,000	38,275,000	17,275,000
Minneapolis	15,615,000	15,615,000	13,225,000	10,225,000
Kansas City	36,330,000	32,950,000	20,125,000	20,125,000
Dallas	15,955,000	15,955,000	9,005,000	9,005,000
San Francisco	161,665,000	61,665,000	207,125,000	90,115,000
Treasury	10,610,000	10,610,000	11,065,000	11,065,000
TOTALS	$4,989,765,000	$2,800,085,000 b/	$4,906,870,000	$2,900,870,000 c/

b/Includes $390,350,000 noncompetitive tenders from the public.
c/Includes $252,475,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-1302

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

FOR IMMEDIATE RELEASE
December 11, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT DISCONTINUES ANTIDUMPING INVESTIGATION ON VISCOSE RAYON STAPLE FIBER FROM AUSTRIA

The Treasury Department today announced that it is discontinuing its antidumping investigation of viscose rayon staple fiber from Austria.

The case involved the reopening in March 1978 of a previously discontinued antidumping investigation involving this product. The original investigation had been discontinued in January 1978 after the Austrian manufacturer, Chemiefaser Lenzing AG, had eliminated all price differentials between viscose rayon staple fiber exported to the U. S. and viscose rayon staple fiber sold in Austria and after assurances had been filed that no future sales at less than fair value would be made.

The investigation was reopened to determine whether Lenzing was selling the product in the home market for less than the cost of production. Such sales would have been an improper basis for determining that no differentials existed between prices in the home market and prices on exports to the U. S. The investigation revealed that no sales in the home market were being made at prices below the cost of production and that the assurances of no future sales at less than fair value were being adhered to. Based on these facts, Treasury has discontinued the investigation.

Publication of this action appears in the Federal Register of December 11, 1978.

Imports of this merchandise from Austria in the first eight months of 1978 were valued at approximately $5 million.

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B-1303

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

FOR IMMEDIATE RELEASE
December 12, 1978

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES INTEREST RATES ON DM NOTES

The Department of the Treasury today announced that the interest rates on its 3-year and 4-year notes denominated in DM are 5.95 percent and 6.20 percent, respectively. Interest shall be paid annually.

As announced earlier, the Treasury is offering notes denominated in DM in an aggregate amount of approximately 2.5 billion to 3.0 billion DM. The notes are being offered exclusively to, and may be owned only by, residents of the Federal Republic of Germany. Subscriptions will be received by the German Bundesbank, acting as agent on behalf of the United States, until 12:00 noon, Frankfurt time, on Wednesday, December 13, 1978.

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B-1304

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

FOR RELEASE AT 4:00 P.M. December 12, 1978

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 December 21, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,608 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,700 million, representing an additional amount of bills dated September 21, 1978, and to mature March 22, 1979 (CUSIP No. 912793 X5 0), originally issued in the amount of $3,403 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated December 21, 1978, and to mature June 21, 1979 (CUSIP No. 912793 Z2 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 21, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,222 million of the maturing bills. 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. 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, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, December 18, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-1305

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 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 December 21, 1978, in cash or other immediately available funds or in Treasury bills maturing December 21, 1978. 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 AT 4:00 P.M. December 13, 1978

TREASURY TO AUCTION 2-YEAR AND 4-YEAR NOTES
TOTALING $5,000 MILLION

The Department of the Treasury will auction $2,500 million of 2-year notes and $2,500 million of 4-year notes to refund approximately the same amount of notes maturing December 31, 1978. The $5,006 million of maturing notes are those held by the public, including $1,006 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $887 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average prices of accepted competitive tenders. Additional amounts of the new securities may also be issued at the average prices, 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.

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Attachment

B-1306 (over)

HIGHLIGHTS OF TREASURY
OFFERINGS TO THE PUBLIC
OF 2-YEAR AND 4-YEAR NOTES
TO BE ISSUED JANUARY 2, 1979

December 13, 1978

Amount Offered:		
To the public	$2,500 million	$2,500 million
Description of Security:		
Term and type of security	2-year notes	4-year notes
Series and CUSIP designation	Series W-1980 (CUSIP No. 912827 JG 8)	Series L-1982 (CUSIP No. 912827 JH 6)
Maturity date	December 31, 1980	December 31, 1982
Call date	No provision	No provision
Interest coupon rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	June 30 and December 31	June 30 and December 31
Minimum denomination available	$5,000	$1,000
Terms of Sale:		
Method of sale	Yield Auction	Yield Auction
Accrued interest payable by investor	None	None
Preferred allotment	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
Deposit guarantee by designated institutions	Acceptable	Acceptable
Key Dates:		
Deadline for receipt of tenders	Tuesday, December 19, 1978, by 1:30 p.m., EST	Wednesday, December 20, 1978, by 1:30 p.m., EST
Settlement date (final payment due)		
a) cash or Federal funds	Tuesday, January 2, 1979	Tuesday, January 2, 1979
b) check drawn on bank within FRB district where submitted	Wednesday, December 27, 1978	Wednesday, December 27, 1978
c) check drawn on bank outside FRB district where submitted	Tuesday, December 26, 1978	Tuesday, December 26, 1978
Delivery date for coupon securities	Friday, January 5, 1979	Friday, January 5, 1979

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

FOR RELEASE ON DELIVERY
Expected at 9:30 AM EST
December 14, 1978

STATEMENT BY THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL ECONOMICS
OF THE JOINT ECONOMIC COMMITTEE

Introduction

Mr. Chairman, it is a particular pleasure to appear here today to discuss the actions announced by the President, Chairman Miller and myself on November 1. 1978 to strengthen the dollar at home and abroad. The actions were taken in the context of persisting inflation and financial market conditions -- domestic and international -- which reflected doubts about the determination of this Administration to stop inflation and defend the value of the dollar.

Our actions should allay these doubts. We have committed the major tools of economic policy to the task of unwinding the inflation that has plagued us for the past decade. Let there be no mistaking our determination: there will be no waffling and no wavering. We intend to persist because controlling inflation is absolutely essential to the achievement of the social and economic goals which are at the core of President Carter's policies.

Obviously, the dramatic circumstances in which the November actions were taken should not overshadow the very important measures taken earlier to deal with our fundamental economic problems. Each of these measures must be seen as part of an integrated array of policies. Any one of them alone is not sufficient, but together I believe they do the job.

The Economic Situation We Faced in October

Even with the full force of economic policies addressing the inflation problem, it will not be an easy or a painless task to reduce inflationary pressures. Inflation has become deeply ingrained in our society, and in the expectation on which private sector decisions are based. And as inflation has persisted and accelerated, there is the threat of adding demand-pull pressures to the worst elements of cost-push forces.

In the early stages of recovery from the 1974 75 recession, the persistence of a high underlying rate of inflation, despite significant slack in resource utilization, reflected largely a pattern or wages-chasing-prices-chasing-wages. As the recovery from the recession continued, and as inflation persisted, an overall environment of inflationary expectations was fostered, with the expectation of further inflation distorting costs, prices, the structure of production, and decisions on saving and investment.

B-1307

To the intensifying expectation of further inflation have been added some signs that real pressures on resource availability may be emerging -- scattered signs to be sure, but still troublesome. The economy has maintained strong momentum since the winter lull of 1977; real growth has averaged close to a 4 percent annual rate this year, and in some sectors of the labor market and in some industries, demands have begun to press on available resources. While the overall unemployment rate has remained close to 6 percent during much of the year, unemployment among skilled workers and others characterized as part of the "prime labor force" has declined. For example. the unemployment rate for married men, at 2.5 percent, is not far above the rate during most previous periods of peak labor demand. Non-union wages have been rising more rapidly this year than union wages, reflecting both the strength of demand factors in the labor market and the increased minimum wage. The employment rate (the ratio of people employed to the working age population) continues to rise.

While industrial capacity utilization overall has remained in the area of 85 percent -- leaving some margin for expansion -- capacity limits are approaching for some industries. Moreover, the official statistics may be overstating the extent of spare capacity that can be utilized in a cost-effective manner.

It has become increasingly clear that, in recent months, the economy has entered the zone of resource utilization within which demand pressures are more easily translated into rising prices. Thus, there is a danger of adding demand-pull to the existing cost pressures.

Moreover, the inflation has incorporated a new "feedback" mechanism: as the rise in domestic prices weakened the dollar, this has resulted in higher prices for imported goods and. through an "umbrella effect", in higher prices for many domestic products competing with imports. Perhaps as much as one full percentage point of inflation this year reflects the effects of the depreciation of the dollar, and this has given the inflationary spiral a further turn.

The combination of inflationary expectations, emerging demand pressures and the domestic price effects of a weakening dollar have been reflected in an acceleration in the underlying rate of inflation. Over the past three months, wholesale prices rose at about 10-1/2 percent annual rate; even excluding food, the rate was near 8 percent. Consumer prices rose at nearly a 9 percent rate in the last three months, at a 9-1/2 percent annual rate excluding food. The growing pessimism about inflationary prospects was reflected in financial markets. Stock prices fell precipitously in the last two weeks of October, and prices of long-term debt instruments also declined.

In the foreign exchange market, severe and persistent disorder and excessive declines in the dollar were undermining our efforts to control inflation and were adversely affecting the climate for continued investment and growth in the United States. In the month of October the dollar declined sharply against virtually all major currencies. The dollar fell against the Swiss franc by 6 percent, the Japanese yen by 7 percent, and the German mark by 12 percent. The trade-weighted dollar fell by 8 percent. All told, in the 13 months preceding the November 1 initiative the dollar had fallen 38 percent against the Swiss franc, 34 percent against the yen and 26 percent against the DM.

As November approached, it became clear that the market was failing to take account of the improvements that were being made in the underlying conditions that determing the dollar's value. The Administration had inherited a budget deficit of over $66 billion in 1976 or roughly 4.4 percent of GNP; it was paring the budget for 1980 to $30 billion or below, roughly 1 percent of GNP. Energy legislation had been passed which would result in savings of at least 500,000 barrels per day by 1979 from levels that might otherwise be expected. The volume of trade flows had begun to reflect improvements in our competitive position. The trade balance of the United States had receded to a $31 billion annual rate in the second and third quarters of the year from a $45 billion rate in the first and was heading further down. The nation's surplus on investment income and other service transactions had grown sharply. The outlook for the current account was dramatically improved, allowing us to predict with confidence that it would drop by 50 to 60 percent from the $17 billion in 1978 to as little as $6 billion in 1979. And to reinforce these trends the President had instituted a determined anti-inflation program and an enhanced national export effort. Yet the dollar continued to be sold. The psychology of the market during the month of October was such that these favorable developments in underlying economic conditions, and Administration statements reaffirming its determination to follow through on our anti-inflation program, were unable to halt a wave of pessimism about the prospects for the dollar.

The consequences of a continued deterioration of the dollar were grim. The preciptious decline of the dollar threatened to erode our anti-inflation effort. Foreign official and private portfolio managers were already showing signs of selling off U.S. securities and would have been tempted to sell more, further disrupting the stock and bond markets. Dollar holders abroad would have been encouraged to sell more of their outstanding dollar holdings for assets denominated in other currencies. The OPEC countries would have been pressured to substantially raise oil prices to recoup excessive dollar losses. The world economy -- indeed, the whole world financial system -- would have been impaired -- and with it, the economy of the United States. The leadership of this nation in world affairs, political as well as economic, would have been severely damaged.

We could not tolerate this situation. Firm action was needed to strengthen the dollar both at home and abroad.

Our November 1 Actions

Thus, on November 1 we took the direct and forceful measures that were needed. You are familiar with the specific measures announced on that date. They entailed:

-- a $3 billion increase in reserve requirements on large certificates of deposit and a rise in the discount rate by a full 1 percent;

-- an increase in Treasury's monthly sales of gold to at least 1-1/2 million ounces per month, starting with this month's auction;

-- a decision to join with Germany, Switzerland and Japan in closely coordinated exchange market intervention;

-- the mobilization of $30 billion in DM, Swiss francs and yen to finance that portion of the intervention undertaken by U.S. authorities.

The U.S. financing involves an approximate doubling of Federal Reserve swap lines with the central banks of Japan, Germany and Switzerland, to a total of $15 billion; U.S. drawings on the IMF of $3 billion; U.S. sales of about $2 billion of Special Drawing Rights; and issuance by the Treasury of foreign currency denominated securities in amounts up to $10 billion.

Most of the foreign currency resources have already been mobilized. The increase in the central bank swap lines took effect immediately on announcement. Drawings on the IMF in Deutsche Marks and Japanese yen amounting to the equivalent of $2 billion and $1 billion were made on November 6 and 9. We sold about $1.4 billion equivalent in SDR's for Deutsche Marks and yen on November 24. The first tranche of DM-denominated securities, about $1-1/4 to 1-1/2 billion will be issued tomorrow.

By so massing a sizeable and broad reaching pool of resources, we intend to signal to the world that the dollar had been pushed too far and that the U.S. authorities were determined to correct the situation.

<u>The Results of Our Measures</u>

Mr. Chairman, reaction to our measures has been good. I believe there is a realization among governments and in the financial community as well as in the general public, that the U.S. government is determined to deal effectively and decisively with our economic problems -- that we will act to bring inflation under control; that we will strengthen the dollar at home and abroad.

This regeneration of confidence in the dollar rests on the measures announced November 1 and on the reaffirmation by the President of his determination to exercise fiscal austerity. Let me repeat that the President intends his 1980 budget to be tight, with a deficit of $30 billion or less. A balanced budget is now a realistic goal for the years thereafter.

Coordinated with this thrust on the fiscal side is the increasing restraint being exercised by monetary policy. Monetary policy is the responsibility of the Federal Reserve and it should stay that way. But the Administration has a view as to how it should be managed. Let me make clear our view. It is that monetary policy has to dovetail with tight fiscal policy. Monetary policy must be kept tight until inflation has been brought under control. In concert, the major tools of economic stabilization will be used in support of the President's wage-price deceleration program to attack the causes, not just the symptoms of inflation.

It is too early, of course, to see a reflection of recent policy actions in the statistics on inflation. But we have seen a change in the confidence exhibited in financial market behavior. The stock market has recovered some of its October losses, as have the prices of long-term securities. In fact, though some short term rates have risen nearly a full percentage point since the November 1 announcement, interest rates on long term instruments have remained relatively unchanged. This suggests an improvement in inflationary expectations over the longer term.

Some apprehension is being expressed that the program may become too effective and throw the economy into recession. There are risks to be sure -- economic forecasting is at best an imprecise art -- but certainly the risks of recession with the program are far less than the certainty of recession if inflation were allowed to accelerate unchecked. Indeed, the program we have launched is the best guarantee for avoiding recession.

Although recent inflation rates have been in, or near, the double-digit range, the economy retains fundamental strength and good balance. Real economic growth so far this year has been almost 4 percent and there are few distortions in the composition of output. Employment continues to grow at an exceptionally strong rate. The most recent data on retail sales show that consumers are still in a buying mood. Inventories remain in good balance with sales. The flow of new orders for durable goods -- particularly for nondefense capital goods -- is high and order backlogs are rising. Housing activity continues at a high rate of over 2 million new starts; the introduction of a new financial instrument -- the money market certificate -- has enabled thrift institutions to compete for funds and maintain the supply of funds in mortgage markets. Our exports, particularly of manufactured goods, have been rising substantially while our imports -- other than of petroleum -- have risen more slowly.

These are not the symptoms of a sick economy, unable to sustain momentum under the weight of fiscal and monetary restraint. Rather, these are signs of a strong economy approaching the realistic limits of resource capacity which needs and can afford some moderation in pace.

The President intends to bring inflation down and keep it down. He realizes that this is the only sure way to maintain and increase the standard of living for all Americans, especially the poor and the elderly who depend on fixed incomes. We cannot at this stage in the economy opt for growth at the expense of inflation. Restraint on the monetary and fiscal fronts now must be pursued to assure real growth later. Fortunately the economy is strong and able to withstand the discipline that is required.

It is apparent that this commitment to responsible economic management is beginning to take hold. We are beginning to see a change in tone, a modification in expectations in the foreign exchange and domestic money markets. As the full realization of the extent of our measures and the degree of our determination to persevere spreads, I believe we will see further dollar strength in the markets.

In summary, Mr. Chairman, the response here and abroad to the measures announced November 1 has been very encouraging. The announcement has been interpreted rightfully as a signal that we are determined to deal effectively and decisively with the inflation which is our primary economic problem and to maintaining the strength of the dollar. That interpretation is correct. We are fully committed. We will persist as long as is necessary to control inflation. We will exercise tight budgetary restraint, maintain responsible domestic monetary policies, implement effective wage-price guidelines, and work for stable, orderly conditions in the foreign exchange markets. This is the right way, and the only way, to achieve our basic economic goals.

Mr. Chairman, let me now turn to addressing some specific concerns.

The first involves our intervention objectives.

The shift in intervention practices announced on November 1 was aimed at correcting a particular situation. Our objective is to restore order and a climate in the exchange markets in which rates can respond to the economic fundamentals, in this case to the improved outlook for the fundamentals that underpin the dollar's value. We are not attempting to peg exchange rates or establish targets or push the dollar beyond levels which reflect the fundamental economic and financial realities.

On the subject of the competitive position of U.S. exports, let me make one thing absolutely clear. There are those who feel that continuing decline in the dollar is good for trade. This is a dangerous misconception. The United States does not need to pursue dollar depreciation to buy market position. To have argued on October 30 or to argue now for more dollar depreciation as a way of correcting our trade deficit is a simplistic and nonsensical view that could force a collapse of an open capital and trading system. The Administration firmly rejects such tactics.

Second, Mr. Chairman, you ask in the press release that announce these hearings why differentials in interest rates between the U.S. and other strong countries would be any more effective now than before in attracting capital. The answer lies in investor expectations about the future. The key to attracting investment is to offer investors a real rate of return. While nominal interest rates have been high in the United States, inflation has rendered them negative in real terms. If investors are being offered the promise of less inflation and a real return on their investments, it should be easier to attract the capital needed to finance our current account deficit.

Third, your staff has questioned the Treasury decision to issue $10 billion of foreign currency denominated bonds.

To reiterate, the Treasury did announce its intention to issue up to $10 billion in securities denominated in foreign currencies. The first of these issues -- for 2-1/2 to 3 billion DM -- will be issued tomorrow. We plan a Swiss franc issue in January and we are also giving consideration to a yen denominated borrowing in Japan in 1979.

It is important to realize that these securities are being issued only for the purpose of acquiring foreign currencies for the intervention effort. They are not intended as an effort to "mop up" unwanted dollars. They are being sold only to residents of the country issuing the currency in which the securities are denominated. We are seeking to minimize the extent to which purchasers switch out of dollars to effect these purchases.

There were important reasons for including foreign currency denominated securities in our package. The issuance of securities with, in case of DM, three to four year maturities, provides us with additional foreign currency resources, for a longer time period, and gives assurance to the market that the United States will not be pressured to reverse its intervention operations too soon because of its need to accumulate the foreign currencies needed to repay swaps. In addition, the issuance of these securities demonstrates that we are firmly committed to strengthening of the dollar over time and that we will use all means at our disposal.

With the issuance of foreign currency-denominated notes, there is the potential for exchange rate gains and losses. The calculation of the total "cost" of such borrowing must take into account the interest rate differential between domestic and foreign markets, as well as possible gains and losses because of exchange rate changes. Of course there is a risk. But the alternative cost to the economy of failing to move with adequate and comprehensive measures constituted an even greater risk. If you will permit me Mr. Chairman, this is a case of being pennywise rather than pound-foolish. The importance of assembling a comprehensive and credible package to strengthen the dollar justifies the lesser risk we have assumed.

Finally, there is the question of the role played by the IMF in our November decision. The actions we took on November 1 were fully in keeping with our obligation "to assure orderly exchange arrangement and to promote a stable system of exchange rate . . ." by "fostering orderly economic growth with reasonable price stability." Since part of the November 1 package consisted of a reserve tranche drawing from the IMF and sales of SDRs, we of course discussed these plans ith the Fund management prior to the announcement. The U.S. program was also explained subsequently to the IMF Executive Board in connection with activation of the General Arrangements to Borrow (GAB) for financing part of the U.S. drawing. The proposal was supported by the IMF and the GAB participants. On December 13 the Board discussed the U.S. program in more detail, under IMF surveillance procedures, and expressed support for the U.S. action.

Mr. Chairman, you have also asked whether the IMF has undertaken to reduce the key currency status of the dollar. And questions have been raised as to whether reduction or elimination of the dollar's role as a reserve currency would remove pressure on the exchange rate and make domestic restraint less necessary.

Let me make two points. First, any such fundamental change in the international monetary system would have far-reaching effects on other parts of the system and could not be considered in isolation. Nor could such a restructuring of the system be simply mandated by the IMF -- it would require detailed study and negotiation, looking toward arrangements that would be acceptable to all countries. We would need to know what system we would be moving to before dismantling the one we have. There were extensive studies of possible changes in the monetary system earlier in this decade, many of which would have meant a sharply reduced reserve role for the dollar. Ultimately, none of these changes appeared practical or widely desired. I stress this point not because we are unwilling to consider change but because the full implications of such change need to be recognized and assessed.

Second, the U.S. is going to be in difficulty if it continues to run an inflationary economy, regardless of the reserve role of the dollar, and no reform of the system can obviate the need for us to pursue policies of restraint to counter inflation, or to maintain a reasonably strong external position.

As international economic and financial relationships evolve, the role of the dollar can be expected to evolve to reflect changes in underlying economic realities. There is widespread agreement on progressive development of the SDR's role in the system, and other currencies may also take on a larger role.

But such changes will come about gradually over an extended period of time and they must come about in an orderly manner. As a practical matter, the dollar will continue to play an important role in international monetary relationships for the foreseeable future if the world is to continue to achieve growth and progress. Accordingly, it is our duty to manage the dollar in a manner which befits its central role in the system. This is precisely what President Carter, Chairman Miller and I intend to do.

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

For Immediate Release
December 13, 1978

Contact: Bob Nipp
566-5328

TREASURY ANNOUNCES RESULTS OF DM NOTE SALE

The Department of the Treasury today announced that it is accepting a total of DM 3,038 million in subscriptions for its issues of three-year and four-year notes denominated in Deutsche marks. A total amount of DM 8,687 million in subscriptions for these issues was received.

The Treasury accepted DM 1,774 million in subscriptions for its three-year notes. Total subscriptions received for this issue were DM 5,564 million. In the case of the four-year notes, the Treasury accepted DM 1,265 million in subscriptions. Total subscriptions received for this issue were DM 3,124 million. This represents an acceptance to subscription ratio of 31 percent for the three-year notes and 40 percent for the four-year maturity. In each of the two maturities, allotments are being made on a pro rata basis, except that individual subscriptions are being rounded up to the nearest DM 500,000.

The sale of these notes represents the first sale of foreign currency denominated securities, potentially totaling up to the equivalent of $10 billion, pursuant to the program announced on November 1, 1978.

It is expected that the disposition of the proceeds of these notes will reduce U.S. domestic borrowing needs by an equivalent amount.

The next U.S. Treasury borrowing of foreign currencies is expected to be made in Switzerland in Swiss francs in early 1979.

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B-1308

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

IMMEDIATE RELEASE
December 14, 1978

CONTACT: Alvin Hattal
202/566-8381

TREASURY PUBLISHES PROPOSED REGULATIONS
REQUIRING DEPOSIT OF ESTIMATED DUMPING DUTIES

The Treasury Department today published proposed regulations that would require importers to deposit estimated dumping duties at the time goods subject to a dumping finding are imported. At present, importers may provide bonds to cover estimated dumping duties.

Public comments on the proposal are invited through February 15, 1979. The proposed regulations will better assure that the amounts of dumping duties ultimately assessed will be collected promptly.

The Customs Service will initially estimate dumping duties based on the dumping margin calculated during the investigation which led to the Finding of Dumping. For a manufacturer or exporter which was not investigated, the deposit will be based on the weighted average margin for all the manufacturers that were investigated. Thereafter, the deposit will be equal to the average dumping margins found during the most recent period of assessment.

The proposed regulations also include a procedure under which deposits for certain manufacturers or exporters can be calculated on an expedited basis This procedure will apply to manufacturers or exporters whose weighted average margins were greater than 10 percent.

The proposed regulations will not change present requirements for the posting of bonds adequate to cover possible dumping duties during the time between the publication of a withholding of appraisement notice and the issue of a Finding of Dumping following an injury determination by the International Trade Commission.

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B-1309

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

FOR RELEASE AT 12:00 NOON December 15, 1978

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 December 28, 1978. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,707 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated September 28, 1978, and to mature March 29, 1979 (CUSIP No. 912793 X6 8), originally issued in the amount of $3,400 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated December 28, 1978, and to mature June 28, 1979 (CUSIP No. 912793 Z3 3).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 28, 1978. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,038 million of the maturing bills. 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. 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, both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Friday, December 22, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-1310

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, or for 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches, and 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 December 28, 1978, in cash or other immediately available funds or in Treasury bills maturing December 28, 1978. 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 IMMEDIATE RELEASE
December 15, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY INVITES COMMENTS ON TREATY DISCUSSIONS WITH FEDERAL REPUBLIC OF GERMANY

The Treasury Department today invited interested parties to submit comments in connection with the ongoing income tax treaty discussions between the United States and the Federal Republic of Germany.

Negotiators for the two countries met most recently in Bonn November 28-30, after which the following statement was issued:

"A Delegation of the Federal Republic of Germany, headed by Parlamentarischer Staatssekretar Dr. Rolf Boehme beim Bundesminister der Finanzen, and a Delegation of the United States of America, headed by Assistant Secretary of the Treasury Donald C. Lubick, met at Bonn November 28-30, 1978, for a further round of negotiations with a view to amending the Convention between the Federal Republic of Germany and the United States of America for the avoidance of double taxation with respect to taxes on income and to certain other taxes (July 11, 1954/September 17, 1965).

"The discussions covering some main aspects of the taxation of dividends and other matters, including questions of thin capitalization, took place in a frank and friendly atmosphere. Both sides discussed in depth the situation which was created in Germany due to the Corporation Tax Reform of 1977. Discussions led to a better understanding of the different positions and to possible approaches to accommodate each other's point of view.

"It was agreed to continue negotiations in the near future in Washington."

Comments should be in writing and should be submitted by January 31 to H. David Rosenbloom, International Tax Counsel, Room 3064, U. S. Treasury Department, Washington, D. C. 20220.

This notice will appear in the Federal Register on December 20, 1978.

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epartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
December 15, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT WITHHOLDS APPRAISEMENT OF METHYL ALCOHOL FROM CANADA

The Treasury Department today announced that it is withholding appraisement on imports of methyl alcohol (methanol) from Canada. The withholding action, based on a tentative determination that they are being sold in the United States at less than fair value, will not exceed six months. A Final Determination will be issued in three months.

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

Withholding of appraisement means that the valuation for Customs duty purposes of goods imported after the date of the tentative determination is suspended until completion of the investigation. This permits assessment of any dumping duties that are ultimately imposed on those imports.

Cases in which a final determination of sales at less than fair value is issued are referred to the U. S. International Trade Commission to determine whether an American industry is being or is likely to be injured by such sales. Both sales at less than fair value and injury must be found to exist before a dumping finding is reached.

Notice of this action will appear in the Federal Register of December 19, 1978.

Imports of methyl alcohol from Canada during 1977 were valued at approximately $14.7 million.

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partment of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 18, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,707 million of 13-week Treasury bills and for $2,901 million of 26-week Treasury bills, both series to be issued on December 21, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 22, 1979			26-week bills maturing June 21, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.667 a/	9.229%	9.58%	95.193 b/	9.508%	10.13%
Low	97.665	9.237%	9.59%	95.177	9.540%	10.16%
Average	97.665	9.237%	9.59%	95.185	9.524%	10.14%

a/ Excepting 1 tender of $10,000
b/ Excepting 1 tender of $10,000
Tenders at the low price for the 13-week bills were allotted 71%.
Tenders at the low price for the 26-week bills were allotted 64%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 22,565,000	$ 22,475,000	$ 16,200,000	$ 16,200,000
New York	5,172,250,000	2,487,050,000	4,504,125,000	2,613,305,000
Philadelphia	20,235,000	16,530,000	8,065,000	8,065,000
Cleveland	29,450,000	27,295,000	12,540,000	12,540,000
Richmond	19,320,000	18,620,000	11,570,000	11,570,000
Atlanta	25,170,000	22,170,000	19,660,000	19,160,000
Chicago	197,375,000	28,330,000	255,940,000	80,940,000
St. Louis	30,255,000	16,255,000	41,345,000	21,905,000
Minneapolis	42,950,000	4,950,000	19,945,000	9,945,000
Kansas City	36,620,000	18,125,000	22,100,000	18,880,000
Dallas	10,450,000	10,450,000	7,200,000	7,200,000
San Francisco	172,555,000	26,455,000	249,050,000	71,050,000
Treasury	8,085,000	8,085,000	10,030,000	10,030,000
TOTALS	$5,787,280,000	$2,706,790,000 c/	$5,177,770,000	$2,900,790,000 d/

c/ Includes $325,810,000 noncompetitive tenders from the public.
d/ Includes $225,130,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-1313

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

FOR IMMEDIATE RELEASE December 19, 1978

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $2,510 million of $5,315 million of tenders received from the public for the 2-year notes, Series W-1980, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	9.97% 1/
Highest yield	10.00%
Average yield	9.99%

The interest rate on the notes will be 9-7/8%. At the 9-7/8% rate, the above yields result in the following prices:

Low-yield price	99.832
High-yield price	99.779
Average-yield price	99.797

The $2,510 million of accepted tenders includes $655 million of noncompetitive tenders and $1,755 million of competitive tenders from private investors, including 54% of the amount of notes bid for at the high yield. 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 to the $2,510 million of tenders accepted in the auction process, $450 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 December 31, 1978, and $535 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

1/ Excepting 6 tenders totaling $2,840,000

B-1314

TREASURY NOTES OF SERIES W-1980

DISTRICT	ACCEPTED
BOSTON	$ 73,640,000
NEW YORK	1,524,110,000
PHILADELPHIA	37,055,000
CLEVELAND	112,045,000
RICHMOND	32,410,000
ATLANTA	60,370,000
CHICAGO	332,035,000
ST. LOUIS	51,970,000
MINNEAPOLIS	69,435,000
KANSAS CITY	55,760,000
DALLAS	30,270,000
SAN FRANCISCO	125,300,000
TREASURY	5,170,000
TOTAL	$2,509,570,000

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

FOR IMMEDIATE RELEASE December 20, 1978

RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted $2,507 million of $5,851 million of tenders received from the public for the 4-year notes, Series L-1982, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	9.43% 1/
Highest yield	9.47%
Average yield	9.45%

The interest rate on the notes will be 9-3/8%. At the 9-3/8% rate, the above yields result in the following prices:

Low-yield price	99.820
High-yield price	99.690
Average-yield price	99.755

The $2,507 million of accepted tenders includes $ 740 million of noncompetitive tenders and $1,667 million of competitive tenders from private investors, including 11% of the amount of notes bid for at the high yield. 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 securiti...

In addition
auction process,
price from Govern
account in exchan
million of tender
Reserve Banks as a
for new cash.

1/ Excepting 4 te

9 3/8 % TREASURY NOTES OF SERIES L-1982

DATE: December 20, 1978

HIGHEST SINCE:

4 YR. NOTE CYCLE

LOWEST SINCE:

LAST ISSUE:

9-78 8 3/8%/8.41%

TODAY:

9 3/8%/9.45%

B-1315

TREASURY NOTES OF SERIES W-1980

DISTRICT	ACCEPTED
BOSTON	$ 73,640,000
NEW YORK	1,524,110,000
PHILADELPHIA	37,055,000
CLEVELAND	112,045,000
RICHMOND	32,410,000
ATLANTA	60,370,000
CHICAGO	332,035,000
ST. LOUIS	51,970,000
MINNEAPOLIS	69,435,000
KANSAS CITY	55,760,000
DALLAS	30,270,000
SAN FRANCISCO	125,300,000
TREASURY	5,170,000
TOTAL	$2,509,570,000

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

FOR IMMEDIATE RELEASE December 20, 1978

RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted $2,507 million of $5,851 million of tenders received from the public for the 4-year notes, Series L-1982, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	9.43% 1/
Highest yield	9.47%
Average yield	9.45%

The interest rate on the notes will be 9-3/8%. At the 9-3/8% rate, the above yields result in the following prices:

Low-yield price	99.820
High-yield price	99.690
Average-yield price	99.755

The $2,507 million of accepted tenders includes $ 740 million of noncompetitive tenders and $1,667 million of competitive tenders from private investors, including 11% of the amount of notes bid for at the high yield. 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 to the $2,507 million of tenders accepted in the auction process, $ 437 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 December 31, 1978, and $200 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

1/ Excepting 4 tenders totaling $154,000

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

FOR IMMEDIATE RELEASE
December 20, 1978

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES RESULTS OF
GOLD SALE

The Department of the Treasury announced that 1,500,000 troy ounces of fine gold were sold yesterday to 16 successful bidders at prices from $211.50 to $217.50 per ounce, yielding an average price of $214.17 per ounce.

Gross proceeds from this sale were $321.2 million. Of the proceeds, $63.3 million will be used to retire Gold Certificates held by Federal Reserve Banks. The remaining $257.9 million will be deposited into the Treasury as a miscellaneous receipt.

A total of 261 bids were submitted by 29 bidders for a total amount of 2.7 million ounces at prices ranging from $99.78 to $217.50 per ounce.

The General Services Administration will release a list of successful bidders and the amounts of gold awarded to each, after those bidders have been notified that their bids have been accepted.

The current sale was the eighth in a series of monthly auctions being conducted by the General Services Administration on behalf of the Department of the Treasury. The next sale, at which 1,500,000 ounces will be offered will be held on January 16, 1979. At this sale 1,000,000 fine troy ounces will be offered in bars whose fine gold content is 99.50% to 99.94%. The minimum bid for these bars will be for 400 fine troy ounces. A total of 500,000 ounces will be offered in bars whose fine gold content is 89.9% to 90.1%. The minimum bid for these bars will be 300 fine troy ounces. Bids for bars in each fineness category will be evaluated separately.

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B-1316

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

December 19, 1978

Dear Mr. Chairman:

Last year you brought to the attention of the Secretary certain allegations of improper procedures at the U.S. Assay Office in New York. These allegations were withdrawn, a cursory investigation revealed no improprieties and you were so advised.

Subsequently, we pursued other questions that had been raised about the New York Assay Office, which is part of the Bureau of the Mint, and I must now inform you that there have been significant irregularities in accounting and management procedures in the New York Assay Office that appear to go back a number of years. In particular, the Bureau of the Mint's internal auditors have concluded that there was an unrecognized loss of an aggregate of perhaps 5200 fine troy ounces of gold from 1973 through 1977, and possibly beyond. More than half of these indicated losses may have been incurred as part of the normal melting and refining processes of the Assay Office; an additional percentage may be recovered at such time as the building is dismantled and equipment purged. However, we cannot eliminate the possibility that theft may have accounted for some part of the loss. The full truth may never be known because of the inadequate records kept over the years.

Obviously, this is a situation which requires immediate and positive action. We have taken the following steps to ensure there will be no further unexplained losses or irregularities in the New York Assay Office:

1. The U.S. Secret Service has completed a security survey of the Office and the recommendations of that survey are being implemented under the direction of Stella B. Hackel, Director of the Mint, who assumed her office in November, 1977.

2. The newly appointed Superintendent of the New York Assay Office, Manuel Sanchez,

has assumed direct responsibility, with technical support from the Secret Service, for security, accounting and related matters at the Office.

3. The Director of Security of the Bureau of the Mint has been temporarily detailed to the Office to assist Mr. Sanchez in the security area.

4. Ms. Hackel and Mr. Sanchez are making management changes to ensure the efficient and secure operation of the Office.

In addition, the Secret Service is continuing its investigations to establish whether any violations of law or regulations of the Bureau of the Mint were committed by present or former employees of that Bureau. Should such violations be established, they will be referred for prosecution or appropriate personnel action taken by the Department.

I should also note that earlier this year, an employee at the New York Assay Office was apprehended attempting to leave the premises with gold concealed on his person; he is now in prison. Immediately after the employee was apprehended, Ms. Hackel ordered an extended shutdown of refining operations until an inventory of operations was completed and security tightened. This was accomplished by the end of July. At that time I directed the Secret Service to reassess the entire security situation at the Office and the possibility of other thefts. When the Office of Inspector General was established in the Treasury Department three months ago, I directed Leon Wigrizer, on the day he was appointed to the post, to oversee the investigations involving the Assay Office, and report directly to me.

The possible loss of a significant amount of gold in the New York Assay Office is a very serious matter. You should understand, however, that all indicated losses have taken place not in a storage area but in the melting and refining division, where a "normal" operating loss occurs when unrefined and impure gold is converted to finished gold bars. Any gold melting and refining operation necessarily incurs losses through oxidization and other chemical and/or metallurgical reactions. Such "normal" losses were not accurately accounted for by the procedures of the Office, and they account for a significant portion of the shortfall. Permanent storage or vault areas are not involved in these irregularities.

We will keep you advised of any developments in this situation, and appreciate your earlier drawing it to the Department's attention.

I am sending copies of this letter, for their information, to Senators Javits and Moynihan and Representative Murphy, in whose district the New York Assay Office is located, and to the Chairman of the Treasury Appropriations Subcommittees in both the Senate and the House.

Sincerely,

Bob Carswell

Robert Carswell

The Honorable
William Proxmire
United States Senate
Washington, D.C. 20510

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

FOR IMMEDIATE RELEASE December 21, 1978

BRADFORD L. FERGUSON IS APPOINTED
ASSOCIATE TAX LEGISLATIVE COUNSEL AT TREASURY

Secretary of the Treasury W. Michael Blumenthal today announced the appointment of Bradford L. Ferguson as Associate Tax Legislative Counsel.

Mr. Ferguson, 31, has been Special Assistant to the Assistant Secretary (Tax Policy) since April 10, 1977. Before joining Treasury, he served as Legislative Assistant to then Senator Walter F. Mondale. Mr. Ferguson was an associate at the Minneapolis law firm of Dorsey, Windhorst, Hannaford, Whitney & Halladay from 1972 through 1975.

As Associate Tax Legislative Counsel, Mr. Ferguson will assist the Tax Legislative Counsel in heading a staff of lawyers and accountants who provide assistance and advice to the Assistant Secretary of the Treasury for Tax Policy. The Office of Tax Legislative Counsel participates in the preparation of Treasury Department recommendations for Federal tax legislation and also helps develop and review tax regulations and rulings.

A native of Ottumwa, Iowa, Mr. Ferguson was graduated from Drake University in 1969 with a B.A. degree. He received a J.D. degree cum laude from Harvard Law School in 1972.

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B-1317

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

FOR RELEASE AT 12:00 NOON December 22, 1978

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 January 4, 1979. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,706 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated October 5, 1978, and to mature April 5, 1979 (CUSIP No. 912793 X7 6), originally issued in the amount of $3,405 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated January 4, 1979, and to mature July 5, 1979 (CUSIP No. 912793 2A 3).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 4, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,387 million of the maturing bills. 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Friday, December 29, 1978. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-1318

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 4, 1979, in cash or other immediately available funds or in Treasury bills maturing January 4, 1979. 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, 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 IMMEDIATE RELEASE December 22, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,801 million of 13-week Treasury bills and for $2,902 million of 26-week Treasury bills, both series to be issued on December 28, 1978, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 29, 1979			26-week bills maturing June 28, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.645a/	9.316%	9.67%	95.159b/	9.576%	10.20%
Low	97.633	9.364%	9.72%	95.144	9.605%	10.24%
Average	97.640	9.336%	9.69%	95.157	9.580%	10.21%

a/ Excepting 1 tender of $1,050,000
b/ Excepting 1 tender of $500,000

Tenders at the low price for the 13-week bills were allotted 41%.
Tenders at the low price for the 26-week bills were allotted 51%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 22,180,000	$ 22,180,000	$ 14,260,000	$ 14,260,000
New York	4,191,290,000	2,379,840,000	4,290,345,000	1,570,705,000
Philadelphia	21,155,000	21,155,000	57,370,000	27,470,000
Cleveland	25,185,000	25,185,000	50,275,000	11,400,000
Richmond	19,190,000	17,190,000	9,575,000	9,575,000
Atlanta	35,665,000	34,315,000	19,035,000	18,535,000
Chicago	277,455,000	107,655,000	794,800,000	439,050,000
St. Louis	28,170,000	18,170,000	25,350,000	13,350,000
Minneapolis	67,465,000	15,455,000	30,680,000	2,680,000
Kansas City	17,690,000	17,145,000	16,875,000	14,985,000
Dallas	12,750,000	11,450,000	4,975,000	4,975,000
San Francisco	207,735,000	122,735,000	906,180,000	766,180,000
Treasury	8,730,000	8,730,000	8,525,000	8,525,000
TOTALS	$4,934,660,000	$2,801,205,000c/	$6,228,245,000	$2,901,690,000d/

c/Includes $328,800,000 noncompetitive tenders from the public.
d/Includes $191,730,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-1319

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

FOR RELEASE AT 4:00 P.M. December 27, 1978

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 competitive tenders.

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-1320

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 15-YEAR 1-MONTH BONDS
TO BE ISSUED JANUARY 11, 1979

December 27, 1978

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 1994 (CUSIP No. 912810 CF 3)
Maturity date	February 15, 1994
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	August 15 and February 15 (first payment on August 15, 1979)
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	Thursday, January 4, 1979, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds	Thursday, January 11, 1979
b) check drawn on bank within FRB district where submitted	Tuesday, January 9, 1979
c) check drawn on bank outside FRB district where submitted	Monday, January 8, 1979
Delivery date for coupon securities.	Tuesday, January 16, 1979

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

FOR IMMEDIATE RELEASE
December 28, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT ANNOUNCES FINAL ANTIDUMPING DETERMINATIONS ON IMPORTS OF BICYCLE TIRES AND TUBES FROM KOREA AND TAIWAN

The Treasury Department today said it has determined that bicycle tires and tubes imported from the Republic of Korea are being sold in the United States at "less than fair value" but that those from Taiwan are not.

(Sales at less than fair value generally occur when imported merchandise is sold in the United States for less than in the home market.)

The Korean case is being referred to the U. S. International Trade Commission, which must decide within 90 days whether a U. S. industry is being, or is likely to be, injured by these sales.

If the decision of the Commission is affirmative, dumping duties will be collected on Korean merchandise sold at less than fair value. Appraisement has been withheld on Korean bicycle tires and tubes since the tentative decision was issued on September 18, 1978.

The weighted-average margins of sales at less than fair value for the three Korean manufacturers investigated were 7.2, 5.3 and 3.4 percent, respectively.

Interested persons were offered the opportunity to present oral and written views before these determinations.

Notice of these actions will appear in the Federal Register of December 29, 1978.

Imports of bicycle tires and tubes from Korea and Taiwan during calendar year 1977 were valued at $14.5 million and $15.3 million, respectively.

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B-1321

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

FOR IMMEDIATE RELEASE
December 28, 1978

Contact: Alvin M. Hattal
(202)566-8381

TREASURY ANNOUNCES AUDITS AND OTHER ENFORCEMENT-RELATED ACTIONS UNDER THE STEEL TRIGGER PRICE MECHANISM

The Treasury Department announced today it will supplement its informal inquiries into steel import transactions by comprehensive audits of selected "related-party" steel importing companies to further assure that monitoring under the steel trigger price mechanism is effective.

The audits will be directed toward "related parties" -- that is, where exporter and importer are related by corporate ownership. Customs Service monitoring of steel imports indicates that, within the past 6 months, related party steel tonnage has grown from 40 percent to about 60 percent of imported steel.

The audits will examine, among other things:

(1) resales of imported steel to assure that such resales are occurring above the applicable trigger price by a large enough margin to cover the importer's full costs, including any storage, capital, or additional processing costs;

(2) claims by buyers for rebates from the importer because steel is of "secondary" quality;

(3) credit terms allowed in actual resale transactions;

(4) costs incurred by importers (including costs for storage, selling, processing, or inland freight) and whether they are borne by the importer or passed through in the resale price.

Several companies will be audited, but selection of a company for audit does not imply it has failed to comply with applicable trigger price procedures.

The Department reiterated that the international transaction price -- even if between related parties -- may be regarded, if below trigger, as a sufficient basis for initiating a fast-track antidumping case. Additional procedures are being developed to facilitate the collection of information concerning foreign acquisition and domestic resale prices.

B-1322

The Department also made the following observations about the just-released November steel import figures. The 2.02 million tons imported in November represent an increase of 301,000 net tons over October 1978 steel imports. The higher November numbers are accounted for by a 155,000 net ton increase by Japanese producers and by significant increases by producers from countries other than Japan and the European Community.

Japanese exports for 1978 year-to-date are 6.07 million net tons and represent a 16 percent decline from a comparable period in 1977. A portion of the remaining increase results from sharply higher imports of steel plate from Poland. These plate imports may be related to anticipated withholding of appraisement in the antidumping investigation which Treasury commenced with respect to Polish steel plate in October 1978. Treasury officials indicated that increased shipments under these circumstances may constitute appropriate grounds to apply retroactively any withholding remedy ultimately imposed.

Shipments from the European Community declined slightly from October levels, but remained over 700,000 tons for November. An antidumping complaint filed by a U.S. producer with respect to carbon steel plate from five European countries was separately announced today.

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

FOR IMMEDIATE RELEASE
December 28, 1978

Contact: Alvin M. Hattal
(202)566-8381

ANTIDUMPING PETITION ON CARBON STEEL PLATE

The Treasury Department today announced it is initiating a formal investigation under the Antidumping Act with respect to imports of carbon steel plate from five European countries.

An antidumping complaint in proper form was received from the Lukens Steel Company of Coatesville, Pennsylvania. It alleges that carbon steel plate from Belgium, France, Germany, Italy and the United Kingdom is being sold in the United States at "less than fair value". Generally, "fair value" represents the price at which such products are offered for sale in the home market of the exporter.

The Lukens complaint alleges that sales to the United States are at prices below the "guidance prices" established by the Commission of the European Economic Community for the sale of carbon steel plate within the European Community. It does not allege that the sales are below the producers' costs of production.

The complaint indicates that for July 1978 the prices of carbon plate imports from the five countries fall below European Commission "guidance prices" by amounts ranging from 6 percent for steel plate from West Germany to 20 percent for Italian plate. The petition also claims that the domestic steel industry is losing sales to producers in the five named European countries by being substantially undersold on carbon plate products. During the past year, carbon steel plate imports have substantially increased as a share of U.S. carbon steel plate consumption and, according to the complaint, now account for more than a quarter of that market.

During 1978, sales of carbon steel plate from the European Community have increased particularly sharply, rising from 814,550 net tons in 1977 (38.5 percent of plate imports) to 1,219,985 net tons so far in 1978 (43.7 percent of plate imports). Carbon steel plate from Japan is subject to a formal finding of dumping that was announced in January 1978. Since that time, imports of carbon plate from Japan have dropped from 525,996 net tons in 1977 to 197,485 net tons during the first 11 months of 1978 or from 24.8 percent to about 7.4 percent of plate imports.

B-1323

The Lukens complaint is not based on claims that the EC producers have sold plate below "trigger prices". The Treasury has previously initiated three proceedings concerning carbon steel plate based on sales below trigger prices. One of these has since been terminated, while the investigations relating to plate from Taiwan and Poland are proceeding.

Imports of plate from the five countries named in Lukens' complaint are valued at $150.8 million for the first nine months of 1978.

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DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY

CARBON STEEL PLATE FROM BELGIUM, FRANCE,
THE FEDERAL REPUBLIC OF GERMANY, ITALY, AND THE UNITED KINGDOM

AGENCY: U.S. Treasury Department

ACTION: Initiation of Antidumping Investigations

SUMMARY:

This notice is to advise the public that a petition in proper form has been received and antidumping investigations are being initiated for the purpose of determining whether imports of carbon steel plate from Belgium, France, the Federal Republic of Germany, Italy, and the United Kingdom are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. Sales at less than fair value generally occur when the prices of the merchandise sold for exportation to the United States are less than the prices in the home market.

EFFECTIVE DATE:

(Date of publication in the Federal Register).

FOR FURTHER INFORMATION CONTACT:

John R. Kugelman, Operations Officer, U.S. Customs Service, Office of Operations, Duty Assessment Division, Technical Branch, 1301 Constitution Avenue, N.W., Washington, D.C. 20220 (202)455-5492.

SUPPLEMENTARY INFORMATION:

On December 26, 1978, information was received in proper form pursuant to sections 153.26 and 153.27, Customs Regulations

(19 CFR 153.26, 153.27), from counsel on behalf of Lukens Steel Company indicating the possibility that carbon steel plate from Belgium, France, The Federal Republic of Germany (FRG), Italy, and the United Kingdom is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.).

The carbon steel plate under consideration is provided for in item number 608.8415 of the Tariff Schedules of the United States Annotated (TSUSA).

Margins of dumping are alleged which, if based on a comparison with prices in the home markets, are approximately 13.0 percent for Belgium, 10.0 percent for France, 6 percent for the FRG, 20.0 percent for Italy and 18.0 percent for the United Kingdom. These margins have been computed using "guidance prices" as of July 1, 1978, established under the "Davignon Plan" of the European Community as home market prices. To the extent the investigation to be undertaken reveals that actual sales prices in the home markets have been at other than such established prices, the margins, if any, will be computed on the basis of such actual transactions.

There is evidence on record concerning injury or likelihood of injury to the U.S. carbon steel plate industry from the alleged less than fair value imports. Although domestic shipments increased in 1977 compared to 1976 and in the first 8 months of 1978 compared to the same period in 1977, total imports, and particularly imports from the countries covered by this petition, have increased even more sharply. The market share of all carbon steel plate imports was 18.8 percent in 1976; by July 1978, plate imports accounted for 22 percent. Data available to the Treasury Department indicates that this trend has continued with total carbon steel plate imports accounting for 26 percent of domestic consumption and imports from these five European countries accounting for 55 percent of total imports by October 1978. These five countries increased their share of total carbon steel plate imports from 17 percent in 1976 to 45 percent in the first 7 months of 1978. During the same time frame, the share of imports held by imports of carbon steel plate from Japan, already subject to a "Finding of Dumping" (43 FR 22937) has declined from 52 percent to 7 percent.

In addition to the information regarding increased import penetration by the allegedly "less than fair value" imports, evidence has been submitted showing declining employment by the petitioner and the carbon steel plate sector, lost sales by the petitioner as a result of the allegedly dumped imports and significant underselling of U.S. prices by imports from these countries.

In assessing the injury caused by the alleged sales at less than fair value from these five countries of the European Community, it has been considered appropriate to cumulate the shares of the market held by imports from each of the countries named. The product is fungible. Under such circumstances, it would be unrealistic to attempt to differentiate the alleged injury caused by imports from one country rather than another when it is the cumulative effect of all, occurring within a discrete time frame, that creates the problem.

Having conducted a summary investigation as required by section 153.29 of the Customs Regulations (19 CFR 153.29) and having determined as a result thereof that there are grounds for so doing, the United States Customs Service is instituting inquiries to verify the information submitted and to obtain the facts necessary to enable the Secretary of the Treasury to reach a determination as to the fact or likelihood of sales at less than fair value.

This notice is published pursuant to section 153.30 of the Customs Regulations (19 CFR 153.30).

General Counsel of the Treasury

DEC 3 1979

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

FOR RELEASE AT 4:00 P.M. December 28, 1978

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $3,200 million, of 364-day Treasury bills to be dated January 9, 1979, and to mature January 8, 1980 (CUSIP No. 912793 3C 8). This issue will not provide new cash for the Treasury as the maturing issue is outstanding in the amount of $ 3,205 million. Additional amounts of the bills may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities.

The bills will be issued for cash and in exchange for Treasury bills maturing January 9, 1979. The public holds $1,701 million of the maturing issue and $1,504 million is held by Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities. Tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the weighted average price 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. This series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Wednesday, January 3, 1979. 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.

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 $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.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on January 9, 1979, in cash or other immediately available funds or in Treasury bills maturing January 9, 1979. 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 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, 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 IMMEDIATE RELEASE
December 29, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY WILL SUSPEND LIQUIDATION
OF DUTIES UPON EXPIRATION OF
COUNTERVAILING DUTY WAIVER AUTHORITY

The Treasury today said that, starting January 3, 1979, it would suspend liquidation of duties on all imports that have been the subject of countervailing duty waivers. Bonds posted with the Customs Service by importers may be used in lieu of a deposit of the estimated duty to cover any liability that might eventually result from a countervailing duty. The amounts of such bonds will be based on Treasury Department estimates of the net amount of the subsidies.

By suspending liquidation, Customs authorities delay the requirement of actual payment of duties on imported merchandise until the final amount is determined.

The countervailing duty law requires the Secretary of the Treasury to impose an additional Customs duty on imported merchandise that is equal to any net "bounty or grant" (subsidy) paid in the exporting country.

The Trade Act of 1974 authorized the Secretary to waive countervailing duties on merchandise imported during the four-year period that started January 3, 1975, if certain criteria are met. When that period expires on January 3, 1979, merchandise granted waivers would ordinarily be subject to the assessment of countervailing duties.

The waiver provision was added to the countervailing duty law to give the Secretary limited discretion to refrain from imposing countervailing duties during the period of the Multilateral Trade Negotiations (MTN) that were in progress in Geneva. In these negotiations, which are now nearing completion, one of the major aims of the United States has been the conclusion of an international code concerning subsidy and countervailing duty practices.

Both Houses of Congress passed separate bills at the end of the 95th Congress that would have extended both the outstanding waivers and the authority to continue to grant waivers pending Congressional review of the results of the MTN, including the proposed code. However, the bills did

B-1325

(MORE)

not become law for reasons unrelated to the merits of the waiver. Since the Administration will seek comparable legislation at the start of the next session of Congress, retroactive to January 3, 1979, it is uncertain at this time whether countervailing duties on the waived merchandise will be imposed. For this reason, the Treasury decided it would be premature to impose countervailing duties when the waiver authority expires.

Notice of this action will appear in the Federal Register of January 2, 1979.

Approximately $600 million in imports were affected by the initial countervailing duty orders that were waived.

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

FOR IMMEDIATE RELEASE December 29, 1978

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,800 million of 13-week Treasury bills and for $2,901 million of 26-week Treasury bills, both series to be issued on January 4, 1979, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 5, 1979			26-week bills maturing July 5, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.639	9.340%	9.70%	95.184 a/	9.526%	10.15%
Low	97.613	9.443%	9.81%	95.169	9.556%	10.18%
Average	97.627	9.388%	9.75%	95.172	9.550%	10.17%

a/ Excepting 1 tender of $600,000

Tenders at the low price for the 13-week bills were allotted 79%.
Tenders at the low price for the 26-week bills were allotted 34%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 33,020,000	$ 33,020,000	$ 16,545,000	$ 15,045,000
New York	4,008,075,000	2,244,425,000	5,426,095,000	2,685,410,000
Philadelphia	22,770,000	22,770,000	11,745,000	11,745,000
Cleveland	33,885,000	33,885,000	45,090,000	14,590,000
Richmond	23,185,000	23,185,000	13,995,000	11,495,000
Atlanta	34,710,000	34,710,000	51,640,000	23,105,000
Chicago	293,270,000	218,270,000	599,020,000	56,620,000
St. Louis	30,840,000	28,840,000	37,530,000	10,530,000
Minneapolis	4,900,000	4,900,000	3,490,000	3,490,000
Kansas City	23,605,000	23,605,000	18,165,000	18,165,000
Dallas	15,590,000	15,590,000	8,665,000	8,665,000
San Francisco	164,415,000	104,415,000	184,675,000	24,675,000
Treasury	12,400,000	12,400,000	17,115,000	17,115,000
TOTALS	$4,700,665,000	$2,800,015,000 b/	$6,433,770,000	$2,900,650,000 c/

b/ Includes $ 398,115,000 noncompetitive tenders from the public.
c/ Includes $ 243,350,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-1326

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

FOR IMMEDIATE RELEASE

January 2, 1979

FEDERAL FINANCING BANK ACTIVITY

Roland H. Cook, Secretary, Federal Financing Bank (FFB), announced the following activity for November 1-30, 1978.

Department of Transportation (DOT)-Guaranteed Lending

The FFB advanced the following funds to the National Railroad Passenger Corp. (Amtrak) under Note #17, which matures February 16, 1979.

Date	Amount	Interest Rate
11/17	$3,500,000	8.635%
11/20	5,000,000	8.435%
11/27	4,000,000	9.305%
11/28	2,000,000	9.355%
11/30	2,500,000	9.435%

FFB advanced funds to the following railroads under notes guaranteed by DOT under Section 511 of the Railroad Revitalization and Regulatory Reform Act:

	Date	Amount	Maturity	Interest Rate
Chicago & North Western Trans.	11/1	$1,336,004	3/1/89	9.435% annually
Missouri-Kansas-Texas RR	11/3	663,961	11/15/97	8.808% quarterly
Trustee of the Milwaukee Road	11/8	1,035,223	11/15/91	9.231% annually
Trustee of Chicago, Rock Island	11/13	313,096	12/10/93	9.259% annually

On November 17, FFB advanced $750,000 to the United States Railway Association at an interest rate of 8.125%. This advance was made against Note #13, which matures December 26, 1990.

Other Guaranteed Lending Programs

During November, FFB purchased the following General Services Administration Participation Certificates:

Series	Date	Amount	Maturity	Interest Rate
M-039	11/9	$7,540,730.23	7/31/03	8.964%
L-048	11/15	1,159,152.20	11/15/04	8.951%

B-1327

On November 22, FFB purchased a total of $7,230,000 in debentures issued by 10 small business investment companies. These debentures are guaranteed by the Small Business Administration, and mature in 3, 5, 7, and 10 years. The 3-year rate is 9.025%, the 5-year rate is 8.915%, and the 7-year and 10-year rate is 9.025%.

FFB provided Western Union Space Communications, Inc., with the following advances, which mature October 1, 1989 and carry annual interest rates.

Date	Amount	Interest Rate
11/1	$5,900,000	9.474%
11/20	7,900,000	9.124%
11/30	1,700,000	9.317%

These advances are part of FFB's $687 million financing of a satellite tracking system to be constructed by Western Union and used by the National Aeronautics and Space Administration, which guarantees repayment of these advances.

Under notes guaranteed by the Rural Electrification Administration, FFB advanced a total of $82,614,565.00 to 22 rural electric and telephone systems. Details of individual advances are included in the attached activity table.

FFB made 30 advances on existing loans to 18 governments totalling $108,912,770.55 under the foreign military sales program. These advances are guaranteed by the Department of Defense.

Agency Issues

The Tennessee Valley Authority sold FFB a $45 million note on November 15, and a $640 million note on November 30. The notes mature February 28, 1979, and carry rates of 9.201% and 9.452%, respectively. Of the total $685 million financed, $555 million refunded maturing securities, and $130 million raised new cash.

In its weekly short-term FFB borrowings, the Student Loan Marketing Association (SLMA), a Federally-chartered private corporation which borrows under a Department of Health, Education and Welfare guarantee, raised $60 million in new cash, and refunded $240 million in maturing securities. FFB holdings of SLMA notes now total $835 million.

FFB Holdings

As of November 30, FFB holdings totalled $49.6 billion. FFB Holdings and Activity Tables are attached.

FEDERAL FINANCING BANK

November 1978 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST RATE (other than s/a)
Department of Defense					
Colombia #2	11/1	$ 450,000.00	9/20/84	9.443%	
Greece #9	11/1	8,071,011.00	5/3/88	9.271%	
Liberia #2	11/1	62,535.73	6/30/83	9.531%	
Peru #3	11/1	1,060,216.00	4/10/84	9.478%	
Jordan #2	11/2	275,377.00	11/26/85	9.074%	
Colombia #1	11/3	605,094.08	6/30/83	9.298%	
Honduras #2	11/6	86,734.50	10/7/82	9.454%	
Malaysia #3	11/6	82,268.68	3/20/84	9.252%	
Morocco #4	11/6	16,401,800.00	9/10/86	9.106%	
Colombia #2	11/8	320,298.00	9/20/84	9.221%	
Ecuador #3	11/8	439,494.50	8/1/85	9.173%	
Korea #8	11/9	96,624.39	12/31/86	9.109%	
Spain #2	11/9	3,067,775.00	9/15/88	9.078%	
Thailand #2	11/9	469,539.55	6/30/83	9.356%	
Indonesia #3	11/14	77,723.73	9/20/86	9.126%	
Israel #6	11/14	47,841,278.66	1/12/08	8.956%	
Ecuador #2	11/15	2,689,920.17	8/25/84	9.196%	
Jordan #3	11/15	991,800.00	12/31/86	9.097%	
Kenya #5	11/15	4,400,000.00	12/15/87	9.072%	
Tunisia #4	11/15	726,187.00	10/1/85	9.141%	
Colombia #2	11/21	1,303,292.00	9/20/84	9.044%	
Spain #1	11/21	941,531.00	6/10/87	8.973%	
Peru #2	11/22	569,658.24	4/1/84	9.111%	
Colombia #1	11/27	177,291.98	6/30/83	9.44%	
Jordan #2	11/27	540,138.00	11/26/85	9.245%	
Jordan #3	11/27	62,962.98	12/31/86	9.203%	
Spain #2	11/27	15,912,033.61	9/15/88	9.124%	
Peru #2	11/29	641,664.75	4/1/84	9.36%	
Colombia #2	11/30	346,020.00	9/20/84	9.294%	
Haiti #1	11/30	202,500.00	3/12/83	9.432%	
General Services Administration					
Series M-039	11/9	7,540,730.23	7/31/03	8.964%	
Series L-048	11/15	1,159,152.20	11/15/04	8.951%	
National Railroad Passenger Corp. (Amtrak)					
Note #17	11/17	3,500,000.00	2/16/79	8.635%	
Note #17	11/20	5,000,000.00	2/16/79	8.435%	
Note #17	11/27	4,000,000.00	2/16/79	9.305%	
Note #17	11/28	2,000,000.00	2/16/79	9.355%	
Note #17	11/30	2,500,000.00	2/16/79	9.435%	
Rural Electrification Administration					
United Power Assn. #6	11/1	3,000,000.00	12/31/12	9.062%	8.962% quarterly
United Power Assn. #67	11/1	4,500,000.00	12/31/12	9.062%	8.962% "
Basin Elect. Pwr. Coop. #87	11/3	17,300,000.00	11/3/80	9.595%	9.483% "
Tri-State Gen. & Trans. #89	11/3	9,308,000.00	12/31/80	9.495%	9.385% "
Southern Illinois Pwr. #38	11/6	855,000.00	11/6/80	9.665%	9.551% "
Tri-State Gen. & Trans. #37	11/6	90,000.00	12/31/80	9.585%	9.473% "
United Power Assn. #86	11/6	1,100,000.00	12/31/12	8.951%	8.853% "
United Power Assn. #122	11/6	1,300,000.00	12/31/12	8.951%	8.853% "
Hillsborough & Montgomery Tele.#48	11/8	213,000.00	12/31/12	8.978%	8.879% "
Central Iowa Power #51	11/8	932,000.00	12/31/12	8.978%	8.879% "
Sierra Telephone Co. #59	11/9	120,000.00	11/9/80	9.665%	9.551% "
Gulf Telephone Co. #50	11/9	120,000.00	12/31/12	8.983%	8.884% "
Allegheny Elect. Coop. #93	11/9	2,459,000.00	12/31/12	8.983%	8.884% "
Wabash Valley Power #104	11/9	501,000.00	12/31/12	8.983%	8.884% "
Murraysville Tele. Co. #24	11/13	1,177,065.00	11/13/80	9.635%	9.522% "
Wolverine Electric Coop. #100	11/13	1,305,000.00	11/13/80	9.635%	9.522% "
Northern Michigan Elect. #101	11/13	1,668,000.00	11/13/85	8.995%	8.896% "
Arizona Electric Power #60	11/15	1,476,000.00	12/31/12	8.936%	8.838% "
Arizona Electric Power #103	11/15	1,824,000.00	12/31/12	8.936%	8.838% "
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FEDERAL FINANCING BANK

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Tri-State Gen. & Trans. #37	11/6	90,000.00	12/31/80	9.585%	9.473% "
United Power Assn. #86	11/6	1,100,000.00	12/31/12	8.951%	8.853% "
United Power Assn. #122	11/6	1,300,000.00	12/31/12	8.951%	8.853% "
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Arizona Electric Power #60	11/15	1,476,000.00	12/31/12	8.936%	8.838% "
Arizona Electric Power #103	11/15	1,824,000.00	12/31/12	8.936%	8.838% "
United Power Assn. #6	11/16	3,000,000.00	12/31/12	8.871%	8.775% "

FEDERAL FINANCING BANK

November 1978 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST RATE (other than s/a)
Rural Electrification Administration (cont.)					
Colorado-Ute Electric #78	11/17	$ 1,160,000.00	12/31/12	8.864%	8.768% quarterly
Western Illinois Power $99	11/17	1,584,000.00	11/17/80	9.385%	9.277% "
Big River Electric #58	11/20	4,340,000.00	11/20/80	9.365%	9.258% "
Big River Electric #91	11/20	3,780,000.00	11/20/80	9.365%	9.258% "
Colorado-Ute Elect. #78	11/20	181,000.00	12/31/12	8.865%	8.769% "
United Telephone Co. #25	11/21	33,500.00	1/31/81	9.235%	9.131% "
Pacific Northwest Generating #118	11/21	2,526,000.00	12/31/12	8.873%	8.777% "
Dairyland Power #36	11/22	5,000,000.00	12/31/12	8.885%	8.788% "
East Kentucky Power #73	11/22	7,243,000.00	11/22/80	9.405%	9.297% "
South Mississippi Elect. #4	11/22	824,000.00	11/24/80	9.405%	9.297% "
South Mississippi Elect. #90	11/22	1,321,000.00	11/24/80	9.405%	9.297% "
Tri-State Gen. & Trans. #79	11/27	1,937,000.00	12/31/80	9.725%	9.61% "
Gulf Telephone Co. #50	11/30	268,000.00	12/31/12	8.972%	8.874% "
Basin Electric Power #88	11/30	169,000.00	11/30/83	9.105%	9.004% "
Small Business Investment Companies					
Beneficial Capital Corp.	11/22	350,000.00	11/1/81	9.025%	
Capital for Terrebonne, Inc.	11/22	200,000.00	11/1/81	9.025%	
Greater Washington Investors, Inc.	11/22	650,000.00	11/1/81	9.025%	
Diman Financial Corp.	11/22	300,000.00	11/1/83	8.915%	
Greater Washington Investors, Inc.	11/22	650,000.00	11/1/83	8.915%	
First Idaho Investment Corp.	11/22	500,000.00	11/1/85	8.895%	
Builders Capital Corp.	11/22	1,000,000.00	11/1/88	8.895%	
Realty Growth Capital Corp.	11/22	280,000.00	11/1/88	8.895%	
Tamco Investors (SBIC), Inc.	11/22	300,000.00	11/1/88	8.895%	
Washington Capital Corp.	11/22	3,000,000.00	11/1/88	8.895%	
Student Loan Marketing Association					
Note #169	11/8	85,000,000.00	2/6/79	9.492%	
Note #170	11/14	90,000,000.00	2/13/79	9.03%	
Note #171	11/21	85,000,000.00	2/20/79	9.138%	
Note #172	11/28	40,000,000.00	2/27/79	9.639%	
Tennessee Valley Authority					
Note #86	11/15	45,000,000.00	2/28/79	9.201%	
Note #87	11/30	640,000,000.00	2/28/79	9.452%	
Department of Transportation					
Chicago & North Western Trans.	11/1	1,336,004.00	3/1/89	9.222%	9.435% annually
Missouri-Kansas-Texas Railroad	11/3	663,961.00	11/15/97	8.905%	8.808% quarterly
The Milwaukee Road	11/8	1,035,223.00	11/15/91	9.027%	9.231% annually
Chicago, Rock Island & Pacific RR	11/13	313,096.00	12/10/93	9.054%	9.259% annually
United States Railway Association					
Note #13	11/17	750,000.00	12/26/90	8.125%	
Western Union Space Communications, Inc. (NASA)					
	11/1	5,900,000.00	10/1/89	9.26%	9.474% annually
	11/20	7,900,000.00	10/1/89	8.925%	9.124% "
	11/30	1,700,000.00	10/1/89	9.11%	9.317% "

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

November 30, 1978

Program	November 30, 1978	October 31, 1978	Net Change (10/31/78-11/30/78)	Net Change-FY 1979 (10/1/78-11/31/78)
On-Budget Agency Debt				
Tennessee Valley Authority	$ 5,500.0	$ 5,370.0	$ 130.0	$ 280.0
Export-Import Bank	6,568.3	6,568.3	-0-	-0-
Off-Budget Agency Debt				
U.S. Postal Service	2,114.0	2,114.0	-0-	-0-
U.S. Railway Association	355.7	354.9	.8	-1.1
Agency Assets				
Farmers Home Administration	23,050.0	23,050.0	-0-	775.0
DHEW-Health Maintenance Org. Loans	57.0	57.0	-0-	-0-
DHEW-Medical Facility Loans	163.7	163.7	-0-	-0-
Overseas Private Investment Corp.	40.1	40.1	-0-	-0-
Rural Electrification Admin.-CBO	637.7	637.7	-0-	-0-
Small Business Administration	108.9	110.0	-1.1	-3.2
Government Guaranteed Loans				
DOT-Emergency Rail Services Act	17.5	17.5	-0-	-0-
DOT-Title V, RRRR Act	46.2	42.8	3.3	10.4
DOD-Foreign Military Sales	4,137.7	4,028.8	108.9	159.8
General Services Administration	289.2	280.5	8.7	19.1
Guam	36.0	36.0	-0-	-0-
DHUD-New Communities Admin.	38.5	38.5	-0-	-0-
Nat'l. Railroad Passenger Corp. (AMTRAK)	429.2	412.2	17.0	-105.2
NASA	271.6	256.1	15.5	35.1
Rural Electrification Administration	4,489.4	4,406.8	82.6	297.8
Small Business Investment Companies	260.6	253.7	6.9	10.0
Student Loan Marketing Association	835.0	775.0	60.0	90.0
Virgin Islands	21.8	21.8	-0-	-0-
WMATA	177.0	177.0	-0-	-0-
TOTALS	$49,645.1*	$49,212.5*	$432.7*	$1,567.6*

*Totals do not add due to rounding.

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

FOR RELEASE AT 4:00 P.M. January 2, 1979

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 January 11, 1979. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,712 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated October 12, 1978, and to mature April 12, 1979 (CUSIP No. 912793 X8 4), originally issued in the amount of $3,410 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated January 11, 1979, and to mature July 12, 1979 (CUSIP No. 912793 2B 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 11, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,287 million of the maturing bills. 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, January, 8, 1979. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) 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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 11, 1979, in cash or other immediately available funds or in Treasury bills maturing January 11, 1979. 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, 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 IMMEDIATE RELEASE

January 3, 1979

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $3,200 million of 52-week Treasury bills to be dated January 9, 1979, and to mature January 8, 1980, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

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

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	90.313	9.581%	10.48%
Low -	90.261	9.632%	10.54%
Average -	90.288	9.605%	10.51%

Tenders at the low price were allotted 69%.

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

Location	Received	Accepted
Boston	$ 23,290,000	$ 23,290,000
New York	4,631,925,000	2,801,625,000
Philadelphia	2,815,000	2,815,000
Cleveland	40,990,000	30,990,000
Richmond	18,195,000	18,195,000
Atlanta	22,115,000	18,805,000
Chicago	338,130,000	158,130,000
St. Louis	35,615,000	21,615,000
Minneapolis	17,240,000	17,240,000
Kansas City	36,405,000	31,405,000
Dallas	10,060,000	10,060,000
San Francisco	166,630,000	60,630,000
Treasury	5,420,000	5,420,000
TOTAL	$5,348,830,000	$3,200,220,000

The $3,200 million of accepted tenders includes $178 million of noncompetitive tenders from the public and $1,290 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 $ 498 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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partment of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
January 4, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES START OF ANTIDUMPING
INVESTIGATION OF ACRYLIC YARN FROM JAPAN

The Treasury Department today said that it will begin an antidumping investigation on imports of acrylic yarn from Japan.

Treasury's announcement followed a summary investigation conducted by the U. S. Customs Service after receipt of a petition on behalf of the American Yarn Spinners Association, Gastonia, N. C., alleging that this merchandise is being "dumped" in the United States.

The petition indicates that acrylic yarn imported from Japan is being sold here for less than in the home market. The petition also alleges that sales have occurred at prices below the cost of production in Japan. If there are not enough sales of the product in Japan at above cost to constitute a viable home market, the Treasury Department investigation will use the prices at which the yarn is sold to a third country. Should above-cost, third-country sales also be inadequate, "fair value" will be constructed by using cost-of-production information from Japan.

This product is the subject of a voluntary marketing agreement with Japan (which expired as of December 1978 but may be renewed), and imports did not exceed the ceilings in the agreement. Nevertheless, Treasury noted that such agreements do not prevent the imposition of antidumping duties on products sold at less than fair value if they injure or threaten injury to a domestic industry.

The petition includes information that the U. S. industry is being injured by the "less than fair value" imports. If Treasury finds such sales, the U. S. International Trade Commission will subsequently decide whether there is injury or likelihood of injury to a domestic industry.

Notice of this action appears in the Federal Register of January 4, 1979.

Imports of this merchandise from Japan amounted to approximately $10,500,000 during calendar year 1977.

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

FOR IMMEDIATE RELEASE January 4, 1979

RESULTS OF AUCTION OF 15-YEAR 1-MONTH TREASURY BONDS

The Department of the Treasury has accepted $1,502 million of $3,255 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	8.99% 1/
Highest yield	9.01%
Average yield	9.00%

The interest rate on the bonds will be 9%. At the 9% rate, the above yields result in the following prices:

Low-yield price	100.045
High-yield price	99.882
Average-yield price	99.963

The $1,502 million of accepted tenders includes $351 million of noncompetitive tenders and $1,151 million of competitive tenders from private investors, including 43% of the amount of bonds bid for at the high yield.

1/ Excepting 1 tender totaling $1,000

B-1331

epartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

CONTACT: ROBERT W. CHILDERS
(202) 634-5248

FOR IMMEDIATE RELEASE January 8, 1979

REVENUE SHARING FUNDS DISTRIBUTED

The Department of Treasury's Office of Revenue Sharing (ORS) distributed more than $1.7 billion in general revenue sharing payments today to nearly 36,500 State and local governments.

Current legislation authorizes the Office of Revenue Sharing to provide quarterly revenue sharing payments to State and local governments through the end of Federal fiscal year 1980.

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epartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
January 5, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT ANNOUNCES FINAL COUNTERVAILING DUTY DECISION ON BICYCLE TIRES AND TUBES FROM TAIWAN

The Treasury Department today announced its final determination that exporters of bicycle tires and tubes from Taiwan do not receive benefits that constitute a subsidy.

The countervailing duty law requires the Secretary of the Treasury to collect an additional duty equal to any subsidy on merchandise exported to the United States.

Treasury found that certain Taiwanese manufacturers/ exporters did receive benefits on the manufacture or exportation of bicycle tires and tubes, but that those benefits were so small that they were considered legally de minimis.

Notice of this determination will appear in the Federal Register of January 8, 1979.

Imports of bicycle tires and tubes from Taiwan amounted to $15.3 million during calendar year 1977.

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B-1333

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

FOR IMMEDIATE RELEASE
January 5, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES FINAL COUNTERVAILING
DUTY DECISION ON CERTAIN FISH FROM CANADA

The Treasury Department today announced its final determination that exporters of certain fish from Canada receive benefits that constitute a subsidy. Both dutiable and duty-free fish are included in this determination.

The countervailing duty law requires the Secretary of the Treasury to collect an additional duty equal to any subsidy paid on merchandise exported to the United States.

However, countervailing duties on the dutiable fish originating in the Atlantic regions of Canada (Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, and Quebec) have been waived because of actions by the Government of Canada to reduce significantly the subsidy given fish exporters and because of the importance of Canada in the Multilateral Trade Negotiations.

The case involving duty-free fish has been referred to the U. S. International Trade Commission to determine whether the subsidized imports are injuring or threatening to injure a U. S. industry. If a negative determination is made, the case will be closed; but even if an affirmative determination is made, the Treasury has indicated it will waive duties if it then has the authority to do so for the limited period needed for Congressional consideration of the results of the Multilateral Trade Negotiations.

Fish originating in the rest of Canada have been determined to receive benefits that are de minimis, so no action will be taken with respect to such imports.

Notice of this determination was published in the Federal Register of January 5, 1979.

In 1977, imports of the duty-free groundfish under investigation were valued at $5.8 million and those of the shellfish under investigation at $77.8 million. The import value of the dutiable fish in 1977 was $150,000.

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epartment of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE January 8, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,800 million of 13-week Treasury bills and for $2,900 million of 26-week Treasury bills, both series to be issued on January 11, 1979, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 12, 1979			26-week bills maturing July 12, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.651	9.293%	9.65%	95.240 a/	9.415%	10.02%
Low	97.643	9.324%	9.68%	95.218	9.459%	10.07%
Average	97.645	9.316%	9.67%	95.226	9.443%	10.05%

a/ Excepting 1 tender of $25,000

Tenders at the low price for the 13-week bills were allotted 87%.
Tenders at the low price for the 26-week bills were allotted 71%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 35,970,000	$ 34,955,000	$ 53,475,000	$ 28,600,000
New York	4,527,655,000	2,378,620,000	4,020,420,000	2,388,670,000
Philadelphia	23,495,000	23,495,000	11,780,000	11,780,000
Cleveland	38,230,000	34,990,000	30,770,000	25,770,000
Richmond	33,685,000	33,685,000	26,750,000	26,750,000
Atlanta	57,105,000	53,950,000	34,135,000	34,135,000
Chicago	258,560,000	62,055,000	200,820,000	135,820,000
St. Louis	37,215,000	19,215,000	29,705,000	16,705,000
Minneapolis	13,350,000	4,350,000	13,665,000	13,665,000
Kansas City	43,865,000	41,865,000	34,030,000	34,030,000
Dallas	17,425,000	17,425,000	12,485,000	12,485,000
San Francisco	182,250,000	74,550,000	177,240,000	143,230,000
Treasury	21,140,000	21,140,000	28,505,000	28,505,000
TOTALS	$5,289,945,000	$2,800,295,000 b/	$4,673,780,000	$2,900,145,000 c/

b/ Includes $511,595,000 noncompetitive tenders from the public.
c/ Includes $375,050,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

B-1335

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

HOLD FOR RELEASE
2 PM - January 10, 1979

Contact: Carolyn Johnston
(202) 634-5377

SAVINGS BONDS CHANGES ANNOUNCED BY SECRETARY BLUMENTHAL

Treasury Secretary W. Michael Blumenthal today announced the introduction of new EE and HH U.S. Savings Bonds to replace the current E and H bonds effective January 2, 1980, a new exchange offering, and a decision on further extensions for outstanding bonds.

The announcement came at the annual Washington luncheon of the U.S. Industrial Payroll Savings Committee, a group of 60 major industrial leaders who volunteer their support to the savings bonds program.

The Secretary said the program changes underline the Treasury's interest in strengthening savings bonds as a vital part of its debt management operations. Bonds provide the Treasury with a stable source of funds from millions of citizens, and also provide Americans at all economic levels with an opportunity to save in a safe and convenient manner.

The present E and H bonds will continue to be sold at banks and other savings institutions until December 31, 1979. Payroll sales of E bonds will be converted to the new series E in the period from January 2 to June 30, 1980.

SERIES EE BONDS

The series EE bond -- so named because it will double in value between its purchase and maturity dates -- will have these new features:

-- the purchase price will be one-half the face value, e.g., $25 will buy a $50 (face value) bond.

-- the lowest available denomination will be $50, face value. Other denominations will be $75, $100, $200, $500, $1,000, $5,000 and $10,000.

-- the interest rate of 6 percent (for 5 or more years) remains, while the term to maturity will be 11 years and 9 months.

-- the annual limitation on purchases will increase from the present $7,500 (issue amount) to $15,000 (issue amount).

-- the new EE bonds will be eligible for redemption six months after issue.

-- the requirement that a bond beneficiary must consent to a change in the bond will be eliminated.

Although the familiar $25 savings bond ($18.75 purchase price) will no longer be available, the new series EE $50 bond can be purchased for $25, an increase of only $6.25 in the minimum purchase price.

SERIES HH BONDS

The series HH bond will have these new features, as compared to the present H bond:

-- interest payments will be a level 6 percent from day of issue, rather than the present graduated scale.

-- bonds purchased for cash (rather than through exchange of other savings bonds and notes) will be subject to an interest penalty if redeemed before maturity.

-- the annual purchase limitation will be increased from $10,000 (face amount) to $20,000 (face amount.)

The new series HH bonds can be bought for cash or obtained in exchange for the present series E bonds or savings notes, singly or in combination, in multiples of $500. The new HH bond will have the same maturity period as the H bond -- 10 years -- and the same denominations, which range from $500 to $10,000.

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OUTSTANDING SERIES E AND H BONDS

Changes which affect owners of the present E and H bonds are:

-- the earliest E bonds -- bought between 1941 and April 1952 -- will not be extended again when they fall due between 1981 and April 1992, after 40 years of interest-bearing life.

-- all outstanding series E bonds and savings notes bought after April 1952 will receive a further 10-year extension. The Treasury Department intends this to be the final extension for bonds bought from May 1952 through November 1965.

-- series H bonds bought from June 1952 through May 1959 will receive no further extensions. These bonds reach final maturity between February 1982 and May 1989.

-- series H bonds bought after June 1959 will receive another 10-year extension, for a total bond life of 30 years. The Treasury Department intends this to be the final extension for these bonds.

-- owners of E bonds and savings notes can exchange them for the new HH bonds after they go on sale January 2, 1980. This can be done up to a year after final maturity of the old E bonds. This exchange carries

(more)

the same tax-deferral privilege as the present E to H bond exchange.

ROLE OF SAVINGS BONDS

Secretary Blumenthal said announcement of the changes should dispel any uncertainty about the Treasury's position on the final maturity of outstanding E and H bonds. Holders of the 1941-52 series E bonds will thus have the opportunity to decide well in advance of their bonds' final maturities whether to redeem them for cash or exchange them for HH bonds.

Approximately one out of three American households now own savings bonds, and more than 16 million people buy them yearly. About $80.7 billion in savings bonds and savings notes are now outstanding. Bond sales during 1978 exceeded $8 billion, for the highest sales since World War II.

Detailed questions and answers on changes in the savings bonds program are attached.

-- USSB --

THE ENCLOSED MATERIAL
ON UNITED STATES SAVINGS BONDS
COVERS QUESTIONS AND ANSWERS
IN FOUR SEPARATE AREAS OF INTEREST:

Q. Is the Treasury planning to make any major changes in the U. S. Savings Bond Program?

A. After a comprehensive review of the Program, the Secretary has approved these changes:

1. A new accrual type bond, to be called "Series EE", will be offered for sale, beginning January 2, 1980. The Series E bond will be withdrawn from sale over-the-counter as of December 31, 1979, and on payroll issues no later than June 30, 1980.
2. A new current income bond, to be called "Series HH", will be offered for sale, beginning January 2, 1980, to replace the Series H bond, which will be withdrawn from sale as of December 31, 1979.
3. A new exchange offering will be introduced on January 2, 1980, to permit owners of Series E bonds, savings notes (Freedom Shares) and Series EE bonds to exchange their securities in multiples of $500 for Series HH bonds. The present E for H exchange offering will be terminated as of December 31, 1979.
4. Series E savings bonds with issue dates from May 1941 through April 1952 will not be extended again. This group of bonds will reach final maturity over a period of 11 years -- from May 1981 through April 1992 -- exactly 40 years after their respective issue dates.

5. Series H savings bonds with issue dates from June 1952 through May 1959 will not be extended again. This group of bonds will reach final maturity over a period of more than seven years -- from February 1982 through May 1989.

6. An additional 10-year extension will be given to unredeemed (i) Series E bonds issued after April 1952; (ii) all U. S. Savings Notes (Freedom Shares); and (iii) Series H Bonds issued after May 1959.

Q. How will the new Series EE Bond differ from the present Series E Bond?

A. The new Series EE Bond will have:

* a longer term to original maturity -- 11 years, 9 months instead of 5 years
* a higher minimum denomination -- $50 instead of $25
* a more deeply discounted purchase price -- 50% of face amount instead of 75% of face amount (for example a $100 denomination bond will sell for $50 instead of $75)
* a longer minimum retention period during which the bond may not be redeemed -- 6 months after issue instead of 2 months after issue
* a higher annual purchase limitation -- $15,000 issue price instead of $7,500 issue price.

See page E-11 for a comparison chart of the Terms and Conditions of the two series.

Q. Why does the Treasury wish to make changes in the Savings Bonds Program? Aren't the present Savings Bonds selling well?

A. They are selling very well. The 1978 Savings Bond sales were the highest since World War II. More than 4.3 billion Series E and H Bonds have been issued. About 706.5 million are still outstanding and their redemption value exceeds $80 billion.

However, the Program has not been changed significantly since 1941 and the administrative costs, particularly for E Bonds have risen substantially. The Department has reviewed the Program to identify ways in which it might be strengthened and ways in which costs might be reduced. The changes which have been announced are designed to make the Program more cost effective while retaining or improving those features which have made savings bonds attractive.

Q. What changes will reduce the costs of the Savings Bonds Program?

A. <u>First, an increase in minimum denomination</u>. In the 38 years that the E bond has been on sale, the minimum denomination has never been raised above $25, with an issue price of $18.75, although the cost of processing each bond has risen considerably in that time. An increase in the minimum denomination for the Series EE bond will reduce the number of bonds that must be issued in relation to the dollars that are borrowed.

<u>Second, the lengthening of the minimum retention period</u>. A relatively large number of Series E Bonds are redeemed within the first five months after purchase. This is inconsistent with the Savings Bond Program's goals of encouraging savings and producing stable, low-cost debt financing. A six-month retention period will encourage the serious savers to buy and hold Series EE Bonds and will help to reduce borrowing costs.

<u>Third, the termination of further extensions for the early issues of Series E and H bonds</u>. This will make it possible for the Treasury to initiate a plan for a systematic reduction in the 12 billion Series E and H Bond records now maintained by the Bureau of the Public Debt.

Q. What will the interest rate be for the new Series EE Bonds?

A. There will be no change from the present Series E Bond. Both have a yield curve that is graduated to produce a return of 4% after the first two months and 6% if held five years. On the Series EE Bonds, the rate will remain at a straight 6%, compounded semiannually, for the remaining 6 years, 9 months, to maturity.

Q. Will the 6% interest rate on savings bonds go up in future years?

A. We don't know. The interest rates on Savings Bonds are under continuous review and increases will depend on the general interest rate picture and the economic outlook. If the Secretary should conclude that a rise in the interest rate is warranted, Congressional approval will be required.

Q. The new EE Bonds will have a maturity date of 11 years and 9 months. Will there be any extensions to this?

A. No extension of the new Bonds is being promised at this time. As the EE bonds begin to approach maturity, the Secretary will determine whether an extension is desirable.

Q. What is the amount of Series EE Bonds that I can buy each year?

A. A total of $15,000 (purchase price) per year. This is double the current $7,500 limitation on Series E Bond purchases. The increase is consistent with increases in the ceilings on Federally-insured savings in the private sector.

Q. How will I report interest from the new EE Bonds for income tax purposes?

A. The same way you report interest on your current E Bonds. The interest on Savings Bonds is not subject to state or local income taxes and Federal income tax reporting can be deferred until the Bond is cashed or reaches final maturity, whichever comes first. If you defer tax reporting until redemption or final maturity, you must include in your Federal income tax return for that year, the total amount of interest received, just as you do with interest on savings accounts.

The offering Circular, which will be published in the Fall of 1979, will contain tables showing the amount of interest earned. Forms showing the redemption values will be available from the Bureau of the Public Debt or any Federal Reserve Bank or Branch. Banks and other financial institutions which pay bonds can also advise Bond owners of the amount of interest included in the redemption value of bonds that are cashed.

Q. Will there be any changes in the forms of registration authorized for savings bonds?

A. No. Series EE and HH may be registered in the same forms as the Series E and H. Bonds can be inscribed in the name of two individuals as coowners. Either coowner can cash a bond. If either dies, the bond becomes the sole property of the surviving coowner.

Bonds can also be inscribed in the name of an individual with another individual named as beneficiary. Only the owner can cash the bond during his lifetime. If the owner dies, the bond becomes the sole property of the surviving beneficiary.

Bonds inscribed in the names of organizations or fiduciaries must be in single ownership form without a coowner or beneficiary.

Q. When and where can I buy the new Series EE Bonds?

A. At banks and other financial institutions which are qualified issuing agents for Savings Bonds. However, the Bonds do not go on sale over-the-counter until January 2, 1980. They will be available to payroll savings purchasers sometime between January 2, 1980 and June 30, 1980. The exact time will depend upon when the organization operating the payroll savings plan can convert its system from Series E to Series EE. The time will vary between organizations.

Q. Will the new EE Bonds look different from the current E Bonds?

A. The design and colors of the new bonds will be different, but the size and weight of the paper will remain unchanged.

Q. What about buying U.S. Savings Bonds in 1979?

A. The current Series E and H Savings Bonds will remain on sale over-the-counter through December 31, 1979.

Series E bonds will be available to employees purchasing through payroll plans until the employing organization has been able to convert to the sale of Series EE bonds, which must be accomplished no later than June 30, 1980.

Q. Is there any advantage to me in postponing Bond purchases during 1979 and waiting for the new Bonds that will be offered in 1980?

A. No. The interest rate will be the same and you would lose up to a year's interest on your savings by <u>not</u> buying in 1979.

Q. What are some advantages to buying U.S. Savings Bonds?

A. They are an absolutely secure form of investment -- bonds that are lost, stolen or destroyed will be replaced upon receipt and adjudication of a valid claim. Locations for purchasing and redeeming bonds are readily accessible throughout the country. The return on Savings Bonds is guaranteed. The interest is exempt from all state and local taxes except inheritance, estate or gift taxes. The reporting of interest on Series E and EE Bonds can be deferred, for Federal income tax purposes, until the Bonds reach final maturity, are redeemed or are otherwise disposed of.

The exchange offer for savings bonds permits owners to exchange their accrual-type securities (Series E, EE and savings notes) for current income bonds (Series H and HH) and to continue to defer, for tax purposes, the reporting of accrued interest until the Series H or HH bonds are redeemed or reach final maturity. This exchange offer is especially attractive to Bond owners who want the current income from semiannual interest checks to supplement retirement income.

COMPARISON OF TERMS AND CONDITIONS OF SERIES E AND SERIES EE ACCRUAL-TYPE SAVINGS BONDS

	Series E Bonds	Series EE Bonds
Offering Date	Close over-the-counter sales December 31, 1979; close payroll sales June 30, 1980	Begin January 2, 1980; phase in payroll sales through June 30, 1980
Denominations	$25, $50, $75, $100, $200, $500, $1,000, $10,000, $100,000	$50, $75, $100, $200, $500, $1,000, $5,000, $10,000
Issue Price	75% of face amount	50% of face amount
Maturity	5 years with guaranteed 10-year extension	11 years and 9 months
Interest	Accrues through periodic increases in redemption value to maturity	Same
Yield Curve	4% after 2 months, 4.5% first year, increases gradually thereafter to yield 6% if held 5 years	4% after 2 months, 4.5% first year, increases gradually thereafter to yield 6% if held 5 or more years
Retention Period	Redeemable any time after 2 months from issue date	Redeemable any time after 6 months from issue date
Annual Limitation	$7,500 issue price	$15,000 issue price
Tax Status	Accruals subject to Federal income and to estate, inheritance and gift taxes - Federal and state - but exempt from all other state and local taxes. Federal income tax may be reported (1) as it accrues, or (2) in year bond matures, is redeemed or otherwise disposed.	Same
Registration	In names of individuals in single, coownership or beneficiary form; in names of fiduciaries or organizations in single ownership only.	Same
Transferability	Not eligible for transfer or pledge as collateral.	Same
Rights of Owners	Coownership: either owner may redeem, both must join reissue request. Beneficiary: only owner may redeem during lifetime; both must join reissue request.	Coownership: same. Beneficiary: same except that consent of beneficiary to reissue not required.
Exchange Privilege	Eligible, alone or with savings notes, for exchange for Series H bonds in multiples of $500, with tax deferral privilege.	Eligible, alone or with Series E bonds or savings notes, for exchange for Series HH bonds in multiples of $500, with tax deferral privilege.

Q. How will the Series HH Bonds differ from the Series H Bonds.

A. The Series HH will be similar to the Series H bond. Both are current income bonds paying interest semiannually by check. The term to maturity will be 10 years. The denominations will be the same - $500, $1,000, $5,000 and $10,000. The HH bonds may also be purchased for cash or in exchange for accrual bonds (E or EE) or savings notes.

The major change will be in the payment of interest. Series H bonds earn interest on a graduated scale which starts at 4.2% and increases to provide an overall yield of 6% if held to maturity. Series HH bond will pay interest at a level 6%. However, bonds purchased for cash will be paid at less than the face amount if they are redeemed before maturity, and this will reduce the overall yield. Bonds purchased on exchange will not be discounted for early redemption.

Another significant change will be an increase in the annual purchase limitation on Series HH bonds to $20,000 (face amount), as compared with the $10,000 (face amount) limitation on Series H bonds.

See the chart on page H-6 for a comparison of the terms and conditions of Series H and HH bonds.

Q. Why is the yield structure being changed with the new Series HH bonds?

A. The graduated interest scale that applies to Series H bonds has generated many inquiries and complaints from bondowners who do not understand that this scale causes fluctuations in the amounts of their semiannual interest checks. Series HH bondowners will receive level interest payments.

A second reason for changing the yield structure is that most bonds and notes being exchanged for current income bonds are earning 6% at the time they are exchanged. The level interest rate on the Series HH bonds will permit bondowners to continue earning at the 6% rate, rather than dropping back initially to a lower yield.

Q. Is there a difference between Series HH Bonds purchased in exchange for accrual bonds and notes and HH Bonds purchased for cash?

A. Yes. Bonds issued on exchange are excluded from the annual purchase limitation and they may carry a notation that the purchase price includes accrued interest on the bonds or notes exchanged. They can also be redeemed at face value at any time after six months from the issue date. This insures a 6% return on the Bonds through each semiannual interest period.

Bonds purchased for cash are subject to the annual purchase limitation. They can be redeemed at any time after six months from the issue date; however, they will be paid at less than the face amount if redeemed before maturity (10 years). The discount will constitute an interest penalty that will reduce the overall yield on the bonds.

Q. Why are HH Bonds purchased for cash subject to an interest penalty for redemption before maturity?

A. The interest rate on Savings Bonds has always been graduated to discourage early redemption. In the case of H Bonds, this was accomplished by adjusting the interest payments. In the case of Series HH Bonds, interest payments will be a level 6%, so the interest adjustment for early redemption will be made when the bonds are cashed.

Without the penalty HH bonds could be used by investors to obtain a safe 6% interest return for as short a period as six months, which would be unfair to similar forms of savings offered by financial institutions.

The interest penalty will not be applied to HH Bonds issued in exchange for other savings bonds and notes because those securities have generally been held for a number of years and are earning 6% when exchanged. The HH Bonds are considered to be a continuation of the original investment in savings bonds and notes and the yield will not be reduced if they are redeemed before maturity.

Q. How do I report interest earned on HH Bonds for income tax purposes?

A. Interest must be reported each year as it is paid, in the same way interest on Series H bonds or bank deposits is reported.

Q. When I buy HH Bonds in exchange for E or EE Bonds or savings notes, must I report the accrued interest on the E or EE Bonds or notes, if I have deferred reporting the amount on my Federal income tax returns?

A. No. If the HH Bond is bought in exchange for E or EE Bonds or savings notes, the owner can continue to defer reporting the accrued interest on those bonds or notes for tax purposes until the HH Bonds finally mature, are redeemed, or are otherwise disposed of.

Q. When and where can I buy the new Series HH bonds?

A. Series HH bonds will be sold beginning January 2, 1980, by Federal Reserve Banks and Branches and by the Bureau of the Public Debt. Applications may be submitted in person or by mail. Most banks and other financial institutions which now issue Series E bonds will also forward Series HH bond applications to the Federal Reserve Banks for issue.

COMPARISON OF TERMS AND CONDITIONS OF SERIES H AND SERIES HH CURRENT INCOME-TYPE SAVINGS BONDS

	Series H Bonds	Series HH Bonds
Offering Date	Terminate December 31, 1979	Begin January 2, 1980
Denominations	$500, $1,000, $5,000, $10,000	Same
Issue Price	Face Amount	Same
Maturity	10 years with guaranteed 10-year extension	10 years
Interest	Payable semiannually by check	Same
Yield Curve	4.2% first 6 months, 5.8% next 4½ years, 6.5% final 5 years to yield 6% if held to maturity. During extension, uniform payments based on rate prevailing when bond enters extended maturity.	Payments based on 6% level rate, however, bonds sold for cash will have an interest penalty applied against redemption value, if redeemed prior to maturity. Bonds issued on exchange will not be penalized for early redemption.
Retention Period	Redeemable any time after 6 months from issue date.	Same
Annual Limitation	$10,000 face amount	$20,000 face amount
Tax Status	Interest is subject to Federal income tax reporting in year it is paid. Bonds subject to estate, inheritance and gift taxes - Federal and state - but exempt from all other state and local taxes.	Same
Registration	In names of individuals in single, coownership or beneficiary form; in names of fiduciaries or organizations in single ownership only.	Same
Transferability	Not eligible for transfer or pledge as collateral.	Same
Rights of Owners	Coownership: either owner may redeem; both must join reissue request. Beneficiary: only owner may redeem during lifetime; both must join reissue request.	Coownership: same. Beneficiary: same except that consent of beneficiary to reissue not required.
Exchange Privilege	Issuable on exchange from Series E bonds and savings notes, in multiples of $500, with continued tax deferral privilege.	Issuable on exchange from Series E, EE, and savings notes, in multiples of $500, with continued tax deferral privilege.

EXCHANGE OFFERING

Q. The Treasury is withdrawing the present Series E for Series H exchange offering as of December 31, 1979 and introducing a new exchange offering on January 2, 1980. Will there be any differences between the two offerings?

A. The present offering allows you to exchange Series E bonds and savings notes (Freedom Shares) for Series H bonds. The new offering will permit you to exchange Series E bonds (until one year after final maturity), Series EE bonds and savings notes for Series HH bonds. Otherwise, the two offerings are the same. The new exchange offering will carry the same tax-deferral privilege as the present exchange. See the chart on page EX-5 for a comparison of the terms and conditions of the current and new exchange offering.

Q. Can you explain what the tax-deferral privilege means?

A. At the time you exchange securities for the new Series HH, you may choose to continue deferring the reporting of interest earned on the E and EE bonds or savings notes for Federal income tax purposes. The amount of deferred interest will be entered on the face of the new HH bond. When the Series HH bond is cashed or finally matures, you must report the amount of deferred tax on your Federal income tax return for that year.

The tax-deferral privilege only applies to interest earned on Series E and EE bonds and savings notes. You must report each year for Federal income tax purposes, the amount of interest earned in that year on Series H and HH bonds.

Q. Is there any limitation on the amount of Series E and EE bonds and savings notes that can be exchanged for Series HH.

A. The redemption value of the securities being exchanged must equal at least $500 (the minimum denomination for Series HH). Beyond that, there is no limitation.

Q. Can I use a combination of bonds and notes to exchange for a Series HH bond?

A. Yes. As long as all of the securities are still eligible for exchange, you may use any combination of Series E and EE bonds and savings notes to purchase a Series HH bond.

Q. If the total redemption value of my Series E and EE bonds and savings notes is almost $1,000, can I pay the difference in cash to purchase a $1,000 Series HH bond?

A. Yes. You may add cash to the value of your accrual bonds or notes to purchase HH Bonds, but the amount of cash must be less than $500. To buy a $1,000 HH Bond on exchange, for example, your accrual bonds and notes must be worth more than $500; to buy $2,500 in HH Bonds, the value of the bonds and notes surrendered must exceed $2,000.

Q. I have Series E bonds maturing in May 1981. Can I wait until I retire in 1983 to exchange them for Series HH bonds?

A. No. If you wish to exchange your E bonds, you must do it no later than one year after maturity -- for your bonds that would be May 1982. You may, of course, still redeem your E bonds for cash after that time, but they will not earn interest after their maturity date, May 1981.

Q. Can I exchange the Series H Bonds for new Series HH Bonds?

A. No.

Q. Can I exchange Series E bonds or savings notes (Freedom Shares) for the new Series EE bonds?

A. No.

Q. Where can I exchange E Bonds for H or HH Bonds?

A. At Federal Reserve Banks or Branches or at the Bureau of the Public Debt, Washington, D. C. 20226. This may be done by mail or in person. Commercial banks cannot sell H or HH Bonds, but they may help their customers prepare the exchange applications and forward them to a Federal Reserve Bank.

Q. The present E and H Bonds will continue to be sold through 1979. Under what conditions can E Bonds be exchanged for H Bonds?

A. Until December 31, 1979, E Bonds can be exchanged for H Bonds, and the purchaser can defer reporting the E Bond interest for Federal income tax purposes until the H bonds are redeemed or finally mature. The purchaser must, of course, report interest earned on H bonds for tax purposes in the year in which the interest is paid.

COMPARISON OF THE TERMS AND CONDITIONS OF CURRENT INCOME BOND EXCHANGE OFFERINGS

	Series H Exchange	Series HH Exchange
Offering Date	Terminate December 31, 1979	Begin January 2, 1980
Eligible Securities	Series E Bonds and Savings Notes, singly or in combination.	Series E Bonds, Savings Notes, and Series EE Bonds, singly or in combination; E Bonds must be received no later than one year following their final maturity date.
Minimum Amount	$500 current redemption value of accrual-type securities	Same
Annual Purchase Limitation	Exempt	Same
Exchange Security	Series H Bonds including all terms and conditions thereof.	Series HH Bonds, including all terms and conditions thereof except that bonds redeemed prior to maturity will not be subject to the interest penalty.
Eligible Owners	Registered owners, coowners and persons entitled as surviving beneficiaries or next of kin or legatees of deceased owners.	Same
Tax Treatment	Accrued interest on retired securities may be (1) reported on Federal income tax return for year of exchange (or maturity, if earlier), or (2) deferred to the taxable year in which the current income bonds are redeemed, disposed of or mature. Amount of deferred accruals will be shown on face of new bonds.	Same
Registration of Bonds Issued on Exchange	Tax deferred: New bonds will be in name of owner and in same forms as securities submitted except that principal coowner, as defined in Circular, may change, add or eliminate coowner or beneficiary. Non-tax deferred: Any authorized form.	Same
Cash Adjustments	If securities submitted for exchange have current value which is not an even multiple of $500, subscriber may add cash to reach next highest multiple or receive payment of amount in excess of next lower multiple. In the latter case, amount of refund must be reported currently for Federal income tax purposes.	Same

EXTENSIONS, E AND H BONDS, SAVINGS NOTES

Q. Series E Savings Bonds bought between May 1941 and April 1952 will reach final maturity -- after 40 years -- between May 1981 and April 1992. How many Savings Bonds are we talking about?

A. Of the 1.4 billion E Bonds bought during those 11 years, about 45 million are still outstanding. This is about 3% of the bonds that were issued between May 1941 and April 1952.

Q. Will Savings Bonds and Savings Notes bought after May 1952 receive another extension to final maturity?

A. All outstanding E Bonds sold after May 1, 1952 will receive another 10-year extension.

All outstanding H bonds bought after June 1959 will receive another 10-year extension. H Bonds bought earlier than June 1959 will not be extended beyond their present second 10-year extension.

All Savings Notes (Freedom Shares) will receive another 10-year extension.

SERIES E EXTENDED MATURITIES

Date of Issue	Date of Maturity (including new extension)	Life of Bond
May 1941-Apr. 1952	May 1981-Apr. 1992	40 years
May 1952-Jan. 1957	Jan. 1992-Sept. 1996	39 years, 8 mos.
Feb. 1957-May 1959	Jan. 1996-Apr. 1998	38 years, 11 mos.
June 1959-Nov. 1965	Mar. 1997-Aug. 2003	37 years, 9 mos.
Dec. 1965-May 1969	Dec. 1992-May 1996	27 years
June 1969-Nov. 1973	Apr. 1995-Sept. 1999	25 years, 10 mos.
Dec. 1973-Dec. 1979	Dec. 1998-Dec. 2004	25 years

SERIES H EXTENDED MATURITIES

Date of Issue	Date of Maturity (including new extension)	Life of Bond
June 1952-Jan. 1957	Feb. 1982-Sept. 1986	29 years, 8 mos.
Feb. 1957-May 1959	Feb. 1987-May 1989	30 years
June 1959-Dec. 1979	June 1989-Dec. 2009	30 years

SAVINGS NOTES EXTENDED MATURITIES

Date of Issue	Date of Maturity (including new extension)	Life of Note
May 1967-Oct. 1970	Nov. 1991-Apr. 1995	24 years, 6 mos.

Q. For example -- I bought E bonds in 1967. Will I have to cash them in, or will they stop earning interest in 1980?

A. No. Although the Series E bonds will be taken off sale on December 31, 1979, your E-1967 bonds have a guaranteed extension to 1994. See the chart on page EXT-2 for the guaranteed lifetime of all E bonds.

Q. Is there any advantage to holding Series E or H bonds beyond their final maturity dates?

A. No. Series E bonds will be eligible for exchange for Series HH bonds until one year after the final maturity date of the E bonds. However, this provision was made as a convenience to bondowners. There is no financial benefit to holding bonds beyond maturity since the bonds cease to earn interest as of the maturity date and interest is reportable for Federal income tax purposes in the year in which the bonds mature, even if the bonds are not redeemed.

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

FOR IMMEDIATE RELEASE
January 8, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES FINAL COUNTERVAILING DUTY DETERMINATION ON OPTIC LIQUID LEVEL SENSING SYSTEMS FROM CANADA

The Treasury Department today announced its final determination that Honeywell, Ltd., receives benefits that constitute a subsidy on optic liquid level sensing systems exported from Canada.

(Optic liquid level sensing systems are used primarily in the petroleum industry to prevent the overfilling of storage tanks and oil delivery trucks.)

The countervailing duty law requires the Secretary of the Treasury to collect an additional duty equal to any "bounty or grant" paid on merchandise exported to the United States. An affirmative "Preliminary Countervailing Duty Determination" was published in the Federal Register on June 13, 1978.

The Treasury Department determined that a portion of the grants made to Honeywell, Ltd., by the Canadian Government under its Program for the Advancement of Industrial Technology (PAIT) constituted a subsidy that contributed to Honeywell's ability to introduce the optic liquid level sensing system commercially.

The investigation revealed that the funds in question were used between 1975 and 1977 to finance commercial-feasibility studies, prototype production, and the adaptation of prototype production to full-scale production. Honeywell had previously developed the concepts for such a device and had applied in 1973 for a patent covering its essential components.

In view of this, it was determined that the funding provided by PAIT constituted a subsidy on the production and export of this product.

This determination does not address the question of how government-assisted research and development of a more general nature and more remote from commercial production would be treated under the countervailing duty law. The ad valorem subsidy in this case was calculated at 9 percent of the dutiable value of the imports.

Notice of the action was published in the Federal Register of January 8, 1979.

No public statistics regarding imports of optic liquid level sensing systems manufactured by Honeywell, Ltd., are available.

B-1337

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

FOR RELEASE AT 4:00 P.M. January 9, 1979

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 January 18, 1979. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,709 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated October 19, 1978, and to mature April 19, 1979 (CUSIP No. 912793 X9 2), originally issued in the amount of $3,394 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $2,900 million to be dated January 18, 1979, and to mature July 19, 1979 (CUSIP No. 912793 2C 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 18, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,413 million of the maturing bills. 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, January 15, 1979. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-1338

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 18, 1979, in cash or other immediately available funds or in Treasury bills maturing January 18, 1979. 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, 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 IMMEDIATE RELEASE
January 10, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY TO IMPOSE COUNTERVAILING DUTY ON CERTAIN BICYCLE TIRES AND TUBES FROM KOREA

The Treasury Department today issued a final determination that the Republic of Korea is subsidizing exports of bicycle tires and tubes to the United States. As a result of the finding, Treasury will impose a countervailing duty on imports manufactured by one company, Korea Inoue Kasel. The subsidies received by the other Korean companies are de minimis, or so inconsequential in size that they do not warrant the assessment of countervailing duties.

(The Countervailing Duty Law requires the Treasury to assess an additional customs duty equal to the amount of any subsidy paid on imported merchandise.)

A preliminary determination was issued in this case on July 28, 1978. The final determination was based upon all information provided since the preliminary action.

Notice of this action will appear in the Federal Register of January 12, 1979.

Imports of bicycle tires and tubes from the Republic of Korea amounted to $14.5 million during calendar year 1977.

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

FOR IMMEDIATE RELEASE: 10:00 a.m.
January 11, 1979

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES SWISS FRANC NOTE SALE

The Department of the Treasury today announced that on Wednesday, January 17, 1979, it will offer notes denominated in Swiss francs in an aggregate amount of approximately 2.0 billion SF.

The notes will have maturities of two and one-half years and four years and will be allocated between those maturities at the discretion of the Treasury. This offering represents the first SF-denominated borrowing pursuant to the joint Treasury and Federal Reserve Board announcement on November 1, 1978, concerning measures to strengthen the dollar. On December 12, 1978, the Treasury offered notes in Germany denominated in Deutsche marks totaling approximately 3.0 billion DM.

The notes are being offered exclusively to, and may be owned only by, Swiss residents. The notes, which are non transferable, will be registered with the Swiss National Bank.

The offering will be made exclusively in Switzerland through the Swiss National Bank (Swiss Central Bank) acting as agent on behalf of the United States. The price and the interest rates for both the two and one-half year and four year notes will be determined and announced no later than 5:00 p.m. Zurich time on January 16, 1979. Subscriptions will be received by the Swiss National Bank in Zurich until 12:00 Noon on January 18. For each maturity, subscriptions must be for amounts of 500,000 SF or multiples thereof. Payment for and issuance of the notes will be on January 26, 1979. They will not be listed, and it is not expected that prices of the notes will be publicly quoted.

Under the Double Taxation Agreement between the Swiss Confederation and the United States of America, individuals who are residents in Switzerland and Swiss corporations within the meaning of this Agreement are subject to a 5 percent withholding tax on interest income payable under U. S. law.

The purpose of the borrowing is to raise a portion of foreign currencies which the Treasury and the Federal Reserve System are mobilizing to support intervention by the United States in the foreign exchange markets as announced on November 1.

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

FOR IMMEDIATE RELEASE
January 11, 1979

Contact: Alvin M. Hattal
202/566-8381

UNITED STATES AND NIGERIA TO DISCUSS INCOME TAX TREATY

Representatives of the United States and Nigeria will meet in Washington in late January to begin discussions on a new income tax treaty between the two countries, the Treasury Department announced today.

The current treaty between the United States and Nigeria (as a result of the 1959 extension of the United States/United Kingdom income tax treaty of 1945 to Nigeria) is being terminated by Nigeria, effective January 1, 1979, for United States tax purposes and April 1, 1979, for Nigerian tax purposes.

The proposed treaty is intended to prevent double taxation and to facilitate trade and investment between the two countries. It will be concerned with the taxation of income from business, investment, and personal services and with procedures for administering the provisions of the treaty.

The new treaty is expected to take into account the 1977 Model Income Tax Convention of the Organization for Economic Cooperation and Development, the May 17, 1977, United States model income tax convention, and recent treaties entered into by the United States.

The Treasury Department invited comments or suggestions concerning the forthcoming discussions. They should be in writing and be submitted as soon as possible to H. David Rosenbloom, International Tax Counsel, Room 3064, Treasury Department, Washington, D. C. 20220. Since the negotiations are likely to take some time, even those comments received after the late January meetings will be considered.

This notice will appear in the Federal Register of January 16, 1978.

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

FOR IMMEDIATE RELEASE

REMARKS OF THE HONORABLE ANTHONY M. SOLOMON
UNDER SECRETARY FOR MONETARY AFFAIRS
UNITED STATES TREASURY
AT THE ROYAL INSTITUTE OF INTERNATIONAL AFFAIRS
LONDON
JANUARY 12, 1979

The Evolving International Monetary System

Much of the past year was characterized by major international monetary unrest. Continuing large payments imbalances among the industrial countries were accompanied by serious exchange market disorders which ultimately required forceful and internationally coordinated counteraction. These disturbances have given rise to a widespread feeling that our monetary mechanisms are not working as well as they should. Various ideas for change have been advanced. The year also saw major modification of the formal structure of the monetary system, with implementation of amended IMF Articles of Agreement and the move toward new monetary arrangements within the European Community. The new IMF provisions, and the Community's efforts to develop closer monetary cooperation and greater economic stability, offer substantial promise for a more smoothly operating international monetary system in the future.

Today I would like to discuss these developments and suggest some implications for the future evolution of the system.

My starting point is an appreciation that the international economic imbalances and tensions of today stem in large part from the successes of the post World War II decision -- a brilliant and far-reaching decision -- to work toward creation of an open and liberal system of international trade and payments. Catalyzed by progressive trade liberalization and lubricated by international capital flows, the post-war global economy brought rapid and sustained increases in the wealth and living standards of the industrialized countries

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and progress in the developing countries. A further result of movement toward an open system of trade and capital was an increasing and unprecedented degree of international economic interdependence, particularly among the industrial countries, whose industrial and agricultural structures are now heavily dependent on sources and markets abroad. And this increasingly complicates management of the system.

Toward the end of the 1960's and during the 1970's, the great post war record of growth, employment and prosperity ran into trouble. We are all too familiar with the acceleration of inflation as the United States escalated and poured more resources into the Vietnam War; with the shocks to the system associated with the multilateral exchange rate realignments of the early 1970's; with the simultaneous boom in the industrial countries feeding rapid increases in commodity prices worldwide; with the oil embargo and massive increases in oil prices of 1973/74; and with severe world recession of 1974-75.

We have been living for much of this decade not only with destructively high levels of inflation worldwide but with sharply divergent rates of inflation and real growth among the industrial countries. Because of the major reduction of trade barriers and the greater ease with which capital can move across international boundaries, differences among the industrial countries in growth and inflation can now have not only a much larger potential effect, but also a much more immediate effect, on the direction and magnitude of trade and financial flows -- and on the exchange markets. Our greatly increased interdependence has brought all of us greater wealth and a higher standard of living than would have been possible otherwise. But these gains have not been without some cost. We have had to pay a price -- we are all far more vulnerable now than in the past to developments abroad and to the operations of the international economic system.

The developments of 1978 pointed up this vulnerability with great clarity, and posed challenges in two closely related but distinguishable areas. First, we should consider whether changes in our existing monetary arrangements are practical and desirable. Second, and more fundamentally, we must develop better ways of bringing our economic policies and performance into greater harmony, in an effort to reduce or avoid the internationally disruptive impacts of sharp divergences in domestic economic performance.

The international monetary system, and the exchange market in particular, is a principal focal point for the pressures arising from our interdependent world economy. Understandably, international monetary arrangements have also become a focal point for proposals to alleviate those pressures. Some have proposed that targets or zones for exchange rates be established and pursued by monetary authorities. Others have proposed limitations on international capital flows as a means of attaining greater monetary and exchange rate stability. Still others see the major role of the dollar in international reserves as a principal source of international monetary difficulty and have suggested that steps be taken to reduce the reserve role of the dollar. Let me comment on these three separate but not necessarily independent questions.

Exchange market developments over the past year or so have unquestionably posed serious problems. We have seen that when there is uncertainty about the validity of basic economic policies of major countries, the exchange markets, left to themselves, can generate a psychological atmosphere in which rates may be carried beyond what can be justified by any objective standard. But does that fact -- and I believe it is widely accepted as a fact -- mean that the world now can or should move to a much more highly structured set of arrangements for exchange market intervention?

In the case of the United States, the decline of the dollar under disturbed and disorderly conditions last fall threatened to undermine our anti-inflation efforts and to damage the climate for sustained investment and growth in the U.S. and abroad. Our action on November 1, jointly with Germany, Japan and Switzerland, to embark on a major program of coordinated intervention, was specifically a response to what was and had been happening in the exchange markets. But in order to be successful, that response had to fit into a broader context -- a context composed of comprehensive U.S. policy measures to correct its domestic economic problems, and clear prospects for a very strong improvement in the U.S. external position between 1978 and 1979.

The United States is now acting forcefully to deal with its inflation problem. Fiscal policy has turned decisively toward restraint. As will be affirmed in the next few days, the President is tightening even further in the fiscal 1980 budget, with a deficit of under $30 billion or barely more than 1 percent of GNP -- which compares with deficits currently averaging about 4½ percent of GNP in the other major industrial countries. Monetary policy is complementing fiscal restraint, as evidenced by a further pronounced rise in interest rates and welcome slowdown in growth of the principal monetary aggregates. And these measures of demand restraint are being supplemented importantly by wage and price standards, which are gaining a broad measure of support and compliance on the part of the American people.

We anticipate a very sharp improvement in the U.S. current account position between 1978 and 1979. It will reflect the combined consequences of a number of factors, including our rapidly improving export performance, implementation of our energy program and slower growth in the United States coupled with faster growth abroad. Even with the recently announced oil price increase, we expect the deficit to be reduced very substantially in 1979.

We recognize that our inflation problem is destructive to our domestic performance and objectives as well as to our external position. That problem did not arise overnight, and it cannot be solved easily or painlessly. But overcoming it is the policy of the United States Government, and the President is determined to persevere and to succeed.

We were encouraged by the initial response to the November 1 program, and we are encouraged by the better balance in the markets that has emerged lately. We believe that program will provide a framework of greater stability and order, in which the markets can react positively to the strengthening of the underlying U.S. position. In implementing the international aspects of the program, we have greatly intensified and deepened our consultations on exchange market policy and operations with the other countries involved. This process has been of great value to us in analyzing and assessing exchange market developments, and we look toward a continuation of the close consultations and cooperation that have been engendered by this effort.

But important as that cooperative initiative was, we knew that our intervention efforts could succeed only if underlying conditions were moving in our favor, and if we had the policies in place to assure they would continue to move in our favor. Our judgment was that a bandwagon effect was depressing the dollar excessively, well out of line with fundamental economic factors and without regard to the fact that policies were in place to bring about a basic improvement in our position. Timing was essential, and I do not believe the intervention program would have been warranted or successful if those pre-conditions had not been met.

In short, large scale intervention can be useful and effective under circumstances of serious disorder, when the basic requirements for greater stability have been met. But it would be a mistake to interpret the November 1 program as a departure from a policy of permitting exchange rates to reflect fundamental factors in different economies -- rates were not reflecting such factors. The November 1 initiative does not imply that such intervention can succeed in holding exchange rates against fundamental trends or that efforts to do so would be desirable. Rather, the experience of the past several months reinforces our view that appropriate economic and financial policies must be in place if there is to be meaningful and lasting stability in exchange markets. And I believe that is a view that is fully appreciated and, indeed, frequently expressed, by participants in the exchange markets themselves.

Second, the potential for very large international capital flows, with their important implications for exchange rate movements, has led some to feel that greater official control over capital flows could provide a useful technique of exchange market stabilization. Our own experience in the United States with capital controls in the 1960's and early 1970's does not provide any assurance that controls would offer a feasible approach. Moreover, it seems to me to be an approach that removes a critical element of the foundation of our open and interdependent global system, and that could erode the tangible economic gains that have been achieved over the past decade. Finally, it is an approach that assumes capital flows should not be permitted to influence exchange rates -- that only the movement of real goods and services should affect rates. I have great difficulty in accepting this idea.

I do feel that steps can be taken to expand and improve information about world money markets, and perhaps to strengthen official influence over those markets. Considera- tion can usefully be given to whether steps might be taken to bring banks operating in the Euromarkets more completely and explicitly under the regulations and supervision of national banking authorities. There is, I know, a feeling on the part of some that the Euromarket is unanchored and unregulated. This is a considerable exaggeration. For example, branches of U.S. banks operating abroad -- a substantial component of the Eurocurrency market -- are subject to U.S. reporting requirements and bank examination procedures, as are domestic operations of U.S. banks. Moreover, the BIS is currently working to expand and improve its reporting arrangements and data collection in an effort to provide a basis for more complete understanding of the Euromarkets. But there may well be further steps that could be taken to strengthen bank supervision and mitigate the impression that the market has explosive potential.

Finally, there is a view that the reserve role of the dollar, and the very large volume of foreign official holdings of dollars, constitute an important source of instability in the international monetary system. This view has led to various proposals -- for funding or consolidating dollar balances, for an increasing role in the system for the SDR, and possibly for a European currency unit or for greater use in reserves of other national currencies such as the Deutsche mark and Japanese yen.

I personally have some doubts that the existence of foreign-held dollar balances, official or private, represents the major part of the problems and instability which have affected the dollar. Certainly sudden changes in the level of these balances can and at times do add to pressures in the exchange markets, but there is ample scope for capital movements and exchange market pressures quite independent of the existing stock of foreign balances. While moves toward funding or consolidation of foreign official dollar balances might have some positive impact, it seems to me that they are not the root cause of exchange market disorder or dollar instability.

Let me make clear that the United States has no interest in artificially perpetuating a particular international role for the dollar. The dollar's present role is itself the product of an evolutionary process. We would expect the dollar's role to continue to evolve with economic and financial developments in the world economy, and a relative reduction in that role in the future could be a natural consequence.

At this juncture, it is difficult to predict just what evolutionary changes may take place in the years ahead, though we can foresee certain possibilities. Certainly we would expect the SDR to take on a growing role in the system. The world has recently taken important steps to increase the role of this internationally created asset, by widening the scope of operations in which it can be used, by strengthening its financial characteristics, and by the decision to resume allocations of SDR after a period of seven years in which no allocations were made. We in the United States have great hope for the progress of the SDR. As experience with the asset accumulates, as allocations continue over a period of time, and as the usability of the instrument increases, we believe it will fulfill the promise which its creators foresaw and play and increasingly more valuable role.

Another possibility is that certain national currencies will play an increasing role. Indeed an expansion of the reserve roles of the Deutsche mark and Japanese yen has occurred over the past decade in both absolute and relative terms. I would note that the authorities of other countries have generally tended to discourage use of their currencies as reserves, largely because of concern about the implications for domestic money supply and a fear that domestic financial management will be made more difficult. Whether such attitudes persist will presumably have an important bearing on future developments, as will questions of size and accessibility of non-dollar capital markets.

A new possibility for international monetary evolution is posed by the EC's current efforts in the interntional monetary area. At least in the initial phase, the focus of these efforts is principally on arrangements for intervention and settlement among participating EC countries. However, there is the possibility that in time a European currency unit may develop as a reserve instrument of broader interest and use.

We are prepared to consider with an open mind these and possibly other ideas for evolution of the reserve system. Such ideas may offer potential for a reduction in the relative role of the dollar, and that prospect is not in itself troublesome to the United States. We do not live in a static world, and we must adjust to changing circumstances. We will not resist change, but rather will be concerned to insure that any change be an improvement and that it be accomplished smoothly and in a manner which strengthens our open international trade and payments system.

In each of these aspects of our international monetary arrangements -- the exchange rate system, the international capital markets, the reserve system -- the United States is fully prepared to cooperate with others to consider where improvements might be possible. But I do not believe that possible action in any of these areas -- or indeed in all of them -- will solve the fundamental problems facing the system. As I see it, the basic problem is a different one: how to coordinate better the economic performance of the major countries, to reduce inflation rates and inflation differentials, and to manage domestic growth rates so as to bring about a better balance in global economic relations.

This is not a short-run problem but a continuing one. There is no magic, overnight solution, and the task of international policy coordination ultimately can raise highly sensitive issues of national sovereignty. Nonetheless, I believe it is the real task we have to address, if we are serious about maintaining our open system and about achieving greater stability in international economic relations.

We do not lack institutional opportunities for pushing ahead with this effort. The industrial countries meet regularly in various bodies of the OECD, and heads of state have met with increasing frequency to discuss common economic problems. Most recently, the IMF, in its new Articles of Agreement, has been given potentially important powers of surveillance over the operations of the international monetary system and the balance of payments adjustment process.

The basic problem facing the system is recognized clearly in the new IMF provisions on surveillance, which stress that the attainment of exchange market stability depends on development of underlying economic and financial stability in member countries. These provisions equip the IMF with major potential to address the problems of policy coordination with a view to achieving a more sustainable pattern of payments positions among its member nations and a more smoothly functioning international monetary system. The IMF's focus encompasses not only exchange rate policy, narrowly defined, but also domestic economic policies as they affect the balance of payments adjustment process. The IMF has enhanced capability to advise not only countries in balance of payments difficulty, but also countries in surplus, on the international implications of their policies and on approaches they might appropriately follow to correct their payments imbalances -- a symmetry of approach we believe is essential to an effectively functioning system.

Progress in implementing the IMF's new surveillance role has been cautious and deliberate. This is understandable, given the very short time these powers have existed. But we believe the time has come for the IMF to move more vigorously to fulfill its potential in this area, and we intend to support it in that effort. I have no doubt that the Fund's new provisions afford the international community a framework for policy coordination that can be made effective. The potential is there. The question is whether governments will permit -- indeed, help -- that potential to develop. If they are willing, the prospects for sustained monetary stability and maintenance of our open, interdependent system, are good.

We need, in effect, a new attitude -- a recognition that if nations want the benefits of an interdependent world with freedom of trade and payments, they must be prepared to give up some of the freedom they have enjoyed to manage their domestic economies without full consideration of the international environment. As part of an interdependent world economy, each country must accept greater responsibilities to exercise its economic management to coordinate better its policies and performance with those of other countries. Whatever the institutional arrangements, unless nations are prepared to accept these responsibilities of interdependence, they cannot expect to continue to receive its full benefits.

The potential role of the emerging European monetary arrangements should be viewed against broader evolution of the system. The European effort is inspired fundamentally by an objective of ultimate political and economic unification, and objective that is unlikely to be adopted on a global basis for many years to come. Against the background of that objective, the EC is making an ambitious and laudable move to make progress in many of the areas I have touched on today. Most importantly, participating EC nations are attempting to achieve meaningful economic policy coordination, in an effort to reduce imbalances within the Community and create conditions for greater exchange market stability.

The EC's efforts on a regional level can make a major contribution toward progress in the broader global effort to manage international economic interdependence, and we offer the EC every encouragement in attaining its objectives. We have asked only that Europe bear in mind the interests of non-members and of the broader system, particularly the critical need to develop the role of the IMF in the system. We have been assured that this will be the case.

In conclusion, I feel that the developments of the past year point clearly to the need for improvement in our international economic arrangements. We can and will consider with others whether improvements are possible and desirable in the more mechanical aspects of those arrangements. But improvements in our monetary mechanisms cannot solve the more fundamental problem facing the system, the need for governments to improve their international economic policy coordination out of recognition of their own self-interest in preserving our interdependent system. We believe this must be the focal point of our efforts and offers the only real prospect of lasting stability.

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

FOR IMMEDIATE RELEASE
January 12, 1979

Contact: Alvin M. Hattal
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TREASURY ANNOUNCES PRELIMINARY
COUNTERVAILING DUTY ACTIONS ON
TEXTILE PRODUCTS FROM FIVE COUNTRIES

The Treasury Department today announced its preliminary countervailing duty determinations that Malaysia, Mexico and Pakistan are subsidizing exports of textile mill products and men's and boys' apparel.

The countervailing duty law requires the Secretary of the Treasury to collect an additional duty equal to any subsidy on merchandise exported to the United States, once Treasury has made a final determination that a subsidy is indeed being granted. This final determination must be made no later than July 5, 1979.

Treasury's preliminary investigation, after the Amalgamated Clothing and Textile Workers' Union filed petitions in July 1978, disclosed a variety of subsidies subject to countervailing duties, including preferential financing arrangements and tax benefits for export enterprises. Some preliminary judgments were made in the absence of detailed information from the foreign governments concerned. Such information is necessary to reach a definitive decision about whether certain programs providing subsidies are used by that country's textile industry.

(MORE)

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Singapore was also found to be subsidizing its textile and apparel exports, but the amounts paid are so small that the assessment of countervailing duties would not be warranted.

Thailand was found not to be providing any benefits to its textile or apparel industry.

Notices of these actions will appear in the Federal Register of January 12, 1979.

Imports of 1977 of the subject merchandise from the five countries investigated were valued at about $220 million.

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FOR IMMEDIATE RELEASE
January 12, 1978

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT ANNOUNCES REVISED BASES
FOR THE DETERMINATION OF COUNTERVAILING DUTIES

The Treasury Department today said that it has revised the method by which it calculates countervailing duties on exports from countries rebating "turnover-type taxes" on exports. Turnover taxes are collected on each sale of an article as it passes through the various stages of the manufacturing process.

The amount of a subsidy granted under such a system will henceforth be determined by subtracting from the total rebates the estimated taxes paid by (1) the producers of the product and/or (2) any producers of components or other prior-stage producers on any components physically incorporated in the exported product or its packaging (making normal allowance for waste). No other taxes at prior stages of the production process will be accepted as an offset against an export rebate.

Treasury, having reviewed its June 1978 decision, has determined that the appropriate test is the one proposed by the United States in the multilateral trade negotiations for the proposed code on subsidies and countervailing duties.

The decision necessitates recalculation of the countervailing duty rates applicable to chain or parts thereof from Italy, certain textile and textile products from Colombia and India, and zinc, bottled green olives, and non-rubber footwear from Spain. Final determinations involving non-rubber footwear and leather wearing apparel from Argentina have been made pursuant to the revised method of computation. These will also be published next week.

Decisions on all pending cases in which comparable issues are being raised will be based on the standard adopted by the Treasury with respect to the treatment of indirect taxes rebated on the exported product.

A new rate of countervailing duty on imports of vitamin K from Spain also has been established. A final determination regarding vitamin K was published in the Federal Register of November 16, 1976 (41 FR 50419). Based on new information, the Treasury Department has determined that the amount of the subsidy being paid on the manufacture, production, or exportation of vitamin K from Spain was overestimated. A new, lower duty rate

B-1344 (MORE)

of 3.07 percent *ad valorem* will now be assessed, rather than the earlier established duty of 10.5 percent.

As a result of these decisions, the following rates of countervailing duty will be applicable:

Country	Product	Old Rate	New Rate
Argentina	non-rubber footwear	not applicable	.86%
	leather wearing apparel	not applicable	no countervailing duty
Colombia	certain textiles and textile products	no countervailing duty	no countervailing duty
India	certain textiles and textile products	no countervailing duty	no countervailing duty
Italy	chains and parts thereof	15 lira/kg	6.88 lire/kg
Spain	unwrought zinc	1.29%	2.64%
	bottled olives	1.14%	2.44%
	non-rubber footwear	.91%	2.27%

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REMARKS BY THE HONORABLE
W. MICHAEL BLUMENTHAL
U.S. SECRETARY OF THE TREASURY
AT THE
ECONOMIC COUNCILS MEETING
DEPARTMENT OF STATE
JANUARY 15, 1979

I am extremely pleased to be here today before this unprecedented gathering of American business leaders representing the promise of our new economic ties with China and our continuing economic ties with Taiwan.

It is particularly important to meet with you now. At this historic time in our relationship with China, when we have normalized our political relationship, we now have the equally challenging task of normalizing our economic relationship. You have all heard Secretary Vance's description of how these events unfolded and what it means to us politically. It is our task -- yours as businessmen and mine as a government official -- to complete this process on the economic front.

China's ambitious economic goals to spur modernization, and her recent liberalization of foreign trade and finance policies have marked an "opening to the West" which has invited Western governments and private industry alike to take advantage of its numerous commercial opportunities. We have gotten off to a late start in this game, but we now have the opportunity at least to begin making up lost ground.

Obviously we still have many obstacles to overcome. A normal economic relationship between China and the United States is hindered by such issues as the claims/assets problem, and absence of MFN and credit facilities. In the coming weeks and months we will be addressing the entire range of our bilateral economic relationship -- not only the issues I have just mentioned but other important issues, indeed the whole range of issues that form the basis of an economic relationship between two nations.

These questions involve a whole host of complicated legal and legislative issues. The settlement of the claims issue in particular will require some time and careful consultation with the Congress as well as the Chinese. Our goal is to accomplish appropriate compensation for our claimants. This will take time and will require patience. Nevertheless, I am encouraged by the responses I have met so far and am optimistic of the eventual outcome.

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In striving for the normalization of trade with China, the Administration realizes the need for balance in its relations with others. The present legislation that governs the granting of Most Favorite Nation status to all nations must be applied evenhandedly; we cannot afford to improve relations with one trading partner at the expense of a deterioration of relations with another. The United States needs to expand its exports to all countries. We are striving to reduce our balance of payments deficit and to fortify the U.S. dollar. And to this end, we need your help. The American business community needs trade; the Carter Administration wants it. We can ill-afford to cast a blind-eye to the vast potential for exports provided by the Chinese, the Soviet, or any other market, as long as those exports take adequate account of our legitimate national concerns.

It is to expedite the development of an economic relationship with China -- as well as to participate in the first official exchange of ambassadors -- that President Carter has asked me to lead a delegation of our top finance and trade people to Peking in late February.

My trip is part of a comprehensive and coordinated effort. Vice Premier Teng visits the U.S. at the end of this month. In providing the opportunity to exchange preliminary views on our future economic relationship, his visit here will form the basis for my trip. Hopefully this will lead to substantial progress towards a claims/assets settlement and a dialogue on broader economic matters while I am in China. We would anticipate continuing this dialogue after my trip. Secretary Kreps, who will go to China in late April, will pick up the ball at that point, continuing and initiating new discussions on trade and commercial matters.

While moving forward with our new economic ties with the People's Repulic of China, I want to assure you that our commercial commitments with Taiwan have had our highest priority. These are essential. The Administration's fundamental aim is to ensure continuity, stability and growth in these economic ties, which now encompass over $500 million of U.S. private direct investment and roughly $7 billion in two-way trade. The Presidential memorandum issued on December 30 provides for the continuation of all current programs, agreements and arrangements with Taiwan, and we will introduce legislation to make provision for the continuation of unofficial relations.

Taiwan is one of the most striking examples in the world today of successful rapid economic development. This very impressive growth has been achieved through the efforts of a strong private sector and enlightened official policies. Thus, as other important trading partners have shifted diplomatic recognition from Taipei to Peking, trade and other commercial relations with Taiwan have continued to flourish. There is every reason to expect economic relations between the U.S. and Taiwan will continue to expand.

We are entering a dramatic and exciting new era in our China relationship. The opportunity is before us to create new and vital economic ties with a China that is bent on entering the front ranks of the world's economic powers by the end of the century -- and at the same time expand our commercial ties with the prosperous and thriving economy of Taiwan. As long as we approach this opportunity realistically, work together and help each other in support of common goals, I am confident we will succeed.

Thank you.

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FOR IMMEDIATE RELEASE January 15, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,800 million of 13-week Treasury bills and for $2,900 million of 26-week Treasury bills, both series to be issued on January 18, 1979, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 19, 1979			26-week bills maturing July 19, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.631 a/	9.372%	9.73%	95.197	9.500%	10.12%
Low	97.616	9.431%	9.80%	95.173	9.548%	10.17%
Average	97.621	9.411%	9.77%	95.180	9.534%	10.16%

a/ Excepting 2 tenders totaling $415,000

Tenders at the low price for the 13-week bills were allotted 9%.
Tenders at the low price for the 26-week bills were allotted 37%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 37,070,000	$ 31,070,000	$ 24,455,000	$ 24,455,000
New York	4,643,160,000	2,423,510,000	5,094,220,000	2,640,170,000
Philadelphia	25,910,000	25,910,000	9,655,000	9,655,000
Cleveland	32,810,000	32,810,000	27,570,000	24,940,000
Richmond	33,095,000	28,095,000	19,320,000	19,320,000
Atlanta	33,460,000	33,460,000	28,390,000	28,390,000
Chicago	172,350,000	46,850,000	171,170,000	31,170,000
St. Louis	41,495,000	23,495,000	29,915,000	11,915,000
Minneapolis	3,945,000	3,945,000	3,700,000	3,700,000
Kansas City	29,755,000	29,755,000	24,445,000	24,445,000
Dallas	19,850,000	19,850,000	8,355,000	8,355,000
San Francisco	178,175,000	83,175,000	156,445,000	51,445,000
Treasury	18,425,000	18,425,000	22,420,000	22,420,000
TOTALS	$5,269,500,000	$2,800,350,000 b/	$5,620,060,000	$2,900,380,000 c/

b/Includes $ 477,510,000 noncompetitive tenders from the public.
c/Includes $ 297,690,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-1346

REAL WAGE INSURANCE - IN BRIEF

What is RWI?

Real wage insurance (RWI) is an innovative anti-inflation initiative which President Carter has proposed for enactment by the Congress.

RWI would strike directly at the wage-price spiral by encouraging widespread observance of the voluntary 7 percent pay standard announced by the President in October, 1978.

RWI would work like this: If you belong to an employee group that has an average pay increase of 7 percent or less, you would qualify for a tax credit equal to your 1979 employment earnings times the amount by which the 1979 inflation rate exceeds 7 percent. For instance: Assume that you belong to a complying group, that your 1979 earnings are $15,000, and that the 1979 inflation rate is 8 percent. You would receive an RWI tax credit of $150 -- $15,000 times 1 percent (i.e., 8 percent minus 7 percent). This credit would be shown on your Form W-2 and would serve either to reduce your tax payment or to increase your tax refund. The credit (like wages themselves) would be subject to income tax.

The proposal would cover inflation up to 10 percent, with the rate measured from October-November 1978 to October-November 1979, and would apply to the first $20,000 of your pay from an employer.

What is the Purpose of RWI?

RWI is not a general tax cut or a device for indexing the Tax Code to inflation. Inflation would actually be worsened by such proposals, for they would enlarge the budget deficit without encouraging wage restraint. The sole purpose of RWI is to encourage compliance with the 7 percent pay standard.

RWI would accomplish this by greatly reducing the risk that compliance would mean an erosion in real (i.e., inflation adjusted) incomes. Workers understandably seek high pay increases out of fear that inflation will be high. But high pay increases produce higher labor costs and thus guarantee the very increase in inflation that is feared. RWI is designed to help break this vicious cycle. With real wage insurance available, employee groups can limit their pay increases to 7 percent without risking the loss in real income that would otherwise occur if inflation exceeded 7 percent. RWI helps to protect workers who cooperate with the pay standard from the non-cooperation of others and from such other inflationary effects as abnormal food or energy price increases.

How Much will RWI Help in the Fight Against Inflation?

RWI will have its major impact on those employees who might otherwise secure pay increases over 7 percent, but have the ability to show restraint. If RWI helps to persuade 60 percent of these employees to comply with the 7 percent standard, the 1979 inflation rate would be reduced by about 1/2 of a percentage point.

How Much Will RWI Cost in Federal Revenues?

A key advantage of RWI is that its revenue cost is somewhat self-limiting: If many workers participate, that brings down the inflation rate and thus reduces the RWI payout; if few workers participate, the anti-inflation effect is small, but so also is the RWI payout.

The Administration forecasts participation by about 47 million workers and an inflation rate of 7.5 percent for the relevant period. This implies a revenue cost of $2.5 billion, which will be included in the Administration's January budget.

How Do I Qualify for RWI?

To qualify, you must belong to a qualified employee group. The 7 percent pay standard applies to average pay in employee groups, not to each individual's pay increase. Thus, the system does not impose penalties against hard work, merit increases, or promotions for individuals.

There will be four types of employee groups: (1) employees subject to collective bargaining agreements, (2) low-wage workers (i.e., $4 per hour or less), (3) managerial and supervisory employees, and (4) all others.

Your group would qualify for RWI if the average hourly pay within the group rose by 7 percent or less between the third quarter of 1978 and the third quarter of 1979. Average hourly pay includes taxable wages, plus 25 percent of bonuses or other irregular payments made in the preceding year, plus 25 percent of the employer's annual cost of improving fringe benefit programs. Your employer will make these computations and, if your group qualifies, the amount of your credit will appear on your W-2 Form.

If you are under a collective bargaining agreement, that defines your group. New agreements of more than 15 months' duration, negotiated between October 24, 1978 and October 1, 1979 will be assessed for qualification as of the date of settlement. The contract must conform to the 7 percent pay standard on average over its entire life, but the first year's increase can be as high as 8 percent and still qualify. COLA provisions in the contract will be costed out at an assumed 6 percent inflation rate.

The RWI program will not apply to the self-employed, to non-residents, or to employees who own 10 percent or more of their company's stock. Also, employers of 50 or fewer workers need not participate in the program.

REAL WAGE INSURANCE

Legislative Proposal

Real Wage Insurance (RWI) will give a tax credit to workers in groups receiving average pay increases of 7 percent or less, if inflation exceeds 7 percent in 1979. The tax credit is computed as a percentage of the first $20,000 of an employee's 1979 wages. This percentage is the number of percentage points, up to 3, by which inflation exceeds 7 percent.

I. Reasons for the Program

This proposal is an integral part of the anti-inflation effort. It supplements the President's initiatives to limit federal spending, cut the budget deficit, and reduce the economic burdens of regulations. These actions will create an environment in which a voluntary program of wage and price restraint can be effective and lasting.

The essential purpose of real wage insurance is to reinforce the voluntary pay standards by giving workers an additional incentive to accept average pay increases of 7 percent or less. In times of inflation, employees often believe that a large pay increase is their only defense against a steady erosion of real income. Yet, higher labor costs are quickly passed on in higher prices. The present inflation clearly reflects the momentum of price and wage increases that have become built into the economy in recent years. Slowing this inflationary momentum is the most important challenge of domestic economic policy.

Real wage insurance will help to break the cycle of inflation by assuring groups of workers that they can cooperate with the pay standard without the risk of being penalized by an acceleration of inflation -- from whatever source. This point deserves emphasis: Unlike other anti-inflation proposals that are often suggested, RWI hits at the core of the wage-price spiral. Everyone involved in that spiral knows that self-restraint will break the spiral -- _if_ most of us exercise that self-restraint. But no one wants to go first. If one employee group shows restraint, but others do not, that group knows it will be penalized -- its wages will be restrained, but prices generally will keep on rising. So everyone avoids restraint, even though everyone knows that this guarantees more inflation. RWI offers a sensible remedy for this general frustration of the general interest. RWI allows unions and other employee groups to take the first step toward wage restraint without risking adverse consequences if others do not similarly cooperate or if other inflationary events occur.

RWI is the natural and logical complement of a voluntary system of pay and price restraints. It rewards responsible voluntary behavior. A voluntary system, fortified by RWI, is far less intrusive and cumbersome and far more equitable than a system of mandatory controls.

Real wage insurance is not a general tax cut, nor a device to compensate all workers for the effects of inflation. It is an incentive for responsible pay behavior. To cut taxes or provide general inflation relief without a requirement of wage restraint would actually fuel inflation -- by adding to the budget deficit and by weakening employers' resolve to restrain costs.

Real wage insurance is the opposite of indexing. It is tax policy applied to retard inflation rather than to accommodate inflation.

This program can help to reduce inflation. Based on historical distributions of pay increases among various groups of workers one can predict that a large percentage of U.S. workers would receive pay increases in excess of 7 percent in 1979, in the absence of wage restraint. Many of these workers are not yet "locked-in" by continuing contracts or other mandated raises. If 60 percent of these are persuaded to accept 7 percent pay increases, the average increase in pay for the country will be reduced by about 0.7 percentage points in 1979. This moderation of pay increases will be passed through to reduce the rate of price increases for most items. Overall, the rate of price inflation (including food and fuel prices) will be reduced by 0.5 percentage points as compared to what it would have been in the absence of wage restraint. The pass-through of wage deceleration into prices is specifically required for compliance with the price standards and is shown by historical relationships to be a normal response.

II. General Explanation

The proposal is designed for effectiveness in moderating the rate of increase in labor costs. Effectiveness depends upon the link between wage performance and potential rewards. Every employee group (except those of small businesses choosing not to participate) is subject to a test of pay-rate increases. In the case of new collective bargaining agreements of more than 15 months' duration, this test is a prospective evaluation under the pay standard recently announced by the Council on Wage and Price Stability (CWPS). In other cases, an end-of-the-year calculation of the annual pay-rate increase will be made according to rules set forth below. In either instance, RWI is available to an employee group only if the average annual pay increase for the group is 7 percent or less.

The proposal combines effective incentives for wage restraint with limited budget exposure. The objectives of effectiveness and cost control are both served by insisting that groups must hold pay increases to 7 percent or less to receive wage insurance. A high rate of compliance will slow inflation; slower inflation will reduce, and may eliminate, the budget cost of real wage insurance. Budget risk is also reduced by limiting the amount of covered wages from any one job to $20,000 and by limiting the wage insurance rate to 3 percent, thereby protecting for inflation up to 10 percent. Such limitations are prudent, but not overly restrictive. The $20,000 limit will allow full coverage of wages for 88 percent of employees, and will provide coverage for 87 percent of total wages for qualified workers. Similarly, the 10 percent inflation limit will curtail payout of RWI only if inflation substantially exceeds the range of professional forecasts for 1979.

The rules for real wage insurance are designed for simplicity, to the extent possible, given other goals of the program and the variety of pay practices used by businesses. The amount of insurance is based entirely on pay as normally reported for tax purposes. The rate of credit is the same for everyone. RWI will add only one line to the individual Federal income tax return. Payment would be made through the regular process of Federal income tax refunds and payments.

Employers will divide their employees into groups and determine whether each employee group qualifies. The rules for grouping and for qualification generally follow the standards recently published by CWPS. However, the rules for real wage insurance are somewhat simpler and have fewer options and exceptions. The simplified rules are intended to hold down the number of calculations and records required of smaller businesses and to facilitate their verification (when necessary) by the IRS.

Employers will not be required to report computations of pay-rate increases to the government, although the employer's determination will be subject to verification by IRS. Small businesses with fewer than 50 employees may choose to refuse RWI and thus avoid any calculation of average pay increases.

Every member of every employee group meeting the test of a 7 percent or smaller pay increase is qualified for wage insurance whether or not the group is covered by the CWPS standards. In other words, even those groups automatically exempted from the CWPS standards (i.e., low-wage workers and workers under continuing contracts) are eligible for RWI. Groups of employees are disqualified only if they have wage increases above 7 percent, or they are employees in small businesses choosing not to participate, or they are in a position to set their own wages (such as owner-managers of corporations). To accommodate RWI to the collective bargaining process, special rules apply to collective bargaining agreements of more than 15 months' duration negotiated during the program year. These agreements are evaluated <u>as of the time of settlement</u> so that the parties may be assured in advance of RWI coverage. Average pay increases must be 7 percent or less over the life of the contract. For all other groups, qualification is determined as of the close of the program year.

A. <u>Computation of RWI Credit</u>

Employees who are members of qualifying employee groups will receive a tax credit if inflation exceeds 7 percent. The amount of this credit will be determined by multiplying the employee's 1979 earnings from qualified employment by the difference between the rate of inflation for the year and 7 percent. For example, if the rate of inflation in 1979 is 8.0 percent, the amount of RWI credit reported to an employee earning $10,000 of taxable wages in 1979 would be $100. The amount of wages qualified for wage insurance is limited to $20,000 from any one employer. The rate of credit is the same for all qualified persons.

The rate of inflation for the year will be measured as the percentage increase of the average Consumer Price Index (CPI) for October and November 1979 over the average CPI for October and November 1978. This measurement period covers calendar year 1979 as closely as possible while still allowing the government to announce the rate of RWI credit before the end of December 1979, in time for employers to prepare W-2 forms.

The rate of RWI credit will be limited to 3 percentage points of inflation. Thus, qualified workers will be insured against loss of real income due to inflation up to 10 percent in 1979.

The program may also be extended to a second year. The President must order the extension and may reduce the target inflation rate for the second year by Executive Order on or before December 1, 1979. Congress must then approve the Executive Order by Joint Resolution within 30 legislative days for the extention and new target rate to become effective. Special procedures will facilitate Congressional action by limiting the amount of time a committee may take to consider a joint resolution, after which it will be brought to the floor.

The RWI credit is intended to supplement wages for those groups foregoing wage increases above 7 percent. In general, the tax credit will be treated as if it were an additional wage payment and, consequently, will be subject to federal income tax as 1979 wages. However, RWI will not be subject to FICA or FUTA taxes.

B. Qualification

Any employee receiving a W-2 form for earnings in 1979 is potentially eligible for RWI. This includes government employees, domestic workers, and farm workers, but excludes the self-employed. The only specific exclusions are for wages reported by a company to an employee not a resident in the United States or to one who owns 10 percent or more of the company's stock. These latter earnings, like those of the self-employed, are often hard to distinguish from profits.

An individual obtains coverage by being a member of an employee unit that qualifies. This rule of group qualification is very important. Like the voluntary CWPS pay standard, the RWI program aims to restrain a company's average pay increases. If the 7 percent standard and RWI applied on an employee-by-employee basis, rather than a group basis, they would not have a beneficial impact on the economy. First, it is a company's average pay increase that affects its prices. If RWI operated on an individual basis, it would be available even where average pay increases exceeded the 7 percent standard. Thus, RWI would not act as an effective anti-inflation incentive for company-wide decisions about the pay of its various union and nonunion employee groups. Second, an individually based program would create perverse incentives. Individual employees would be encouraged to avoid promotions, overtime work, merit bonuses, and the like. That is, the program would stifle productivity. Third, an individually based program would interfere in complex ways with each company's pay system. By contrast, a group-based standard leaves each company and its employees free to allocate pay among workers in the most efficient and equitable manner.

The group standard also greatly simplifies the administration of the program. For each group, it is necessary only to divide pay by hours worked, information readily available to employers. An individually based program would require that pay-rate calculations be made for every job held by every worker in the economy -- about 140 million separate calculations.

Employees of a company will be divided into four types of employee units: (1) employees subject to collective bargaining agreements, (2) low-wage workers, (3) management and supervisory employees, and (4) all others. Employers will determine the qualification of each employee unit for RWI.

To determine qualification, employers perform the computations described below. These computations need not be reported to the IRS, but must be available for possible verification.

Step One: Separate employees into groups. The qualification of those under new collective bargaining agreements is determined contract-wide as of the time the contract is signed. All other groups are separately tested by the employer after the end of the Program Year (October 1978 - September 1979).

Collective bargaining units that sign new agreements of more than 15 months' duration after October 24, 1978 and before October 1, 1979 will qualify for RWI if annual pay increases under such agreements average 7 percent or less according to the rules for new collective bargaining agreements published by the Council on Wage and Price Stability

(CWPS). All employees covered by such agreements are qualified, wherever they work. Other employees in the same company whose pay maintains a historical tandem relationship with such agreements are also qualified. Qualification will be based upon the terms of the agreement evaluated prospectively as of the date of the agreement. Thus, for example, agreements that contain cost-of-living adjustments will not be subject to reevaluation if later events reveal an inflation rate different from the 6 percent rate specified in the CWPS rules for evaluating agreements.

Step Two: Compute base quarter pay rate. For each remaining group, the employer determines total taxable straight-time wages for employees in the group for the third calendar quarter in 1978. To this total amount is added 25 percent of bonuses and other irregular payments made during the base year (October 1, 1977 to September 30, 1978). The resulting sum is divided by the total straight-time hours for which employees are paid in the quarter. The result is the "base quarter pay rate."

Step Three: Compute program quarter pay rate. Next, the employer makes the same calculation for the third quarter 1979 including 25 percent of irregular payments in the program year. If there have been changes in the structure of benefit plans, such as for pensions, medical insurance, and educational assistance, 25 percent of the change in the annual cost of these benefits also is added to (or subtracted from) taxable wages in calculating the "program quarter pay rate." The benefit rule is necessary to avoid an obvious loophole -- the substitution of fringe benefits for cash wages. An employer may also adjust the program quarter pay rate for changes in hours of employment among establishments within the company.

Step Four: Determine qualification for RWI. If the program quarter pay rate for an employee group does not exceed its base quarter pay rate by more than 7 percent, the group qualifies for real wage insurance.

C. Payment of Real Wage Insurance

For each member of qualified groups, the employer will add the real wage insurance credit to other amounts reported as wages on the employee's Form W-2 and also report it in a separate space on that form. The Federal income tax return of an employee will have only one additional line -- for the amount of real wage insurance credit. This amount will

REAL WAGE INSURANCE

Technical Explanation

A. Coverage of Individuals

Wages reported to an employee on any W-2 form are covered, or not covered, depending upon whether the employee is a member of a qualified group with respect to those wages. A person who is paid wages by more than one employer during the year may be qualified for wages paid by some employers and not others. In every case, however, all wages reported to one employee by a single employer (up to the $20,000 limit) are either qualified or not qualified. Wages are not apportioned even if the employee changes duties within the company.

For purposes of determining coverage of wages for an individual, membership of an employee in a group depends upon the employee's position in the company on September 30, 1979. Group membership of an employee who leaves a company before that date is determined by the employee's position on the date of separation. (This rule applies even if the employee is rehired after September 30, 1979.) An employee first hired by the company after September 30, 1979 is classified according to the position for which that employee is hired.

Eligible persons include domestic workers and farm workers who receive a Form W-2 and employees of governments, whether or not withholding of income tax or social security is required. However, persons who own directly or indirectly 10 percent or more of the value of the stock of a company or who are not residents in the United States cannot qualify for RWI. The determination of status as a shareholder or a resident will be made as of the same dates that group membership is determined. It is the employer's responsibility to determine which employees are entitled to coverage.

B. Types of Employee Groups

As indicated above, each employee is assigned to one employee group and is entitled to coverage if that group qualifies. However, for purposes of determining qualification of groups other than low-wage groups, the employer need

either increase the taxpayer's refund or reduce taxes owed in the same way as amounts withheld. The full amount of refund will be paid even if it exceeds the employee's tax liability or if the employee has no tax liability. The RWI credit is included in taxable income, but this involves no change in tax return preparation because it is included by copying wage amounts from the W-2, as always.

Thus, real wage insurance involves a minimum amount of additional effort for the individual taxpayer and only one additional item for the IRS to check on an individual return. If inflation exceeds 7 percent, those qualified for RWI will receive RWI payments as part of the regular tax refund (or payment) procedure.

The degree of simplicity provided for the individual taxpayer can only be accomplished by specifying the wage limit as $20,000 for each qualified job of an employee. Other types of limitations, such as $20,000 of covered wages for each person, would require more lines on the tax forms and more computations for the taxpayer.

D. Small Employers

The cooperation of small businesses is important to the anti-inflation effort and most will find the offer of real wage insurance beneficial to them and to their employees. However, to avoid imposing additional burdens upon those with special recordkeeping problems, employers with 50 or fewer employees may choose not to participate in the RWI program (except to report RWI credits for union members under qualified new agreements). Employers choosing not to participate must clearly notify their employees of that intention.

III. Revenue Cost

The revenue cost of Real Wage Insurance will depend principally upon (1) the rate of compliance among employee groups and (2) the rate of inflation as measured by the change in CPI between October-November 1978 and October-November 1979. These factors are related. Higher compliance will result in reduced labor costs and a corresponding reduction in inflation. Thus, the cost of real wage insurance is partly self-limiting, since high compliance can reduce the payoff per qualified worker while low compliance reduces the amount of insured wages.

The Administration estimates a revenue cost of $2.5 billion for RWI in its FY 1980 budget. This is based on a forecast inflation rate of 7.5 percent for the relevant period and qualification for RWI by about 47 million employees. About 87 million employees would technically be eligible for RWI, but about 26 million of these will likely be disqualified because existing pay agreements or legal mandates assure them pay increases in excess of 7 percent. The $2.5 billion revenue estimate for RWI assumes that 47 million of the remaining 61 million employees, about three-fourths of them, will qualify.

Alternative assumptions are, of course, possible. For example: if all 61 million realistically eligible employees qualified for RWI, the forecast inflation rate would be 6.6 percent and there would be no revenue cost of RWI. If only about 40 percent of these employees qualified, the forecast inflation rate would be 8.0 percent, and the revenue cost of RWI would be $2.7 billion. Revenue cost estimates that associate very high participation rates with much higher inflation rates are very improbable.

REAL WAGE INSURANCE

Technical Explanation

A. Coverage of Individuals

Wages reported to an employee on any W-2 form are covered, or not covered, depending upon whether the employee is a member of a qualified group with respect to those wages. A person who is paid wages by more than one employer during the year may be qualified for wages paid by some employers and not others. In every case, however, all wages reported to one employee by a single employer (up to the $20,000 limit) are either qualified or not qualified. Wages are not apportioned even if the employee changes duties within the company.

For purposes of determining coverage of wages for an individual, membership of an employee in a group depends upon the employee's position in the company on September 30, 1979. Group membership of an employee who leaves a company before that date is determined by the employee's position on the date of separation. (This rule applies even if the employee is rehired after September 30, 1979.) An employee first hired by the company after September 30, 1979 is classified according to the position for which that employee is hired.

Eligible persons include domestic workers and farm workers who receive a Form W-2 and employees of governments, whether or not withholding of income tax or social security is required. However, persons who own directly or indirectly 10 percent or more of the value of the stock of a company or who are not residents in the United States cannot qualify for RWI. The determination of status as a shareholder or a resident will be made as of the same dates that group membership is determined. It is the employer's responsibility to determine which employees are entitled to coverage.

B. Types of Employee Groups

As indicated above, each employee is assigned to one employee group and is entitled to coverage if that group qualifies. However, for purposes of determining qualification of groups other than low-wage groups, the employer need

not trace individual employees from Base Quarter to Program Quarter. For example, wages paid for service in supervisory positions during the Base Quarter are counted in calculating the Base Quarter pay rate for supervisors and, similarly, the Program Quarter calculation for that group includes wages paid to supervisors during the program quarter.

There are four types of employee units:

1. Employees Subject to a Collective Bargaining Agreement

Employees covered by each collective bargaining agreement to which an employer is a party constitute a separate employee group. For any company, this group may at the election of the company include employees within the company whose pay rates have moved historically in a close tandem relationship to pay rates of the collective bargaining unit and who are granted pay rate increases parallel to those of a "new collective bargaining agreement" in the Program Year. A separate determination of qualification for RWI must be made for each group governed by a collective bargaining agreement.

2. Low-wage Workers

Low-wage workers are those earning straight-time wages at a rate of $4.00 per hour or less as of the last pay period in the Base Quarter, or at the time of hiring if later. Low-wage workers covered by new collective bargaining agreements are covered if the agreement qualifies under the CWPS rules. Other low-wage workers are a separate group whenever they comprise (as of the last pay period in the Base Quarter) at least 10 percent of the group to which they would otherwise belong and there are at least 10 low-wage workers in the group. Otherwise, low-wage workers are included as part of the appropriate larger group, i.e., with their collective bargaining unit or as part of "all others" as the case may be. Thus, a company can have as many as one low-wage worker group for each collective bargaining unit not under a new agreement plus one such group for all other employees.

3. Management and Supervisory Employees

All management and supervisory employees of a company are one unit except those included in the above groups. The designation of "management and supervisory employees" must be made by the employer on a reasonable basis according to the assignment of responsibilities within the company and must be consistent between the Base Year and Program Year.

4. All Others

The "all others" category will usually include most of the non-union employees of a company. This group is a single unit and may not be subdivided or combined with another group.

State and local government employees are divided according to the same rules that apply to employees of private companies. The "employer" in these cases is the reporting unit for payroll purposes. Federal government employees are a single employee group.

C. Qualification Rules for New Collective Bargaining Agreements

Employees subject to collective bargaining agreements signed after October 24, 1978 and before October 1, 1979 that will be in effect for more than 15 months ("new collective bargaining agreements") will qualify for RWI if the employers party to the agreement, or their bargaining agents, determine that the agreement satisfies the 7 percent test for new collective bargaining agreements. This determination is to be made on the basis of the terms of the agreement using the costing method published by CWPS. Employees included with a collective bargaining unit because of a historical tandem relationship will qualify for RWI if the agreement qualifies. These determinations of qualification and coverage of employees will be subject to subsequent audit by the IRS.

In the case of an audit, the IRS may ask CWPS to certify the determination of qualification and the existence of a tandem pay relationship for any group not directly subject to the agreement. The CWPS certifications may not be overruled by the IRS. In the case of contracts involving 1,000 or more employees, the employer, employer group, or the union may request that CWPS make a certification of qualification at the time of signing. Employers (including all small business employers) are responsible for identifying employees under qualified contracts and must report the amount of wage insurance due regardless of the status of their other employees.

CWPS may rule a new collective bargaining agreement having a pay increase of more than 7 percent to be exempt under any of several exceptions to the pay standard (e.g., the tandem rule, the acute labor shortage exception, the undue hardship exception, and the gross inequities exception). Employee groups covered by these agreements do not qualify for RWI. To qualify for RWI a contract must "cost out" to an average increase over the contract life of 7 percent or less (after allowance for productivity-improving work rule changes, if any) and have no more than an 8 percent increase in any one year.

D. Qualification Rules for all Employee Units not Subject to New Collective Bargaining Agreements

All employee groups not subject to the rules prescribed above for new collective bargaining agreements will be evaluated after the close of the Program Year. To qualify, the pay rate of such units during the third calendar quarter of 1979 (the Program Quarter Pay Rate) must not exceed the pay rate of such unit during the third calendar quarter of 1978 (the Base Quarter Pay Rate) by more than 7 percent. The definitions of terms used in this qualification rule are as follows:

1. Base Quarter Pay Rate

The Base Quarter Pay Rate is Base Quarter Pay divided by the number of straight-time hours in the Base Quarter. In the case of bonuses, commissions and other payments not made on a regular basis every pay period, 25 percent of such payments made during the Base Year (i.e., October 1977 through September 1978) shall be included in Base Quarter Pay.

2. Program Quarter Pay Rate

The Program Quarter Pay Rate is Program Quarter Pay plus 25 percent of the Cost of Changes in Benefits divided by the number of straight-time hours in the Program Quarter. In the case of bonuses, commissions and other payments not made on a regular basis every pay period, 25 percent of such payments made during the Program Year (i.e., October 1978 through September 1979) shall be included in Program Quarter Pay.

The employer may choose to compute a separate program quarter pay-rate for group members in each establishment (i.e., branch, office, factory, store, warehouse, or other fixed place of business) in the company and then to compute the weighted average pay rate for the group using the Base Quarter percentage of total group hours for each establishment as weights. For example, if a company has two branch offices (A & B) and its total hours in the Base Quarter for the group in question was divided 40 percent for employees at branch A and 60 percent for employees at branch B, its Program Quarter Pay Rate for that group would be 40 percent of the branch A pay rate for that quarter plus 60 percent of the branch B pay rate regardless of the actual division of hours between the branches in the Program Quarter.

3. Pay

Pay is the total amount, exclusive of overtime pay, of W-2 earnings for Federal income tax purposes allocated to the Base or Program Quarter (as the case may be). This includes wages, salaries, commissions, vacation and sick pay, deferred compensation and those employee benefits reported as current income.

4. Straight-time Hours

Straight time hours are all hours worked, exclusive of overtime hours, plus the numbers of hours of paid vacations and other leave. Employers are to attribute a reasonable number of hours to the efforts of salaried, commissioned, piece and other workers not compensated on an hourly basis in a manner consistently applied to the Base Quarter and Program Quarter.

5. Costs of Changes in Benefits

Costs of Changes in Benefits are the costs attributable to providing new types of benefits or to changes in the benefit structure of those employee benefit plans or programs the contributions for which are not currently taxable to employees. Such plans include qualified pension and profit sharing plans, medical and health plans, group legal plans, group term life insurance plans, employer provided educational assistance plans, and supplemental unemployment benefit plans.

Specific rules are as follows:

(a) benefits derived from third party payments (such as insurance companies or trusts exempt under Section 501(c)

(9) of the Code) and benefits excluded from income (e.g., medical, group term life) are excluded from Costs of Changes in Benefits if the benefit structure of the plan is not amended. However, the cost of new plans or plan amendments providing any increase or decrease in benefit levels is a Cost of Changes in Benefits, unless the change is required by law (e.g., paid pregnancy leave).

For example, if a pension plan is not amended, costs attributable to the plan are excluded from the pay rate calculation even if an increase in wages increases benefits. Similarly, if a health insurance program is not changed, costs attributable to the program are excluded whether the cost has increased by more or less than 7 percent.

(b) The Cost of Changes in Benefits with respect to these benefit plans and programs is computed by holding all assumptions constant and comparing the cost of the plan or program with and without the amendment. Thus, if an employer changes the plan to provide for 5-year rather than 10-year vesting, or to increase benefits 10 percent, all other features of the plan and actuarial assumptions used are to be held constant and the cost of the plan with and without the change are to be compared to determine the Cost of Changes in Benefits.

For example, suppose an employer using the entry age normal funding method for purposes of the minimum funding standard amends his plan in the program year to increase benefits. Before the plan amendment the unfunded cost allocated to past service (the accrued liability) was $800,000 and the current year's cost (the normal cost) was $80,000. After the plan amendment (using the same funding method, actuarial assumptions, and census data) the accrued liability was $900,000 and the normal cost was $90,000. The increase in accrued liability as a result of the amendment is $100,000 ($900,000 minus $800,000). The annual amount necessary to amortize that $100,000 over 30 years is $6,195. The increase in total costs attributable to the plan amendment is $16,195 (the sum of the increased cost of funding the increase in accrued liability over 30 years [$6,195] and the increase in normal costs [$10,000]).

(c) There are two exceptions to these rules:

(i) <u>Defined Benefit Qualified Plans</u>:

If plan benefits or a component of benefits are a flat amount not determined by reference to pay or earnings, the flat rate of such benefits may be increased by up to 7 percent. Only the cost associated with an increase in excess of 7 percent would be considered a Cost of Change in Benefits. For example, under a plan that provides a benefit of $15 per month times years of service, the benefit could be increased to $16.05 without affecting the pay rate computation. The actuarial cost of increasing the benefit above $16.05 would be a Cost of Changes in Benefits. However, smaller increases do not create a "credit" for the pay rate computation.

(ii) Defined Contribution Plans:

When plan contributions are discretionary or based on profits, only the amount attributable to the increase in the rate of contribution as applied to Program Year compensation would be a Cost of Changes in Benefits. For example, suppose the base period contribution to a profit sharing plan is 5 percent of the employee's compensation base of $400,000, or $20,000. During the Program Year the contribution is raised to 6 percent of the new compensation base of $500,000, or $30,000. In such a case, Cost of Changes in Benefits is $5,000, i.e., 1 percent of the compensation base in the Program Year. If the rate of contribution had not increased the cost change would be counted as zero.

E. Operation of RWI Credit

An individual is entitled to RWI for wages paid by an employer if that employer certifies the individual's eligibility by entering the amount of RWI credit on Form W-2 for 1979. The employer computes the amount of RWI for each eligible employee by multiplying the amount of compensation reported to that employee on the W-2 Form (up to $20,000) times the rate announced by the IRS as the rate of inflation in excess of 7 percent.

The employer will add the amount of RWI to other amounts entered in the "wages, tips, and other compensation" box on the Form W-2. In addition, the employer will separately report the amount of RWI in a new box on the Form W-2. Individual taxpayers will make only one additional tax return entry. For those filing Form 1040, it will be in the section of the 1040 return labeled "payments" and for those filing a Form 1040A, it will be among refundable credits and withheld taxes on that form.

If an employee's Form W-2 shows no RWI credit, that employee may not claim credit for wages paid by that employer unless the IRS determines that the employer failed to report RWI credits for members of a qualified group, or wrongfully excluded the employee from membership in a qualified group. In the case of a failure to certify a qualified group, the employer will be required to issue revised Forms W-2 to all members of the group. If the employees' collective bargaining agent or 50 employees (or 1/3 of employees in a group, if smaller) petition the IRS claiming an improper failure to certify their group, the IRS will review the employer's computations, and the IRS resolution will not be subject to judicial review.

Small companies with fewer than 50 employees for the payroll period including March 12, 1979,* may choose not to participate in the program without being subject to IRS review. To exercise this option, the company must inform the IRS and its employees of this intention.

F. Company

The entity responsible for determining eligibility is the employer as defined for purposes of payroll tax reporting. The employer will make the division of employees among the four types of employee units according to the rules described above. Employees of different corporations in affiliated groups will not be combined. Employees in a new firm that is a successor to another company may be eligible for RWI based on a comparison of the predecessor's pay rate during the Base Quarter.

G. Anti-Abuse Provision

In any case where an employer manipulates normal pay practices for the purpose of qualifying employees for RWI, such changes shall be disregarded. For example, if it is not the normal business practice for an employer's wage rates to fluctuate during the year, an employer's reduction of wage rates for the program quarter (with a corresponding increase thereafter) will be disregarded in determining group qualification.

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* This date coincides with the date for reporting the number of employees for census purposes.

H. Sanctions

Employers who willfully or negligently report RWI credits for members of units that fail to satisfy the qualification rules will be subject to sanctions consonant with fraud and negligence penalties in the Internal Revenue Code. No action will be taken to recover from employees in such situations unless collusion existed between the employer and employees. Employers who willfully or negligently fail to certify a qualified group will also be subject to fraud or negligence penalties.

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

FOR IMMEDIATE RELEASE
JANUARY 16, 1979

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES INTEREST RATES ON SF NOTES

The Department of the Treasury today announced that the interest rates on its 2-1/2-year and 4-year notes denominated in Swiss francs are 2.35 percent and 2.65 percent, respectively. Both issues are priced at par. Interest shall be paid annually.

As announced earlier, the Treasury is offering notes denominated in SF in an aggregate amount of approximately 2.0 billion SF. The notes are being offered exclusively to, and may be owned only by, Swiss residents. Subscriptions will be received by the Swiss National Bank, acting as agent on behalf of the United States, until 12:00 noon, Zurich time, on Thursday, January 18, 1979.

#

B-1350

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

FOR IMMEDIATE RELEASE
January 16, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES ADDITIONAL TRIGGER
PRICE COVERAGE AND PRODUCT ADJUSTMENTS

The Treasury Department announced today (1) revised and new trigger base prices and "extras" for a wide variety of stainless steel wire products; (2) more complete coverage and additional "extras" for carbon wire products; (3) an adjustment to the previously announced trigger price for continuous buttwelded pipe.

The actions result in an increase of $22 per ton in the trigger price for continuous buttwelded standard pipe, much broader trigger price coverage of stainless wire products, increases of varying amounts in trigger prices of stainless wire products previously covered, and new coverage of carbon wire products.

Listed below are the products affected by today's announcement:

Continuous buttwelded standard pipe.

Stainless steel wire covering a broad range of grades, sizes, and tempers.

Upholstery steel wire, automatic coiling and knotting type.

Mechanical spring wire.

Oil tempered spring wire.

Carbon steel valve spring wire.

Automotive tire bead wire.

Galvanized core wire for A.S.C.R.

Field fence.

Today's actions are the product of additional data submissions by the Japanese Ministry of International Trade and Industry and extensive consultations and plant visits in Japan by a three-person Treasury Department Task Force which visited Japan in December.

Appropriate pages of the Steel Trigger Price Handbook are being reissued and additional pages added to reflect these actions.

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B-1351

DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY

Notice

New and Adjusted Trigger Prices and Extras for Imported Steel Mill Products

I am hereby announcing (1) new trigger base prices and "extras" for a wide variety of stainless steel wire products; (2) more complete coverage and additional "extras" for carbon wire products; and (3) an adjustment to the previously announced trigger price for continuous buttwelded pipe.

Accordingly, a number of pages in the Steel Trigger Price Handbook are being reissued and additional pages added to reflect these actions.

Description of the trigger price mechanism may be found in the "background" to the final rulemaking which amended regulations to require the filing of a Special Invoice (SSSI) with all entries of imported steel mill products (43 F.R. 6065).

These base prices, extras, and adjustments are based upon information made available to the Treasury Department by the Japanese Ministry of International Trade and Industry, as well as other information available to the Department.

All of the trigger prices announced here will be used by the Customs Service to collect information at the time of entry on all shipments of the products covered which are exported after the date of publication of this notice. However, the following rules will be applied to entries of these products covered by contracts with fixed price terms concluded before the publication of this notice.

1. Contracts with fixed price terms between unrelated parties. If the exporter documents at or before the time of entry that the shipment is being imported under such a contract with an unrelated party, the entry will not trigger an investigation even if the sales price is below the trigger price, provided that product is exported on or before February 28, 1979. However, failure to initiate an investigation will not diminish the right of affected interested persons to file a complaint with respect to such imports under the established procedures of antidumping cases.

(MORE)

2. Contracts between related parties. If the importer documents at the time of entry that the shipment is to be resold to an unrelated purchaser in the United States under a contract with fixed price terms concluded before the publication of this notice, the entry will not trigger an investigation even if the sales price is below the trigger price, provided the product is exported on or before February 28, 1979.

While these "grace period" sales will not as a rule trigger a self-initiated antidumping investigation, information concerning such sales will be kept as a part of the information in the Customs Service monitoring system and will be available in the event an antidumping petition is filed with respect to such products sold by that producer or the Treasury Department decides to self-initiate an antidumping investigation based on subsequent sales.

R H Mundheim

Robert H. Mundheim
General Counsel

Dated: JAN 16 1978

TABLE OF PRODUCT ADDITIONS AND ADJUSTMENTS

AISI Category/T.P. Handbook	Action
14 - 6 Continuous Buttwelded - 7 Standard Pipe	Base price revised upward $22 based on recent Japanese submission including additional producers. Other Outside Diameter Weights and other specifications have been revised, as noted on page 14-7 (updated to First Quarter 1979).
16 - 9 Stainless Steel Wire - 10 " " " - 11 " " " - 12 " " " - 13 " " " - 14 " " " - 15, A, B, C, D, E, F,"	Complete revision of stainless steel wire trigger prices based on most recent Japanese submissions. Previous pages 16-9 through 16-15 are replaced.
16 - 22 Upholstery spring wire Automatic Coiling and Knotting Type	New Coverage
16 - 23 Mechanical spring wire ASTM A-227 and A-648	New Coverage
16 - 24 Oil tempered spring wire ASTM A-229	New Coverage
16 - 25 Carbon steel valve spring wire ASTM A-230	New Coverage
16 - 26 Automotive tire bead wire	New Coverage
16 - 27 Galvanized core wire for A.S.C.R. ASTM B-498 Class "A"	New Coverage
16 - 28 Field Fence ASTM A-116	New Coverage

Continuous Butt Welded Standard Pipe
2 3/8" P.E. Base

Category AISI 14

Tariff Schedule Number (s) 610.32 0.3¢/lb.

Base Price per Metric Ton $350 1st Quarter

Charges to CIF	Ocean Freight	Handling	Interest
West Coast	See Freight	$7	$ 6
Gulf Coast	Table	5	8
Atlantic Coast		4	8
Great Lakes		4	10

Insurance 1% of base price + extras + ocean freight

Extras

A. Outside Diameter/Wall Thickness, including Black or Galvanized, Threaded and Coupled or Plain End.

BASE PRICE, INCLUDING O.D./WT., GALVANIZING, THREADED AND COUPLED EXTRAS

CONTINUOUS BUTT WELDED PIPE AISI 14 TSUSA 610.32

DESCRIPTION	NOM. (INCHES)							O.D. (INCHES)		
	1/2	3/4	1	$1\frac{1}{4}$	$1\frac{1}{2}$	2 3/8	2 7/8	$3\frac{1}{2}$	4	$4\frac{1}{2}$
STD WEIGHT, BLK, PLAIN END	377	367	360	358	358	350	350	350	358	358
EX STRONG, BLK, PLAIN END	377	377	359	366	366	360	360	360	366	366
STD WEIGHT, GALV, PLAIN END	479	463	451	444	444	444	438	438	444	444
EX STRONG, GALV, PLAIN END	492	475	464	455	455	451	451	451	455	455
STD WEIGHT, BLK T AND C	418	405	390	387	387	380	380	380	392	392
EX STRONG, BLK T AND C	429	415	401	397	397	390	390	390	405	405
STD WEIGHT, GALV, T AND C	521	500	481	473	473	468	468	468	480	480
EX STRONG, GALV, T AND C	536	514	494	488	488	481	481	481	493	493
SPRINKLER PIPE (SCH. 10)	393	394	377	374	374	368	368	368	374	374

STAINLESS STEEL WIRE T.P. SCHEDULES

CATEGORY A.I.S.I. 16

Tariff Schedule Numbers 609-4510 and 609-4540
10 1/2% + Additional Duties (See Headnote 4, T.S.U.S.)

Sequence Guide

1. Annealed Wire - Group I
   A. Grades and Base
   B. Size Extras by Grade Group

2. Hard/Spring Wire - Group II
   A. Grades and Base
   B. Size Extras by Grade Group

3. Soft/Intermediate Wire - Group III
   A. Grades and Base
   B. Size Extras by Grade Group

4. Coating Extras

5. Finish Extras
   A. Centerless Ground
   B. Centerless Ground and Polished

6. Tolerance Extras

7. Straightening and Cut to Length Extras

8. Packaging Extras

9. Schedule for ocean freight, handling, interest, and insurance.

These pages replace 16-9 through 16-15 plus additional pages - 16-15A through 16-15D

NOTE: All Stainless Steel Wire product trigger prices on p. 16-9 through 16-15F are 1st Quarter 1979 prices.

GROUP I - ANNEALED WIRE

Annealed: The condition of soft wire in which there is no further cold drawing after the last annealing treatment. Wire of this temper is made by annealing in open fired furnaces or molten salt followed by pickling, which produces a clean gray matte finish. It is also made with a bright finish by annealing wet, oil or grease drawn wire in a protective atmosphere, and is sometimes described as bright annealed wire.

Grades	Dollar per MT Size Extras
301	2073
302	2018
303	2128
304	2073
305	2266
310	4057
314	4829
316	2734
316-L	2927
317	3286
317-L	3479
304-L	2266
17-4PH *	2431
308	2238
308-L	2431
309	2845
309-L	3038
321	2431
312	Not Available
302 HQ(18-19LW) **	2211
347	2789
384	2734
15-5PH ***	Not Available
409	1588
410	1257
416	1224
420	1312
430	1312
430-F	1533
434	1422
434-A	1422
446	1918

* May also be designated as type 630 or as UNS 17400

** May also be designated as type 302 CU and as 306

*** May also be designated as type XM12 and UNS 15500

GROUP I - ANNEALED WIRE (Continued)

	Dollar per MT Size Extras		
Size*	300 Series & 17-7PH	400 Series	17-4PH 15-5PH
.703"-.574"	204	523	204
.693"-.501"	204	523	204
.500"	221	523	221
.499"-.375"	239	523	239
.3125"-.374"	256	523	256
.250"-.312"	343	523	343
.234"-.249"	389	523	389
.216"-.233"	442	563	442
.200"-.215"	610	610	610
.185"-.199"	627	639	627
.170"-.184"	644	668	644
.155"-.169"	656	697	656
.142"-.154"	674	825	674
.128"-.141"	703	953	703
.113"-.127"	784	1051	697
.099"-.112"	906	1144	731
.086"-.098"	993	1214	761
.076"-.085"	1051	1283	796
.067"-.075"	1109	1347	964
.058"-.066"	1214	1394	1126
.051"-.057"	1266	1440	1179
.044"-.050"	1318	1487	1231
.038"-.043"	1434	1533	1347
.033"-.037"	1556	1707	1469
.030"-.032"	1620	1823	1620
.027"-.029"	1777	Not Available	1957
.024"-.026"	1928	"	1928
.021"-.023"	2079	"	2084
.019"-.020"	2230	"	2230
.018"	2375	"	2375
.017"	2410	"	2410
.016"	2450	"	2450
.015"	2566	"	2566

*All intermediate sizes to take next higher price.

GROUP 1 - ANNEALED WIRE (Continued)

	Dollar per MT Size Extras		
Size*	300 Series & 17-7PH	400 Series	17-4PH 15-5PH
.014"	2699	Not Available	2699
.013"	2815	"	2815
.012"	2937	"	2937
.011"	3053	"	3053
.010"	3332	"	3332
.009"	3460	"	3460
.008"	3617	"	3617
.0075"	3779	"	3779
.007"	3953	"	3953
.0065"	4360	"	4360
.006"	4824	"	4824
.00575"	5288	"	5288
.0055"	5753	"	5753
.00525"	6682	"	6682
.005"	6856	"	6856
.00475"	6972	"	6972
.0045"	7204	"	7204
.00425"	7843	"	7843
.004"	8423	"	8423
.00375"	17711	"	17711
.0035"	21136	"	21136
.00325"	24155	"	24155
.003"	27173	"	27173
.0027"	28161	"	28161
.0025"	29322	"	29322
.002"	38029	"	38029

*All intermediate sizes to take next higher price.

GROUP II - HARD/SPRING WIRE

Hard/Spring: A condition of wire drawn several drafts as required to produce the high tensile strengths required for such products as spring wire.

Grades	Dollar per MT Wire Base Price
301	2073
302	2018
303	2128
304	2073
305	2266
310	4057
314	4829
316	2734
316-L	2927
317	3286
317-L	3662
321	2431
17-4PH *	2431
17-7PH ****	3175
330	Not Available
308	2238
308-L	2431
309	2845
309-L	3038
312	Not Available
302 HQ(18-9LW)**	2211
347	2789
384	2734
15-5PH ***	Not Available
409	1588
410	1257
416	1224
420	1312
430	1312
430-F	1533
434	1422
434-A	1422
446	1918

* May also be designated as Type 630 or as UNS 17400

** May also be designated as Type 302 CU and 306

*** May also be designated as Type XM-12 and UNS 15500

**** May also be designated as Type 631 and UNS-17700

GROUP II - HARD/SPRING WIRE (Continued)

Size*	Dollar per MT Size Extras 300 Series & 17-7PH	400 Series
Over .375"	679	Not Available
.3125"-.374"	679	"
.250"-.312"	679	"
.234"-.249"	679	"
.216"-.233"	679	"
.200"-.215"	679	"
.185"-.199"	679	"
.170"-.184"	679	"
.155"-.169"	679	"
.142"-.154"	656	"
.128"-.141"	656	"
.113"-.127"	656	"
.099"-.112"	691	"
.086"-.098"	766	"
.076"-.085"	824	"
.067"-.075"	894	"
.058"-.066"	993	"
.051"-.057"	1196	"
.044"-.050"	1376	"
.038"-.043"	1451	"
.033"-.037"	1591	"
.030"-.032"	1666	"
.027"-.029"	2009	"
.024"-.026"	2194	"
.021"-.023"	2415	"
.019"-.020"	2705	"
.018"	3268	"
.017"	3559	"
.016"	3646	"
.015"	3733	"
.014"	3907	"
.013"	4052	"
.012"	4342	"

*All intermediate sizes to take next higher price.

GROUP II - HARD/SPRING WIRE (Continued)

Size*	Dollar per MT Size Extras: 300 Series & 17-7PH	Dollar per MT Size Extras: 400 Series
.011"	5556	Not Available
.010"	5701	"
.009"	5933	"
.008"	6130	"
.007"	Under Review	"
.0065"	"	"
.006"	"	"
.00575"	"	"
.0055"	"	"
.00525"	"	"
.005"	"	"
.00475"	"	"
.0045"	"	"
.00425"	"	"
.004"	"	"
.00375"	"	"
.0035"	"	"
.00325"	"	"
.003"	"	"
.0027"	Not Available	"
.0025"	"	"
.002"	"	"

*All intermediate sizes to take next higher price.

GROUP III - SOFT/INTERMEDIATE WIRE

Soft/Intermediate: A condition of wire drawn one or more drafts after annealing as required to produce minimum strength or hardness. The properties of such wire can be varied between those of soft temper and those approaching spring temper wire. Wire in this temper is usually produced in a variety of dry drawn tempers. Cold heading wire, by example, belongs in this group.

Grades	Dollar per MT Wire Base Price
301	2073
302	2018
302(302HQ,18-9LW)	2211
303	2128
304	2073
305	2266
310	4057
314	4829
316	2734
316-L	2927
317	3286
317-L	3479
321	2431
17-4PH *	2431
330	Not Available
308	2238
308-L	2431
309	2845
309-L	3038
312	Not Available
347	2789
384	2734
15-5PH **	Not Available
409	1588
410	1257
416	1224
420	1312
430	1312
430-F	1533
434	1422
434-A	1422
446	1918

* May also be designated as Type 630 or as UNS 17400

** May also be designated as Type XM12 or as UNS 15500

GROUP III - SOFT/INTERMEDIATE WIRE (Continued)

Size*	Dollar per MT Size Extras: 300 Series & 17-7PH	400 Series	17-4PH & 15-5PH
Over .375"	459	319	459
.3125"-.374"	459	319	459
.250"-.312"	459	331	459
.234"-.249"	459	354	459
.216"-.233"	459	377	459
.200"-.215"	459	406	459
.185"-.199"	569	435	569
.170"-.184"	598	459	598
.155"-.169"	627	499	627
.142"-.154"	650	563	650
.128"-.141"	702	673	702
.113"-.127"	842	749	842
.099"-.112"	923	853	923
.086"-.098"	975	882	975
.076"-.085"	1086	935	1086
.067"-.075"	1196	1022	1196
.058"-.066"	1306	1242	1306
.051"-.057"	1353	1469	1353
.044"-.050"	1405	1515	1405
.038"-.043"	1527	1573	1527
.033"-.037"	1620	1759	1620
.030"-.032"	1730	1875	1730
.027"-.029"	1887	Not Available	1887
.024"-.026"	2038	"	2038
.021"-.023"	2194	"	2194
.019"-.020"	2339	"	2339

*Intermediate sizes to take next higher price.

COATING EXTRAS

Material provided uncoated or coated with lime (or equivalent to lime) and/or soap will carry no extra. Other coatings require an appropriate extra where additional costs are involved.

Metallic coatings include copper, nickel and lead. Non-metallic coatings include plastics, molybdedum disulfide, etc.

Type of Coating

		Metallic		
Size Range	Oxide	Copper	Nickel	Non-Metallic
Over .155"	None	116	35	25
.154"-.099"	"	174	35	25
.098"-.063"	"	232	47	33
.062"-.041"	"	Not Available	72	50
.040"-.030"	"	"	99	66
.029"-.025"	"	"	99	66
.024"-.020"	"	"	135	95
.019"-.015"	"	"	177	125
.014"-.010"	"	"	210	151

FINISH EXTRAS

Size Range*	Centerless Ground 300 Series, 17-7PH, 400 Series, 17-4PH, & 15-5PH	Centerless Ground and Polished 300 Series, 17-7PH, 400 Series, 17-4PH,& 15-5PH
.703"-.595"	499	627
.594"-.501"	499	627
.500"	551	697
.499"-.375"	563	720
.374"-.3125"	563	720
.3124"-.250"	563	720
.249"-.234"	865	1051
.233"-.216"	865	1051
.215"-.200"	958	1167
.199"-.185"	1120	1353
.184"-.170"	1318	1567
.169"-.155"	1579	1846
.154"-.142"	1840	2107
.141"-.128"	2165	2432
.127"-.113"	2711	3001
.112"-.093"	5521	6078

*All intermediate sizes to take next higher price.

17-4PH to be included in 400 series.

Straightening and cut to length extras are already included in the above finish extras in case of centerless ground or centerless ground and polished.

TOLERANCE EXTRAS

Standard: AISI or JIS Specification

Diameter Tolerance	$/MT
Standard	0
Not less than 1/2 standard	$116
Closer than 1/2 to 1/4 standard	25% of size extra
Closer than 1/4 standard	50% of size extra

Straightening and Cut to Length Extras

Size Range	Dollar per MT
.703"-.595"	104
.594"-.501"	104
.500"	104
.499"-.375"	131
.374"-.3125"	131
.3124"-.170"	236
.169"-.099"	590
.098"-.051"	1706
.050"-.032"	1968

Length	Dollar per MT
Under 12"	92
12" to under 18"	59
18" to under 24"	59
24" to under 30"	39
30" to under 36"	39
36" to under 48"	39
48" to under 60"	39
60" to under 72"	39
72" to under 120"	33
120" to under 168"	33
168" to under 192"	33
192" to under 216"	33
216" to under 240"	33
240" to under 264"	26
264" to under 288"	26
288" to 316"	26

Packaging Extras

Type	Dollar per MT
Bundle	29
Wooden Boxes	87
Fibre Drums	87
Coil Carriers	29
Spools	145

Stainless Wire (Continued)
Category 16
Tariff Schedule Nos. 609.4510 and
609.4540

	Ocean Freight	Handling	Interest Factor
West Coast	93	7	1.8%
Gulf Coast	109	5	2.4%
East Coast	109	4	2.4%
Great Lakes	142	4	2.9%

Interest charge equals F.O.B. price including size extra times interest factor.

Insurance at 1% of base plus extras plus ocean freight.

UPHOLSTERY SPRING WIRE AUTOMATIC COILING AND KNOTTING TYPE

Category A.I.S.I. 16

Tariff Schedule Number 609.4315 8.5%

1st Quarter

Base Price Per Metric Ton $487

Charges to C.I.F.*

	Ocean Freight	Handling	Interest
West Coast	$38	$7	$ 9
Gulf Coast	47	5	12
Atlantic Coast	49	4	12
Great Lakes	62	4	14

Insurance 1% of Base Price + Extras + Ocean Freight

Extras

1. Size Extra

Size (Inches)	$ Per Metric Ton
0.191 - 0.135	Base
0.134 - 0.105	9
0.104 - 0.080	13
0.078 - 0.062	24

*Tramper Rate

MECHANICAL SPRING WIRE A.S.T.M. A-227 AND A-648

Category A.I.S.I. 16

Tariff Schedule Numbers 609.4305 8.5%
609.4315 8.5%

Base Price Per Metric Ton $513

Class 1 and 2

Charges to C.I.F.

	Ocean Freight	Handling	Interest
West Coast	$38	$7	$ 9
Gulf Coast	47	5	12
Atlantic Coast	49	4	12
Great Lakes	62	4	15

Insurance 1% of Base Price + Extras + Ocean Freight

Extras

1. Processing Extra Class 3 $2/M.T.

2. Size Extra

Size (Inches)	$ Per Metric Ton class 1 and 2	class 3
0.625" - 0.437"	10	10
0.436" - 0.192"	-2	-2
0.191" - 0.135"	Base	Base
0.134" - 0.105"	7	7
0.104" - 0.080"	22	22
0.079" - 0.062"	34	34

* Ocean Freight Represents Tramper Rate

OIL-TEMPERED STEEL SPRING WIRE A.S.T.M. A-229

Category A.I.S.I. 16

Tariff Schedules	609.4055	$8\frac{1}{2}$%
	609.4305	$8\frac{1}{2}$%
	609.4315	$8\frac{1}{2}$%

Base Price Per Metric Ton $516 MB Grade

Charges to C.I.F.

	Ocean Freight		Handling	Interest
	Tramper	Container		
West Coast	$38	$ 88	$7	$10
Gulf Coast	47	100	5	12
Atlantic Coast	49	100	4	12
Great Lakes	62	102	4	15

Insurance 1% of Base Price + Extras + Ocean Freight

Extras

1. Processing Extra
   HB Grade $22

2. Size Extra

	$ Metric Ton	
Size (Inches)	M.B.	N.B.
0.625 - 0.437	10	10
0.436 - 0.192	4	4
0.191 - 0.135	Base	Base
0.134 - 0.105	19	19
0.104 - 0.080	46	46
0.079 - 0.062	64	64
0.061 - 0.054	72	72
0.053 - 0.042	81	81
0.041 - 0.037	95	95
0.036 - 0.0348	150	150

Wires 0.625" through 0.054" shipped by Tramper

Wires 0.053" through 0.0348" shipped by container vessels

CARBON STEEL VALVE SPRING QUALITY WIRE A.S.T.M. A-230

Category A.I.S.I. 16

Tariff Schedules 609.4305 8.5%
609.4315 8.5%

Base Price Per Metric Ton $859

Charges to C.I.F.

	Ocean Freight	Handling	Interest
West Coast	$ 88	$7	$16
Gulf Coast	100	5	20
Atlantic Coast	100	4	20
Great Lakes	102	4	25

Insurance 1% of Base + Extras + Ocean Freight

Extras

1. Size Extra

Size (Inches)	$ Per Metric Ton
0.311 - 0.250	$ 90
0.2499 - 0.207	55
0.2069 - 0.192	11
0.1919 - 0.162	Base
0.161 - 0.1483	25
0.1482 - 0.135	47
0.134 - 0.1205	85
0.1204 - 0.1055	143
0.1054 - 0.0915	207
0.0914 - 0.090	266

Ocean Freight - Container Vessel

AUTOMOBILE TIRE BEAD WIRE 0.037"

Category A.I.S.I. 16

Tariff Schedule 609.4065 8.5%

Base Price Per Metric Ton $602

Charges to C.I.F.

	Ocean Freight	Handling	Interest
West Coast	$ 91	$7	$11
Gulf Coast	101	5	14
Atlantic Coast	101	4	14
Great Lakes	103	4	17

Insurance 1% of Base Price + Extras + Ocean Freight

Ocean Freight Represents Container Vessel

GALVANIZED CORE WIRE FOR A.S.C.R. A.S.T.M. B-498 CLASS "A"

Category A.I.S.I. 16

Tariff Schedule Number 609.4365 8.5%

Base Price Per Metric Ton $642

Charges to C.I.F.

	Ocean Freight	Handling	Interest
West Coast	$50	$7	$12
Gulf Coast	53	5	15
Atlantic Coast	55	4	15
Great Lakes	65	4	19

Insurance 1% of Base Price + Extras + Ocean Freight

Extras

1. Size Extra

Size (Inches)	$ Per Metric Ton
0.1878 - 0.1410	$ 12
0.1409 - 0.1210	Base
0.1209 - 0.1055	12
0.1054 - 0.0915	35
0.0914 - 0.0860	47
0.0859 - 0.0800	71
0.0799 - 0.0720	101
0.0719 - 0.0661	165

Ocean Freight Represents Tramper Rate

FIELD FENCE A.S.T.M. A-116

Category A.I.S.I. 19

Tariff Schedule Number 642.3570 0.1¢ per lb.

Base Price Per Metric Ton $587

11 Gauge Galvanized Wire

Charges to C.I.F.

	Ocean Freight	Handling	Interest
West Coast	$ 42	$7	$11
Gulf Coast	50	5	14
Atlantic Coast	55	4	14
Great Lakes	60	4	17

Extras

Size Extra

	$ Metric ton	
	Stay Wire Spacing	
Filler Wire Size	6"	12"
#11	Base	- $ 3
#12½	16	13

Ocean Freight Represents Tramper Rate

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

FOR RELEASE AT 4:00 P.M. January 16, 1979

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,800 million, to be issued January 25, 1979. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,805 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated October 26, 1978, and to mature April 26, 1979 (CUSIP No. 912793 Y2 6), originally issued in the amount of $3,389 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,000 million to be dated January 25, 1979, and to mature July 26, 1979 (CUSIP No. 912793 2D 7).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 25, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,691 million of the maturing bills. 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, January 22, 1979. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) 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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on January 25, 1979, in cash or other immediately available funds or in Treasury bills maturing January 25, 1979. 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, 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 IMMEDIATE RELEASE
January 17, 1979

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES RESULTS OF GOLD SALE

The Department of the Treasury announced that 1,500,100 troy ounces of fine gold were sold yesterday to 23 firms and individuals who bid successfully at a sealed bid sale. Awards of 1,000,000 troy ounces of gold in 400 ounce bars whose fine gold content is 99.5 to 99.94 percent were made to 18 successful bidders at prices from $219.23 to $222.00 per ounce, yielding an average price of $219.71 per ounce. Bids for this gold were submitted by 31 bidders for a total amount of 5.5 million ounces at prices ranging from $42.00 to $222.00 per ounce.

Awards of 500,100 troy ounces of gold in 300 ounce bars whose fine gold content is 89.9 to 90.1 percent were made to 14 successful bidders at prices from $217.51 to $220.93 per ounce, yielding an average price of $218.22 per ounce. Bids for this gold were submitted by 23 bidders for a total amount of 1.3 million ounces at prices ranging from $190.00 to $220.93 per ounce.

Gross proceeds from today's sale were $328.8 million. Of the proceeds, $63.3 million will be used to retire Gold Certificates held by Federal Reserve Banks. The remaining $265.5 million will be deposited into the Treasury as a miscellaneous receipt.

The General Services Administration will release a list of successful bidders and the amounts of gold awarded to each, after those bidders have been notified that their bids have been accepted.

The current sale was the ninth in a series of monthly auctions being conducted by the General Services Administration on behalf of the Department of the Treasury. The next sale, at which 1,500,100 ounces will be offered, will be held on February 20, 1979. At this sale, 1,000,000 fine troy ounces will be offered in bars whose fine gold content is 99.50 to 99.94 percent. The minimum bid for these bars will be for 400 fine troy ounces. A total of 500,100 ounces will be offered in bars whose fine gold content is 89.9 to 90.1 percent. The minimum bid for these bars will be 300 fine troy ounces. Bids for bars in each fineness category will be evaluated separately.

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B-1353

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

FOR RELEASE AT 4:00 P.M. January 17, 1979

TREASURY TO AUCTION $2,700 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $2,700 million of 2-year notes to refund approximately the same amount of notes maturing January 31, 1979. The $2,704 million of maturing notes are those held by the public, including $774 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $151 million of the maturing securities that may be refunded by issuing additional amounts of the new notes at the average price of accepted competitive tenders. Additional amounts of the new securities may also be issued at the average price, for new cash only, to Federal Reserve Banks as agents for foreign and international monetary authorities.

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-1354 (over)

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED JANUARY 31, 1979

January 17, 1979

Amount Offered:	
To the public	$2,700 million
Description of Security:	
Term and type of security	2-year notes
Series and CUSIP designation	Series P-1981 (CUSIP No. 912827 JJ 2)
Maturity date	January 31, 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	July 31 and January 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, January 23, 1979, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds	Wednesday, January 31, 1979
b) check drawn on bank within FRB district where submitted	Monday, January 29, 1979
c) check drawn on bank outside FRB district where submitted	Friday, January 26, 1979
Delivery date for coupon securities.	Monday, February 5, 1979

THE SECRETARY OF THE TREASURY
WASHINGTON

January 16, 1979

Dear Mr. Chairman:

I am submitting with this letter both general and technical explanations of President Carter's proposal for Real Wage Insurance.

As you know, this program needs expedited consideration, for it is designed to influence wage decisions in 1979, many of which will be made early in the year. I am submitting the proposal at this time in the hope that the Ways and Means Committee can hold public hearings immediately following testimony by Administration witnesses.

Inflation is the most important economic problem facing the nation. To establish an economic climate conducive to wage and price moderation, the President has made a longterm commitment to genuine fiscal and monetary restraint and has announced a balanced program of voluntary wage-price standards.

Real wage insurance complements this overall approach by providing a powerful incentive for pay standard compliance. The incentive is simple and logical: For members of employee groups meeting the 7 percent pay standard, the program would provide a large measure of insurance against any erosion in real income due to inflation exceeding 7 percent. The financial risk involved in accepting pay restraint would be greatly reduced, and acceptance of pay restraint throughout the economy would increase correspondingly, helping to brake the wage-price spiral.

I wish to emphasize that real wage insurance is an incentive for wage restraint. It is not a program to cut taxes generally: That would be inflationary -- expanding the deficit while contributing nothing to wage moderation. Nor is this a program to "index" the tax system to inflation: That would constitute a surrender to the problem rather than a solution to it.

B-1355

More than any other single proposal before the Congress, real wage insurance promises a direct and major impact on the wage-price spiral. I look forward to working with you and your colleagues on this new proposal in the days ahead.

Best regards.

Sincerely,

WMBlumenthal

W. Michael Blumenthal

The Honorable
Al Ullman
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Enclosures

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

FOR IMMEDIATE RELEASE
JANUARY 19, 1979

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES RESULTS OF SF NOTE SALE

The Department of the Treasury today announced that it is accepting a total of SF 2,015 million in subscriptions for its issues of 2-1/2 and 4-year notes denominated in Swiss Francs. A total amount of SF 5,188 million in subscriptions for these issues was received.

The Treasury accepted SF 1,247 million in subscriptions for its 2-1/2 year notes. Total subscriptions received for this issue were SF 3,663 million. In the case of the 4-year note, the Treasury accepted SF 768 million in subscriptions. Total subscriptions received for this issue were SF 1,525 million. These acceptances represent allocations of 33 percent of subscriptions for 2-1/2 year notes and 50 percent for the 4-year maturity. In each of the two maturities, allocations are being made at a pro rata basis. Individual subscriptions, however, are being rounded up to the nearest SF 500,000.

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B-1356

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

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
January 22, 1979

TESTIMONY OF THE HONORABLE ROBERT CARSWELL
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

I am pleased to present the views of the Administration on H.R. 7. We support the efforts of the Congress to deal with the question of mandatory universal reserves for depository institutions at this time. In mid-1977, the Administration requested the introduction of S. 1664, which approached this question in a somewhat different way, and we gave general support to other approaches in the last Congress. We hope the Congress will be able to act on this matter early in this session.

Many plans have been put forward to deal with this problem. Rather than discussing them in detail, I would like to consider the principles that we believe should govern this undertaking.

They are:

-- improvement of the tools available to the Federal Reserve in the implementation of monetary policy.

-- reducing competitive inequities among depository institutions engaged in the same or similar lines of business.

-- restraining the negative impact of any changes on the Federal Budget in this period when the Administration and the Congress are striving to squeeze down the deficit.

Universal and Uniform Required Reserves

These objectives are best served by imposing mandatory reserve requirements on all institutions holding similar deposit balances. Since reserve requirements are important to the effective formulation and implementation of monetary policy, their coverage should not be contingent upon voluntary or induced membership in the Federal Reserve System. They should be regarded as a price and a necessary component of participation in the monetary system rather than a result of decisions about the choice of a regulator, the value of access to the discount window or a nice balancing of the costs of maintaining reserves against the benefits of membership. Moreover, to the extent that all institutions maintaining transaction balances have the same level of reserves, the link between the aggregate amount of reserves and the money supply is made more firm.

For these reasons, this bill takes a constructive step in severing the connection between reserves and Federal Reserve membership, and by focusing instead on the type of balance involved. Extending reserve requirements to thrifts for transaction accounts is a timely shift toward competitive equality and a more equitable distribution of the reserve burden. The adverse impact on thrifts is relatively small because their transaction balances are small at this time.

Of course, it is not possible to achieve full equality of treatment with this step. There are many small depository institutions that with some justification will resist a reserve obligation on the ground that the adverse impact on earnings is too great, and their participation, while theoretically correct, may not in practice be necessary to the effective conduct of monetary policy. Total reserves in excess of vault cash of the smaller banks would in any event constitute only a small proportion of total reserves.

Accordingly, some exemption from universal reserves for small institutions may therefore be appropriate, but we would hope that the exemption would be less generous than that proposed in this bill. In effect, H.R. 7 ratifies the status quo by exempting slightly less than the approximately 72% of commercial bank deposits currently subject to reserve requirements. Equity prompts expanded coverage -- which also might permit lower reserve ratios. It would also provide a larger reserve base for use in monetary policy implementation while still leaving the vast majority of small depository institutions unaffected.

The reporting requirements contained in the bill provide important supplementary monetary coverage of all depository institutions not required to hold reserves. The report forms and statistics should be brief and rely as much as possible on existing information flows. The paperwork burden of all institutions, particularly the smaller, should be kept to a minimum.

Finally, we do not think that the concept of universal reserves is inconsistent with the principles of the dual banking system. That system recognizes that when there is an overriding Federal interest in an issue, the ground-rules should be established by the Federal government. That is the case, for example, with bank holding companies. It is also the case with monetary policy. So long as reserves have a role to play in this process, all banks similarly situated should have the same burden to the extent practicable. Surely the Federal Government has no responsibility to insure the viability of state supervision by making it financially unattractive for a bank to be a member of the Federal Reserve. The strength of the system comes from the choice it offers on supervision and examination. That choice remains unchanged by this bill. Moreover, the availability of Federal Reserve services to all banks at nondiscriminatory rates will make it easier for a larger bank to be a nonmember.

Interest on Reserves

In the last Congress, the Administration indicated that if the Congress decided that the holding of reserves should continue to be voluntary, then the Administration would support legislation to reduce the financial burden of membership through the payment of interest on reserves. For all the reasons I have noted, we very much prefer the approach of required reserves embodied in this bill.

Revenue Loss Projections

In testimony before the Senate Banking Committee last June and August and in a letter to this Committee in September 1977, the Administration stated that it would accept a revenue loss of $200-300 million, after tax recoveries, to deal with this problem. Then, in an October letter to the Senate Banking Committee, with the budget outlook tightening, we indicated that a revenue loss at the lower end of that range was preferable. In the current budget environment, a solution to the membership problem involving a revenue loss under $200 million, net of tax recoveries, is essential. We understand that the Committee staff estimates that the net cost of fully implementing H.R. 7 would be approximately $170 million.

While this expense does not exceed the limit of acceptability, these next few years will be ones of budget stringency. Accordingly, we would encourage exploration of proposals that involve lower costs.

In any calculation of the total annual cost of a membership solution, the Congress should focus particular attention on the fiscal 1980 budget impact. There are several elements in the revenue and cost figures that make the near term financial results of the various membership solutions a special concern. In determining the after-tax revenue loss for most proposals, estimates of tax recaptures that may take several years are used. These deferred tax effects might leave a disproportionate after-tax shortfall in the first year of most annual loss projections.

Similarly, most proposals assume income of about $410 million from the explicit pricing of Federal Reserve services to reduce the annual net revenue loss the proposals will generate. Yet, not all the revenue will be available in fiscal 1980. It will take time to develop and institute prices on some services.

Finally, most membership proposals contain provisions, as in this bill, to phase in reserve requirements on depository institutions that are not now Federal Reserve members and to impose any increased requirements on existing members over a four year period. At the same time, the proposals mandate that any change in reserve ratios, including the moderate lowering in H.R. 7, be effected within two years.

We are concerned that the time gap between a lowering of ratios and the accumulation of new reserve balances may increase the net revenue loss in the early years.

Accordingly, our support of H.R. 7 is premised on the assumption that the Federal Reserve will fully offset any revenue loss during the transition years. Chairman Miller has advised me that the Board of Governors has agreed to this approach.

Other Issues

Section 7 of H.R. 7 would require the Federal Reserve to price its services and make them available to all depository institutions, whether or not they are members or hold reserves. Once access to System services is no longer required as an inducement to membership, the more general availability of Federal Reserve services should benefit the banking system as a whole. Moreover, requiring that the Federal Reserve price services on a basis involving full allocation of cost, with appropriate allowances for costs unique to private organizations such as capital and taxes, should allow other vendors to compete with the System more effectively. Hopefully, market mechanisms will then become important in establishing the prices of these services and the relative roles of the competing vendors.

H.R. 7, like its predecessor H.R. 14072, would index the exemption from reserve requirements based on deposit growth. We do not favor this provision. The exemption results from the structure of the current system, under which many small banks are nonmembers, and thus maintain no reserves at the Federal Reserve, and others have low reserve requirements. We should seek to eliminate the disparate treatment of large and small banks over time. If the exemption is not indexed, the growth of the deposit base will gradually reduce the scope of the exemption, and will further the objective of competitive equity.

This concludes my formal testimony, Mr. Chairman. I would be pleased to answer any questions the Committee may have.

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

BUDGET BRIEFING STATEMENT

OF

THE HONORABLE W. MICHAEL BLUMENTHAL

SECRETARY OF THE TREASURY

January 20, 1979

This budget is part of an overall macroeconomic policy of sustained and balanced restraint.

This budget will bring about a moderation in the pace of economic growth and in the rate of inflation, and will help establish the fundamental conditions necessary to maintaining a strong and stable dollar. It is a very tough budget but it is also, in my judgment, fair and prudently scaled to the resources available for public needs at this stage in the economic recovery.

I would like to say a few words about those aspects of the budget of particular interest to the Treasury.

On the receipts side, the budget contains no large additional revenue losses. Until we succeed in bringing inflation under control, it would be very risky to entertain a general tax cut. With the economy's margin of unused capacity and labor shrinking steadily, a general tax cut would generate new demand pressures wholly inconsistent with the fight against inflation. Between fiscal 1979 and 1980, receipts will rise as a percentage of GNP, but only slightly--from 19.9% to 20.1%. This is tolerable and necessary in present economic circumstances.

The major proposal on the receipts side of the budget is real wage insurance, an integral component of the President's voluntary program of wage-price standards. We have budgeted this innovative proposal at $2.5 billion; this figure assumes a reasonably high rate of participation in the program--by about 47 million employees--and an inflation rate of 7.5% between October-November 1978 and October-November 1979. This program involves a modest investment and could pay very substantial dividends in terms of moderating the wage-price spiral.

The restrained character of this budget will have a positive impact on financial markets. The Unified Budget Deficit will amount to only about 1% of GNP, as compared to about 4% in 1976. The deficit will be about $8 billion smaller than in FY 1979, and off-budget financing--at about $12 billion--will show no increase between the two fiscal years. The government will be placing no inappropriate pressures upon the capital markets. Over the longer term, the budget proposes establishing a new system of centralized monitoring and control over the off-budget direct and guaranteed loan programs of the federal government. This long needed reform will ensure much better coordination of the government's financing activities.

Turning briefly to international financial markets, the budget treats profits from our gold sales as a "means of financing other than borrowing." That means we have not used these profits to show a smaller budget deficit. We have projected $2.5 billion in gold sales profits, as a financing item, in FY 1979 but have refrained from making a projection for FY 1980.

By its restraint, this budget reduces the government's share of the nation's productive and financial resources and fortifies our efforts to assure the strength and stability of the dollar, both at home and abroad.

# # #

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

FOR IMMEDIATE RELEASE January 22, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,800 million of 13-week Treasury bills and for $3,000 million of 26-week Treasury bills, both series to be issued on January 25, 1979, were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 26, 1979			26-week bills maturing July 26, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.663	9.245%	9.60%	95.219	9.457%	10.07%
Low	97.644	9.320%	9.68%	95.207	9.481%	10.10%
Average	97.652	9.289%	9.64%	95.210	9.475%	10.09%

Tenders at the low price for the 13-week bills were allotted 22%.
Tenders at the low price for the 26-week bills were allotted 17%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 42,245,000	$ 42,245,000	$ 32,175,000	$ 15,175,000
New York	4,477,385,000	2,357,985,000	4,770,910,000	2,742,360,000
Philadelphia	26,675,000	26,675,000	9,090,000	9,090,000
Cleveland	29,430,000	29,430,000	26,380,000	18,380,000
Richmond	20,020,000	20,020,000	16,660,000	16,660,000
Atlanta	38,995,000	38,995,000	23,195,000	23,195,000
Chicago	215,680,000	90,430,000	252,740,000	52,540,000
St. Louis	32,450,000	16,450,000	35,825,000	15,825,000
Minneapolis	56,775,000	56,775,000	44,045,000	24,045,000
Kansas City	27,635,000	27,635,000	27,345,000	27,345,000
Dallas	21,040,000	21,040,000	10,605,000	10,505,000
San Francisco	152,465,000	56,685,000	178,110,000	28,110,000
Treasury	15,855,000	15,855,000	16,910,000	16,910,000
TOTALS	$5,156,650,000	$2,800,220,000a/	$5,443,990,000	$3,000,140,000b/

a/Includes $424,380,000 noncompetitive tenders from the public.
b/Includes $274,070,000 noncompetitive tenders from the public.
1/Equivalent coupon-issue yield.

B-1359

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

FOR RELEASE AT 4:00 P.M. January 23, 1979

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,800 million, to be issued February 1, 1979. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,806 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated November 2, 1978, and to mature May 3, 1979 (CUSIP No. 912793 Y3 4), originally issued in the amount of $3,504 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,000 million to be dated February 1, 1979, and to mature August 2, 1979 (CUSIP No. 912793 2E 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing February 1, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,446 million of the maturing bills. 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, January 29, 1979. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

B-1360

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on February 1, 1979, in cash or other immediately available funds or in Treasury bills maturing February 1, 1979. 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, 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 IMMEDIATE RELEASE January 23, 1979

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $2,701 million of $4,044 million of tenders received from the public for the 2-year notes, Series P-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	9.82% 1/
Highest yield	9.87%
Average yield	9.85%

The interest rate on the notes will be 9-3/4%. At the 9-3/4% rate, the above yields result in the following prices:

Low-yield price	99.876
High-yield price	99.787
Average-yield price	99.822

The $2,701 million of accepted tenders includes $780 million of noncompetitive tenders and $1,756 million of competitive tenders from private investors, including 97% of the amount of notes bid for at the high yield. It also includes $165 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 to the $2,701 million of tenders accepted in the auction process, $151 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 January 31, 1979, and $235 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

1/ Excepting 1 tender of $5,000

B-1361

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

FOR RELEASE AT 4:00 P.M. January 25, 1979

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $3,250 million, of 364-day Treasury bills to be dated February 6, 1979, and to mature February 5, 1980 (CUSIP No. 912793 3D 6). This issue will not provide new cash for the Treasury as the maturing issue is outstanding in the amount of $3,253 million. Additional amounts of the bills may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities.

The bills will be issued for cash and in exchange for Treasury bills maturing February 6, 1979. The public holds $1,889 million of the maturing issue and $1,364 million is held by Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities. Tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the weighted average price 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. This series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Wednesday, January 31, 1979. 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-1362

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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 $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.

Settlement for accepted tenders for bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch on February 6, 1979, in cash or other immediately available funds or in Treasury bills maturing February 6, 1979. 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 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, 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.

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

FOR IMMEDIATE RELEASE January 26, 1979

FEDERAL FINANCING BANK ACTIVITY

Roland H. Cook, Secretary, Federal Financing Bank (FFB), announced the following activity for December 1-31, 1978.

Department of Transportation-Guaranteed Lending

On December 29, the National Railroad Passenger Corp. (Amtrak) refunded the $100 million outstanding under FFB Note #12 into a new Note #18, which will mature March 30, 1979, and which provides for 91-day extensions of maturity up to October 1, 1979. All Amtrak notes are guaranteed by the Department of Transportation (DOT).

Under Note #17, which matures February 16, 1979, FFB lent the following amounts to Amtrak:

Date	Amount	Interest Rate
12/1	$15,000,000.00	9.415%
12/19	10,000,000.00	9.535%
12/20	8,000,000.00	9.545%
12/21	6,000,000.00	9.575%
12/29	10,000,000.00	9.475%

FFB advanced funds to the following railroads under notes guaranteed by DOT under Section 511 of the Railroad Revitalization and Regulatory Reform Act:

	Date	Amount	Maturity	Interest Rate
Trustee of The Milwaukee Road	12/1	$1,104,652	11/15/91	9.282% annually
Chicago & North Western Trans.	12/1	1,389,744	3/1/89	9.322% annually
Missouri-Kansas-Texas Railroad	12/5	128,224	11/15/97	8.901% quarterly
Trustee of Chicago, Rock Island	12/15	414,512	12/10/93	9.37% annually

Other Guaranteed Lending Programs

During December, FFB purchased the following General Services Administration Participation Certificates:

Series	Date	Amount	Maturity	Interest Rate
K-014	12/1	$1,548,784.52	7/15/04	8.96%
M-040	12/13	4,855,506.33	7/31/03	8.984%
L-049	12/14	1,723,802.44	11/15/04	9.016%

On December 22, FFB signed a $500 million loan agreement with the Government of Israel. Repayment of advances made under this loan agreement are guaranteed by the Department of Defense under the Arms Export Control Act. Also during December, FFB made 32 advances totalling $215,887,769.93 to 14 governments under existing DOD-guaranteed loan agreements.

On December 20, FFB purchased a total of $7,000,000 in debentures issued by 9 small business investment companies. These debentures are guaranteed by the Small Business Administration, and mature in 3, 5 and 10 years, with interest rates of 9.645%, 9.345% and 9.305%, respectively.

Under notes guaranteed by the Rural Electrification Administration, FFB advanced a total of $114,305,000 to 31 rural electric and telephone systems. Details of individual advances are included in the attached activity table.

FFB provided Western Union Space Communications, Inc., with $8,500,000 on December 20 at an annual interest rate of 9.604%. This advance is part of FFB's $687 million financing of a satellite tracking system to be constructed by Western Union and used by the National Aeronautics and Space Administration, which guarantees repayment of these advances.

Agency Issuers

The Tennessee Valley Authority sold FFB a $70 million note on December 15 and a $690 million note on December 29. Both notes mature March 30, 1979 and carry interest rates of 9.40% and 9.664%, respectively. Of the total $760 million financed, $625 million refunded maturing securities, and $135 million raised new cash.

In its weekly short-term FFB borrowings, the Student Loan Marketing Association (SLMA), a Federally-chartered private corporation which borrows under a Department of Health, Education and Welfare guarantee, raised $80 million in new cash, and refunded $245 million in maturing securities. FFB holdings of SLMA notes now total $915 million.

During December, FFB purchased the following Certificates of Beneficial Ownership from the Farmers Home Administration. Interest on these certificates is charged on an annual basis.

Date	Amount	Maturity	Interest Rate
12/12	$560,000,000.00	12/12/83	9.312%
12/28	215,000,000.00	12/28/83	9.71%

On December 1, the Export-Import Bank sold FFB a $330 million note which matures December 1, 1988, and which carries an interest rate of 9.023% on a quarterly basis.

FFB Holdings

As of December 31, 1978, FFB holdings totalled $51.3 billion. FFB Holdings and Activity Tables are attached.

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FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)
December 31, 1978

Program	December 31, 1978	November 30, 1978	Net Change (12/1/78-12/31/78)	Net Change-FY 1979 (10/1/78-12/31/78)
On-Budget Agency Debt				
Tennessee Valley Authority	$ 5,635.0	$ 5,500.0	$ 135.0	$ 415.0
Export-Import Bank	6,898.3	6,568.3	330.0	330.0
Off-Budget Agency Debt				
U.S. Postal Service	2,114.0	2,114.0	-0-	-0-
U.S. Railway Association	355.7	355.7	-0-	-1.1
Agency Assets				
Farmers Home Administration	23,825.0	23,050.0	775.0	1,550.0
DHEW-Health Maintenance Org. Loans	57.0	57.0	-0-	-0-
DHEW-Medical Facility Loans	163.7	163.7	-0-	-0-
Overseas Private Investment Corp.	38.0	40.1	-2.2	-2.2
Rural Electrification Admin.-CBO	637.7	637.7	-0-	-0-
Small Business Administration	107.3	108.9	-1.6	-4.8
Government Guaranteed Loans				
DOT-Emergency Rail Services Act	17.5	17.5	-0-	-0-
DOT-Title V, RRRR Act	49.2	46.2	3.0	13.4
DOD-Foreign Military Sales	4,284.8	4,137.7	147.1	306.9
General Services Administration	297.4	289.2	8.1	27.2
Guam	36.0	36.0	-0-	-0-
DHUD-New Communities Admin.	38.5	38.5	-0-	-0-
Nat'l. Railroad Passenger Corp. (AMTRAK)	478.2	429.2	49.0	-56.2
NASA	280.1	271.6	8.5	43.6
Rural Electrification Administration	4,603.7	4,489.4	114.3	412.2
Small Business Investment Companies	267.6	260.6	7.0	17.0
Student Loan Marketing Association	915.0	835.0	80.0	170.0
Virgin Islands	21.8	21.8	-0-	-0-
WMATA	177.0	177.0	-0-	-0-
TOTALS	$51,298.5	$49,645.1	$1,653.3*	$3,221.0

Federal Financing Bank

January 15, 1979

*Total does not add due to rounding.

FEDERAL FINANCING BANK

December 1978 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST RATE (other than s/a)
Department of Defense					
Peru #4	12/1	$ 1,300,000.00	4/10/85	9.254%	
Thailand #2	12/1	211,418.54	6/30/83	9.401%	
Thailand #3	12/1	1,229,369.00	9/20/84	9.296%	
Thailand #5	12/1	11,300,000.00	9/20/87	9.176%	
Ecuador #2	12/6	125,765.00	8/25/84	9.25%	
Malaysia #3	12/7	152,648.60	3/20/84	9.293%	
Colombia #2	12/8	363,457.50	9/20/84	9.287%	
Ecuador #3	12/8	146,500.00	8/1/85	9.237%	
Tunisia #4	12/11	103,098.00	10/1/85	9.224%	
Honduras #2	12/12	81,242.00	10/7/82	9.499%	
Korea #8	12/12	1,080,469.21	12/31/86	9.176%	
Costa Rica #1	12/13	37,275.16	4/10/83	9.422%	
Jordan #2	12/13	999,999.25	11/26/85	9.229%	
Thailand #3	12/14	1,014,967.80	9/20/84	9.338%	
China #8	12/15	393,521.35	7/1/85	9.301%	
Ecuador #2	12/15	142,001.69	8/25/84	9.349%	
Thailand #2	12/15	2,804,440.06	6/30/83	9.446%	
Turkey #4	12/15	7,822,966.89	10/1/87	9.235%	
Turkey #5	12/15	30,000,000.00	12/15/87	9.227%	
Turkey #6	12/15	6,933,785.50	6/3/88	9.205%	
Malaysia #3	12/18	78,829.76	3/20/84	9.435%	
Colombia #2	12/20	467,302.50	9/20/84	9.589%	
Indonesia #3	12/20	9,527,238.00	9/20/86	9.479%	
Morocco #4	12/20	24,950,881.00	9/10/86	9.481%	
China #2	12/21	130,126.09	12/31/82	9.859%	
Jordan #2	12/21	899,015.71	12/31/86	9.582%	
Jordan #3	12/21	61,222.00	11/26/85	9.537%	
Korea #8	12/22	109,069,942.62	12/31/86	9.56%	
Colombia #2	12/28	1,182,094.80	9/20/84	9.703%	
Ecuador #3	12/28	100,000.00	8/1/85	9.636%	
Jordan #3	12/28	529,273.00	12/31/86	9.555%	
Colombia #1	12/29	2,648,919.70	6/30/83	9.851%	
Export-Import Bank					
Note #18	12/1	330,000,000.00	12/1/88	9.125%	9.023% quarterly
Farmers Home Administration					
Certificates of Beneficial Ownership	12/12	560,000,000.00	12/12/83	9.105%	9.312% annually
	12/28	215,000,000.00	12/28/83	9.485%	9.71% annually
General Services Administration					
Series K-014	12/1	1,548,784.52	7/15/04	8.96%	
Series M-040	12/13	4,855,506.33	7/31/03	8.984%	
Series L-049	12/14	1,723,802.44	11/15/04	9.016%	
National Railroad Passenger Corp. (Amtrak)					
Note #17	12/1	15,000,000.00	2/16/79	9.415%	
Note #17	12/19	10,000,000.00	2/16/79	9.535%	
Note #17	12/20	8,000,000.00	2/16/79	9.545%	
Note #17	12/21	6,000,000.00	2/16/79	9.575%	
Note #17	12/29	10,000,000.00	2/16/79	9.475%	
Note #18	12/29	100,000,000.00	3/30/79	9.874%	

FEDERAL FINANCING BANK

December 1978 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST RATE (other than s/a)	
Rural Electrification Administration						
Tri-State Gen. & Trans. #89	12/1	$ 3,625,000.00	12/1/85	9.075%	8.974%	quarterly
Arkansas Elect. Coop. #97	12/1	6,589,000.00	12/31/12	8.979%	8.88%	"
Southern Illinois Power #38	12/4	500,000.00	12/4/80	9.675%	9.561%	"
Powell Telephone #41	12/5	329,000.00	12/31/12	8.951%	8.853%	"
Arkansas Electric Coop. #77	12/5	724,000.00	12/31/12	8.951%	8.853%	"
Doniphan Telephone #14	12/6	150,000.00	12/31/12	8.971%	8.873%	"
Eastern Iowa Light & Power #61	12/6	1,400,000.00	12/6/80	9.675%	9.561%	"
Empire Telephone #43	12/7	1,090,000.00	12/31/12	8.959%	8.861%	"
Cooperative Power #70	12/8	7,000,000.00	12/31/12	8.993%	8.894%	"
Alabama Electric Coop. #26	12/11	9,900,000.00	12/11/80	9.685%	9.571%	"
Wolverine Electric Coop. #100	12/11	1,020,000.00	12/11/80	9.685%	9.571%	"
Northern Michigan Elect. #101	12/11	1,303,000.00	12/11/83	9.105%	9.004%	"
Wabash Valley Power #104	12/11	4,422,000.00	12/31/12	8.99%	8.891%	"
Allegheny Electric Coop. #93	12/11	2,472,000.00	12/31/12	8.99%	8.891%	"
United Power Assn. #86	12/11	1,000,000.00	12/31/12	8.99%	8.891%	"
United Power Assn. #122	12/11	100,000.00	12/31/12	8.99%	8.891%	"
Tri-State Gen. & Trans. #79	12/13	1,490,000.00	12/13/85	9.085%	8.984%	"
Colorado-Ute Electric #78	12/13	258,000.00	12/31/12	9.004%	8.905%	"
Western Illinois Power #99	12/15	1,428,000.00	12/15/80	9.715%	9.60%	"
Dairyland Power #36	12/15	8,000,000.00	12/31/12	9.052%	8.952%	"
St. Joseph Tele & Telegraph #13	12/18	439,000.00	12/18/80	9.755%	9.639%	"
Continental Tele of the South #106	12/19	3,000,000.00	12/31/12	9.165%	9.062%	"
Big River Electric #58	12/20	3,033,000.00	12/20/80	10.085%	9.961%	"
Big River Electric #65	12/20	104,000.00	12/20/80	10.085%	9.961%	"
Big River Electric #91	12/20	3,840,000.00	12/20/80	10.085%	9.961%	"
San Miguel Electric #110	12/20	10,000,000.00	12/20/80	10.085%	9.961%	"
Arizona Electric Power #60	12/20	2,850,000.00	12/31/12	9.161%	9.058%	"
Central Iowa Power #51	12/21	518,000.00	12/31/12	9.189%	9.086%	"
Soyland Power #105	12/26	7,248,000.00	12/26/80	10.135%	10.10%	"
Sho-Me Power #114	12/26	3,250,000.00	12/26/80	10.135%	10.10%	"
North West Telephone #62	12/26	1,159,000.00	12/31/12	9.15%	9.048%	"
East Kentucky Power #73	12/27	5,040,000.00	12/27/80	10.155%	10.029%	"
So. Mississippi Elect. #3	12/27	504,000.00	12/31/80	10.155%	10.029%	"
So. Mississippi Elect. #90	12/27	246,000.00	12/31/80	10.155%	10.029%	"
Gulf Telephone #50	12/27	528,000.00	12/31/12	9.138%	9.036%	"
East Ascension Telephone #39	12/28	500,000.00	12/28/80	10.155%	10.029%	"
Cooperative Power #121	12/28	1,175,000.00	12/31/12	9.129%	9.027%	"
Southern Illinois Power #38	12/29	650,000.00	12/29/80	10.155%	10.029%	"
Wolverine Electric #100	12/29	1,516,000.00	12/29/80	10.155%	10.029%	"
Oglethorpe Elect. Membership #74	12/29	14,152,000.00	1/15/81	10.135%	10.10%	"
Empire Telephone #43	12/29	632,000.00	12/31/12	9.17%	9.067%	"
Wabash Valley Power #104	12/29	1,121,000.00	12/31/12	9.17%	9.067%	"
Small Business Investment Companies						
First Midwest Capital Corp.	12/20	700,000.00	12/1/81	9.645%		
First United SBIC, Inc.	12/20	300,000.00	12/1/81	9.645%		
Grocers SBIC	12/20	1,000,000.00	12/1/81	9.645%		
Fundex Capital Corp.	12/20	500,000.00	12/1/83	9.345%		
Oceanic Capital Corp.	12/20	500,000.00	12/1/83	9.345%		
Suwannee Capital Corp.	12/20	500,000.00	12/1/83	9.345%		
Builders Capital Corp.	12/20	1,000,000.00	12/1/88	9.305%		
First Conn. SBIC	12/20	2,000,000.00	12/1/88	9.305%		
Venture SBIC	12/20	500,000.00	12/1/88	9.305%		
Student Loan Marketing Association						
Note #173	12/5	70,000,000.00	3/6/79	9.446%		
Note #174	12/12	90,000,000.00	3/13/79	9.387%		
Note #175	12/19	95,000,000.00	3/20/79	9.715%		
Note #176	12/26	70,000,000.00	3/27/79	9.82%		
Tennessee Valley Authority						
Note #88	12/15	70,000,000.00	3/30/79	9.40%		
Note #89	12/29	690,000,000.00	3/30/79	9.664%		

FEDERAL FINANCING BANK
December 1978 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST RATE (other than s/a)
Department of Transportation					
Trustee of The Milwaukee Road	12/1	$ 1,104,652.00	11/15/91	9.076%	9.282% annually
Chicago & North Western Trans.	12/1	1,389,744.00	3/1/89	9.114%	9.322% annually
Missouri-Kansas-Texas Railroad	12/5	128,224.00	11/15/97	9.00%	8.901% quarterly
Trustee of Chicago, Rock Island	12/15	414,512.00	12/10/93	9.16%	9.37% annually
Western Union Space Communications, Inc. (NASA)					
	12/20	8,500,000.00	10/1/89	9.384%	9.604% annually

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

FOR RELEASE UPON DELIVERY
EXPECTED AT 11 A.M.
JANUARY 29, 1979

STATEMENT BY THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
ON REAL WAGE INSURANCE
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
JANUARY 29, 1979

Mr. Chairman and Members of this distinguished Committee:

I am grateful for this hearing on the Administration's proposal for real wage insurance. This innovative proposal offers the Congress a unique opportunity to strengthen the nation's fight against inflation, and I hope the Committee will give the proposal serious, expeditious, and positive consideration.

The President has subordinated all of his other policy objectives to the inflation fight. Over the past several months, the American people have shown a willingness to cooperate earnestly in this effort, even at the risk of financial sacrifice. We have had an encouraging and braod based response to the President's appeal for voluntary price and wage restraint. The American people clearly appreciate the crucial importance of this common effort. They understand that the country cannot afford to fail in this enterprise.

The President, through this proposal, is asking the Congress to enlist in this fight against inflation. To continue holding the line on wages and prices, the President and the American people need your help. Expeditious enactment of real wage insurance would provide that help precisely where it is needed, in a direct and effective fashion.

Questions inevitably arise about a genuinely new idea, and I welcome this chance to answer them. But it is important at the outset stress that no other instrument has been suggested that could so effectively encourage voluntary wage restraint. We do not pretend that this particular tool assures the success of our entire anti-inflation effort, but it plays an important and unique role in that effort.

On January 17, I submitted to the Committee full general and technical explanations of the proposal. Today, I would like to explain how the proposal fits into the overall structure of our anti-inflation policies. I will then address some of the major questions that have been raised about the proposal.

I. The Inflation Problem and the President's Policies

Over the 1970's, inflation has posed a critical threat to economic progress throughout North America, Europe, and Japan. It has made all of our other problems much worse. In some countries, inflation has compromised political stability and democratic procedures. More than once it has seriously shaken the international monetary system. Everywhere it has retarded economic growth and social progress. Inflation has proved to be far more destructive of prosperity, and far more intractable, than any of us would have imagined possible ten years ago.

As the decade comes to a close, however, we have learned that inflation is not an insoluble problem: It is not like death and taxes; we can rid ourselves of it. In 1974, Japan suffered a 22 1/2 percent rate of inflation; the Japanese inflation rate is currently running at 4 percent. Similarly, Germany has reduced its inflation rate from 7 percent to 2 1/2 percent over the past 4 years, and the British brought their inflation rate down from 24 percent to 8 1/2 percent between 1975 and 1978.

That is cause for hope. But it is also reason for impatience about our own experience. The inflation record of the United States has been less than admirable. The dollar's buying power has been cut in half since 1967. In the 1970's, inflation here has rarely gone into the double digits -- but it has averaged 6 3/4 percent. Last year, the inflation rate experienced a disturbing acceleration. At the end of 1978 the CPI was 9 percent higher than at the end of 1977. This constituted an increase of more than 2 percentage points over the previous year's inflation rate.

In the spring of last year, the President moved the war against inflation ahead of all other objectives and policies. During the spring and summer of 1978, the President worked with the Congress to reduce the FY 1979 budget deficit to less than $38 billion. In late October and November, the President added important new weapons to the anti-inflation arsenal. He set a target of $30 billion or less for the FY 1980 budget deficit; he announced that the Federal Reserve Board would take strong steps to contain credit expansion; he arranged with Germany, Japan, and Switzerland a far-reaching program to stabilize and strengthen the dollar in the foreign exchange markets; he set in place an unprecedented program for reviewing the economic impact of federal regulations; he promulgated a full program of voluntary wage-price standards; and he announced plans to submit to this new Congress a proposal for real wage insurance, to encourage compliance with the voluntary pay standard.

This full array of policy tools is necessary because our inflation problem has many causes. We have structured our anti-inflation program to check all of the sources of inflation -- e.g., dollar depreciation, over-regulation, impediments to competition in domestic and foreign markets -- but three dimensions of the problem are of particular importance and require special, concerted, and sustained attention: aggregate demand pressures, low productivity growth, and wage-price momentum. Real wage insurance responds to the last of these problems, but an appreciation of the other dimensions is necessary to understand the purpose and importance of the proposal.

Demand pressures

At the center of the President's anti-inflation strategy is firm and persisting restraint on aggregate demand -- a sustained commitment to prudence, both in the making of budgets and in the creation of dollars.

The President's FY 1980 budget sets an example of restraint for the entire economy:

- Total federal spending in FY 1980 will be nearly frozen in real terms. After adjusting for inflation, federal outlays in both 1979 and 1980 will show annual increases of less than one percent -- the smallest increases in five years, and far below the 3 percent average for the 1970's.

- Federal spending will absorb the smallest share of total output in five years. Outlays in 1980 will be down to 21 percent of GNP, compared with 22-1/2 percent in 1976.

- Federal borrowing requirements will show no growth from 1979 to 1980. The budget deficit will be below $30 billion for the first time in five years. The President's budget yields a deficit for 1980 of about 1 percent of GNP; in 1976, by contrast, the deficit was 4 percent of GNP.

Fiscal austerity is complemented by increased monetary restraint, a commitment to keep the supply of dollars from outpacing the demand for them, either at home or abroad.

We are emphasizing fiscal and monetary restraint on aggregate demand for two reasons.

First, there have been warning signals of demand excess in recent months. We must remember that this economic recovery has been remarkable both in its durability and in its strength: over the last 45 months, it has proceeded at an average annual rate of 5.1 percent, and has added 11.4 million new jobs and $240 billion in real GNP (1972 dollars); in the last quarter of 1978, real growth ran at a 6.1 percent annual clip. All of this has inevitably placed some inflationary strains upon the economy, and has generated tightness in selected labor and product markets. If we did not move now to slow the pace of economic activity, through a controlled and measured application of tight budgeting and monetary prudence, we would surely be forced to jam on the brakes later. That would mean a wholly unnecessary recession and a great deal of unnecessary hardship.

There is a second reason for demand restraint: both here and abroad, experience has demonstrated that no anti-inflation effort -- no array of policies -- can succeed without the long-term, unwavering support of fiscal and monetary discipline. This long-term discipline is essential to reduce inflationary expectations and reverse the wage-price spiral. The President has not joined this battle against inflation to win temporary victories. Our goal is not a momentary pause in the wage-price spiral, but an economy securely settled on a path of long-term price stability and sustainable progress in growth and employment. This effort will require patience and sacrifice by the American people, and from Washington it will require political courage and a determination to share the sacrifices fairly and evenly.

Productivity growth

A second major source of our inflation problem is sluggish productivity growth -- a low rate of increase in real output per hour of work. On this criterion, we have been finishing dead last among industrial nations throughout most of the 1970's.

Productivity growth is the fulcrum between wage inflation and price inflation. When productivity is increasing at 3 percent a year, as it did through the first two decades of the post-war period, average wages can also increase at 3 percent without putting any upward pressure on prices. Over the last ten years however, productivity growth in the private business sector has averaged only 1-1/2 percent, and last year it fell to an abysmal 0.8 percent. This means that average wage increases and price inflation must run at nearly the same rate: last year, for instance, compensation per hour (wages plus fringes) rose by about 9-3/4 percent; price inflation tracked right along at about 9 percent.

To improve productivity growth requires a long term effort to increase our investment in productive resources and to refrain from imposing excessive regulatory burdens upon the private sector. Last year's tax bill, involving substantial incentives for investment, will help. The President's new program for reviewing regulatory costs and benefits will help.

But it will take persistent policy attention over a number of years to return productivity growth to the high rates that made life so cheerful for economic advisers in the 1960's. Until then, average wage inflation will be feeding very directly into price inflation: To bring down price inflation, we must bring down wage inflation, and vice versa. No genie is about to appear to allow us one without the other.

<u>Wage-price momentum</u>

This brings me to the third major element in our inflation problem: The sheer, self-reinforcing momentum of wage and price increases.

When the inflation rate jumps up, we can usually identify a specific cause. At times the cause is beyond our immediate control -- e.g. a large oil price increase by OPEC or poor harvests abroad; at times, the government itself plays a part -- e.g. by imposing an overly costly regulatory burden or by spending too much. A major dimension of the problem, however, is that the inflation rate tends to stay up even after the event causing the increase has passed. What went up refuses to come back down, as the one-time increase in prices gets embedded more or less permanently in the on-going wage-price spiral.

Inflation persists in this way because everyone expects it to persist. Expecting high inflation, business sets high prices, labor demands high wages -- and we thereby generate precisely the high inflation that was expected.

The wage-price sprial is enormously stubborn. Demand restraint can have some effect on it, and is clearly a necessary part of any cure; but, acting alone, demand restraint works its cure quite slowly. The U.S. inflation rate in the 1970's has declined with painful slowness even during periods of great slack in labor and product markets. Even when aggregate demand is sharply cut back, business and labor continue for a substantial period to act upon deeply ingrained expectations of high inflation. The inflationary momentum persists and, while it does, the decline in demand delivers its impact on the only remaining targets: employment and real growth. It is only after a considerable period of demand restraint that inflationary expectations finally begin adjusting to the changed economic conditions, so as to permit demand restraint to shift the wage-price spiral into reverse.

To succeed in reducing inflation, we must learn patience, but we must also seek to speed up the response of wages and prices to conditions of demand restraint. Every advanced nation has recognized this. Each has established its own particular procedures and institutions for braking wage-price momentum -- for overriding unrealistic inflationary expectations -- so that demand restraint can reduce inflation without socially wasteful delays.

It is for this purpose that the President promulgated voluntary wage-price standards last October. These standards describe a path for wages and prices consistent with the general moderation of economic activity that is assured by our application of fiscal and monetary discipline. If these standards are followed, the inflation rate will adjust downward, smoothly and realistically, to the slowing pace of the economy. We will avoid an unnecessary, sharp fall-off in real growth rates and an unnecessary, large increase in unemployment.

The wage-price standards are voluntary. The President strongly opposes mandatory controls. The U.S. experience with controls, and that of virtually every other nation, is that they saddle the economy with enormous bureaucracy, miles of red tape, and crippling inefficiencies. Very quickly, mandatory controls collapse under their own weight. Controls are an attempt to usurp the roles of the market and the collective bargaining table in setting every price and wage throughout the economy. That's an absurd and unnecessary project. Our purpose is merely to check the tendency of wages and prices to take on a momentum of their own, unresponsive to basic macro-economic conditions. That vital, but limited, purpose can be accomplished without excessive government interference in allocating resources and incomes throughout the economy.

<u>The role of real wage insurance</u>

The President's wage-price program calls upon the good faith, farsightedness, and sense of trust of America's working people and businesses. The program asks everyone to forego personal, short-term economic gains in exchange for long-term economic improvements of a much more substantial, general, and lasting character. In launching the program, the President expressed confidence that the American people were willing to undertake this commitment: the response to the program has so far justified that confidence.

But voluntarism raises a basic issue. Every working person has a legitimate fear: the fear that his or her compliance with the program will not be matched by others and will accordingly result in reduced real income as inflation continues beyond a 7 percent level. Wages are set for extended periods -- 6 months, a year, sometimes several years. Compliance on the wage side constitutes a relatively long term commitment, and thus triggers a particularly acute concern about real income loss. This is the concern that drives the wage side of the wage-price spiral. If we can meet this basic concern, we can considerably enhance the effectiveness and fairness of the anti-inflation effort.

Real wage insurance responds directly to this central concern of working people. It would materially reduce the financial risks of compliance; it would lead to more widespread compliance, and thus to a more rapid and pronounced impact on the inflation rate. The proposal would not of course render a commitment to compliance completely riskless nor entirely remove the inevitable measure of short-run sacrifice required by a successful anti-inflation effort. But it would help, and help a great deal.

The proposal in effect sets up an insurance contract. In this contract, we ask wage restraint from each employee group, so as to reduce inflation for the benefit of all; in return we offer to share the risk that inflation will in fact exceed the wage increase ceiling. This is a novel, but natural, response to a dilemma that has evaded solution for many years. In the overall structure of our anti-inflation policies, real wage insurance plays an important role for which there are no readily imagined substitutes.

II. <u>The Real Wage Insurance Proposal - The Major Issues</u>

The proposal is a major innnovation, but it is also simple, direct, and straightforward, both in its design and in its attack upon the wage-price spiral.

If inflation exceeds 7 percent in 1979, real wage insurance will give a tax credit to workers in groups that hold their average pay increases to 7 percent or less. The tax credit is computed as a percentage of the first $20,000 of the employee's 1979 wages. This percentage is the number of percentage points, up to 3, by which inflation exceeds 7 percent.

Employes will divide their employees into a few simple groups and determine qualification separately for each group.

The program is available to every employee group in the nation.

For most groups, qualification for real wage insurance is determined as of the close of the program year. Special rules, however, apply to collective bargaining agreements, negotiated during the program year, that represent long term (i.e. more than 15 month) commitments by the employees. These agreements are evaluated as of the time of settlement so that the parties may be assured of RWI coverage in advance. Average pay increases must be 7 percent or less over the life of the contract.

The full specifications of the proposal, sent to this Committee on January 17 are included as an appendix to this testimony. I do wish, however, to address here several major questions that are typically asked about this proposal.

Is it an efficient tool for reducing inflation?

The proposal offers a significant and direct anti-inflationary impact while the revenue cost, if any, would be modest. That is why the President and his economic advisers selected this proposal from among many different candidates for anti-inflation legislation.

This is a year of budget austerity, a year in which our concern for inflation requires that every federal penny prove its case. Real wage insurance passes this test. Any revenue loss under the program would serve direrctly to reduce labor costs and price inflation in the private sector.

Fortified by this proposal, the voluntary wage standard should produce a reduction of 0.5 percentage points in the 1979 inflation rate, compared to what it would have been without the wage-price program. This is a moderate estimate; it assumes that 47 million out of 87 million potentially eligible workers will comply with the wage standard. If the proposal succeeds in inducing an even higher rate of compliance, the impact on inflation will be significantly larger. It would be 1.4 percentage points with maximum compliance.

However, a 0.5 percentage point reduction in a single year is itself a major achievement. To achieve that much effect on inflation through a payroll tax cut would require a continuous revenue loss of $10 billion a year.

The cost of real wage insurance, if any, will be far less. If the program induces 100% wage standard compliance, we estimate that 1979 inflation would fall below 7 percent, and the program would cost nothing. For the sake of budgetary prudence, we have projected only moderate wage standard compliance, a 7.5 percent inflation rate, and a consequent program cost of $2.5 billion. Unlike a payroll tax cut, the revenue loss need not be continued year after year to sustain the initial 0.5 percentage point improvement in the CPI.

Real wage insurance is to a large extent self-limiting in terms of cost. If compliance is low, few will be eligible, and the cost will be low; if compliance is high, inflation will be reduced, and that will reduce the cost. It is of course theoretically possible that high compliance and high inflation would somehow occur simultanously, creating a sizeable program cost. But that could happen only if the rate of price inflation exceeded the rate of wage inflation by an appreciable margin. In fact, since World War II, price inflation in the U.S. has exceeded wage inflation only once -- in 1974. The prospect that 1979 will ressemble the eccentric inflation profile of 1974 is extremely low: That was the year that world oil prices quadrupled and agricultural harvests failed dramatically. The odds against a large cost for RWI are very substantial.

Nevertheless, we have taken care to limit the theoretical costs.

We have limited covered wages to $20,000 from any one job. This still allows full income coverage for 88 percent of all qualified employees, but it avoids the potential payout of very large sums to any one person.

Similarly, we have capped the inflation coverage at 10 percent. This adequately reflects the range of reasonable inflation estimates for 1979, including even those that are extremely skeptical about food and oil prices. The 10 percent cap limits the hypothetical budget exposure without detracting in a serious way from the proposal's incentive effect.

Can it be easily administered?

RWI is a practical, workable proposal. It is no more complicated than dozens of other tax provisions enacted by the Congress. It involves a minimum of paperwork for employers, employees, and the Government. No one will be required to file a single additional form with any government agency.

The qualification rules rely mainly on payroll records already required for tax purposes and on a company's standard records of hours worked. Only when there are changes in certain employee benefit plans is any additional pay information required.

The rules for determining qualification for RWI generally follow the rules for compliance with the pay standard. Where there are differences, the RWI rules are invariably simpler and involve fewer optional calculation methods.

To determine the amount of wage insurance for each qualified employee, an employer need refer only to regular tax information. The employer increases W-2 wages for each eligible employee by the announced credit rate and reports the credit amount in one new box on the employee's W-2 Form.

The employee has only to copy the amount of wages from the W-2 Form, as he would normally do, and claim the wage insurance credit on one new line of the tax return.

Is it as attractive as big wage increases?

A few critics have noted that, under some circumstances, some workers would be "better off" securing a large wage increase than complying with the 7 percent wage standard and securing the coverage of real wage insurance. This is true. But it is not a defect in the program. Real wage insurance does not seek to compensate for hypothetical wage increases on a dollar-for-dollar basis; it seeks merely to provide a large measure of protection against the risk of real income loss caused by wage retraint. It is not intended to purge the anti-inflation effort of the need for sacrifice and austerity. No program can do that, and no nation can stop inflation if the only inducement to wage restraint that its citizens will accept is full, dollar-for-dollar compensation. In the end, a voluntary anti-inflation program must rely on the maturity and the community spirit of the people themselves. The working people of America measure up to that standard. What real wage insurance offers to them is reasonable and fair: It is neither too much to ask, nor too little to have a major impact.

Are the rules fair and sensible?

The administration designed the rules for this proposal with great care. As you scrutinize them closely, I think you will come to agree that we made the proper decisions.

Real wage insurance is not a general tax cut and its rules cannot logically be tested by all the conventional norms used in the tax field. For instance, we often demand that a tax cut go to everyone and be progressive. But that test would utterly destroy this proposal. The whole idea of real wage insurance is that it be available only to those in groups that comply with the wage standard and that it pay out in proportion to the inflation rate and to the recipient's earnings (up to reasonable limits). Otherwise it simply would not be a sensible insurance program for those in compliance with the wage standard.

Similarly, it is important that qualification for real wage insurance be by employee group, rather than on an individual basis. To ask each individual to meet the 7 percent standard would interfere massively with all the mechanisms by which companies, unions, and employees allocate merit raises, promotions, overtime pay, and every other form of employee compensation. This would create strange, artifical incentives for individuals to work less and quit early. All of that is avoided by group qualification.

On the other hand, we have taken care to open the program to every employee group in the economy.

We have also taken pains to deal fairly as between groups. Low wage workers, unions, managerial employees, and all others are each assigned to separate groups. This mean that unusual pay increases going to one group will not prejudice the qualification of the others. Similarly, the rules deal sensibly as between union and non-union employees. In general, we apply exactly the same rules to the two groups. However, where a union undertakes a pay restraint commitment of substantially more than a year -- e.g. a multiyear contract -- we apply the somewhat more liberal CWPS rules to determine whether the contract qualifies, and we determine qualification as of the date of settlement. This is a fair exchange and assures that the real wage insurance proposal will integrate smoothly with the collective bargaining process.

Finally, we have included the insurance payments in taxable income. This is logical, because the payments serve as a substitute for foregone wages, which would have been taxable. It is also fair, because a dollar of non-taxable payment would be equivalent to more in the pay envelope for high-bracket than for low-bracket taxpayers.

Is this a prelude to indexing?

Real wage insurance is the opposite of indexing. Indexing the tax system to inflation would be a surrender to inflation -- a confession that the problem cannot be solved and must be permanently accomodated. Real wage insurance is an attack upon inflation. It confers its benefits only on those who exercize anti-inflationary restraint. Indexing, by contrast, would confer its benefits most bountifully on those who show the least restraint and secure the biggest increase in earnings. The Administration is totally opposed to indexing of the tax system, in any form.

III. Conclusion

The new Congress convenes at a critical point in the anti-inflation fight.

It has been just three months since the President took a series of bold and coordinated steps in fiscal, monetary, exchange rate, and wage-price policy. These steps have set in motion broad and hopeful trends throughout the ecomony.

The dollar has rallied by 9.3 percent against all OECD currencies since October 31, and the stock market has firmed and gained substantially since the President acted.

The inflation figures for the last half of 1978 showed some improvement over those for first part of the year.

Opinion and financial leaders, both here and abroad, now recognize that this goverment is determined to see the inflation fight through to a successful conclusion. It is no longer the smart bet to wager against the prospects of the American economy.

Real growth remains strong, if anything somewhat too strong, and the doomsayers who have been predicting an imminent recession for more than a year are once again busily pushing their forecasts further into the future.

Most importantly, the American people have ignored the cynics and have shown a genuine receptivity to a common, voluntary effort to restrain wages and prices.

All this adds up to strong evidence that our economy can indeed be steered to a deflationary path without dislocation, turmoil, and recession.

These hopeful signs do not of course mean we have won this fight, but they give us a genuine chance to win it -- if we can retain the momentum.

That is where you come in. Real wage insurance is the only piece of legislation we have proposed to deal directly with the wage-price sprial. Prompt and constructive legislative action would be a vital help in sustaining the momentum of the anti-inflation effort.

I realize that this is an unfamiliar proposal, a genuinely new idea. You will want to examine it closely and objectively. I welcome such scrutiny and ask only that you not count novelty itself a defect. We are dealing with a specific problem of wage-price momentum for which all the old ideas have proved inadequate. We need this new tool, and we need it as soon as possible.

I also appeal to you not to let this hopeful new proposal be used as a vehicle for solving every perceived ill or grievance in our economic or tax systems. Real wage insurance has a limited, precise, and vital purpose: To help all Americans pull together to conquer inflation. To approach the proposal with any other purpose in mind would be inconsistent with the seriousness of the inflation problem confronting the nation, and with the rising hopes of all of us that this problem can indeed be resolved.

Thank you for your attention. I would be happy to answer questions.

Attachment

REAL WAGE INSURANCE - IN BRIEF

What is RWI?

Real wage insurance (RWI) is an innovative anti-inflation initiative which President Carter has proposed for enactment by the Congress.

RWI would strike directly at the wage-price spiral by encouraging widespread observance of the voluntary 7 percent pay standard announced by the President in October, 1978.

RWI would work like this: If you belong to an employee group that has an average pay increase of 7 percent or less, you would qualify for a tax credit equal to your 1979 employment earnings times the amount by which the 1979 inflation rate exceeds 7 percent. For instance: Assume that you belong to a complying group, that your 1979 earnings are $15,000, and that the 1979 inflation rate is 8 percent. You would receive an RWI tax credit of $150 -- $15,000 times 1 percent (i.e., 8 percent minus 7 percent). This credit would be shown on your Form W-2 and would serve either to reduce your tax payment or to increase your tax refund. The credit (like wages themselves) would be subject to income tax.

The proposal would cover inflation up to 10 percent, with the rate measured from October-November 1978 to October-November 1979, and would apply to the first $20,000 of your pay from an employer.

What is the Purpose of RWI?

RWI is not a general tax cut or a device for indexing the Tax Code to inflation. Inflation would actually be worsened by such proposals, for they would enlarge the budget deficit without encouraging wage restraint. The sole purpose of RWI is to encourage compliance with the 7 percent pay standard.

RWI would accomplish this by greatly reducing the risk that compliance would mean an erosion in real (i.e., inflation adjusted) incomes. Workers understandably seek high pay increases out of fear that inflation will be high. But high pay increases produce higher labor costs and thus guarantee the very increase in inflation that is feared. RWI is designed to help break this vicious cycle. With real wage insurance available, employee groups can limit their pay increases to 7 percent without risking the loss in real income that would otherwise occur if inflation exceeded 7 percent. RWI helps to protect workers who cooperate with the pay standard from the non-cooperation of others and from such other inflationary effects as abnormal food or energy price increases.

How Much will RWI Help in the Fight Against Inflation?

RWI will have its major impact on those employees who might otherwise secure pay increases over 7 percent, but have the ability to show restraint. If RWI helps to persuade 60 percent of these employees to comply with the 7 percent standard, the 1979 inflation rate would be reduced by about 1/2 of a percentage point.

How Much Will RWI Cost in Federal Revenues?

A key advantage of RWI is that its revenue cost is somewhat self-limiting: If many workers participate, that brings down the inflation rate and thus reduces the RWI payout; if few workers participate, the anti-inflation effect is small, but so also is the RWI payout.

The Administration forecasts participation by about 47 million workers and an inflation rate of 7.5 percent for the relevant period. This implies a revenue cost of $2.5 billion, which will be included in the Administration's January budget.

How Do I Qualify for RWI?

To qualify, you must belong to a qualified employee group. The 7 percent pay standard applies to average pay in employee groups, not to each individual's pay increase. Thus, the system does not impose penalties against hard work, merit increases, or promotions for individuals.

There will be four types of employee groups: (1) employees subject to collective bargaining agreements, (2) low-wage workers (i.e., $4 per hour or less), (3) managerial and supervisory employees, and (4) all others.

Your group would qualify for RWI if the average hourly pay within the group rose by 7 percent or less between the third quarter of 1978 and the third quarter of 1979. Average hourly pay includes taxable wages, plus 25 percent of bonuses or other irregular payments made in the preceding year, plus 25 percent of the employer's annual cost of improving fringe benefit programs. Your employer will make these computations and, if your group qualifies, the amount of your credit will appear on your W-2 Form.

If you are under a collective bargaining agreement, that defines your group. New agreements of more than 15 months' duration, negotiated between October 24, 1978 and October 1, 1979 will be assessed for qualification as of the date of settlement. The contract must conform to the 7 percent pay standard on average over its entire life, but the first year's increase can be as high as 8 percent and still qualify. COLA provisions in the contract will be costed out at an assumed 6 percent inflation rate.

The RWI program will not apply to the self-employed, to non-residents, or to employees who own 10 percent or more of their company's stock. Also, employers of 50 or fewer workers need not participate in the program.

REAL WAGE INSURANCE

Legislative Proposal

Real Wage Insurance (RWI) will give a tax credit to workers in groups receiving average pay increases of 7 percent or less, if inflation exceeds 7 percent in 1979. The tax credit is computed as a percentage of the first $20,000 of an employee's 1979 wages. This percentage is the number of percentage points, up to 3, by which inflation exceeds 7 percent.

I. Reasons for the Program

This proposal is an integral part of the anti-inflation effort. It supplements the President's initiatives to limit federal spending, cut the budget deficit, and reduce the economic burdens of regulations. These actions will create an environment in which a voluntary program of wage and price restraint can be effective and lasting.

The essential purpose of real wage insurance is to reinforce the voluntary pay standards by giving workers an additional incentive to accept average pay increases of 7 percent or less. In times of inflation, employees often believe that a large pay increase is their only defense against a steady erosion of real income. Yet, higher labor costs are quickly passed on in higher prices. The present inflation clearly reflects the momentum of price and wage increases that have become built into the economy in recent years. Slowing this inflationary momentum is the most important challenge of domestic economic policy.

Real wage insurance will help to break the cycle of inflation by assuring groups of workers that they can cooperate with the pay standard without the risk of being penalized by an acceleration of inflation -- from whatever source. This point deserves emphasis: Unlike other anti-inflation proposals that are often suggested, RWI hits at the core of the wage-price spiral. Everyone involved in that spiral knows that self-restraint will break the spiral -- _if_ most of us exercise that self-restraint. But no one wants to go first. If one employee group shows restraint, but others do not, that group knows it will be penalized -- its wages will be restrained, but prices generally will keep on rising. So everyone avoids restraint, even though everyone knows that this guarantees more inflation. RWI offers a sensible remedy for this general frustration of the general interest. RWI allows unions and other employee groups to take the first step toward wage restraint without risking adverse consequences if others do not similarly cooperate or if other inflationary events occur.

RWI is the natural and logical complement of a voluntary system of pay and price restraints. It rewards responsible voluntary behavior. A voluntary system, fortified by RWI, is far less intrusive and cumbersome and far more equitable than a system of mandatory controls.

Real wage insurance is not a general tax cut, nor a device to compensate all workers for the effects of inflation. It is an incentive for responsible pay behavior. To cut taxes or provide general inflation relief without a requirement of wage restraint would actually fuel inflation -- by adding to the budget deficit and by weakening employers' resolve to restrain costs.

Real wage insurance is the opposite of indexing. It is tax policy applied to retard inflation rather than to accommodate inflation.

This program can help to reduce inflation. Based on historical distributions of pay increases among various groups of workers one can predict that a large percentage of U.S. workers would receive pay increases in excess of 7 percent in 1979, in the absence of wage restraint. Many of these workers are not yet "locked-in" by continuing contracts or other mandated raises. If 60 percent of these are persuaded to accept 7 percent pay increases, the average increase in pay for the country will be reduced by about 0.7 percentage points in 1979. This moderation of pay increases will be passed through to reduce the rate of price increases for most items. Overall, the rate of price inflation (including food and fuel prices) will be reduced by 0.5 percentage points as compared to what it would have been in the absence of wage restraint. The pass-through of wage deceleration into prices is specifically required for compliance with the price standards and is shown by historical relationships to be a normal response.

II. General Explanation

The proposal is designed for <u>effectiveness</u> in moderating the rate of increase in labor costs. Effectiveness depends upon the link between wage performance and potential rewards. Every employee group (except those of small businesses choosing not to participate) is subject to a test of pay-rate increases. In the case of new collective bargaining agreements of more than 15 months' duration, this test is a prospective evaluation under the pay standard recently announced by the Council on Wage and Price Stability (CWPS). In other cases, an end-of-the-year calculation of the annual pay-rate increase will be made according to rules set forth below. In either instance, RWI is available to an employee group only if the average annual pay increase for the group is 7 percent or less.

The proposal combines effective incentives for wage restraint with limited budget exposure. The objectives of effectiveness and cost control are both served by insisting that groups must hold pay increases to 7 percent or less to receive wage insurance. A high rate of compliance will slow inflation; slower inflation will reduce, and may eliminate, the budget cost of real wage insurance. Budget risk is also reduced by limiting the amount of covered wages from any one job to $20,000 and by limiting the wage insurance rate to 3 percent, thereby protecting for inflation up to 10 percent. Such limitations are prudent, but not overly restrictive. The $20,000 limit will allow full coverage of wages for 88 percent of employees, and will provide coverage for 87 percent of total wages for qualified workers. Similarly, the 10 percent inflation limit will curtail payout of RWI only if inflation substantially exceeds the range of professional forecasts for 1979.

The rules for real wage insurance are designed for simplicity, to the extent possible, given other goals of the program and the variety of pay practices used by businesses. The amount of insurance is based entirely on pay as normally reported for tax purposes. The rate of credit is the same for everyone. RWI will add only one line to the individual Federal income tax return. Payment would be made through the regular process of Federal income tax refunds and payments.

Employers will divide their employees into groups and determine whether each employee group qualifies. The rules for grouping and for qualification generally follow the standards recently published by CWPS. However, the rules for real wage insurance are somewhat simpler and have fewer options and exceptions. The simplified rules are intended to hold down the number of calculations and records required of smaller businesses and to facilitate their verification (when necessary) by the IRS.

Employers will not be required to report computations of pay-rate increases to the government, although the employer's determination will be subject to verification by IRS. Small businesses with fewer than 50 employees may choose to refuse RWI and thus avoid any calculation of average pay increases.

Every member of every employee group meeting the test of a 7 percent or smaller pay increase is qualified for wage insurance whether or not the group is covered by the CWPS standards. In other words, even those groups automatically exempted from the CWPS standards (i.e., low-wage workers and workers under continuing contracts) are eligible for RWI. Groups of employees are disqualified only if they have wage increases above 7 percent, or they are employees in small businesses choosing not to participate, or they are in a position to set their own wages (such as owner-managers of corporations). To accommodate RWI to the collective bargaining process, special rules apply to collective bargaining agreements of more than 15 months' duration negotiated during the program year. These agreements are evaluated <u>as of the time of settlement</u> so that the parties may be assured in advance of RWI coverage. Average pay increases must be 7 percent or less over the life of the contract. For all other groups, qualification is determined as of the close of the program year.

A. <u>Computation of RWI Credit</u>

Employees who are members of qualifying employee groups will receive a tax credit if inflation exceeds 7 percent. The amount of this credit will be determined by multiplying the employee's 1979 earnings from qualified employment by the difference between the rate of inflation for the year and 7 percent. For example, if the rate of inflation in 1979 is 8.0 percent, the amount of RWI credit reported to an employee earning $10,000 of taxable wages in 1979 would be $100. The amount of wages qualified for wage insurance is limited to $20,000 from any one employer. The rate of credit is the same for all qualified persons.

The rate of inflation for the year will be measured as the percentage increase of the average Consumer Price Index (CPI) for October and November 1979 over the average CPI for October and November 1978. This measurement period covers calendar year 1979 as closely as possible while still allowing the government to announce the rate of RWI credit before the end of December 1979, in time for employers to prepare W-2 forms.

The rate of RWI credit will be limited to 3 percentage points of inflation. Thus, qualified workers will be insured against loss of real income due to inflation up to 10 percent in 1979.

The program may also be extended to a second year. The President must order the extension and may reduce the target inflation rate for the second year by Executive Order on or before December 1, 1979. Congress must then approve the Executive Order by Joint Resolution within 30 legislative days for the extention and new target rate to become effective. Special procedures will facilitate Congressional action by limiting the amount of time a committee may take to consider a joint resolution, after which it will be brought to the floor.

The RWI credit is intended to supplement wages for those groups foregoing wage increases above 7 percent. In general, the tax credit will be treated as if it were an additional wage payment and, consequently, will be subject to federal income tax as 1979 wages. However, RWI will not be subject to FICA or FUTA taxes.

B. Qualification

Any employee receiving a W-2 form for earnings in 1979 is potentially eligible for RWI. This includes government employees, domestic workers, and farm workers, but excludes the self-employed. The only specific exclusions are for wages reported by a company to an employee not a resident in the United States or to one who owns 10 percent or more of the company's stock. These latter earnings, like those of the self-employed, are often hard to distinguish from profits.

An individual obtains coverage by being a member of an employee unit that qualifies. This rule of group qualification is very important. Like the voluntary CWPS pay standard, the RWI program aims to restrain a company's average pay increases. If the 7 percent standard and RWI applied on an employee-by-employee basis, rather than a group basis, they would not have a beneficial impact on the economy. First, it is a company's average pay increase that affects its prices. If RWI operated on an individual basis, it would be available even where average pay increases exceeded the 7 percent standard. Thus, RWI would not act as an effective anti-inflation incentive for company-wide decisions about the pay of its various union and nonunion employee groups. Second, an individually based program would create perverse incentives. Individual employees would be encouraged to avoid promotions, overtime work, merit bonuses, and the like. That is, the program would stifle productivity. Third, an individually based program would interfere in complex ways with each company's pay system. By contrast, a group-based standard leaves each company and its employees free to allocate pay among workers in the most efficient and equitable manner.

The group standard also greatly simplifies the administration of the program. For each group, it is necessary only to divide pay by hours worked, information readily available to employers. An individually based program would require that pay-rate calculations be made for every job held by every worker in the economy -- about 140 million separate calculations.

Employees of a company will be divided into four types of employee units: (1) employees subject to collective bargaining agreements, (2) low-wage workers, (3) management and supervisory employees, and (4) all others. Employers will determine the qualification of each employee unit for RWI.

To determine qualification, employers perform the computations described below. These computations need not be reported to the IRS, but must be available for possible verification.

Step One: Separate employees into groups. The qualification of those under new collective bargaining agreements is determined contract-wide as of the time the contract is signed. All other groups are separately tested by the employer after the end of the Program Year (October 1978 - September 1979).

Collective bargaining units that sign new agreements of more than 15 months' duration after October 24, 1978 and before October 1, 1979 will qualify for RWI if annual pay increases under such agreements average 7 percent or less according to the rules for new collective bargaining agreements published by the Council on Wage and Price Stability

(CWPS). All employees covered by such agreements are qualified, wherever they work. Other employees in the same company whose pay maintains a historical tandem relationship with such agreements are also qualified. Qualification will be based upon the terms of the agreement evaluated prospectively as of the date of the agreement. Thus, for example, agreements that contain cost-of-living adjustments will not be subject to reevaluation if later events reveal an inflation rate different from the 6 percent rate specified in the CWPS rules for evaluating agreements.

Step Two: Compute base quarter pay rate. For each remaining group, the employer determines total taxable straight-time wages for employees in the group for the third calendar quarter in 1978. To this total amount is added 25 percent of bonuses and other irregular payments made during the base year (October 1, 1977 to September 30, 1978). The resulting sum is divided by the total straight-time hours for which employees are paid in the quarter. The result is the "base quarter pay rate."

Step Three: Compute program quarter pay rate. Next, the employer makes the same calculation for the third quarter 1979 including 25 percent of irregular payments in the program year. If there have been changes in the structure of benefit plans, such as for pensions, medical insurance, and educational assistance, 25 percent of the change in the annual cost of these benefits also is added to (or subtracted from) taxable wages in calculating the "program quarter pay rate." The benefit rule is necessary to avoid an obvious loophole -- the substitution of fringe benefits for cash wages. An employer may also adjust the program quarter pay rate for changes in hours of employment among establishments within the company.

Step Four: Determine qualification for RWI. If the program quarter pay rate for an employee group does not exceed its base quarter pay rate by more than 7 percent, the group qualifies for real wage insurance.

C. Payment of Real Wage Insurance

For each member of qualified groups, the employer will add the real wage insurance credit to other amounts reported as wages on the employee's Form W-2 and also report it in a separate space on that form. The Federal income tax return of an employee will have only one additional line -- for the amount of real wage insurance credit. This amount will either increase the taxpayer's refund or reduce taxes owed in the same way as amounts withheld. The full amount of refund will be paid even if it exceeds the employee's tax liability or if the employee has no tax liability. The RWI credit is included in taxable income, but this involves no change in tax return preparation because it is included by copying wage amounts from the W-2, as always.

Thus, real wage insurance involves a minimum amount of additional effort for the individual taxpayer and only one additional item for the IRS to check on an individual return. If inflation exceeds 7 percent, those qualified for RWI will receive RWI payments as part of the regular tax refund (or payment) procedure.

The degree of simplicity provided for the individual taxpayer can only be accomplished by specifying the wage limit as $20,000 for each qualified job of an employee. Other types of limitations, such as $20,000 of covered wages for each person, would require more lines on the tax forms and more computations for the taxpayer.

D. Small Employers

The cooperation of small businesses is important to the anti-inflation effort and most will find the offer of real wage insurance beneficial to them and to their employees. However, to avoid imposing additional burdens upon those with special recordkeeping problems, employers with 50 or fewer employees may choose not to participate in the RWI program (except to report RWI credits for union members under qualified new agreements). Employers choosing not to participate must clearly notify their employees of that intention.

III. Revenue Cost

The revenue cost of Real Wage Insurance will depend principally upon (1) the rate of compliance among employee groups and (2) the rate of inflation as measured by the change in CPI between October-November 1978 and October-November 1979. These factors are related. Higher compliance will result in reduced labor costs and a corresponding reduction in inflation. Thus, the cost of real wage insurance is partly self-limiting, since high compliance can reduce the payoff per qualified worker while low compliance reduces the amount of insured wages.

The Administration estimates a revenue cost of $2.5 billion for RWI in its FY 1980 budget. This is based on a forecast inflation rate of 7.5 percent for the relevant period and qualification for RWI by about 47 million employees. About 87 million employees would technically be eligible for RWI, but about 26 million of these will likely be disqualified because existing pay agreements or legal mandates assure them pay increases in excess of 7 percent. The $2.5 billion revenue estimate for RWI assumes that 47 million of the remaining 61 million employees, about three-fourths of them, will qualify.

Alternative assumptions are, of course, possible. For example: if all 61 million realistically eligible employees qualified for RWI, the forecast inflation rate would be 6.6 percent and there would be no revenue cost of RWI. If only about 40 percent of these employees qualified, the forecast inflation rate would be 8.0 percent, and the revenue cost of RWI would be $2.7 billion. Revenue cost estimates that associate very high participation rates with much higher inflation rates are very improbable.

REAL WAGE INSURANCE

Technical Explanation

A. Coverage of Individuals

Wages reported to an employee on any W-2 form are covered, or not covered, depending upon whether the employee is a member of a qualified group with respect to those wages. A person who is paid wages by more than one employer during the year may be qualified for wages paid by some employers and not others. In every case, however, all wages reported to one employee by a single employer (up to the $20,000 limit) are either qualified or not qualified. Wages are not apportioned even if the employee changes duties within the company.

For purposes of determining coverage of wages for an individual, membership of an employee in a group depends upon the employee's position in the company on September 30, 1979. Group membership of an employee who leaves a company before that date is determined by the employee's position on the date of separation. (This rule applies even if the employee is rehired after September 30, 1979.) An employee first hired by the company after September 30, 1979 is classified according to the position for which that employee is hired.

Eligible persons include domestic workers and farm workers who receive a Form W-2 and employees of governments, whether or not withholding of income tax or social security is required. However, persons who own directly or indirectly 10 percent or more of the value of the stock of a company or who are not residents in the United States cannot qualify for RWI. The determination of status as a shareholder or a resident will be made as of the same dates that group membership is determined. It is the employer's responsibility to determine which employees are entitled to coverage.

B. Types of Employee Groups

As indicated above, each employee is assigned to one employee group and is entitled to coverage if that group qualifies. However, for purposes of determining qualification of groups other than low-wage groups, the employer need

not trace individual employees from Base Quarter to Program Quarter. For example, wages paid for service in supervisory positions during the Base Quarter are counted in calculating the Base Quarter pay rate for supervisors and, similarly, the Program Quarter calculation for that group includes wages paid to supervisors during the program quarter.

There are four types of employee units:

1. <u>Employees Subject to a Collective Bargaining Agreement</u>

Employees covered by each collective bargaining agreement to which an employer is a party constitute a separate employee group. For any company, this group may at the election of the company include employees within the company whose pay rates have moved historically in a close tandem relationship to pay rates of the collective bargaining unit and who are granted pay rate increases parallel to those of a "new collective bargaining agreement" in the Program Year. A separate determination of qualification for RWI must be made for each group governed by a collective bargaining agreement.

2. <u>Low-wage Workers</u>

Low-wage workers are those earning straight-time wages at a rate of $4.00 per hour or less as of the last pay period in the Base Quarter, or at the time of hiring if later. Low-wage workers covered by new collective bargaining agreements are covered if the agreement qualifies under the CWPS rules. Other low-wage workers are a separate group whenever they comprise (as of the last pay period in the Base Quarter) at least 10 percent of the group to which they would otherwise belong and there are at least 10 low-wage workers in the group. Otherwise, low-wage workers are included as part of the appropriate larger group, i.e., with their collective bargaining unit or as part of "all others" as the case may be. Thus, a company can have as many as one low-wage worker group for each collective bargaining unit not under a new agreement plus one such group for all other employees.

3. <u>Management and Supervisory Employees</u>

All management and supervisory employees of a company are one unit except those included in the above groups. The designation of "management and supervisory employees" must be made by the employer on a reasonable basis according to the assignment of responsibilities within the company and must be consistent between the Base Year and Program Year.

4. All Others

The "all others" category will usually include most of the non-union employees of a company. This group is a single unit and may not be subdivided or combined with another group.

State and local government employees are divided according to the same rules that apply to employees of private companies. The "employer" in these cases is the reporting unit for payroll purposes. Federal government employees are a single employee group.

C. Qualification Rules for New Collective Bargaining Agreements

Employees subject to collective bargaining agreements signed after October 24, 1978 and before October 1, 1979 that will be in effect for more than 15 months ("new collective bargaining agreements") will qualify for RWI if the employers party to the agreement, or their bargaining agents, determine that the agreement satisfies the 7 percent test for new collective bargaining agreements. This determination is to be made on the basis of the terms of the agreement using the costing method published by CWPS. Employees included with a collective bargaining unit because of a historical tandem relationship will qualify for RWI if the agreement qualifies. These determinations of qualification and coverage of employees will be subject to subsequent audit by the IRS.

In the case of an audit, the IRS may ask CWPS to certify the determination of qualification and the existence of a tandem pay relationship for any group not directly subject to the agreement. The CWPS certifications may not be overruled by the IRS. In the case of contracts involving 1,000 or more employees, the employer, employer group, or the union may request that CWPS make a certification of qualification at the time of signing. Employers (including all small business employers) are responsible for identifying employees under qualified contracts and must report the amount of wage insurance due regardless of the status of their other employees.

CWPS may rule a new collective bargaining agreement having a pay increase of more than 7 percent to be exempt under any of several exceptions to the pay standard (e.g., the tandem rule, the acute labor shortage exception, the undue hardship exception, and the gross inequities exception). Employee groups covered by these agreements do not qualify for RWI. To qualify for RWI a contract must "cost out" to an average increase over the contract life of 7 percent or less (after allowance for productivity-improving work rule changes, if any) and have no more than an 8 percent increase in any one year.

D. Qualification Rules for all Employee Units not Subject to New Collective Bargaining Agreements

All employee groups not subject to the rules prescribed above for new collective bargaining agreements will be evaluated after the close of the Program Year. To qualify, the pay rate of such units during the third calendar quarter of 1979 (the Program Quarter Pay Rate) must not exceed the pay rate of such unit during the third calendar quarter of 1978 (the Base Quarter Pay Rate) by more than 7 percent. The definitions of terms used in this qualification rule are as follows:

1. Base Quarter Pay Rate

The Base Quarter Pay Rate is Base Quarter Pay divided by the number of straight-time hours in the Base Quarter. In the case of bonuses, commissions and other payments not made on a regular basis every pay period, 25 percent of such payments made during the Base Year (i.e., October 1977 through September 1978) shall be included in Base Quarter Pay.

2. Program Quarter Pay Rate

The Program Quarter Pay Rate is Program Quarter Pay plus 25 percent of the Cost of Changes in Benefits divided by the number of straight-time hours in the Program Quarter. In the case of bonuses, commissions and other payments not made on a regular basis every pay period, 25 percent of such payments made during the Program Year (i.e., October 1978 through September 1979) shall be included in Program Quarter Pay.

The employer may choose to compute a separate program quarter pay-rate for group members in each establishment (i.e., branch, office, factory, store, warehouse, or other fixed place of business) in the company and then to compute the weighted average pay rate for the group using the Base Quarter percentage of total group hours for each establishment as weights. For example, if a company has two branch offices (A & B) and its total hours in the Base Quarter for the group in question was divided 40 percent for employees at branch A and 60 percent for employees at branch B, its Program Quarter Pay Rate for that group would be 40 percent of the branch A pay rate for that quarter plus 60 percent of the branch B pay rate regardless of the actual division of hours between the branches in the Program Quarter.

3. Pay

Pay is the total amount, exclusive of overtime pay, of W-2 earnings for Federal income tax purposes allocated to the Base or Program Quarter (as the case may be). This includes wages, salaries, commissions, vacation and sick pay, deferred compensation and those employee benefits reported as current income.

4. Straight-time Hours

Straight time hours are all hours worked, exclusive of overtime hours, plus the numbers of hours of paid vacations and other leave. Employers are to attribute a reasonable number of hours to the efforts of salaried, commissioned, piece and other workers not compensated on an hourly basis in a manner consistently applied to the Base Quarter and Program Quarter.

5. Costs of Changes in Benefits

Costs of Changes in Benefits are the costs attributable to providing new types of benefits or to changes in the benefit structure of those employee benefit plans or programs the contributions for which are not currently taxable to employees. Such plans include qualified pension and profit sharing plans, medical and health plans, group legal plans, group term life insurance plans, employer provided educational assistance plans, and supplemental unemployment benefit plans.

Specific rules are as follows:

(a) benefits derived from third party payments (such as insurance companies or trusts exempt under Section 501(c)

(9) of the Code) and benefits excluded from income (e.g., medical, group term life) are excluded from Costs of Changes in Benefits if the benefit structure of the plan is not amended. However, the cost of new plans or plan amendments providing any increase or decrease in benefit levels is a Cost of Changes in Benefits, unless the change is required by law (e.g., paid pregnancy leave).

For example, if a pension plan is not amended, costs attributable to the plan are excluded from the pay rate calculation even if an increase in wages increases benefits. Similarly, if a health insurance program is not changed, costs attributable to the program are excluded whether the cost has increased by more or less than 7 percent.

(b) The Cost of Changes in Benefits with respect to these benefit plans and programs is computed by holding all assumptions constant and comparing the cost of the plan or program with and without the amendment. Thus, if an employer changes the plan to provide for 5-year rather than 10-year vesting, or to increase benefits 10 percent, all other features of the plan and actuarial assumptions used are to be held constant and the cost of the plan with and without the change are to be compared to determine the Cost of Changes in Benefits.

For example, suppose an employer using the entry age normal funding method for purposes of the minimum funding standard amends his plan in the program year to increase benefits. Before the plan amendment the unfunded cost allocated to past service (the accrued liability) was $800,000 and the current year's cost (the normal cost) was $80,000. After the plan amendment (using the same funding method, actuarial assumptions, and census data) the accrued liability was $900,000 and the normal cost was $90,000. The increase in accrued liability as a result of the amendment is $100,000 ($900,000 minus $800,000). The annual amount necessary to amortize that $100,000 over 30 years is $6,195. The increase in total costs attributable to the plan amendment is $16,195 (the sum of the increased cost of funding the increase in accrued liability over 30 years [$6,195] and the increase in normal costs [$10,000]).

(c) There are two exceptions to these rules:

(i) <u>Defined Benefit Qualified Plans</u>:

If plan benefits or a component of benefits are a flat amount not determined by reference to pay or earnings, the flat rate of such benefits may be increased by up to 7 percent. Only the cost associated with an increase in excess of 7 percent would be considered a Cost of Change in Benefits. For example, under a plan that provides a benefit of $15 per month times years of service, the benefit could be increased to $16.05 without affecting the pay rate computation. The actuarial cost of increasing the benefit above $16.05 would be a Cost of Changes in Benefits. However, smaller increases do not create a "credit" for the pay rate computation.

(ii) Defined Contribution Plans:

When plan contributions are discretionary or based on profits, only the amount attributable to the increase in the rate of contribution as applied to Program Year compensation would be a Cost of Changes in Benefits. For example, suppose the base period contribution to a profit sharing plan is 5 percent of the employee's compensation base of $400,000, or $20,000. During the Program Year the contribution is raised to 6 percent of the new compensation base of $500,000, or $30,000. In such a case, Cost of Changes in Benefits is $5,000, i.e., 1 percent of the compensation base in the Program Year. If the rate of contribution had not increased the cost change would be counted as zero.

E. Operation of RWI Credit

An individual is entitled to RWI for wages paid by an employer if that employer certifies the individual's eligibility by entering the amount of RWI credit on Form W-2 for 1979. The employer computes the amount of RWI for each eligible employee by multiplying the amount of compensation reported to that employee on the W-2 Form (up to $20,000) times the rate announced by the IRS as the rate of inflation in excess of 7 percent.

The employer will add the amount of RWI to other amounts entered in the "wages, tips, and other compensation" box on the Form W-2. In addition, the employer will separately report the amount of RWI in a new box on the Form W-2. Individual taxpayers will make only one additional tax return entry. For those filing Form 1040, it will be in the section of the 1040 return labeled "payments" and for those filing a Form 1040A, it will be among refundable credits and withheld taxes on that form.

If an employee's Form W-2 shows no RWI credit, that employee may not claim credit for wages paid by that employer unless the IRS determines that the employer failed to report RWI credits for members of a qualified group, or wrongfully excluded the employee from membership in a qualified group. In the case of a failure to certify a qualified group, the employer will be required to issue revised Forms W-2 to all members of the group. If the employees' collective bargaining agent or 50 employees (or 1/3 of employees in a group, if smaller) petition the IRS claiming an improper failure to certify their group, the IRS will review the employer's computations, and the IRS resolution will not be subject to judicial review.

Small companies with fewer than 50 employees for the payroll period including March 12, 1979,* may choose not to participate in the program without being subject to IRS review. To exercise this option, the company must inform the IRS and its employees of this intention.

F. Company

The entity responsible for determining eligibility is the employer as defined for purposes of payroll tax reporting. The employer will make the division of employees among the four types of employee units according to the rules described above. Employees of different corporations in affiliated groups will not be combined. Employees in a new firm that is a successor to another company may be eligible for RWI based on a comparison of the predecessor's pay rate during the Base Quarter.

G. Anti-Abuse Provision

In any case where an employer manipulates normal pay practices for the purpose of qualifying employees for RWI, such changes shall be disregarded. For example, if it is not the normal business practice for an employer's wage rates to fluctuate during the year, an employer's reduction of wage rates for the program quarter (with a corresponding increase thereafter) will be disregarded in determining group qualification.

* This date coincides with the date for reporting the number of employees for census purposes.

H. Sanctions

Employers who willfully or negligently report RWI credits for members of units that fail to satisfy the qualification rules will be subject to sanctions consonant with fraud and negligence penalties in the Internal Revenue Code. No action will be taken to recover from employees in such situations unless collusion existed between the employer and employees. Employers who willfully or negligently fail to certify a qualified group will also be subject to fraud or negligence penalties.

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PAPER TO BE PUBLISHED BY THE JOINT ECONOMIC COMMITTEE

Adjustment Policies and Trade Relations with Developing Countries

by Helen B. Junz*1/

The 1970s, in contrast with the preceding 20 years, appear to be characterized by a growing pessimism about the ability of the world economy to achieve full employment, or at least sustain non-inflationary economic growth. Inflation has posed a problem to many national authorities from time to time throughout the post-war period. But since the early 1960s it has seemed that each bout of inflationary pressure began with higher levels of inflation than the one that preceded it. This upward tendency of underlying inflationary trends over the past couple of decades points to growing rigidities in the industrial economies. And this loss in flexibility is one of the factors tending to impede the return to a satisfactory rate of economic growth. Of course, the adjustment problems associated with the inflationary boom of 1973 - 74, the subsequent period of recession and slow growth and in particular the sextupling of oil prices from the

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* Deputy Assistant Secretary of the Treasury for Commodities and Natural Resources. Among my colleagues, I am particularly grateful to Bruce Hack and Keith Hunter for their help and to Peter Till and Nicholas Plesz of the GATT and OECD Secretariats, respectively, for providing hard-to-come-by data.

1/ Paper presented at session on "Prospects of an Economic Crisis in the 1980s," AEA Annual meeting, August 30, 1978.

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beginning of the decade, all have exacerbated earlier adjustment difficulties. Thus, the need for achieving an orderly change in output and employment patterns has become doubly urgent.

Before the turn of the decade, adjustment to economic change in part was less of a problem because the rapid expansion of world demand allowed resources in declining sectors to be drawn into expanding activities. But the general sense of growing overall prosperity that prevailed during most of the two postwar decades also allowed adjustment to be put off and symptoms of adjustment needs to be eased by increasing transfer payments among sectors of the economy. However, as world demand turned sluggish, in part as a consequence of the large income transfers to the oil producing countries, it no longer was possible for any individual country to alleviate internal strains in this way. Thus, the need to deal directly with adjustment problems became pressing. But, the actual process of adjustment is slow, both because growth rates appear to have fallen secularly and because of the inflexibilities built into the various national economies over two decades or more.

At the same time that sluggish demand and high unemployment are complicating correction of structural imbalances in the industrial economies, growing competition from fast industrializing developing countries is posing further adjustment problems. Of course, problems of adjustment to changes in world supply capabilities are not a new phenomenon. Over the past 30 years, the world economy has had to adjust to many such changes

Most notable, among industrial countries, was the adjustment in the late 1940s and early 1950s, from a post-war supply shortage to a more normal demand and supply balance. Because of the post-war supply constraints, the increase in productive capacity that accompanied reconstruction, particularly in Germany, was accomodated relatively smoothly. But, the need to adjust to the emergence of Japan as a modern industrial nation in the 1960s posed different problems. In fact, many European countries, by effectively limiting the possibility for Japanese goods to penetrate their markets, have adjusted considerably less to that event than have some other countries. A major feature of the 1970s and in the longer run will be a need to adjust to the increase in productive capacity of a growing number of developing countries (LDCs).

The rapid industrialization of a number of LDCs, particularly as it is concentrated in a relatively small number of industrial sectors such as textiles, shoes, electronics, steel and more recently shipbuilding, is causing friction in a number of markets. Thus, it is not surprising that certain industries or segments of industry in developing companies have become increasingly concerned about import competition. This concern has risen to the extent that some have begun to doubt the positive relationship between international trade and domestic economic growth that was fundamental to policy formulation in the 1950s and 1960s. In the quarter century following World War II, policies largely aimed at reducing trade restrictions and increasing trade flows. During this period, the volume of world trade rose at an annual rate of about seven percent, while world production increased at an annual rate of about five percent. This relatively fast expansion of world trade helped promote internal growth, and raised productivity and incomes. However, recently the notion that the current level of trade liberalization may be excessive and actually works to maintain or increase unemployment in the importing countries, thereby reducing the potential for internal growth, has been gaining currency.[2] This view clearly is not unrelated to the fact, noted above, that adjustment earlier appeared not to be a great problem, while more recently adjustments have become increasingly hard to make.

Accordingly, the pressure for trade restriction has been rising throughout the industrialized world. Although governments have attempted to resist such pressures, the Secretariat of the General Agreement on Tariffs and Trade (GATT) has estimated that three to five percent of world trade has been affected by new non-tariff measures since 1973/74. Given this climate, the question of how the world economy will deal with growing competition from LDCs in world markets becomes increasingly important.

<u>Changing Trade Patterns</u>

The structure of world trade has shifted significantly with the increase in oil prices in 1973/74. But there has

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2. In particular, note the arguments in favor of import restriction put forward by the [redacted]

been a longer-run shift in other areas as well. The industrial countries, on average, increased their share in the nominal value of world exports, excluding fuel, between 1963 and 1977 (see Table 1). Over the period, their share rose from 68 percent to 74 percent and has been about stable since 1972. But the recent stability in overall export shares of the industrial countries obscures a decline in the share of manufactured goods, which was offset by a jump in the value of food exports in the early 1970s.

Between 1972 and 1977, the share of industrial countries in world exports of manufactures declined from 82.9 to 80.5 percent, after reaching a peak of 83.3 percent in 1974. Over the same period, developing countries increased their share in world exports of manufactures from 5.9 to 7.8 percent. The longer-term downward trend in the share of the Eastern Bloc appears to have been halted in 1975 - 1977, when it stabilized around 9.8 percent.

Among the developing countries, export expansion was distributed very unequally. In fact, most of the increase in LDCs' export shares in manufactures was concentrated in only eight countries (Brazil, Hong Kong, Malaysia, Mexico, Philippines, Singapore, South Korea and Taiwan) (see Table 2). In 1977, these eight advanced developing countries (ADCs) accounted for almost three-fourths of LDCs' exports of manufactures. In 1963, their share was only about one-third.

The very rapid growth of the industrial exports of ADCs, as compared with other developing countries, is not of recent vintage. In fact, from 1963 to 1972, these countries increased their exports of manufactured goods at an annual rate of 23 percent as compared with a rate of growth of 16 percent for all developing countries. And this trend has continued through 1977, although the growth differentials are narrowing somewhat as the ADCs' export volume expands.

Although attention has been focused primarily on the ADCs' success in the markets of industrialized countries, the regional structure of ADC exports actually has changed very little between 1970 and 1976. In 1970, industrial markets accounted for 70 percent of ADC exports of manufactured goods. In 1976, their share was 69 percent. The share of non-OPEC LDCs also declined slightly, from 23 percent in 1970 to 21 percent in 1976. The major shift in the ADCs' regional export structure reflects their success in OPEC markets which over the period rose in relative importance from four to eight percent.

Although the ADCs' dependence on particular regional export markets has not changed to a significant extent, their concentration on certain product markets has become more apparent over time. This is particularly true for textiles, clothing and consumer electronics. However, there also has been a remarkable expansion in exports of engineering products other than consumer electronics (see Table 3). For example, while the ADCs' share of TV and radio equipment in the imports of 15 OECD countries more than doubled between 1970 and 1977, rising from 7.5 percent to 18.7 percent, the growth in their share in imports of scientific instruments perhaps was even more remarkable as it rose from 0.9 percent to 6.9 percent over the period.

Although imports of manufactured goods from ADCs by the group of OECD countries grew at an annual rate of 29 percent between 1970 - 1977, reaching $26 billion in 1977, they still account for only 6.8 percent of their total imports of manufactured goods and for only a fraction of total consumption. The group of OECD countries still received 88 percent of their imports of manufactured goods from other developed economies. This high involvement of industrial countries in each other's markets in part derives from their high relative level of productivity, from traditionally close financial, distribution and service ties and related factors, all of which (albeit to varying degrees), are likely to be maintained in the future.

But it also reflects an increasing degree of specialization, in which the developing countries are beginning to share. For example, the large expansion in trade in manufactures over the past decade reflects in part a growing shift in emphasis from changes in product to changes in continue to supply capital intensive products, is clearly too simple. The ADCs, in particular, are supplying an increasingly broad range of manufactured products. Their rising exports of scientific instruments and their entry into the shipbuilding industry exemplify these trends. Furthermore, Brazilian and Korean steel plants probably are less labor intensive than are those in Europe and the United States, on average. As the ADCs' industrial base continues to broaden, industrial countries must expect to meet their competition in world markets over a growing range of industrial products.

Industrial Growth in ADCs

In 1963, the ADCs exported only $1-1/2 billion worth of manufactured goods. By 1972, their exports had grown to $9-1/2 billion. And, between 1972 and 1977, their exports of manufactures expanded at an annual rate of 30 percent at a time when world exports of manufactures grew at two-thirds that rate.

This raises the question of how the ADCs could, in the face of intensified competition and during a period of relatively subdued world demand, continue to significantly expand their industrial base and increase their share in world trade. For many of them, this achievement reflects the results of a conscious shift in policy from import substitution to export promotion.[3] For some, like Hong Kong and Singapore, import substitution never was a viable road to economic growth and their patterns of industrialization always were export-oriented. For others, however, policies of import substitution dominated their industrial structure through most of the 'Sixties. Although the policy transition from import substitution to outward oriented policies was pretty much an accomplished fact for all the ADCs by the second half of the 'Sixties, the effects of earlier inward policies took time to erode.

In part, as a consequence of this policy orientation, most of these countries achieved considerably higher rates of growth than the industrial countries from the mid-1960s through 1973. And most were able to sustain growth during the recession and subsequent slow recovery. For example, industrial production in the industrialized countries exceeded its 1974 peak by only five percent in 1977, whereas in the LDCs, production exceeded its 1974 level by 17 percent. And the disparities in rates of growth were even greater in the heavy manufacturing sector, where output in industrial and developing countries rose by three percent and 21 percent, respectively, between 1974 and 1977.

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3. J. B. Donges, "A Comparative Survey of Industrialization Policies in Fifteen Semi-Industrial Countries," Weltwirtschaftliches Archiv, Heft 4, Kiel, 1976.

The ability of the LDCs as a group to expand output at consistently higher rates than achieved by the developed countries reflects, in part, their savings and investment patterns. Whereas investment activity in the developed countries has remained subdued since 1974, that in many developing countries has been maintained. Of course, the large investment programs of oil exporting countries, that have been associated with their rise in revenues play a major role in the rise in the LDCs' investment activity. But non-OPEC LDCs gross domestic investment also has continued to expand. Between 1972 and 1977, gross domestic investment, in current prices, rose at annual rates of 20 percent and 25 percent per annum in the non-OPEC LDCs and the ADCs, respectively, (see Table 4). The comparable figures are seven percent for the United States and 14 percent for other major industrialized countries. Although it is difficult to draw any conclusion from such aggregates, these data at least support the view that investment activity was better sustained in the ADCs than elsewhere.

In most of the ADCs, a cyclical investment peak was reached in 1974 in conjunction with the peak of the world economic cycle. But in contrast with developments in the industrialized countries, currently investment levels, as a percent of GNP, again exceeded their pre-1973/74 levels. For the ADCs as a group, gross domestic investment and gross domestic investment and gross national savings in 1976 amounted to 23.2 and 26.7 percent of GNP, respectively. The ADCs have been able to generate this level of savings and to translate it into productive capacity despite the uncertainties that currently dominate world markets. Although the shift from import substitution policies to more outward-oriented policies has not reduced the level of government intervention significantly, its character is such as to sustain growth orientations. Thus, in most of these countries, the business climate is as conducive to the decisionmaking process as it can be in an uncertain world. Continuation of these trends clearly will support a growing importance of the ADCs in world markets.

Trade Restriction versus Trade Creation

The trends that are apparent in world trade of manufactured goods, have given rise to talk of "over competitiveness" of LDCs and tend to exacerbate protectionist pressures in the industrialized countries. However, as the developing countries become more highly industrialized, and are able to absorb a broader range of goods and services, they also become increasingly profitable markets for the products of the developed economies.

On this same basis, one must reject the assertion that foreign aid and private investment flows abroad are detrimental to the economic interests of the developed countries. In particular, arguments are made against the expansion of capacity abroad in sectors that, for one reason or another, are experiencing economic difficulties in the industrialized community. But, aid and investment flows to the developing countries assist in raising per capita incomes and foreign exchange availabilities in the recipient countries. As a consequence, these countries are better able to satisfy growing pressures for increased standards of living at home and in the process buy more goods and services from abroad.

As purchasing power rises, so will social and economic aspirations, and gaps between wage payments among developed and developing countries will begin to narrow. Some evidence of this process is already discernible. For example, although levels of wage compensation, on average, continue to be well below those of the industrialized countries, hourly compensation in manufacturing industries in a number of ADCs, such as Brazil and Korea, has tended to double over a two or three year span, while increases in developed countries tend to average around six to nine percent per annum.

The consequences of industrialization and concomitant rises in per capita income are reflected in the substantial growth of the import markets of developing countries. Recently, of course, the limelight has been on the increased purchases of oil exporting countries. But the markets of non-OPEC developing countries also have expanded rapidly.

World exports (excluding fuel) to developing countries rose from $73-3/4 billion in 1972 to $252 billion in 1977, lending considerable support to economic activity during the recession. Although exports to OPEC rose from about $14-1/2 billion in 1972 to $82 billion in 1977, those to non-OPEC LDCs rose to an even greater extent -- from about $59-1/4 billion to $170 billion. Thus, it is often forgotten that the non-OPEC LDCs constitute a very dynamic market for the products of the world community and, in fact, currently are absorbing 15 percent of world exports.

Although the rate of growth of non-OPEC LDCs' exports of manufactured goods has out-paced that of their imports -- 27 percent per annum between 1972 and 1977 for exports as compared with 21-1/2 percent for imports -- their trade deficit in this category has actually widened. This reflects the much lower base from which the growth of their exports is computed as compared with that of imports. Accordingly, their deficit on trade in manufactured goods has grown from $22-1/2 billion in 1972 to $49-1/2 billion in 1977. Similarly, vis-a-vis a representative group of OECD countries, their deficit on trade in manufactured goods has doubled from $19-1/2 billion in 1972 to $38-3/4 billion in 1976. Over the period, the OECD group's imports of manufactures from non-OPEC LDCs rose from $9-1/2 billion to $26-1/4 billion, while exports to them grew from $29 billion to $65 billion.

Interestingly enough, even with the ADCs, the OECD countries are registering a rising surplus on trade in manufactured goods. A group of 15 OECD countries imported about $7 billion of manufactures from ADCs in 1972 and about $20 billion in 1976. Over the period, these OECD coutnries' exports to them rose from $11-1/2 billion in 1972 to $26-3/4 billion in 1976. Thus, the OECD group's surplus on trade in manufactures with the ADCs rose from about $4-3/4 billion in 1972 to around $6-3/4 billion in 1976.

These developments clearly demonstrate that with growing industrialization, both imports and exports of manufactured goods expand as inter and intra-industry trade intensifies. Of course, a large part of industrial countries' exports to the ADCs is concentrated in investment goods, which in turn provide a broader base for the industrialization of these countries. The fast growth of capital formation in these countries indicates that their competition not only manifests itself in terms of relative costs of labor, raw materials and transportation, but to an increasing extent in terms of competition of modern capital equipment against an aging capital structure in the more mature economies. The fact that private investment is continuing to lag in most of the industrial economies, while a number of the newer industrializing countries provide promising investment

(e) changing patterns of labor costs and reduced labor mobility.

Adjustment to the economic changes of the past several years is difficult under any circumstances. But, these difficulties have been exacerbated by relatively low capacity utilization and high unemployment. The latter, in turn, have lead to increasing political pressure to insulate particular sectors of the economy from the need to adjust. As a consequence, the flexibility of the industrial economies to adapt to changes in the economic environment has become further circumscribed.

Policy makers in the industrialized countries are fully aware of the economic costs of defensive or "negative adjustment policies" that attempt to preserve the status quo. For this reason, they included a commitment to "positive adjustment" in the Communique of the Ministerial level meeting of the OECD countries in June, 1978. However, it must also be recognized that politically, it is very difficult to phase-out or resist pressures for, short term policies that spread the social costs associated with low rates of economic activity among the different sectors of the population.

Some examples of negative adjustment policies include:

(a) government rescue operations to save existing jobs and firms in declining industries and/or regions;

(b) special subsidies to specific industries or firms which shield them from both foreign and domestic competition and which impede adjustment to changing market conditions;

(c) regulations and restrictions that tend to freeze existing market relationships by biasing economic decisions toward certain directions;

and

(d) a host of restrictive actions aimed at reducing foreign competition, some of which are currently being addressed in the MTNs such as government procurement practices, government subsidies and safeguard actions.

In contrast, positive adjustment policies are aimed at creating new jobs and facilitating the movement of labor and capital from geriatric industries to dynamic sectors of the economy. These include:

(a) economy-wide incentives for investment in new and productive capital equipment, in particular encouragement to turn over energy inefficient capital stocks;

(b) assurance of broadly based, efficiently functioning capital and labor markets that help foster a productive environment, in particular for activities that provide the basis for growth and technological change;

(c) assurance that government regulations and reporting requirements are reduced to the minimum necessary and do not hamper investment decisions;

(d) assurance that when special measures are necessary to help certain firms or industries to adjust, they will be temporary and be tied to a phasing-out of overaged or redundant capacity.

The cumulation of "negative adjustment" measures over time has resulted in a world economy that is less productive, less dynamic and more vulnerable to economic dislocations than it need be. Economies that have moved along a path of increasing rigidities are left with an aging capital stock, an uncompetitive market structure and, therefore, increased inflationary tendencies. Low productivity growth, under these circumstances, is rarely accompanied by lower real wage demands. On the contrary, because inflationary tendencies are increased, struggles for income shares are intensified leading to further losses in output and mismatches in the labor market. Protection from competition from within or without, thus tends to set up a vicious circle as it leads to increased pressures for further protection, results in further rigidities, necessitating further protection and so on.

Positive adjustment policies can most effectively be pursued in a climate of rising aggregate demand and adequate capacity utilization. But defensive policy action in the face of inadequate economic growth will tend to help perpetuate that condition. This conclusion applies equally to the area of trade policies.

Defensive actions against foreign competition would only be counterproductive. And this is espcially so vis-a-vis developing countries. Developing countries, already large importers, are likely to become even more so. Even the most optimistic forecasts of growth for the OECD area do not foresee growth rates much above those achieved during the last couple of years; and the explosive growth of OPEC markets has begun to stabilize. Consequently, the non-OPEC LDCs are likely to furnish the most dynamic markets for exports of industrial countries for some time to come. Import restraints vis-a-vis LDCs could, therefore, result in a considerable loss of high wage export jobs and income in the industrialized world. First, becuase income losses abroad would cut into foreign purchasing power and second, because such restrictive actions could easily spread across borders.

Positive adjustment must, however, be a two-way street. The success of a number of developing countries in world markets reflects the fact that they have invested in export-oriented industries and have channelled their savings largely into productive investment rather than consumption. However, past experience shows that at a certain point in the development process, adjustment measures need to be taken so as to avoid the emergence of chronic surpluses, which reduce the welfare of the domestic population and put strains on the international trading system. Some of the ADCs have recognized the desirability of guarding against such surpluses. In general, they have tended to reduce tariffs and liberalize imports rather than remove export subsidies or appreciate their exchange rates. It may be natural for them to believe their emerging surpluses only to be temporary and, therefore, to be cautious in liberalizing their trade relations. But for some, the time may have come when it is appropriate to begin to accept more fully the general rules and obligations applying to trading nations under the GATT and IMF.

The developing countries seek to establish a new set of trading rules in the current Multilateral Trade Negotiations (MTNs) that would recognize permanently preferential treatment for their products in industrialized countries' markets and would permit protection of their own markets for the benefit of their "infant industries." There are cases where such treatment is warranted, but institutionalizing "special and differential treatment" for developing countries in a generalized way would be harmful to the international trading system. As the development process proceeds and countries emerge as important participants in the world economy, they must increasingly undertake the full obligations of the trading system. This means not only gradual reduction in preferential status, but also an increasing degree of reciprocity for tariff reductions and other concessions extended by the industrialized countries. This would include a graduation from the benefits extended by generalized systems of preferences and reductions in subsidies to exports and in tariff barriers.

If the "prospects of a crisis in the 1980s" are to be minimized, cooperative actions among nations must extend to the world community as such. If satisfactory levels of economic growth are to be attained and, once attained, to be sustained, problems of economic change must be addressed positively whether they derive from internal or external sources. This applies now, even more than ever, to all countries, be they large or small, alike.

TABLE 1: REGIONAL STRUCTURE OF WORLD NON-FUEL EXPORTS, 1963-1977
(IN PERCENT)

	1963	1968	1972	1973	1974	1975	1976	1977[1]
TOTAL WORLD NON-FUEL EXPORTS[2] SUPPLIED BY:	100	100	100	100	100	100	100	100
INDUSTRIAL COUNTRIES	68.0	72.3	74.2	73.7	74.8	75.0	74.5	74.0
EASTERN BLOC	12.2	11.3	10.3	10.0	9.3	10.0	9.7	9.7
AUSTRALIA, N.Z., S.A.	3.6	2.8	2.7	2.9	2.5	2.5	2.5	2.5
TOTAL DEVELOPING	16.2	13.6	12.8	13.4	13.4	12.5	13.3	13.8
OPEC	1.6	1.4	1.2	1.2	.9	.7	.7	.9
NON OPEC	14.6	12.2	11.6	12.2	12.5	11.8	12.6	12.9
TOTAL ADCs	4.4	4.0	4.4	5.2	5.2	4.9	6.0	6.1
BRAZIL	1.0	.9	.9	1.0	1.0	1.0	1.1	1.1
HONG KONG	.5	.6	.9	1.0	.9	.8	1.0	1.0
MALAYSIA	.7	.6	.4	.6	.6	.5	.6	0.6
MEXICO	.6	.5	.4	.4	.4	.4	.4	.4
PHILIPPINES	.5	.4	.2	.3	.3	.3	.3	0.3
SINGAPORE	.2	.4	.4	.5	.6	.5	.6	.6
SOUTH KOREA	.3	.4	.8	.8	.8	.7	1.0	1.1
TAIWAN	.1	.2	.4	.6	.6	.7	1.0	1.0
TOTAL NON-FUEL PRIMARY PRODUCTS & NON-FERROUS METALS SUPPLIED BY:	100	100	100	100	100	100	100	100
INDUSTRIAL COUNTRIES	47.2	51.8	54.5	56.0	55.4	55.7	55.2	51.2
EASTERN BLOC	10.6	10.3	9.6	9.1	9.0	9.5	9.0	8.3
AUSTRALIA, N.Z., S.A.	8.5	6.6	7.5	7.5	6.8	7.1	6.7	10.8
TOTAL DEVELOPING	33.7	31.3	28.4	27.4	28.8	27.7	29.1	29.7
OPEC	2.9	2.7	2.4	2.4	2.1	1.9	2.2	2.6
NON OPEC	30.8	28.6	26.0	25.0	26.7	25.8	26.9	27.1
TOTAL ADCs	7.9	7.4	6.9	7.5	7.5	7.4	8.5	8.0
BRAZIL	2.5	2.4	2.5	2.6	2.5	2.6	2.9	2.8
HONG KONG	.1	.2	.1	.1	.1	.1	.2	.2
MALAYSIA	1.5	1.6	1.4	1.6	1.2	1.4	1.9	1.5
MEXICO	.7	.8	.8	.8	.7	.9	.8	.7
PHILIPPINES	1.3	1.0	.7	.8	1.0	.8	.9	.8
SINGAPORE	1.3	.8	.7	.8	.8	.7	.8	.9
SOUTH KOREA	.1	.2	.2	.3	.3	.4	.4	.6
TAIWAN	.4	.4	.5	.5	.4	.5	.6	.5
TOTAL MANUFACTURING SUPPLIED BY:	100	100	100	100	100	100	100	100
INDUSTRIAL COUNTRIES	81.4	83.2	82.9	82.2	83.3	82.9	81.9	80.5
EASTERN BLOC	13.2	11.0	10.4	10.0	9.0	9.8	9.6	9.9
AUSTRALIA, N.Z., S.A.	.4	.9	.8	.9	.8	.8	.8	1.9
TOTAL DEVELOPING	5.0	4.9	5.9	6.9	6.9	6.5	7.7	7.8
OPEC	.1	.1	.2	.2	.3	.2	.3	.3
NON OPEC	4.9	4.8	5.7	6.7	6.6	6.3	7.4	7.5
TOTAL ADCs	2.0	2.3	3.6	4.6	4.3	4.0	5.2	5.5
BRAZIL	Δ	.1	.3	.4	.4	.5	.4	.4
HONG KONG	.8	1.0	1.2	1.4	1.2	1.1	1.4	1.4
MALAYSIA	.2	.1	.1	.1	.1	.1	.1	.2
MEXICO	.2	.2	.2	.3	.2	.2	.2	.2
PHILIPPINES	Δ	.1	Δ	.1	.1	.1	.1	.1
SINGAPORE	.4	.2	.3	.5	.5	.4	.5	.5
SOUTH KOREA	Δ	.2	.5	.8	.8	.8	1.2	1.3
TAIWAN	.2	.4	.9	1.0	1.0	.8	1.2	1.3

1/ ADCs PARTIALLY ESTIMATED

2/ INCLUDES EXPORTS NOT CLASSIFIED BY KIND.

Δ/ LESS THAN $50 MILLION

SOURCE: GATT, U.N., NATIONAL SOURCES

[illegible] 1963 - 1977
(billions of dollars and percentages)

Values, billion of dollars

	1963	1968	1972	1973	1974	1975	1976	1977[2/]
I. Total World Exports of Manufactures	80.3	140.4	259.2	347.3	458.5	500.4	567.3	658.6
II. LDC Exports of Manufactures								
Total	4.0	6.9	15.4	23.9	31.8	32.4	43.9	51.3
OPEC	.1	.2	.5	.8	1.4	1.1	1.7	2.1
Non OPEC	3.9	6.7	14.9	23.1	30.4	31.3	42.2	49.2
8 ADCs	1.5	3.0	9.5	15.7	20.2	20.7	29.3	35.8
Brazil	a	.2	.8	1.3	2.1	2.4	2.5	2.8
Hong Kong	.6	1.3	3.2	4.7	5.5	5.6	7.9	8.9
Malaysia	.2	.1	.2	.4	.6	.7	.8	1.6
Mexico	.1	.2	.6	1.1	1.1	1.1	1.0	1.2
Philippines	a	.1	.1	.3	.3	.4	.6	.9
Singapore	.3	.3	.9	1.6	2.3	2.2	2.9	3.5
South Korea	a	.3	1.4	2.7	3.8	4.1	6.7	8.5
Taiwan	.1	.5	2.3	3.6	4.6	4.2	6.9	8.4

Shares, Percent

	1963	1968	1972	1973	1974	1975	1976	1977
I. Total World Exports of Manufactures	100	100	100	100	100	100	100	100
II. LDC Exports of Manufactures								
Total	5.0	4.9	5.9	6.9	6.9	6.5	7.7	7.8
OPEC	.1	.1	.2	.2	.3	.2	.3	.3
Non OPEC	4.9	4.8	5.7	6.7	6.6	6.3	7.4	7.5
8 ADCs	2.8	2.3	3.6	4.6	4.3	4.0	5.2	5.5
Brazil	a	.1	.3	.4	.4	.5	.4	.4
Hong Kong	.8	1.0	1.2	1.4	1.2	1.1	1.4	1.4
Malaysia	.2	.1	.1	.1	.1	.1	.1	.2
Mexico	.2	.2	.2	.3	.2	.2	.2	.2
Philippines	a	.1	a	.1	.1	.1	.1	.1
Singapore	.4	.2	.3	.5	.5	.4	.5	.5
South Korea	a	.2	.5	.8	.8	.8	1.2	1.3
Taiwan	.2	.4	.9	1.0	1.0	.8	1.2	1.3

Growth, Percent p.a.

	1963-8	1968-72	1973	1974	1975	1976	1977
I. Total World Exports of Manufactures	12	17	34	32	9	13	16
II. LDC Exports of Manufactures							
Total	11	22	56	33	2	35	17
OPEC	11	20	59	76	-17	49	24
Non OPEC	11	22	56	32	3	35	16
8 ADCs	16	33	65	29	2	42	22
Brazil	30	31	72	54	14	5	14
Hong Kong	16	25	45	16	3	40	13
Malaysia	12	24	89	61	19	20	93
Mexico	10	31	71	1	-4	-7	20
Philippines	15	14	170	26	15	62	40
Singapore	-1	31	80	44	-3	30	20
South Korea	53	41	100	40	9	63	26
Taiwan	31	44	55	27	-8	64	22

1/ Excludes SITC 68, non-ferrous metals
2/ ADCs partially estimated
3/ Less than $[illegible] million, or less than [illegible] percent

Source: GATT, U.N., National Sources

TABLE 3: IMPORTS OF MANUFACTURES FROM ADCs BY 15 OECD COUNTRIES, 1970-77 1/

(PERCENT AND BILLIONS OF DOLLARS)

	Total Manufactures: 1970	Total Manufactures: 1977	Of which: Office Machinery 1970	Office Machinery 1977	Electrical Machinery 1970	Electrical Machinery 1977	Clothing 1970	Clothing 1977	Footwear 1970	Footwear 1977	Scientific Instruments 1970	Scientific Instruments 1977	TV, Radio, Phono 1970	TV, Radio, Phono 1977
	(Shares in Total Imports of Category)													
Exporters:														
Brazil	.2	.4	.4	.9	A	.2	A	.4	.5	3.4	.0	A	.0	.9
Hong Kong	1.4	1.6	.6	1.4	1.1	1.4	14.5	14.9	3.7	1.5	.6	2.6	3.0	4.6
Malaysia	.3	.4	.0	.1	A	1.3	.1	.4	A	.4	.0	.2	.0	.5
Mexico	.5	.7	.6	.5	1.0	2.2	.7	1.0	.6	.7	.1	.3	1.0	1.0
Philippines	.1	.2	.0	A	.0	.3	.9	1.2	.1	.2	.0	.1	.0	.1
Singapore	.1	.4	A	.7	.5	1.8	.4	.9	A	A	A	.9	.1	1.8
South Korea	.4	1.6	.0	.3	.4	1.9	3.5	10.0	1.1	9.9	A	.9	.3	4.2
Taiwan	.6	1.5	.2	.6	.9	2.2	4.4	6.5	3.8	12.2	.2	1.9	3.1	5.6
Total ADCs	3.6	6.8	1.8	4.5	3.9	11.3	24.5	35.3	9.8	28.3	.9	6.9	7.5	18.7
	(Billions of Dollars)													
Value of Imports from Total ADCs	4.4	26.0	.1	.4	.3	3.4	1.1	6.3	.1	1.4	A	.9	.2	1.9
	(Percent Growth)													
Annual Growth Rate of Imports from ADCs, 1970-77		29.1		31.5		38.8		28.5		40.2		59.1		36.9
Annual Growth Rate of Imports from World, 1970-77		17.2		15.5		19.2		22.0		20.7		19.1		20.1

1/ The 15 OECD countries are: Australia, Canada, Finland, France, Ireland, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States and West Germany.

A/ Less than $50 million or less than 0.05 percent.

SOURCE: United Nations

TABLE 4A: GROSS INVESTMENT IN DEVELOPED AND LESS DEVELOPED COUNTRIES, 1960 - 1976
(IN CURRENT DOLLARS AND PERCENT OF GNP)

	United States		Other Major Developed Countries		Oil Exporting LDCs		Non-oil LDCs		Of Which: High Income		Middle Income		Low Income	
	Current Dollars	Percent of GNP	Current Dollars	Percent of GNP	Current Dollars	Percent of GNP	Current Dollars	Percent of GNP	Current Dollars	Percent of GNP	Current Dollars	Percent of GNP	Current Dollars	Percent of GNP
1960	93.1	18.4	112.7	24.8	9.6	17.7	24.3	18.6	11.2	23.6	5.8	16.6	7.2	11.8
1963	112.1	18.8	149.8	25.2	19.2	14.0	29.5	19.1	12.6	22.9	6.8	17.4	10.0	13.7
1968	163.6	18.4	233.4	26.0	17.9	20.8	40.4	19.6	17.1	21.8	11.8	20.6	11.5	13.5
1970	174.0	17.7	311.5	27.6	25.5	22.2	52.1	20.8	23.6	24.0	14.2	21.0	14.3	14.4
1971	195.1	18.3	341.0	26.6	28.1	19.4	58.8	21.4	28.0	25.0	15.6	21.3	15.0	13.8
1972	224.1	19.1	407.5	26.3	34.8	23.3	61.6	20.8	30.2	24.8	15.7	19.2	15.7	14.6
1973	258.2	19.8	560.1	28.1	46.4	23.6	79.2	21.4	41.0	25.5	21.1	20.7	17.1	13.8
1974	260.4	18.4	634.9	28.2	65.9	22.0	115.1	24.5	59.9	28.4	32.6	25.0	22.6	14.1
1975	236.9	15.5	627.6	24.5	95.6	27.2	118.4	23.3	58.3	25.6	35.2	24.1	24.8	14.6
1976	288.9	16.9	685.8	25.1	108.8	26.8	128.0	23.0	65.6	25.7	39.2	23.1	23.2	15.4

SOURCE: WORLD BANK AND DEPARTMENT OF THE TREASURY

Table 4B Gross Domestic Investment (GI) and Gross National Savings (GNS) As Percent of GNP, 1960 - 1977

(Billions of Dollars and Percent)

	8 ADCs			Of Which							
	Gross Investment			Brazil		Hong Kong		Malaysia		Mexico	
	Current Dollars	GI as % of GNP	GNS as % of GNP	GI as % of GNP	GNS as % of GNP	GI as % of GNP	GNS as % of GNP	GI as % of GNP	GNS as % of GNP	GI as % of GNP	GNS as % of GNP
1960	10.1	16.9	19.4	22.2	20.5	18.4	1.9	14.7	24.0	19.8	17.0
1963	12.2	19.0	20.7	22.5	21.7	28.1	12.9	19.2	18.7	19.0	17.9
1968	19.6	19.1	21.8	21.7	20.3	14.6	14.0	19.0	21.3	21.1	18.3
1970	25.8	21.1	23.7	23.7	22.4	18.5	21.6	20.5	22.2	22.9	19.6
1971	28.9	20.4	23.7	25.5	23.0	22.1	20.3	21.3	19.9	20.3	17.3
1972	33.0	21.5	23.8	25.7	23.3	21.6	23.7	22.9	18.1	21.3	19.2
1973	47.5	24.7	26.4	27.6	25.4	21.4	21.3	23.5	25.7	25.3	22.5
1974	72.7	24.5	31.0	31.9	25.1	22.2	19.7	29.8	25.4	29.0	24.5
1975	74.1	21.6	27.4	25.7	20.3	20.8	18.3	23.3	20.2	24.0	23.7
1976	81.2	23.2	26.7	26.3	22.0	21.4	25.4	21.9	29.8	26.1	22.2
1977	N.A.	N.A.	N.A.	24.3	22.5	24.2	22.3	N.A.	N.A.	N.A.	N.A.

	Philippines		Singapore		South Korea		Taiwan	
	GI as % of GNP	GNS as % of GNP	GI as % of GNP	GNS as % of GNP	GI as % of GNP	GNS as % of GNP	GI as % of GNP	GNS as % of GNP
1960	16.2	15.0	11.2	- 0.9	10.9	1.4	20.1	12.6
1963	19.6	20.4	14.7	11.9	18.5	6.2	17.1	16.9
1968	21.4	17.0	24.4	20.0	26.8	13.7	26.5	23.4
1970	21.5	19.5	38.3	19.1	27.2	16.3	26.0	25.8
1971	21.1	19.2	40.3	18.3	25.6	14.5	25.9	28.3
1972	20.8	19.0	41.5	23.0	20.9	15.0	23.7	30.1
1973	21.6	24.9	40.7	26.5	26.3	22.1	27.4	33.0
1974	26.8	24.0	46.2	24.7	31.2	19.3	38.3	30.1
1975	31.2	24.1	38.1	28.0	27.3	18.0	29.7	25.6
1976	31.1	23.7	38.4	27.1	25.0	22.3	27.7	29.9
1977	30.1	24.4	34.7	26.8	26.2	24.8	27.0	30.1

Source: World Bank and Department of the Treasury

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

FOR IMMEDIATE RELEASE January 29, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,803 million of 13-week Treasury bills and for $3,001 million of 26-week Treasury bills, both series to be issued on February 1, 1979 were accepted at the Federal Reserve Banks and Treasury today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing May 3, 1979			26-week bills maturing August 2, 1979		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.645	9.316%	9.67%	95.269a/	9.358%	9.96%
Low	97.641	9.332%	9.69%	95.250	9.396%	10.00%
Average	97.643	9.324%	9.68%	95.260	9.376%	9.98%

a/ Excepting 1 tender of $650,000

Tenders at the low price for the 13-week bills were allotted 35%.
Tenders at the low price for the 26-week bills were allotted 30%.

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

Location	Received	Accepted	Received	Accepted
Boston	$ 51,395,000	$ 26,395,000	$ 15,490,000	$ 15,490,000
New York	4,620,315,000	2,516,175,000	4,708,310,000	2,658,310,000
Philadelphia	31,950,000	26,385,000	13,300,000	13,300,000
Cleveland	45,545,000	27,930,000	72,400,000	27,300,000
Richmond	24,820,000	22,220,000	22,705,000	22,705,000
Atlanta	35,565,000	29,935,000	18,910,000	18,910,000
Chicago	217,855,000	42,345,000	185,900,000	70,900,000
St. Louis	41,300,000	15,600,000	38,350,000	16,350,000
Minneapolis	13,480,000	4,480,000	14,250,000	14,250,000
Kansas City	39,875,000	31,955,000	17,420,000	17,420,000
Dallas	12,345,000	12,345,000	7,020,000	7,020,000
San Francisco	154,805,000	34,445,000	195,650,000	100,450,000
Treasury	12,380,000	12,380,000	18,150,000	18,150,000
TOTALS	$5,301,630,000	$2,802,590,000b/	$5,327,855,000	$3,000,555,000c/

b/Includes $387,435,000 noncompetitive tenders from the public.
c/Includes $223,490,000 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
January 29, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES COUNTERVAILING DUTY
INVESTIGATIONS ON IMPORTS OF TWO EEC PRODUCTS

The Treasury Department has begun investigations into whether imports of tomato products and potato starch from the European Economic Community are being subsidized.

A preliminary determination in the tomato products case must be made on or before February 22, 1979, and a final determination no later that August 22, 1979.

A preliminary determination regarding potato starch must be made on or before June 8, 1979, and a final determination by December 8, 1979.

Imports of tomato products during 1977 were valued at approximately $7.7 million. Imports of potato starch were valued at $3.3 million for the first nine months of 1978.

These actions, under the Countervailing Duty Law, are being taken pursuant to petitions alleging that manufacturers and/or exporters of this merchandise receive benefits from the Commission of the European Communities.

The Countervailing Duty Law requires the Secretary of the Treasury to collect an additional customs duty equal to any subsidy paid on merchandise exported to the United States.

Notice of these investigations will be published in the Federal Register of January 30, 1979.

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

FOR IMMEDIATE RELEASE
Expected at 12:30 P.M. EST
Tuesday, January 30, 1979

ADDRESS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
AMERICAN METAL MARKET FORUM
ON GOLD AND SILVER
JANUARY 30, 1979

As the representative of a major supplier of gold to the private market, I welcome this opportunity to participate in your forum on the outlook for gold. Recent U.S. Government actions will have an important bearing on the gold market. It is therefore especially appropriate at this time to discuss the relationship of the U.S. Treasury gold sales program to long-term U.S. gold policy, and to our current efforts to establish the fundamental conditions for a strong dollar at home and abroad.

The U.S gold sales program

The sale of U.S. gold to the private market was initiated in 1975 in response to the demand for gold that developed in anticipation of the elimination of restrictions on gold

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ownership by Americans. In order to reduce the possible adverse impact on the U.S. trade balance, two auctions were held at which 1.3 million ounces of gold were sold. When the expected demand for gold by U.S. citizens failed to materialize and the speculative pressures faded, the sales were suspended.

The current program of monthly sales dates from May 1978, with the amount auctioned increased from 300,000 ounces at each of the first six sales, to 750,000 ounces in November and then to 1.5 million ounces in December, January and February. Our November 1 announcement indicated that sales would involve at least 1.5 million ounces monthly until further notice.

These sales serve three important U.S. objectives:

-- They help reduce the U.S. trade deficit, which has been a major factor in the weakness of the dollar.

-- They respond directly to conditions in the gold markets, which have contributed to the adverse psychological atmosphere in the foreign exchange market which has undermined international monetary stability.

-- They promote the internationally agreed effort to reduce gradually the monetary role of gold.

The expansion of the sales program to at least 1.5 million ounces monthly was announced on November 1 as part of a comprehensive U.S. effort to achieve the fundamental economic conditions for a strong dollar at home and abroad. In the context of the broad array of policies being pursued -- monetary and fiscal restraint, a voluntary wage-price program, an energy program, expanded export promotion, and active intervention in the foreign exchange market -- the sale of U.S gold can make a useful supplementary contribution.

Most Americans probably do not realize that the U.S. had become a large net importer of gold. Production of gold from domestic sources -- including scrap - has been running at 2 million ounces annually but domestic demand is well in excess of that level. Thus we have a substantial gap which, in the absence of U.S. Treasury sales, can only be met by imports.

In 1977, net imports amounted to 9-1/2 million ounces at a cost of $1.5 billion to the U.S. trade position. In the face of rising demand last year, the sale of nearly 4.1 million ounces from U.S. stocks provided a balance of payments saving of about $800 million. At the current monthly level, the sales would be well in excess of the 8-1/2 million ounces, valued at $1.5 billion, of net imports in 1978 and could turn us into a net gold exporter -- helping the U.S. trade position at an annual rate of up to $4 billion at current market prices.

The sales program is proceeding smoothly. Indeed, the amounts bid have been well in excess of our offerings. The average price received at recent auctions has varied by about

$2 per ounce from the price at the second London fixing on the day of the auction for bars of comparable fineness. The principal participants in the Treasury auctions have been recognized gold dealers which buy and sell gold as part of their normal business activities. The largest successful bidders have been banks and dealers from Germany, the United States, Switzerland and the United Kingdom. No foreign government or central bank has purchased gold at the U.S. sales.

The fact that most of the gold has been purchased by foreign-owned firms does not mean that all of this gold has been transferred abroad. These firms act as wholesalers and distributors of gold in the United States as well as abroad. There is also a great deal of location-swapping of gold to minimize shipping costs abroad. Thus, a large portion of the gold sold to these firms has remained in the United States to meet domestic needs.

The type of gold being sold at the auctions reflects the general composition of U.S stocks. Three hundred and four hundred ounce bars have been offered because they are the standard size in Treasury stocks. We don't sell gold in smaller quantities because we do not now hold significant quantities in less than 300 ounce bars. Only high-fineness gold bars containing at least 99.5 percent gold -- the type traded in the private market -- were sold in the monthly auctions in 1978. Sales of gold bars containing 90 percent fine gold were initiated in the January auction because 70 percent of the U.S gold stock is in that form. The response to the sale of 500,000 ounces of these lower quality bars was very favorable. The bids received totaled 1.3 million ounces; and the lower average price received -- about $1.50 per ounce -- largely reflects costs needed to refine these bars into bars of the quality normally traded for industrial use. Obviously such bars are sold on the basis of the weight of the gold they contain rather than the total weight of the bar. We currently expect to continue sales of this gold in subsequent auctions.

Since the minimum sale at our auctions is for a 300 ounce bar, only a handful of individuals have submitted bids. Although the opportunity to purchase gold in small quantities is readily available in the private market, Congress decided last year that the small American investor should be given the opportunity to buy gold from the United States gold stocks. Legislation was enacted in late 1978 providing for the issuance over a five-year period of two types of American Arts Gold Medallions, containing one half ounce and one ounce each of gold. At least one million ounces of gold in medallion form are to be offered each year. If Congress appropriates funds for their production and distribution, the sales could take place in the spring of 1980. It is expected that 500,000 ounces of gold would be struck in medallions of each size for the 1980 sales program.

The expanded gold sales program announced on November 1 is open-ended with regard to both amount and duration. The United States has no particular price objective for the program, and continuation of the sales is in no way contingent upon the attainment of any particular price level. The magnitude and number of sales will continue to be based upon our assessment of the U.S. balance of payments outlook and conditions in the foreign exchange market.

The Market Outlook

The supply of newly-mined gold coming on the market has been been fairly stable since 1976 at about 40 million ounces annually of which South Africa has accounted for 23 million ounces and the Soviet Union for an estimated 8.5 million ounces. The remainder of the supply reaching the market reflects sales from official stocks and has increased each year. In 1978 total sales from official stocks amounted to about 16 million ounces of which the International Monetary Fund accounted for about 6 million ounces, the United States about 4 million ounces and other countries, including the Soviet Union, about 6 million ounces.

Continuation of U.S. gold sales at the present level would make the United States the second largest supplier of gold to the world market this year. Assuming that sales by other suppliers continues at recent levels, the total supplies reaching the market would amount to about 70 million ounces in 1979, an increase of about 25 percent from last year.

In assessing the demand side of the market, account must be taken of two different factors and how they respond to changing economic conditions: industrial and commercial demand and investment-cum-speculative demand.

The <u>industrial and commercial demand</u> for gold generally follows a pattern similar to that of other metals. When the economy is growing rapidly, industrial and commercial demand for gold will expand. When the price rises rapidly, particularly in relation to the prices of other metals which can be used as substitutes, demand in this segment of the market slackens.

The impact of U.S. gold sales on this sector of the market is difficult to ascertain, given the many other factors operating. For example, the economy will be growing at a more moderate pace in 1979 which will slow demand. In addition, speculative and investment demand is highly volatile. However an increase in supply of the order of magnitude of current U.S. sales might be expected to reduce the clearing price in this portion of the market from what it otherwise would be.

The <u>speculative and investment demand</u> for gold largely reflects an attempt to hedge against financial or political instability and is therefore influenced primarily by expectations regarding inflation and future gold prices and by political unrest. The run-up in gold prices in dollar terms last year was associated with concerns about accelerating U.S. inflation, which was also a major factor contributing to the decline of the dollar in the foreign exchange market. The U.S. commitment to bring down the rate of inflation should therefore have an important effect on this segment of the market.

The growing purchases of gold coins, however, which more than doubled last year to 3-1/2 million ounces, and the rapid expansion in gold futures trading, no doubt reflect an increased investment and speculative demand for gold by U.S. citizens. Nevertheless, investment in gold bullion appears to have remained minimal in view of the large amount of funds that must be tied up in a non-interest bearing form and the cost of buying and storing gold.

For most Americans, investment in gold remains a highly risky proposition. Given the extreme volatility of gold prices, gains and losses are extremely sensitive to the timing of transactions. For example, if an American had purchased gold when restrictions on ownership were lifted in 1975, the subsequent rate of return would have been less than 4 percent annually -- less than could be obtained on U.S. Savings Bonds.

Of course, much larger gains or losses could have occurred with a different time frame. However, the variability of rates of return on gold investments far exceed that of financial instruments of comparable maturity. For example, if three month gold investments had been made at the beginning of each quarter from July 1973 to July 1978 the rate of return would have been negative in nearly half of the 21 investment periods. Since the beginning of 1975, when restrictions on ownership of gold by U.S. residents were eliminated, the range of losses and gains on three-month investments would have been -58 percent to +451 percent. Comparisons on six-month and one-year investments reveal a similar, albeit less drastic, variability.

U.S. gold policy

At the outset, I noted that the U.S. gold sales program is consistent with longstanding U.S. policy of gradually phasing out the monetary role of gold -- a policy which has been formally accepted internationally for several years. This policy is based on the widely recognized view that gold, or any other commodity, is inherently ill-suited as a basis for a stable national or international monetary system.

Natural forces limit new gold production at the same time that expanding private uses appropriate a growing share of available supplies. Hence the residual supplies for monetary purposes are inadequate for, and unrelated to, the liquidity needs of an expanding national or world economy. Commodities are simply an unsuitable monetary instrument.

Furthermore, the extreme price volatility of gold would make it a highly unstable standard. The price of gold moved from a peak of $195 per ounce at the end of 1974, to a trough of $104 in mid-1976, back to a new high of $243 last October and to $195 after the U.S. dollar measures were announced on November 1. To have required economies to adjust to such fluctuations would have led to swings in employment, output and prices which no government could or should tolerate.

Within the United States, the demonetization of gold has been proceeding for an extended period with broad bi-partisan support. The legislative measures removing the domestic link between gold and the domestic money supply were enacted under President Roosevelt in 1933-34. The provision for a gold certificate reserve against required bank reserves was gradually reduced and finally eliminated by legislation introduced by President Johnson in 1968. Action to terminate the convertibility into gold of dollars held by foreign monetary authorities was taken in August 1971 by President Nixon.

Legislation authorizing U.S. acceptance of the IMF amendments which formally removed gold from a central role in the international monetary system was introduced by President Ford and approved by Congress in 1976. Market sales of gold from U.S. stocks were begun by Secretary Simon and resumed by Secretary Blumenthal.

Other countries have also virtually eliminated any meaningful domestic monetary role for gold. No important country allows its money supply to be determined by the size of its gold stocks. There is also agreement among nations that the monetary role for gold internationally should be reduced although there is a recognition that the international role of gold will have to be phased out very gradually because too many countries have a sizable percentage of their official reserves composed of gold.

The recent amendments to the IMF Articles of Agreement -- the rulebook for the international monetary system -- adopted by nearly all members, provides concrete action to phase out gold's monetary role. They abolish the official price of gold and remove gold from its position as numeraire for the system. Gold is virtually eliminated as an instrument in IMF transactions. Provision is also made for the future disposition of the IMF's remaining gold holdings.

The IMF is already in the process of disposing of one-third of its gold holdings, with 25 million ounces being sold at public auctions for the benefit of developing countries and a further 25 million ounces being distributed to members in proportion to their quotas at the old official price. The IMF is in the third year of its program, which is scheduled to be completed in 1980. Thus far, 17.6 million ounces have been sold at 29 public auctions with $2.1 billion obtained for the developing countries. There have been three IMF distributions of gold totaling 18.4 million ounces of which the U.S. received 4.3 million ounces.

There is no evidence that central banks are interested in building up their gold reserves through purchases in the private market. Since the United States terminated the commitment to buy gold at a fixed price in 1971, transactions between central banks in gold have been few and far between -- limited primarily to a few instances of gold collateral loans. Some countries have revalued their gold holding to obtain bookkeeping profits or increase the reported level of their reserves. However, there is general recognition that the market price could not be realized if global stocks were sold to the private market and the volatility of the market price has left the countries quite uncertain as to what value to place on their gold holdings. Consequently, practices vary quite widely from country to country.

Finally, although IMF members have acquired gold from the IMF under the agreed "restitution" program at the old official price, only a handful of the eligible developing countries have purchased gold at market prices at the Fund auctions. Even some of these purchases have been made to facilitate sales to the domestic private market and have not led to an increase in central bank holdings.

Basically, central banks have been unwilling to acquire gold at market-related prices because the volatility of the private price and the inability to sell large amounts without sustaining heavy losses has made gold a very risky asset. In fact, IMF data suggest that, in addition to the United States, other IMF members may have disposed of about 15 million ounces of official gold holdings since 1971.

Some have suggested that the new arrangements under the European Monetary System represent a departure from this trend, and will result in a significantly increased monetary role for gold. It is clearly premature to reach any final judgment on the effect of the EC decisions, inasmuch as the arrangements are not in operation. However, there is no reason to believe that the European arrangements and intentions constitute any revival of a monetary role for gold. No official price of gold is established and there is no requirement of official gold settlements. The ECU will not be convertible into gold at a fixed price. Participants will retain title to the deposited gold, and must reacquire their gold at the end of the transition period. The EC envisages that gold would actually be pooled at a subsequent stage, although specific arrangements have not been agreed.

The U.S. and all other countries have, of course, recognized that gold remains an important asset which countries will want to use even as it is being phased out of the system. The principal motive for including gold in the EC arrangements seems to be the recognition that gold holdings are in fact not readily usable for official purposes. Thus, the arrangements are an attempt to re-liquify them to at least a modest extent. We are confident that the EC will continue to consult closely with the IMF as its arrangements evolve to assure consistency with the agreed international objectives concerning liquidity and gold itself.

Conclusion

In conclusion, I draw three important lessons regarding the role of gold from events of the past year.

-- First, gold is clearly too volatile an asset to serve as the basis for a stable national or international monetary system. Retention of gold in official stocks provides no assurance of better economic performance. In fact any attempt to have economic policies influenced by changes in gold holdings would exacerbate current economic problems.

-- Second, the future of gold clearly lies in the direction of greater private rather than official use. The private sector is better suited to accept the inherent risk associated with gold holdings.

-- Third, the sale of a portion of the huge U.S. stocks can make a useful supplementary contribution to achieving our economic objectives. However, such sales are no substitute to dealing with the economic fundamentals. The Administration must and will pursue the economic policies, particularly monetary and fiscal restraint, required to bring inflation down and strengthen the dollar at home and abroad.

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

FOR RELEASE AT 4:00 P.M. January 30, 1979

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $5,800 million, to be issued February 8, 1979. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,812 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,800 million, representing an additional amount of bills dated November 9, 1978, and to mature May 10, 1979 (CUSIP No. 912793 Y4 2), originally issued in the amount of $3,407 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,000 million to be dated February 8, 1979, and to mature August 9, 1979 (CUSIP No. 912793 2F 2).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing February 8, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,409 million of the maturing bills. 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, 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 Standard time, Monday, February 5, 1979. Form PD 4632-2 (for 26-week series) or Form PD 4632-3 (for 13-week series) 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 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 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches. 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 bills to be maintained on the book-entry records of Federal Reserve Banks and Branches must be made or completed at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt on February 8, 1979, in cash or other immediately available funds or in Treasury bills maturing February 8, 1979. 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, 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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ASHINGTON, D.C. 20220 TELEPHONE 566-2041

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EXPECTED AT 10 A.M.
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TESTIMONY OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
JANUARY 31, 1979

Mr. Chairman and Members of this distinguished Committee:

I appreciate this opportunity to discuss with you the President's economic and budgetary plans for 1979 and 1980.

The American economy is at a critical juncture. Since the deep recession of 1974-75, we have enjoyed an unprecedented recovery of employment and production, but we have had less success in maintaining the value of our currency at home and abroad. This imbalance in our achievements cannot persist. Either we shall right the balance ourselves by bringing inflation under orderly control, or events will reassert equilibrium for us, by bringing the economic recovery itself to a disorderly close. There is no doubt which alternative best serves the public interest. The only question is whether we in Washington, subject as we all are to the usual political cross-currents, can find the will to choose and hold to the correct path. The stakes are high. In deciding upon this budget, the new Congress will largely determine whether or not we enter the 1980's with a firm foundation for long term prosperity.

We reach this decision point after several years of truly exceptional economic performance. Since President Carter assumed office, the gains in employment and output have outpaced even optimistic expectations:

B-1370

- Over 7 million new jobs have been created. This is the largest gain in employment during any two year period in our history, and the ratio of employed persons to the working-age population is at an all-time high.

- The number of unemployed has been cut by more than 1 million persons, and the rate of unemployment has been reduced to below 6 percent. By way of reference, the rate peaked at 9 percent in 1975 and was still close to 8 percent at the end of 1976.

- Real output has expanded by 10 percent, and industrial production has risen by 13 percent.

- Real disposable personal income -- income after taxes and corrected for inflation -- has risen by almost 9 percent. Corporate profits have also increased -- by more than a third -- even after adjusting for the rise in replacement costs.

But all of these achievements now stand threatened by inflation. Unless we assure the integrity of our currency, both at home and abroad, the economy's forward progress will reach the familiar dead-end of recession and financial dislocation. We can avoid these evils, but only if we are prepared now, and for an extended period, to move the fight against inflation to the top of our list of economic priorities.

That is the message of the President's budget. I believe the American people are prepared to respond to that message -- to join earnestly in a common effort to re-secure the fundamentals of economic progress for the next decade. I do not sense that the people share the superficial view that this budget lacks interest because it is short on new ideas for spending their tax dollars. They realize that in its very spareness the budget constitutes a new initiative of major importance: an initiative to assert responsible control over our economic destiny.

I. <u>The inflation problem</u>

Over the 1970's, inflation has posed a critical threat to economic progress throughout North America, Europe, and Japan. It has made all of our other problems much worse. In some countries, inflation has compromised political stability and democratic procedures. More than once, it has seriously shaken the international monetary system. Everywhere it has retarded economic growth and social progress. Inflation has proved to be far more destructive of prosperity, and far more intractable, than any of us would have imagined possible ten years ago.

As the decade comes to a close, however, we have learned that inflation is not like death and taxes: we can rid ourselves of it. In 1974, Japan suffered a 22-1/2 percent rate of inflation; the Japanese inflation rate is currently running at 4 percent. Similarly, Germany has reduced its inflation rate from 7 percent to 2-1/2 percent over the past 4 years, and the British brought their inflation rate down from 24 percent to 8-1/2 percent between 1975 and 1978.

That is cause for hope. But it is also reason for impatience about our own experience. The inflation record of the United States has been less than admirable. The dollar's buying power has been cut in half since 1967. In the 1970's, inflation here has rarely gone into the double digits -- but it has averaged 6-3/4 percent. Last year, the inflation rate experienced a disturbing acceleration. At the end of 1978 the CPI was 9 percent higher than at the end of 1977. This constituted an increase of more than 2 percentage points over the previous year's inflation rate.

The roots of our inflation problem are numerous and deep. There is no one cause for the problem, and we cannot expect to solve it either quickly or with any single panacea.

In the spring of last year, the President moved the fight against inflation ahead of all other objectives and began to mobilize the full arsenal of weapons necessary to win the fight.

During the spring and summer of 1978, the President worked with the Congress to reduce the FY 1979 budget deficit to less than $38 billion. In late October and November, the President added important new weapons to the arsenal. He set a target of $30 billion or less for the FY 1980 budget deficit; he announced that the Federal Reserve Board would take strong steps to contain credit expansion; he arranged with Germany, Japan, and Switzerland a far-reaching program to stabilize and strengthen the dollar in the foreign exchange markets; he set in place an unprecedented program for reviewing the economic impact of federal regulations; he promulgated a full program of voluntary wage-price standards, supported by an innovative plan for real wage insurance to encourage compliance with the wage standard.

The emerging anti-inflation strategy addresses virtually every major dimension of the problem, but I would like today to lay stress upon the four aspects of inflation that require governmental responses of a particularly determined, sustained, and concerted character: excess aggregate demand, sluggish productivity growth, the sheer momentum of the wage-price spiral, and the dollar's value on the foreign exchanges.

II. Aggregate demand: The need for sustained fiscal and monetary restraint

The centerpiece of the President's anti-inflation strategy is sustained and concerted restraint on aggregate demand, effected through both fiscal and monetary policies. There are two reasons for this emphasis on prudence in the making of budgets and the creation of dollars.

First, there have been clear warning signals of demand excess in recent months. The economic recovery has been sufficiently powerful and prolonged to absorb most excesses and indeed to generate inflationary strains in some labor and product markets. Our real economic growth has averaged 5.1 percent over the last 45 months; in the last quarter of 1978, real growth proceeded at a 6.1 percent annual clip. We are clearly reaching a point where the margin of idle resources is very thin in many sectors of the economy. Unless we now apply fiscal and monetary restraint in a controlled but firm and definite way, we risk hitting unmoveable barriers. This would throw us into a wholly unnecessary recession, with a great deal of unnecessary hardship.

There is a second reason for demand restraint: both here and abroad, experience has demonstrated that no anti-inflation effort -- no array of policies -- can succeed without the long-term, unwavering support of fiscal and monetary discipline. This long-term discipline is essential to reduce inflationary expectations and reverse the wage-price spiral. The President has not joined this battle against inflation to win temporary victories. Our goal is not a momentary pause in the wage-price spiral, but an economy securely settled on a path of long-term price stability and sustainable progress in growth and employment. This will require a long-term commitment to hold down the government's claims on the economy's real and financial resources, and a long-term commitment to keep the supply of dollars from validating excessive demands.

The President's FY 1980 budget sets an example of restraint for the economy:

- Federal spending will be nearly frozen in real terms. After adjusting for inflation, Federal outlays in 1979 will grow by only 0.3 percent and those of 1980 will be only 0.7 percent higher than in 1979. These are the smallest increases in five years and far below the 3.2 percent average increase for the previous 8 years of this decade.

- Federal spending will be held to levels that absorb a smaller share of total output. Outlays in 1980 will be down to 21 percent of GNP, compared with the recent high of 22.6 percent in 1976.

- The Federal deficit will be below $30 billion for the first time in five years and will be barely more than 1 percent of GNP.

- Federal employment will actually be reduced. Civilian employment in the government will be about 58,000 less by the end of 1980 than it was when President Carter took office. This will bring the ratio of federal workers to the total population to about 1.24 percent, the lowest point since 1950.

To achieve this degree of budgetary restraint is a major feat. Our long-term defense needs are substantially dictated by foreign dangers beyond our control. About three-quarters of federal budget outlays -- over $400 billion of the $531.6 billion -- are mandated by continuing statutes or obligations which are nearly impossible to alter in the short term. About one-half of budget outlays -- over $250 billion -- represent transfer payments for individuals, which are usually indexed to the rate of inflation, so that total spending has a nearly inexorable tendency to rise in times of inflation. This leaves only a relatively small portion of the budget susceptible to practical control on a year-to-year basis by the President and the Congress.

In his budget the President has taken great pains to allocate the needed cutbacks fairly and sensibly among the many competing public demands, showing particular regard for those groups most in need of federal help and support. But make no mistake: The budget makes a major contribution to the poor and the disadvantaged in its very restraint, its very emphasis on fighting inflation. For it is society's most vulnerable members that suffer most grievously from inflation.

Fiscal austerity must be complemented by monetary restraint until the inflation problem is brought firmly under control. As Chairman Miller stated last week: "The Administration's wage-price standards and other anti-inflation initiatives can be successful only if they are backed up by macro-economic policies of restraint...We must find the courage to adhere for a sustained period to the course of policy we have charted."

Innovations in our financial system are keeping monetary restraint from concentrating its impact predominantly on the housing industry, which in previous cycles was the earliest victim of increased credit stringency. The impact of monetary restraint is now less discriminatory, but it remains a powerful and necessary component of our anti-inflation arsenal. And it is being used.

Our tight budgetary policies are easing the task of the monetary authorities. With a reduced deficit, and with off-budget financing activities being monitored more closely, Federal demands on financial markets will be substantially reduced. Federal borrowing from the public this year and next will be declining both absolutely and relative to the total amount of credit raised in financial markets. In 1976, the federal government accounted for over a fifth of total credit demands. This year, federal borrowing will be less than a tenth of the total, and the share of credit absorbed by the government will decline further in 1980. This means that monetary aggregates can be restrained without choking off essential flows of credit to the private sector.

III. Sluggish productivity growth

Another major source of our inflation problem is sluggish productivity growth -- a low rate of increase in real output per hour of work. On this criterion, we have been finishing dead last among industrial nations throughout most of the 1970's.

Productivity growth is the fulcrum between wage inflation and price inflation. Over the long term, one can usually approximate the figure for price inflation by subtracting productivity growth from the rate of wage inflation. From 1948 to 1968, productivity in the private non-farm business sector rose about 2-1/2 percent a year; labor compensation rose at 5 percent; and price inflation averaged below 3 percent. Over the last ten years however, productivity growth in the private non-farm business sector has averaged only 1-1/2 percent, and last year it fell to an abysmal 0.8 percent. This means that average wage increases and price inflation now run at nearly the same rate: last year, for instance, compensation per hour (wages plus fringes) rose by about 9-3/4 percent; with productivity growth depressed, price inflation tracked right along at about 9 percent.

To improve productivity growth requires a long term effort to increase our investment in productive resources and to refrain from imposing excessive regulatory burdens upon the private sector. Last year's tax bill, involving substantial incentives for investment, will help. The President's new program for reviewing regulatory costs and benefits will help.

But it will take persistent policy attention over a number of years to return productivity growth to the high rates that made life so cheerful for economic advisers in the 1960's. Until then, price inflation will parallel average wage inflation: to bring down price inflation, we must bring down wage inflation, and vice versa.

IV. The momentum of the wage-price sprial

Central to our long-term inflation problem is the sheer, self-reinforcing momentum of the wage-price spiral.

Inflation persists because everyone expects it to persist. Expecting high inflation, business sets high prices, labor demands high wages -- and we thereby generate precisely the high inflation that was expected.

The wage-price spiral is enormously stubborn. Demand restraint can have some effect on it, and is clearly a necessary part of any cure; but, acting alone, demand restraint works its cure quite slowly and harshly. The U.S. inflation rate in the 1970's has declined with painful slowness even during periods of great slack in labor and product markets. Even when aggregate demand is sharply cut back, business and labor continue for a substantial period to act upon deeply ingrained expectations of high inflation. The inflationary momentum persists and, while it does, the decline in demand delivers its impact on the only remaining targets: employment and real growth. It is only after a considerable period of demand restraint that inflationary expectations finally begin adjusting to the changed economic conditions.

To succeed in reducing inflation, we must learn patience, but we must also seek to speed up the response of wages and prices to conditions of demand restraint. Every advanced nation has recognized this. Each has established its own particular procedures and institutions for braking wage-price momentum -- for overriding unrealistic inflationary expectations -- so that demand restraint can reduce inflation without socially wasteful delays.

It is for this purpose that the President promulgated voluntary wage-price standards last October. These standards describe a path for wages and prices consistent with the general moderation of economic activity that is assured by our application of fiscal and monetary discipline. If these standards are followed, the inflation rate will adjust downward to the slowing pace of the economy. We will avoid an unnecessary, sharp fall-off in real growth rates and an unnecessary, large increase in unemployment.

The wage-price standards are voluntary. The President strongly opposes mandatory controls. The U.S. experience with controls, and that of virtually every other nation, is that they saddle the economy with enormous bureaucracy, miles of red tape, and crippling inefficiencies. Very quickly, mandatory controls collapse under their own weight. Controls are an attempt to usurp the roles of the marketplace and the collective bargaining table in setting every price and wage throughout the economy. That's an absurd and unnecessary project. Our purpose is merely to brake the momentum of wages and prices that is unresponsive to basic macro-economic conditions. That vital, but limited, purpose can be accomplished without excessive governnment interference in allocating resources and incomes throughout the economy.

But voluntarism raises a basic issue. It requires that everyone forego apparent short-term economic gains in exchange for long-term economic improvements of a much more substantial, general, and lasting character. Every working person has the legitimate concern that his or her compliance with the program will not be matched by others and will accordingly result in reduced real income as inflation continues beyond a 7 percent level. Wages are set for extended periods -- 6 months, a year, sometimes several years. Compliance on the wage side constitutes a relatively long-term commitment, and thus triggers a particularly acute concern about real income loss. This is the concern that drives the wage side of the wage-price spiral.

The President has proposed an innovative program for real wage insurance to meet directly this central concern of working people. The proposal would materially reduce the financial risks of compliance; it would lead to more widespread compliance, and thus to a more rapid and pronounced impact on the inflation rate.

The proposal in effect sets up an insurance contract. In this contract, we ask wage restraint from each employee group, so as to reduce inflation for the benefit of all; in return we offer to share the risk that inflation will in fact exceed the wage increase ceiling. This is a novel, but natural, response to a dilemma that has evaded solution for many years. In the overall structure of our anti-inflation policies, real wage insurance plays an important role for which there are no readily imagined substitutes.

V. The need for a strong and stable dollar

The dollar's value cannot be protected at home if it is weak abroad, and we cannot maintain its integrity abroad if it is shrinking at home. Last year, that maxim received a sharp and painful illustration. The acceleration in domestic inflation served to weaken the dollar on the foreign exchange markets, and this in turn raised the domestic price level even further -- as the cost of imported goods rose and provided an umbrella for domestic price increases. We estimate that the dollar's depreciation last year may have added as much as one full percentage point to our inflation rate.

The President moved forcefully on November 1st to put an end to this vicious cycle. He endorsed the imposition of greater monetary restraint domestically and arranged with Germany, Switzerland and Japan a program of closely coordinated intervention in the foreign exchange markets.

The U.S. has mobilized most of the $30 billion in foreign exchange resources being used to finance our share of this effort. These funds have been obtained partly through use of U.S. reserves and partly by borrowing, including the issuance of foreign currency denominated securities.

The increase to $15 billion in the central bank swap lines with those three countries took effect immediately on announcement. Drawings on the IMF in Deutschemarks and Japanese yen, amounting to the equivalent of $2 billion and $1 billion, were made in early November. Later that month we sold about $1.4 billion equivalent in SDR's for Deutschemarks and yen. To date we have undertaken two issues of foreign currency bonds totaling the equivalent of $2.8 billion -- a DM issue of about $1.6 billion in January, and a Swiss franc issue of about $1.2 billion in January. We expect to borrow additional amounts during the fiscal year but have not yet decided upon the details of further issues.

The shift in intervention practices announced on November 1 was designed to restore order in exchange markets and a climate in which rates can respond to the improved outlook for the economic fundamentals that underpin the dollar's value. We are not attempting to peg exchange rates, nor to establish target zones, nor to impose exchange rates inconsistent with the fundamental economic and financial realities.

The initial response in the foreign exchange markets to the November 1 actions was good. From its low point on October 31 the dollar recovered on a trade-weighted basis by 12 percent by November 20. Against the DM and the yen the recovery was also 12 percent; against the Swiss franc, 18 percent. Subsequent pressures from political developments in Iran and the OPEC decision to increase oil prices substantially were met by forceful action from monetary authorities and by the resiliency of two-way trading. The dollar has stabilized and, today, on a trade-weighted basis, the dollar is over 9 percent above the October low.

We are beginning to see a change in tone and expectations in the foreign exchange and domestic money markets. Markets have been much more orderly and better balanced, although there is still some nervousness and uncertainty. I believe we will see increased stability as our determination to persevere becomes more evident.

The United States is determined to prevent any resurgence of the kind of conditions in the foreign exchange markets which led to the actions on November 1. Our resources are very substantial, and we will not hesitate to use them as necessary to achieve our objectives. The other participants have committed their own substantial resources to those joint operations. There is, in fact, no quantitative ceiling on the total resources which the four countries are ready to use.

Other members of the IMF are also dedicated to assuring exchange market stability. The recently amended IMF Articles of Agreement provide for strengthened surveillance of members' economic policies to insure achievement of this objective.

We are prepared to consider with an open mind ideas for evolutionary change in the monetary system. What is important is that any change be an improvement and that the transitions be accomplished smoothly and in a manner which strengthens our open international trade and payments system.

Mr. Chairman, at this point I would like to comment briefly on proposals to substitute special drawing rights for a portion of official dollar reserves, proposals that have been endorsed by some members of your Committee. I have three observations.

First, while we do not believe the reserve role of the dollar is a major source of current exchange market difficulties, we are prepared to consider proposals for evolution of the international reserve system. We have no interest in preserving an artificial role for the dollar, and we are quite prepared to contemplate a reduction in its relative role in the international monetary system.

Second, substitution proposals are under discussion in the International Monetary Fund, and we are participating in those discussions. Our objective will not be to resist change, but to ensure that any change be an improvement from our own point of view and that of an open and stable system.

Third, while the substitution idea may look simple, appearances can deceive. There are serious questions about the costs of such a scheme and their distribution among countries; about the implications of a substitution account for the exchange rate system; about the contribution such an account could make to a better sharing of responsibilities for operation of the system; and about whether such an account would in fact contribute significantly to greater monetary stability.

In sum, the substitution approach involves questions that deserve careful evaluation -- and certainly closer examination than they are frequently given. We intend to give the idea full consideration, weighing both its potential contribution and its potential costs. While it may be that some form of substitution proposal will ultimately be found practical, useful, and agreeable to the international community, I would prefer that the U.S. suspend judgment on that matter pending careful study.

To conclude this discussion of the international dimensions of our economic situation, let me stress that to keep the dollar firm, the United States must continue reducing its trade and current account deficits. The portents are hopeful on this front. Containing inflation at home will make our goods more competitive both at home and abroad. Foreign economies, and thus markets, will grow faster than our own economy in 1979 for the first time in five years, and this will provide better export opportunities.

Our trade balance showed marked improvement during 1978, and we expect this to continue. In the second and third quarter of 1978, the trade deficit narrowed to a $31-1/2 billion annual rate (balance of payments basis), some $14 billion below the rate of the preceding six months. In the fourth quarter of the year, the trade deficit averaged about $2-1/2 billion, a $30 billion annual rate. Export volumes have risen strongly since March 1978; growth in non-oil import volume has slowed down substantially. We expect continued strong export growth and a very small increase in import volume in 1979. Although the oil price rise will add about $4 billion to oil imports, the trade deficit should decline to about $25-to-28 billion for the year as a whole and, owing to our growing net invisibles surplus, the currenct account deficit could drop by about 50 percent from the $17 billion estimated for 1978.

VI. The road ahead

We are mobilizing every element of economic policy behind the fight against inflation -- fiscal policy, monetary policy, international financial policy, regulatory policy, wage-price policy, and more. None of this will work instantly; for success, we will need a long-term commitment by the entire federal government, supported by a determined nation, to keep the anti-inflation effort at the top of our list of priorities for a number of years.

This does not mean that we face a bleak future. Quite the contrary. It is only by turning firmly against the forces of inflation, and then holding our course, that we can save our economy from economic turmoil in the short run and the trap of stagflation in the long run. If we show the requisite discipline, this economy can be successfully steered, without a recession, on to a path of price stability and steadily enlarging prosperity.

I am well aware that some are forecasting a recession for 1979 or 1980. In passing, I would note three points: First, we have been hearing such forecasts for better than a year now; as the economy shows continued resiliency, the predicted recessions keep getting a rain check. Second, the recession scenarios all involve much milder and much shorter downturns than we experienced in 1974; no one sees us on the road to a serious bust. Third, with very rare exceptions, the forecasters are not suggesting that we should seek to avert a downturn by now liberalizing our fiscal or monetary policies; this could only lead to a much more severe and prolonged recession.

My major point, however, is that the path we are now pursuing need not involve a recession. We do foresee a definite slowing in the pace of real growth -- from 4-1/4 percent last year to the 2-to-2-1/2 percent range this year -- and a concommitant moderation in the pace of inflation -- from 9 percent last year to about 7-1/2 percent this year. Our projected growth rate is just about where we ought to be -- for the economy to cool itself off in a measured fashion, for inflation to turn resolutely away from the double digit range, for the trade deficit to narrow significantly, and for the dollar to firm up substantially.

Our projected moderation in inflation will come from a number of sources: the slowdown in growth itself, a fall off from last year's abnormally high rate of food price increases, the renewed stability of the dollar, a slower pace of advance for housing costs, and the discipline of the wage-price standards.

The respectable, though clearly diminished, rate of real growth in 1979 will follow from the continued resiliency and balance of the recovery. On this point, I believe, the private forecasters have been too bearish. Let me draw you attention to a number of hopeful signs.

- Momentum: Contrary to most forecasts, the economy was growing at the end of 1978 at a very strong annual rate of over 6 percent. One million new jobs were added in the last quarter of the year, three million for the year as a whole, and we entered the new year with the ratio of civilian employees to the population at a record high.

- Inventory balance: We have avoided excessive inventory accumulation throughout this recovery. Businessmen have been alert in keeping their stock-building close relative to sales. Even after adjusting for the inflationary bias in inventory/sales ratios (sales are recorded at current prices, but inventories may be carried at earlier and lower prices), these measures show reasonably good balance in most industries.

- Housing: While housing activity can be expected to taper down some next year, partly in response to the high prices of new housing and partly because of the high level of financing costs, there is no reason to expect the sharp drop in housing activity that has been characteristic of past cyclical swings in the economy. Usually an early victim of credit stringencies, housing starts have been at over a 2 million unit rate since last winter. This strength reflects in part the strong support of the mortgage market by government housing agencies, but more importantly, the changes in financial structure that have enabled the housing sector to compete for funds in the financial markets despite sharp increases in interest rates. At the same time, social and demographic changes in family structure should continue to support strong housing demand.

Consumer spending: The ratio of consumer debt to personal income is high by historical standards and bears very careful watching. But the reasons may be due more to demography than to a serious abuse of consumer credit. There are now an unusually large number of consumers in the 25- to 44-year age group. People in this age category are typically the heaviest users of credit -- they are forming households and buying homes and durable goods with the reasonable expectation of rising incomes in the future. The increasing trend toward two wage-earner households is another factor encouraging durable goods purchases often financed on credit. In view of these demographic factors, and of the fact that delinquency rates have been relatively stable over the past three years, the rise in consumer debt appears somewhat less alarming. It remains in need of careful monitoring, but a consumer-led recession does not at this point appear likely.

Exports: Exports are finally becoming a potent source of growth, as domestic demand abates and recent exchange rate changes work to increase the foreign demand for U.S. goods. Signs of accelerated export growth are already clear--nonagricultural exports in the latest three months, September-November, increased by more than 20 percent from levels of six months earlier.

Investments: Signs here are more mixed. The recent surveys indicate somewhat slower real growth for 1979 in business fixed investment, compared to the past two years. However, other advance signs of capital spending, such as new orders for capital goods and construction contract awards, indicate continued strength in this vital area. Our attack on inflation requires that we accelerate the extremely slow pace of productivity advance, and this means we need increased capital formation, to upgrade and modernize our capital stock. This was a primary emphasis in last year's tax bill, and I expect its enactment will help this sector toward at least moderate, continued advance in the coming year.

Taken in sum, this evidence points to a pronounced but orderly easing of the economy's advance; it does not point to an actual reversal. Obviously, all economic forecasts leave a great deal to be desired, but the available evidence does not justify a gloomy view of our prospects.

VII. Conclusion

I began by noting that the American economy is at a critical juncture. Let me close with a word of guarded optimism.

It has been just three months since the President took a series of bold and coordinated steps in fiscal, monetary, exchange rate, and wage-price policy. These steps have set in motion broad and hopeful trends throughout the economy.

The dollar has rallied by more than 9 percent against OECD currencies, and the stock market has gained substantially, since the President acted. Financial leaders, both here and abroad, now recognize that this government is determined to see the inflation fight through to a successful conclusion. It is no longer the smart bet to wager against the prospects of the American economy. The recovery remains balanced and resilient. The American people have ignored the cynics and have shown a genuine receptivity to a common, voluntary effort to restrain wages and prices.

All this adds up to strong evidence that our economy can indeed be steered to a deflationary path without dislocation, turmoil, and recession.

These hopeful signs do not of course mean we have won this fight, but they give us a genuine chance to win it -- if we can retain the momentum.

What is needed now, to maintain our momentum, is a clear sign that the Congress too is committed to securing the foundations of our prosperity for the decade ahead. I look foreward to working with you on this important enterprise.

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

FOR IMMEDIATE RELEASE
January 31, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES PRELIMINARY COUNTERVAILING DUTY ACTION ON RAYON STAPLE FIBER FROM SWEDEN

The Treasury Department today announced its preliminary determination that the Government of Sweden is subsidizing exports of viscose rayon staple fiber to the United States. A final decision must be made by April 25, 1979.

This investigation was begun after a petition was received April 25, 1978, on behalf of Avtex Fibers, Inc., Valley Forge, Pennsylvania.

Treasury's preliminary investigation concluded that payments made under a program designed to keep older workers on payroll may constitute a subsidy under the law. Two other programs that underwrite the stock-piling of materials and that helped finance equipment used for purposes other than the manufacture of the viscose rayon staple fiber under investigation were preliminarily held not to constitute subsidies subject to countervailing duties.

The Countervailing Duty Law requires the Treasury to assess an additional customs duty that equals the net amount of a subsidy paid on imported merchandise.

Notice of this action appears in the Federal Register of January 31, 1979.

Imports of viscose rayon staple fiber from Sweden were valued at $2.1 million during 1977.

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TESTIMONY OF THE HONORABLE W. MICHAEL BLUMENTHAL
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE BUDGET COMMITTEE

Mr. Chairman and Members of this distinguished Committee:

I appreciate this opportunity to discuss with you the President's economic and budgetary plans for 1979 and 1980.

The American economy is at a critical juncture. Since the deep recession of 1974-75, we have enjoyed an unprecedented recovery of employment and production, but we have had less success in maintaining the value of our currency at home and abroad. This imbalance in our achievements cannot persist. Either we shall right the balance ourselves by bringing inflation under orderly control, or events will reassert equilibrium for us, by bringing the economic recovery itself to a disorderly close. There is no doubt which alternative best serves the public interest. The only question is whether we in Washington, subject as we all are to the usual political cross-currents, can find the will to choose and hold to the correct path. The stakes are high. In deciding upon this budget, the new Congress will largely determine whether or not we enter the 1980's with a firm foundation for long term prosperity.

We reach this decision point after several years of truly exceptional economic performance. Since President Carter assumed office, the gains in employment and output have outpaced even optimistic expectations:

B-1372

- Over 7 million new jobs have been created. This is the largest gain in employment during any two year period in our history, and the ratio of employed persons to the working-age population is at an all-time high.

- The number of unemployed has been cut by more than 1 million persons, and the rate of unemployment has been reduced to below 6 percent. By way of reference, the rate peaked at 9 percent in 1975 and was still close to 8 percent at the end of 1976.

- Real output has expanded by 10 percent, and industrial production has risen by 13 percent.

- Real disposable personal income -- income after taxes and corrected for inflation -- has risen by almost 9 percent. Corporate profits have also increased -- by more than a third -- even after adjusting for the rise in replacement costs.

But all of these achievements now stand threatened by inflation. Unless we assure the integrity of our currency, both at home and abroad, the economy's forward progress will reach the familiar dead-end of recession and financial dislocation. We can avoid these evils, but only if we are prepared now, and for an extended period, to move the fight against inflation to the top of our list of economic priorities.

That is the message of the President's budget. I believe the American people are prepared to respond to that message -- to join earnestly in a common effort to re-secure the fundamentals of economic progress for the next decade. I do not sense that the people share the superficial view that this budget lacks interest because it is short on new ideas for spending their tax dollars. They realize that in its very spareness the budget constitutes a new initiative of major importance: an initiative to assert responsible control over our economic destiny.

I. The inflation problem

Over the 1970's, inflation has posed a critical threat to economic progress throughout North America, Europe, and Japan. It has made all of our other problems much worse. In some countries, inflation has compromised political stability and democratic procedures. More than once, it has seriously shaken the international monetary system. Everywhere it has retarded economic growth and social progress. Inflation has proved to be far more destructive of prosperity, and far more intractable, than any of us would have imagined possible ten years ago.

As the decade comes to a close, however, we have learned that inflation is not like death and taxes: we can rid ourselves of it. In 1974, Japan suffered a 22-1/2 percent rate of inflation; the Japanese inflation rate is currently running at 4 percent. Similarly, Germany has reduced its inflation rate from 7 percent to 2-1/2 percent over the past 4 years, and the British brought their inflation rate down from 24 percent to 8-1/2 percent between 1975 and 1978.

That is cause for hope. But it is also reason for impatience about our own experience. The inflation record of the United States has been less than admirable. The dollar's buying power has been cut in half since 1967. In the 1970's, inflation here has rarely gone into the double digits -- but it has averaged 6-3/4 percent. Last year, the inflation rate experienced a disturbing acceleration. At the end of 1978 the CPI was 9 percent higher than at the end of 1977. This constituted an increase of more than 2 percentage points over the previous year's inflation rate.

The roots of our inflation problem are numerous and deep. There is no one cause for the problem, and we cannot expect to solve it either quickly or with any single panacea.

In the spring of last year, the President moved the fight against inflation ahead of all other objectives and began to mobilize the full arsenal of weapons necessary to win the fight.

During the spring and summer of 1978, the President worked with the Congress to reduce the FY 1979 budget deficit to less than $38 billion. In late October and November, the President added important new weapons to the arsenal. He set a target of $30 billion or less for the FY 1980 budget deficit; he announced that the Federal Reserve Board would take strong steps to contain credit expansion; he arranged with Germany, Japan, and Switzerland a far-reaching program to stabilize and strengthen the dollar in the foreign exchange markets; he set in place an unprecedented program for reviewing the economic impact of federal regulations; he promulgated a full program of voluntary wage-price standards, supported by an innovative plan for real wage insurance to encourage compliance with the wage standard.

The emerging anti-inflation strategy addresses virtually every major dimension of the problem, but I would like today to lay stress upon the four aspects of inflation that require governmental responses of a particularly determined, sustained, and concerted character: excess aggregate demand, sluggish productivity growth, the sheer momentum of the wage-price spiral, and the dollar's value on the foreign exchanges.

II. Aggregate demand: The need for sustained fiscal and monetary restraint

The centerpiece of the President's anti-inflation strategy is sustained and concerted restraint on aggregate demand, effected through both fiscal and monetary policies. There are two reasons for this emphasis on prudence in the making of budgets and the creation of dollars.

First, there have been warning signals of demand excess in recent months. The economic recovery has been sufficiently powerful and prolonged to absorb most excess resources and indeed to generate inflationary strains in some labor and product markets. Our real economic growth has averaged 5.1 percent over the last 45 months; in the last quarter of 1978, real growth proceeded at a 6.1 percent annual clip. We are reaching a point where the margin of idle resources is very thin in many sectors of the economy. Unless we now apply fiscal and monetary restraint in a controlled but firm and definite way, we risk hitting unmoveable barriers. This would throw us into a wholly unnecessary recession, with a great deal of unnecessary hardship.

There is a second reason for demand restraint: both here and abroad, experience has demonstrated that no anti-inflation effort -- no array of policies -- can succeed without the long-term, unwavering support of fiscal and monetary discipline. This long-term discipline is essential to reduce inflationary expectations and reverse the wage-price spiral. The President has not joined this battle against inflation to win temporary victories. Our goal is not a momentary pause in the wage-price spiral, but an economy securely settled on a path of long-term price stability and sustainable progress in growth and employment. This will require a long-term commitment to hold down the government's claims on the economy's real and financial resources, and a long-term commitment to keep the supply of dollars from validating excessive demands.

The President's FY 1980 budget sets an example of restraint for the economy:

- Federal spending will be nearly frozen in real terms. After adjusting for inflation, Federal outlays in 1979 will grow by only 0.3 percent and those of 1980 will be only 0.7 percent higher than in 1979. These are the smallest increases in five years and far below the 3.2 percent average increase for the previous 8 years of this decade.

- Federal spending will be held to levels that absorb a smaller share of total output. Outlays in 1980 will be down to 21 percent of GNP, compared with the recent high of 22.6 percent in 1976.

- The Federal deficit will be below $30 billion for the first time in five years and will be barely more than 1 percent of GNP.

- Federal employment will actually be reduced. Civilian employment in the government will be less by the end of 1980 than it was when President Carter took office.

To achieve this degree of budgetary restraint is a major feat. Our long-term defense needs are substantially dictated by foreign dangers beyond our control. About three-quarters of federal budget outlays -- over $400 billion of the $531.6 billion -- are mandated by continuing statutes or obligations which are nearly impossible to alter in the short term. About one-half of budget outlays -- over $250 billion -- represent transfer payments for individuals, which are usually indexed to the rate of inflation, so that total spending has a nearly inexorable tendency to rise in times of inflation. This leaves only a relatively small portion of the budget susceptible to practical control on a year-to-year basis by the President and the Congress.

In his budget the President has taken great pains to allocate the needed cutbacks fairly and sensibly among the many competing public demands, showing particular regard for those groups most in need of federal help and support. But make no mistake: The budget makes a major contribution to the poor and the disadvantaged in its very restraint, its very emphasis on fighting inflation. For it is society's most vulnerable members that suffer most grievously from inflation.

Fiscal austerity must be complemented by monetary restraint until the inflation problem is brought firmly under control. As Chairman Miller stated last week: "The Administration's wage-price standards and other anti-inflation initiatives can be successful only if they are backed up by macro-economic policies of restraint...We must find the courage to adhere for a sustained period to the course of policy we have charted."

Innovations in our financial system are keeping monetary restraint from concentrating its impact predominantly on the housing industry, which in previous cycles was the earliest victim of increased credit stringency. The impact of monetary restraint is now less discriminatory, but it remains a powerful and necessary component of our anti-inflation arsenal. And it is being used.

Our tight budgetary policies are easing the task of the monetary authorities. With a reduced deficit, and with off-budget financing activities being monitored more closely, Federal demands on financial markets will be substantially reduced. Federal borrowing from the public this year and next will be declining both absolutely and relative to the total amount of credit raised in financial markets. In 1976, the federal government accounted for over a fifth of total credit demands. This year, federal borrowing will be less than a tenth of the total, and the share of credit absorbed by the government will decline further in 1980. This means that monetary aggregates can be restrained without choking off essential flows of credit to the private sector.

III. Sluggish productivity growth

Another major source of our inflation problem is sluggish productivity growth -- a low rate of increase in real output per hour of work. On this criterion, we have been finishing dead last among industrial nations throughout most of the 1970's.

Productivity growth is the fulcrum between wage inflation and price inflation. Over the long term, one can usually approximate the figure for price inflation by subtracting productivity growth from the rate of wage inflation. From 1948 to 1968, productivity in the private non-farm business sector rose about 2-1/2 percent a year; labor compensation rose at 5 percent; and price inflation averaged below 3 percent. Over the last ten years however, productivity growth in the private non-farm business sector has averaged only 1-1/2 percent, and last year it fell to an abysmal 0.8 percent. This means that average wage increases and price inflation now run at nearly the same rate: last year, for instance, compensation per hour (wages plus fringes) rose by about 9-3/4 percent; with productivity growth depressed, price inflation tracked right along at about 9 percent.

To improve productivity growth requires a long term effort to increase our investment in productive resources and to refrain from imposing excessive regulatory burdens upon the private sector. Last year's tax bill, involving substantial incentives for investment, will help. The President's new program for reviewing regulatory costs and benefits will help.

But it will take persistent policy attention over a number of years to return productivity growth to the high rates that made life so cheerful for economic advisers in the 1960's. Until then, price inflation will parallel average wage inflation: to bring down price inflation, we must bring down wage inflation, and vice versa.

IV. The momentum of the wage-price sprial

Central to our long-term inflation problem is the sheer, self-reinforcing momentum of the wage-price spiral.

Inflation persists because everyone expects it to persist. Expecting high inflation, business sets high prices, labor demands high wages -- and we thereby generate precisely the high inflation that was expected.

The wage-price spiral is enormously stubborn. Demand restraint can have some effect on it, and is clearly a necessary part of any cure; but, acting alone, demand restraint works its cure quite slowly and harshly. The U.S. inflation rate in the 1970's has declined with painful slowness even during periods of great slack in labor and product markets. Even when aggregate demand is sharply cut back, business and labor continue for a substantial period to act upon deeply ingrained expectations of high inflation. The inflationary momentum persists and, while it does, the decline in demand delivers its impact on the only remaining targets: employment and real growth. It is only after a considerable period of demand restraint that inflationary expectations finally begin adjusting to the changed economic conditions.

To succeed in reducing inflation, we must learn patience, but we must also seek to speed up the response of wages and prices to conditions of demand restraint. Every advanced nation has recognized this. Each has established its own particular procedures and institutions for braking wage-price momentum -- for overriding unrealistic inflationary expectations -- so that demand restraint can reduce inflation without socially wasteful delays.

It is for this purpose that the President promulgated voluntary wage-price standards last October. These standards describe a path for wages and prices consistent with the general moderation of economic activity that is assured by our application of fiscal and monetary discipline. If these standards are followed, the inflation rate will adjust downward to the slowing pace of the economy. We will avoid an unnecessary, sharp fall-off in real growth rates and an unnecessary, large increase in unemployment.

The wage-price standards are voluntary. The President strongly opposes mandatory controls. The U.S. experience with controls, and that of virtually every other nation, is that they saddle the economy with enormous bureaucracy, miles of red tape, and crippling inefficiencies. Very quickly, mandatory controls collapse under their own weight. Controls are an attempt to usurp the roles of the marketplace and the collective bargaining table in setting every price and wage throughout the economy. That's an absurd and unnecessary project. Our purpose is merely to brake the momentum of wages and prices that is unresponsive to basic macro-economic conditions. That vital, but limited, purpose can be accomplished without excessive governnment interference in allocating resources and incomes throughout the economy.

But voluntarism raises a basic issue. It requires that everyone forego apparent short-term economic gains in exchange for long-term economic improvements of a much more substantial, general, and lasting character. Every working person has the legitimate concern that his or her compliance with the program will not be matched by others and will accordingly result in reduced real income as inflation continues beyond a 7 percent level. Wages are set for extended periods -- 6 months, a year, sometimes several years. Compliance on the wage side constitutes a relatively long-term commitment, and thus triggers a particularly acute concern about real income loss. This is the concern that drives the wage side of the wage-price spiral.

The President has proposed an innovative program for real wage insurance to meet directly this central concern of working people. The proposal would materially reduce the financial risks of compliance; it would lead to more widespread compliance, and thus to a more rapid and pronounced impact on the inflation rate.

The proposal in effect sets up an insurance contract. In this contract, we ask wage restraint from each employee group, so as to reduce inflation for the benefit of all; in return we offer to share the risk that inflation will in fact exceed the wage increase ceiling. This is a novel, but natural, response to a dilemma that has evaded solution for many years. In the overall structure of our anti-inflation policies, real wage insurance plays an important role for which there are no readily imagined substitutes.

V. The need for a strong and stable dollar

The dollar's value cannot be protected at home if it is weak abroad, and we cannot maintain its integrity abroad if it is shrinking at home. Last year, that maxim received a sharp and painful illustration. The acceleration in domestic inflation served to weaken the dollar on the foreign exchange markets, and this in turn raised the domestic price level even further -- as the cost of imported goods rose and provided an umbrella for domestic price increases. We estimate that the dollar's depreciation last year may have added as much as one full percentage point to our inflation rate.

The President moved forcefully on November 1st to put an end to this vicious cycle. He endorsed the imposition of greater monetary restraint domestically and arranged with Germany, Switzerland and Japan a program of closely coordinated intervention in the foreign exchange markets.

The U.S. has mobilized most of the $30 billion in foreign exchange resources being used to finance our share of this effort. These funds have been obtained partly through use of U.S. reserves and partly by borrowing, including the issuance of foreign currency denominated securities.

The increase to $15 billion in the central bank swap lines with those three countries took effect immediately on announcement. Drawings on the IMF in Deutschemarks and Japanese yen, amounting to the equivalent of $2 billion and $1 billion, were made in early November. Later that month we sold about $1.4 billion equivalent in SDR's for Deutschemarks and yen. To date we have undertaken two issues of foreign currency bonds totaling the equivalent of $2.8 billion -- a DM issue of about $1.6 billion in January, and a Swiss franc issue of about $1.2 billion in January. We expect to borrow additional amounts during the fiscal year but have not yet decided upon the details of further issues.

The shift in intervention practices announced on November 1 was designed to restore order in exchange markets and a climate in which rates can respond to the improved outlook for the economic fundamentals that underpin the dollar's value. We are not attempting to peg exchange rates, nor to establish target zones, nor to impose exchange rates inconsistent with the fundamental economic and financial realities.

The initial response in the foreign exchange markets to the November 1 actions was good. From its low point on October 31 the dollar recovered on a trade-weighted basis by 12 percent by November 20. Against the DM and the yen the recovery was also 12 percent; against the Swiss franc, 18 percent. Subsequent pressures from political developments in Iran and the OPEC decision to increase oil prices substantially were met by forceful action from monetary authorities and by the resiliency of two-way trading. The dollar has stabilized and, today, on a trade-weighted basis, the dollar is over 9 percent above the October low.

We are beginning to see a change in tone and expectations in the foreign exchange and domestic money markets. Markets have been much more orderly and better balanced, although there is still some nervousness and uncertainty. I believe we will see increased stability as our determination to persevere becomes more evident.

The United States is determined to prevent any resurgence of the kind of conditions in the foreign exchange markets which led to the actions on November 1. Our resources are very substantial, and we will not hesitate to use them as necessary to achieve our objectives. The other participants have committed their own substantial resources to those joint operations. There is, in fact, no quantitative ceiling on the total resources which the four countries are ready to use.

Other members of the IMF are also dedicated to assuring exchange market stability. The recently amended IMF Articles of Agreement provide for strengthened surveillance of members' economic policies to insure achievement of this objective.

We are prepared to consider with an open mind ideas for evolutionary change in the monetary system. What is important is that any change be an improvement and that the transitions be accomplished smoothly and in a manner which strengthens our open international trade and payments system.

To conclude this discussion of the international dimensions of our economic situation, let me stress that to keep the dollar firm, the United States must continue reducing its trade and current account deficits. The portents are hopeful on this front. Containing inflation at home will make our goods more competitive both at home and abroad. Foreign economies, and thus markets, will grow faster than our own economy in 1979 for the first time in five years, and this will provide better export opportunities.

Our trade balance showed marked improvement during 1978, and we expect this to continue. In the second and third quarter of 1978, the trade deficit narrowed to a \$31-1/2 billion annual rate (balance of payments basis), some \$14 billion below the rate of the preceding six months. In the fourth quarter of the year, the trade deficit averaged about \$2-1/2 billion, a \$30 billion annual rate. Export volumes have risen strongly since March 1978; growth in non-oil import volume has slowed down substantially. We expect continued strong export growth and a very small increase in import volume in 1979. Although the oil price rise will add about \$4 billion to oil imports, the trade deficit should decline to about \$25-to-28 billion for the year as a whole and, owing to our growing net invisibles surplus, the currenct account deficit could drop by about 50 percent from the \$17 billion estimated for 1978.

VI. The road ahead

We are mobilizing every element of economic policy behind the fight against inflation -- fiscal policy, monetary policy, international financial policy, regulatory policy, wage-price policy, and more. None of this will work instantly; for success, we will need a long-term commitment by the entire federal government, supported by a determined nation, to keep the anti-inflation effort at the top of our list of priorities for a number of years.

This does not mean that we face a bleak future. Quite the contrary. It is only by turning firmly against the forces of inflation, and then holding our course, that we can save our economy from economic turmoil in the short run and the trap of stagflation in the long run. If we show the requisite discipline, this economy can be successfully steered, without a recession, on to a path of price stability and steadily enlarging prosperity.

I am well aware that some are forecasting a recession for 1979 or 1980. In passing, I would note three points: First, we have been hearing such forecasts for better than a year now; as the economy shows continued resiliency, the predicted recessions keep getting a rain check. Second, the recession scenarios all involve much milder and much shorter downturns than we experienced in 1974; no one sees us on the road to a serious bust. Third, with very rare exceptions, the forecasters are not suggesting that we should seek to avert a downturn by now liberalizing our fiscal or monetary policies; this could only lead to a much more severe and prolonged recession.

My major point, however, is that the path we are now pursuing need <u>not</u> involve a recession. We do foresee a definite slowing in the pace of real growth -- from 4-1/4 percent last year to the 2-to-2-1/2 percent range this year -- and a concommitant moderation in the pace of inflation -- from 9 percent last year to about 7-1/2 percent this year. Our projected growth rate is just about where we ought to be -- for the economy to cool itself off in a measured fashion, for inflation to turn resolutely away from the double digit range, for the trade deficit to narrow significantly, and for the dollar to firm up substantially.

Our projected moderation in inflation will come from a number of sources: the slowdown in growth itself, a fall off from last year's abnormally high rate of food price increases, the renewed stability of the dollar, a slower pace of advance for housing costs, and the discipline of the wage-price standards.

The respectable, though clearly diminished, rate of real growth in 1979 will follow from the continued resiliency and balance of the recovery. On this point, I believe, the private forecasters have been too bearish. Let me draw you attention to a number of hopeful signs.

- Momentum: Contrary to most forecasts, the economy was growing at the end of 1978 at a very strong annual rate of over 6 percent. One million new jobs were added in the last quarter of the year, three million for the year as a whole, and we entered the new year with the ratio of civilian employees to the population at a record high.

- Inventory balance: We have avoided excessive inventory accumulation throughout this recovery. Businessmen have been alert in keeping their stock-building close relative to sales. Even after adjusting for the inflationary bias in inventory/sales ratios (sales are recorded at current prices, but inventories may be carried at earlier and lower prices), these measures show reasonably good balance in most industries.

- Housing: While housing activity can be expected to taper down some next year, partly in response to the high prices of new housing and partly because of the high level of financing costs, there is no reason to expect the sharp drop in housing activity that has been characteristic of past cyclical swings in the economy. Usually an early victim of credit stringencies, housing starts have been at over a 2 million unit rate since last winter. This strength reflects in part the strong support of the mortgage market by government housing agencies, but more importantly, the changes in financial structure that have enabled the housing sector to compete for funds in the financial markets despite sharp increases in interest rates. At the same time, social and demographic changes in family structure should continue to support strong housing demand.

- Consumer spending: The ratio of consumer debt to personal income is high by historical standards and bears very careful watching. But the reasons may be due more to demography than to a serious abuse of consumer credit. There are now an unusually large number of consumers in the 25- to 44-year age group. People in this age category are typically the heaviest users of credit -- they are forming households and buying homes and durable goods with the reasonable expectation of rising incomes in the future. The increasing trend toward two wage-earner households is another factor encouraging durable goods purchases often financed on credit. In view of these demographic factors, and of the fact that delinquency rates have been relatively stable over the past three years, the rise in consumer debt appears somewhat less alarming. It remains in need of careful monitoring, but a consumer-led recession does not at this point appear likely.

- Exports: Exports are finally becoming a potent source of growth, as domestic demand abates and recent exchange rate changes work to increase the foreign demand for U.S. goods. Signs of accelerated export growth are already clear--nonagricultural exports in the latest three months, September-November, increased by more than 20 percent from levels of six months earlier.

- Investments: Signs here are more mixed. The recent surveys indicate somewhat slower real growth for 1979 in business fixed investment, compared to the past two years. However, other advance signs of capital spending, such as new orders for capital goods and construction contract awards, indicate continued strength in this vital area. Our attack on inflation requires that we accelerate the extremely slow pace of productivity advance, and this means we need increased capital formation, to upgrade and modernize our capital stock. This was a primary emphasis in last year's tax bill, and I expect its enactment will help this sector toward at least moderate, continued advance in the coming year.

Taken in sum, this evidence points to a pronounced but orderly easing of the economy's advance; it does not point to an actual reversal. Obviously, all economic forecasts leave a great deal to be desired, but the available evidence does not justify a gloomy view of our prospects.

VII. Budget issues of particular Treasury concern

Mr. Chairman, at this point I would like to mention briefly four budget issues of particular concern to the Treasury.

a. Real wage insurance

This innovative proposal plays a key role in the President's anti-inflation program. The proposal involves a tax credit, keyed to the excess of inflation over 7 percent, for workers in groups complying with the 7 percent wage standard.

We have budgeted this tax credit proposal at $2.5 billion for FY 1980 -- $2.3 billion in revenue costs and $0.2 billion in outlays (for the refundable portion of the credit).

The program's cost varies directly with the number of employees complying with the wage standard and inversely with the 1979 inflation rate. Because high compliance produces lower inflation, the program's costs are to a large extent self-limiting. We have assumed a moderate rate of wage standard compliance -- 47 million workers out of 87 million potentially eligible for the program. Our inflation estimate is 7.5 percent for the relevant period, October-November 1979 over October-November 1978. With 100 percent compliance, the inflation estimate would be lower, and the program cost would be zero.

The program involves a very modest cost for a significant impact on inflation.

b. <u>Targeted fiscal assistance and countercyclical assistance</u>

The Administration will propose a two-part targeted fiscal assistance and anti-recession assistance program. Part one involves a transitional fiscal assistance program carefully aimed at 500 or so local governments that have not fully recovered from the 1974-1975 recession. To ease these needy governments from the previous funding received under the anti-recession program, the new program will provide $250 million in FY 1979 and $150 million in FY 1980. Part two involves a separate, standby countercyclical assistance program to provide assistance to State and local governments in the event of a recession. The trigger level on unemployment rates exceeds current economic assumptions, and no outlays are expected for the part two program in 1980.

c. <u>The multilateral development banks</u>

This year we are requesting budgetary authority for our participation in all the multilateral development banks, and approval of authorizations for our participation in the replenishments of the Asian Development Fund and the African Development Fund, and in the increase in resources of the Inter-American Development Bank.

These institutions are today the main source of official development assistance throughout the world. Such assistance is vital to the economic growth and the political stability of many developing countries. By funnelling development assistance through these institutions, we serve our own economic and foreign policy interests in several very concrete ways:

. We assure broader markets for our exports and thus a stronger dollar and a stronger U.S. economy. The non-OPEC developing countries purchase about one-fourth of our exports, supporting over 1 million jobs in this country.

. We assure that our money will be spent on projects that have been expertly designed for cost-effectiveness. The various banks and funds are central repositories of this expertise, and they exercise an objective and demanding economic scruntiny over the projects they finance.

- We assure that our money will go to those most in need. The multilateral banks and funds have put ever increasing stress on projects that reach the poorest people in the developing nations.

- We get maximum leverage for our money. Other countries contribute three dollars for every dollar we provide. In addition, backed by callable capital which does not involve any U.S. budgetary outlay, the banks borrow extensively from the world's private capital markets. Ninety percent of their ordinary capital resources are now raised in this manner, and we expect this percentage to increase further in the future.

For this fiscal year, we are requesting total budgetary authority of $3,624.9 million for the multilateral development banks. Of this, 1,842.6 million represents paid-in contributions, which involve a budgetary impact. The rest of the request is for callable capital, which serves as a guarantee for the banks' borrowings in private capital markets, but involves no budgetary outlay, and would be called only in the highly unlikely event of massive default on the part of a number of the banks' developing country borrowers.

The request for each development institution is as follows:

($ Millions)

IDA	IBRD	IFC	IDB		ADB		AFDF	TOTAL
			Capital	FSO	Capital	ADF		
1092.0	1025.8	33.4	687.3	325.3	248.2	171.3	41.7	3624.9

The request includes $989 million from a shortfall in our FY 1979 request involving previously authorized amounts, of which approximately half is for callable capital for the World Bank.

The paid-in amounts requested -- $1,842.6 million -- constitute a significant reduction --16 percent-- from the paid-in amounts requested for FY 1979. This reduction reflects the Administration's effort to keep the budget as stringent as possible, while still meeting our vital economic interests and our international obligations.

Restraint will also characterize the authorization proposals which the Administration expects to submit during the course of FY 1980 for U.S. participation in the resource replenishments of the Asian Development Fund and the African Development Fund and in the increase in resources for the Inter-American Development Bank. For example, contributions for U.S. participation in the IDB will be smaller over the four-year life of the new replenishment (1979-1982) than was the case in the previous replenishment period (1975-1978).

d. Statutory debt limit

The Administration believes that the public debt would be more effectively controlled and more efficently managed by tying the debt limit to the new Congressional budget process. I hope that we can work together to devise an acceptable way to do this.

The present statutory debt limit is not an effective way for Congress to control the debt. In fact, the debt limit may actually divert public attention from the real issue -- control over the Federal budget. The increase in the debt each year is simply the result of earlier decisions by the Congress on the amounts of Federal spending and taxation. Consequently, the only way to control the debt is through firm control over the Federal budget. In this regard, the Congressional Budget Act of 1974 greatly improved Congressional control over budget outlays, receipts, and thus the public debt. This new budget process assures that Congress will face up each year to the public debt consequences of its decisions on taxes and expenditures.

The statutory limitation on the public debt occasionally has interfered with the efficient financing of the Federal Government and has actually resulted in increased cost to the taxpayer. For example, when the temporary debt limit expired on September 30, 1977, and new legislation was not enacted on the new debt limit until October 4, and again when the limit lapsed from July 31, 1978 to August 3, 1978, Treasury was required in the interim periods to suspend the sale of savings bonds and other public debt securities. The suspension of savings bonds sales, in particular, resulted in considerable pu confusion, additional costs to the Government, and a loss of public confidence in the management of the government's finances.

VIII. Conclusion

I began by noting that the American economy is at a critical juncture. Let me close with a word of guarded optimism.

It has been just three months since the President took a series of bold and coordinated steps in fiscal, monetary, exchange rate, and wage-price policy. These steps have set in motion broad and hopeful trends throughout the economy.

The dollar has rallied by more than 9 percent against OECD currencies, and the stock market has gained substantially, since the President acted. Financial leaders, both here and abroad, now recognize that this government is determined to see the inflation fight through to a successful conclusion. It is no longer the smart bet to wager against the prospects of the American economy. The recovery remains balanced and resilient. The American people have ignored the cynics and have shown a genuine receptivity to a common, voluntary effort to restrain wages and prices.

All this adds up to strong evidence that our economy can indeed be steered to a deflationary path without dislocation, turmoil, and recession.

These hopeful signs do not of course mean we have won this fight, but they give us a genuine chance to win it -- if we can retain the momentum.

What is needed now, to maintain our momentum, is a clear sign that the Congress too is committed to securing the foundations of our prosperity for the decade ahead. I look forward to working with you on this important enterprise.

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE January 31, 1979

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $3,251 million of 52-week Treasury bills to be dated February 6, 1979, and to mature February 5, 1980, 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 -	90.595	9.302%	10.15%
Low -	90.515	9.381%	10.25%
Average -	90.548	9.348%	10.21%

Tenders at the low price were allotted 86%.

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

Location	Received	Accepted
Boston	$ 39,160,000	$ 23,460,000
New York	3,992,520,000	2,691,880,000
Philadelphia	7,925,000	7,925,000
Cleveland	12,975,000	9,835,000
Richmond	29,760,000	29,760,000
Atlanta	20,525,000	20,525,000
Chicago	259,085,000	204,585,000
St. Louis	33,440,000	19,440,000
Minneapolis	37,445,000	37,445,000
Kansas City	22,485,000	22,485,000
Dallas	5,915,000	5,915,000
San Francisco	231,605,000	170,205,000
Treasury	7,665,000	7,665,000
TOTAL	$4,700,505,000	$3,251,125,000

The $3,251 million of accepted tenders includes $ 157 million of noncompetitive tenders from the public and $ 959 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 $285 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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FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE January 31, 1979

TREASURY FEBRUARY QUARTERLY FINANCING

The Treasury will raise about $1,300 million of new cash and refund $2,961 million of securities maturing February 15, 1979, by issuing $2,250 million of 8-year notes and $2,000 million of 29-3/4-year bonds. The bonds will be an addition to bonds which are currently outstanding.

The $2,961 million of maturing securities are those held by the public, including $769 million held, as of today, by Federal Reserve Banks as agents for foreign and international monetary authorities. In addition to the public holdings, Government accounts and Federal Reserve Banks, for their own accounts, hold $1,731 million of the maturing securities that may be refunded by issuing additional amounts of new securities. Additional amounts of the new securities 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.

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Attachment

B-1374 (over)

HIGHLIGHTS OF TREASURY
OFFERINGS TO THE PUBLIC
FEBRUARY 1979 FINANCING
TO BE ISSUED FEBRUARY 15, 1979

January 31, 1979

Amount Offered:		
To the public	$2,250 million	$2,000 million
Description of Security:		
Term and type of security	8-year notes	29-3/4-year bonds
Series and CUSIP designation	Series B-1987 (CUSIP No. 912827 JK 9)	8-3/4% Bonds of 2003-2008 (CUSIP No. 912810 CE 6)
Maturity date	February 15, 1987	November 15, 2008
Call date	No provision	November 15, 2003
Interest coupon rate	To be determined based on the average of accepted bids	8-3/4%
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction
Interest payment dates	August 15 and February 15	May 15 and November 15
Minimum denomination available	$1,000	$1,000
Terms of Sale:		
Method of sale	Yield Auction	Price Auction
Accrued interest payable by investor	None	$22.23757 per $1,000
Preferred allotment	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
Deposit guarantee by designated institutions	Acceptable	Acceptable
Key Dates:		
Deadline for receipt of tenders	Tuesday, February 6, 1979, by 1:30 p.m., EST	Wednesday, February 7, 1979, by 1:30 p.m., EST
Settlement date (final payment due)		
a) cash or Federal funds	Thursday, February 15, 1979	Thursday, February 15, 1979
b) check drawn on bank within FRB district where submitted	Monday, February 12, 1979	Monday, February 12, 1979
c) check drawn on bank outside FRB district where submitted	Friday, February 9, 1979	Friday, February 9, 1979
Delivery date for coupon securities	Tuesday, February 20, 1979	Thursday, February 15, 1979

TALKING POINTS FOR
FINANCING PRESS CONFERENCE

January 31, 1979

1. This afternoon we are announcing the terms of our regular February quarterly refunding. I would also like to discuss briefly the Treasury's financing requirements for the balance of the first half.

2. The financing we are announcing is a two-pronged offering including an intermediate-term note and a long-term bond. You may recall that we made similar two-pronged offerings in May 1977 and May 1978 under similar circumstances of small maturities and limited cash needs.

3. We are offering \$4.25 billion of new securities to refund \$3.0 billion of publicly-held securities maturing on February 15 and to raise approximately \$1.3 billion of new cash.

4. The two new securities are:

   -- First, an 8-year note in the amount of \$2.25 billion maturing on February 15, 1987. This security will be auctioned on a yield basis on Tuesday, February 6. The minimum denomination will be \$1,000.

-- Second, a 29-3/4-year bond in the amount of $2.0 billion maturing on November 15, 2008. This is a reopening of the presently outstanding 8-3/4 percent bond, which we sold last November. This issue matures on November 15, 2008 and is callable beginning November 15, 2003. We will auction the bond on Wednesday, February 7. Since the bond is an already outstanding issue, this will be a price auction. The minimum denomination will be $1,000.

On each of the two issues we will accept noncompetitive tenders of up to $1,000,000.

5. In deciding to offer an 8-year note in this refunding, we took note of the fact that there are already two large outstanding issues maturing in 1986, while there is only one small issue maturing in 1987. We believe the 8-year maturity will have a broad appeal to investors in intermediate-term issues, including some who might otherwise have opted for a short issue which is not being offered on this occasion.

6. The present public ownership of the reopened bond is approximately $1.7 billion. Our bond offering will raise the size of the publicly-held issue to just under $3-3/4 billion, which will enhance the tradeability of this issue. The size of the new bond issue is $250 million more than we offered in November 1978, and thus is our largest long-term bond offering to date. The increase reflects both our desire to continue to develop the long bond market and the present availability of long-term investment funds.

7. For the current January - March quarter, we estimate our net market financing need at $13-1/4 billion, assuming a March 30 end-of-quarter balance of $8 billion.

8. Thus far, not including this financing, we have raised approximately $3 billion of our estimated net market financing needs for this quarter. This was accomplished as follows:

-- $700 million in the 2 and 4-year cycle notes which settled on January 2.

-- \$500 million in the 52-week bills which settled on January 9.

-- \$1.5 billion in the new 15-year bond which settled on January 11.

-- \$200 million in a 2-year cycle note which settled on January 31.

Including this financing, we will have raised a total of \$4.2 billion, leaving a balance of about \$9 billion still to be done in this quarter.

9. We are planning a second DM denominated offering in the current quarter. Also, we are giving consideration to another foreign denominated offering during the second quarter. It is expected that such offerings will reduce our domestic market borrowing.

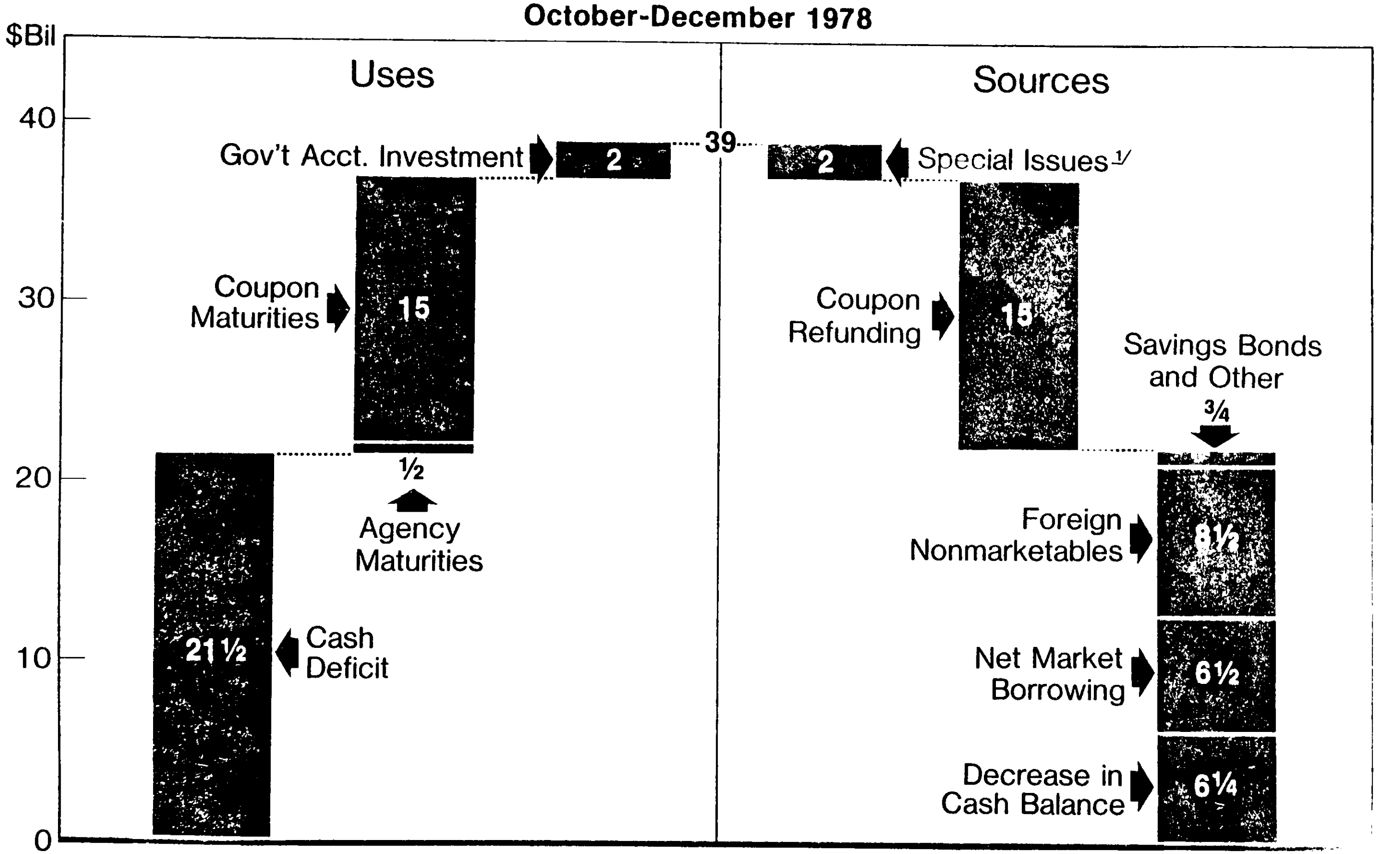
10. The bulk of our remaining cash need in the current quarter could be met with cash management bills. Also, we have an open slot in our four-year note cycle in early March that may or may not be used. Depending on how our cash needs develop, we may also choose to reduce some of our weekly bill offerings. Beginning on February 22, the size of our weekly bill maturities increases to about \$6.2 billion from the \$5.7 billion level of recent quarters.

11. In the second quarter, we currently expect a modest paydown in the range of $3 - 4 billion, assuming a cash balance at the end of March and June of $8 and $16 billion, respectively.

We will need substantial cash management financing in the second quarter when we experience large cash swings as a result of the April and June tax dates. We estimate a cash drain from the end of March to the April low point of $15 - 16 billion, and an inflow in the second part of April of $19 - 20 billion. Similarly, we anticipate an outflow of about $10 - 11 billion in the first part of June followed by a net inflow of about $24 - 25 billion in the second half of the month.

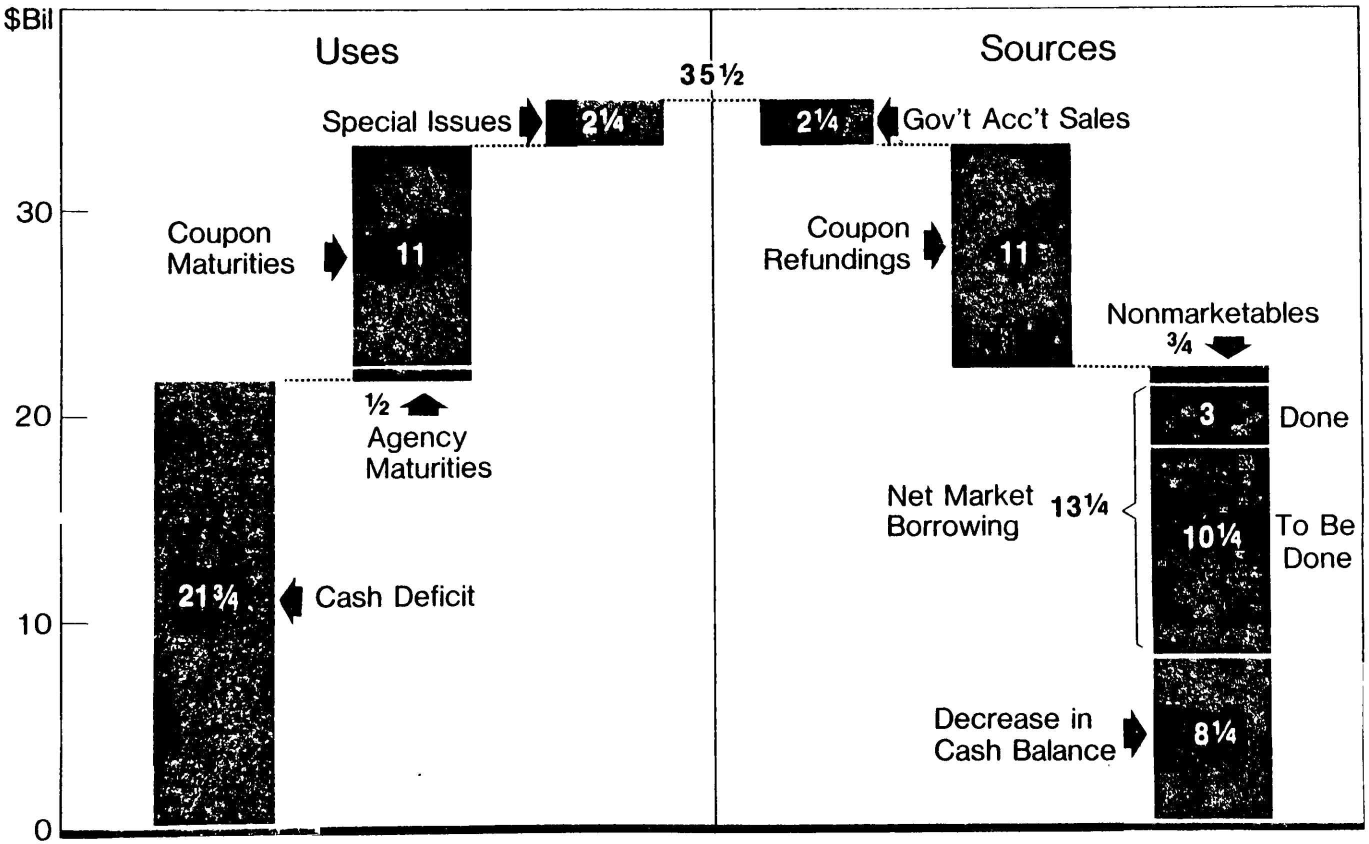
TREASURY FINANCING REQUIREMENTS

October-December 1978



1/ Net of exchanges for maturing marketable securities of $1¼ billion.

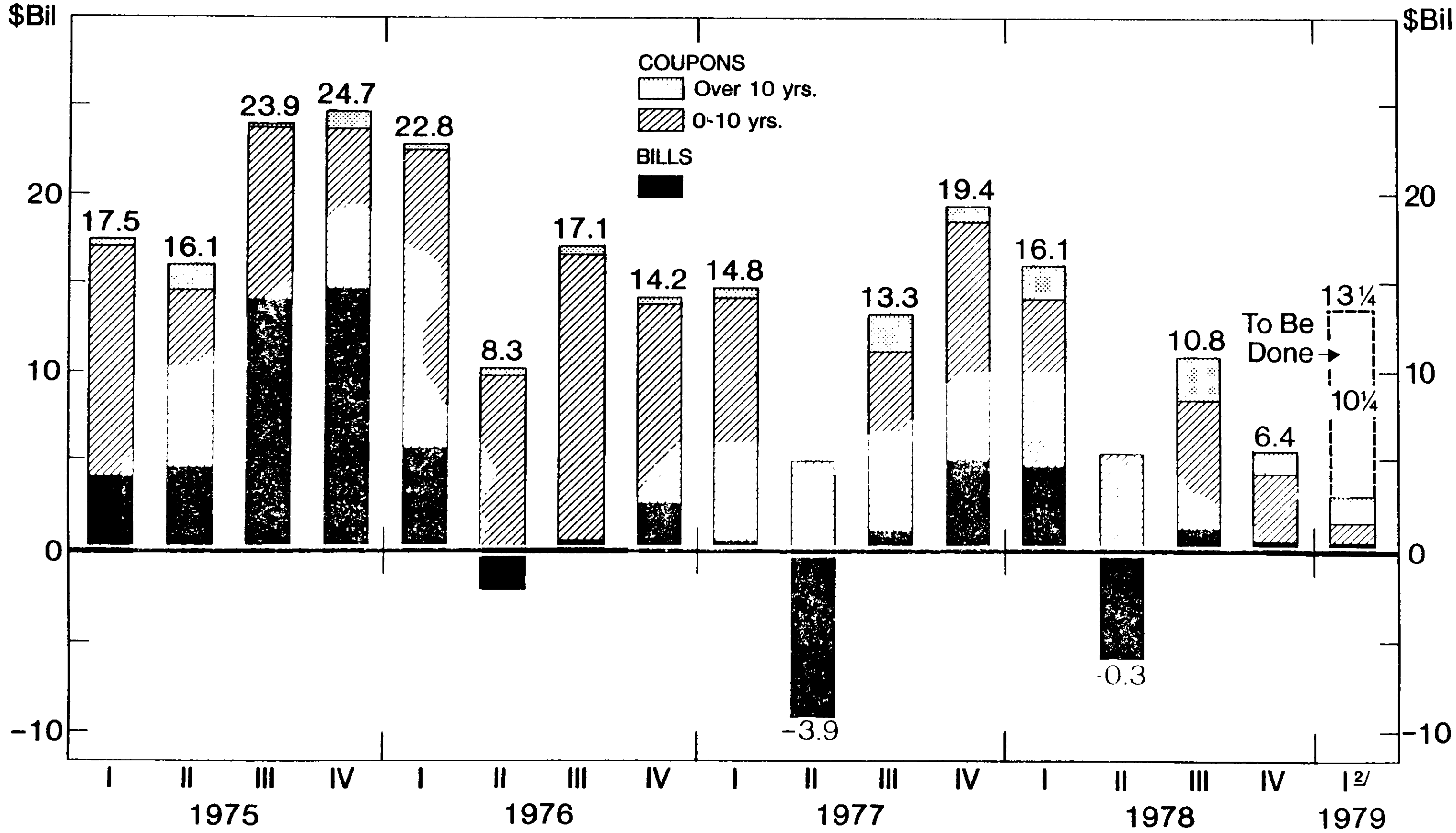
TREASURY FINANCING REQUIREMENTS
January-March 1979 [1]



[1] Assumes $8 Billion March 31, 1979 Cash Balance.

TREASURY NET MARKET BORROWING[1]

Calendar Year Quarters



1/ Excludes Federal Reserve and Government Account Transactions.

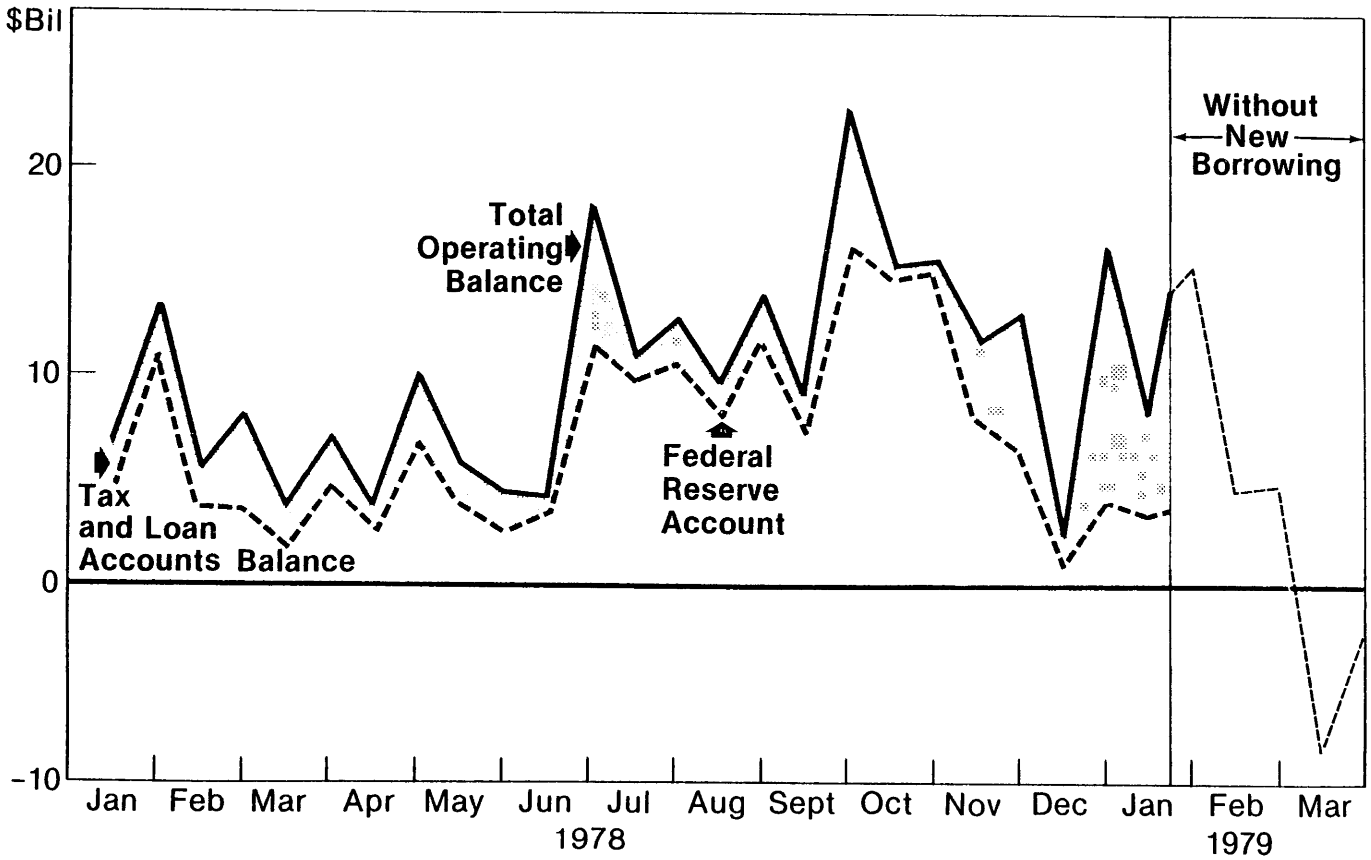
2/ Issued or announced through January 26, 1979

Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 -7

TREASURY OPERATING CASH BALANCE

Semi-Monthly



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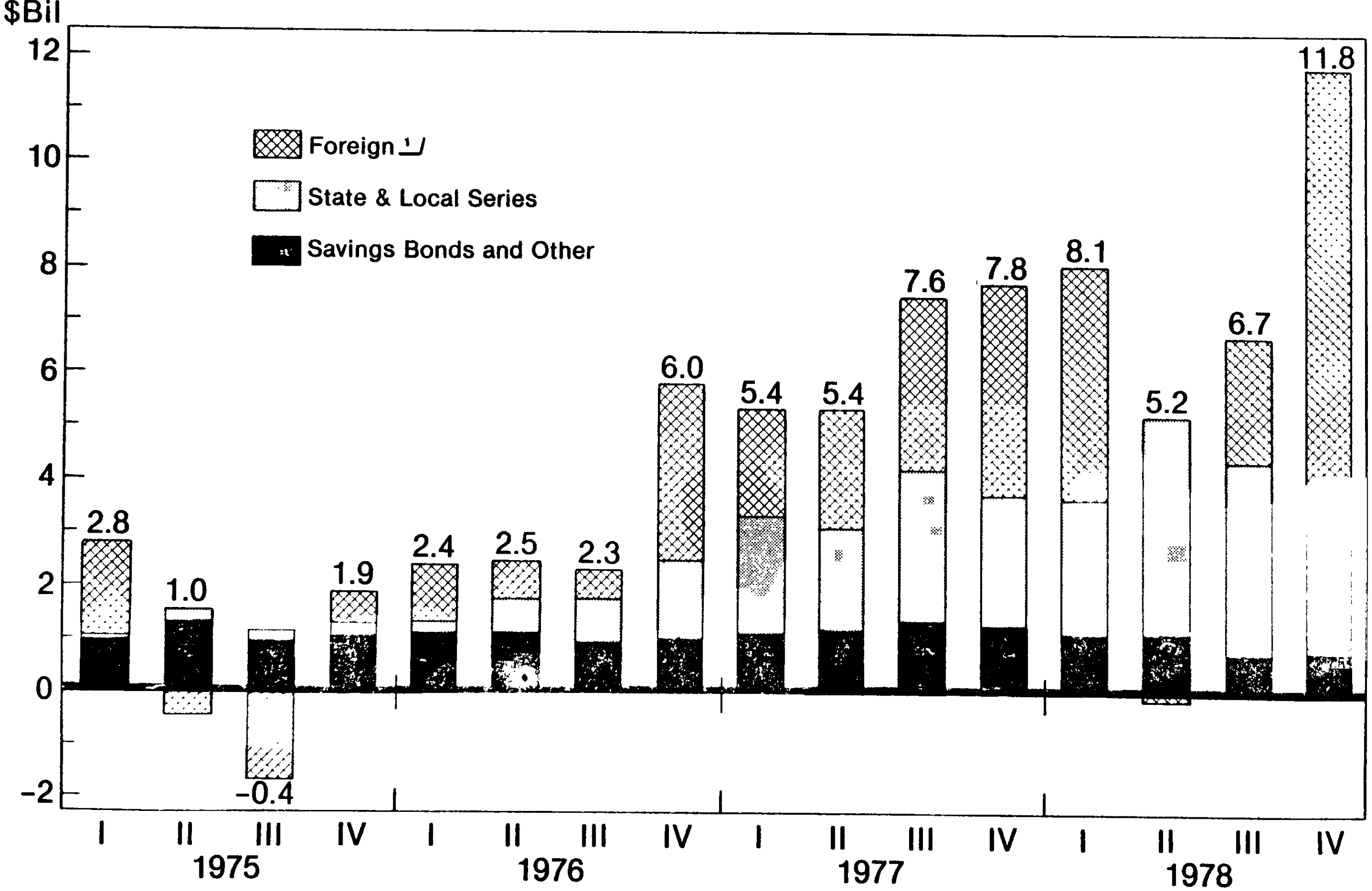
Office of Government Financing

January 30, 1979 -11

NET NEW MONEY FROM FOREIGNERS AND FROM NONMARKETABLE ISSUES TO PRIVATE INVESTORS

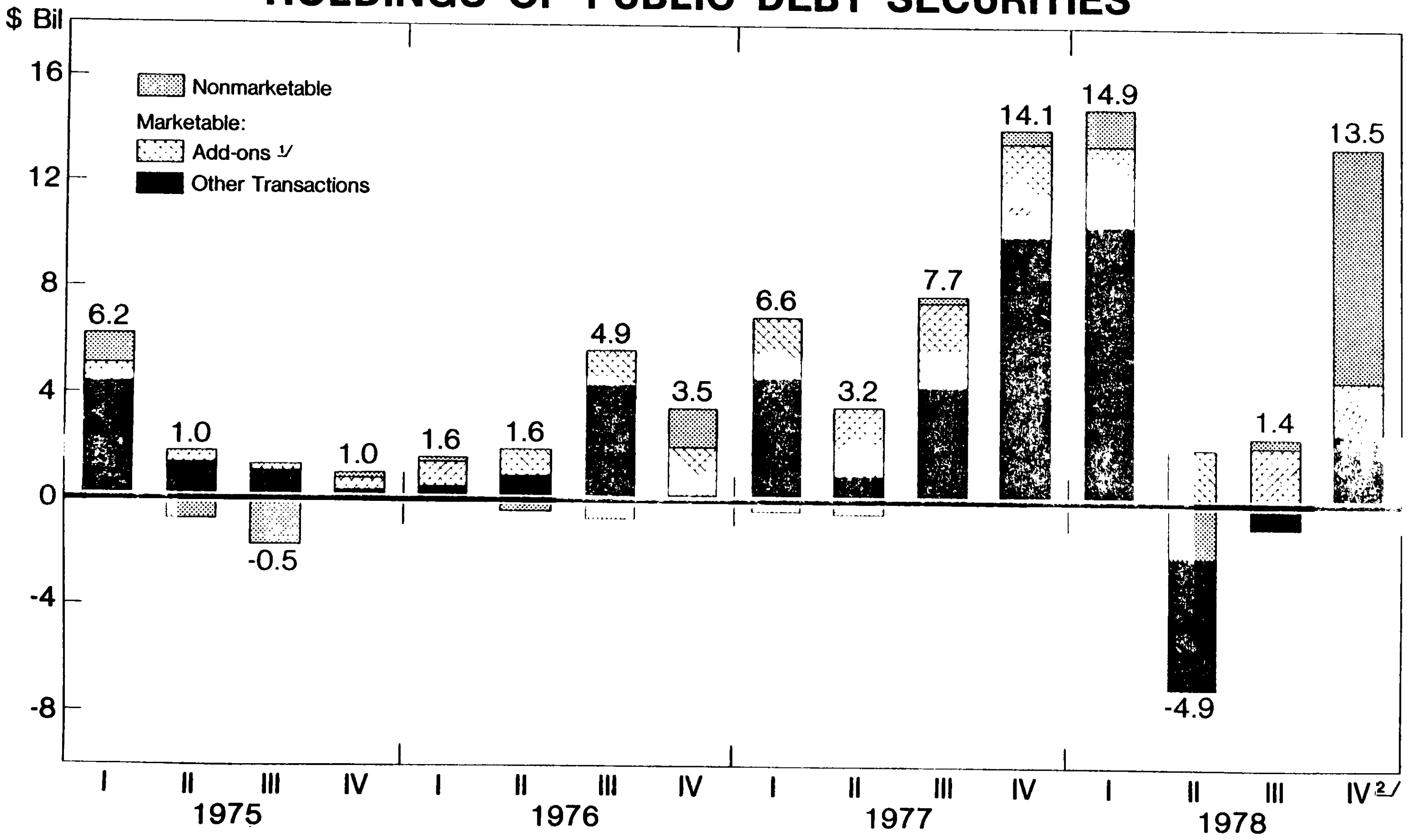


1/ Includes nonmarketables and add-ons to 52-week bills and coupons.

Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 -5

QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES



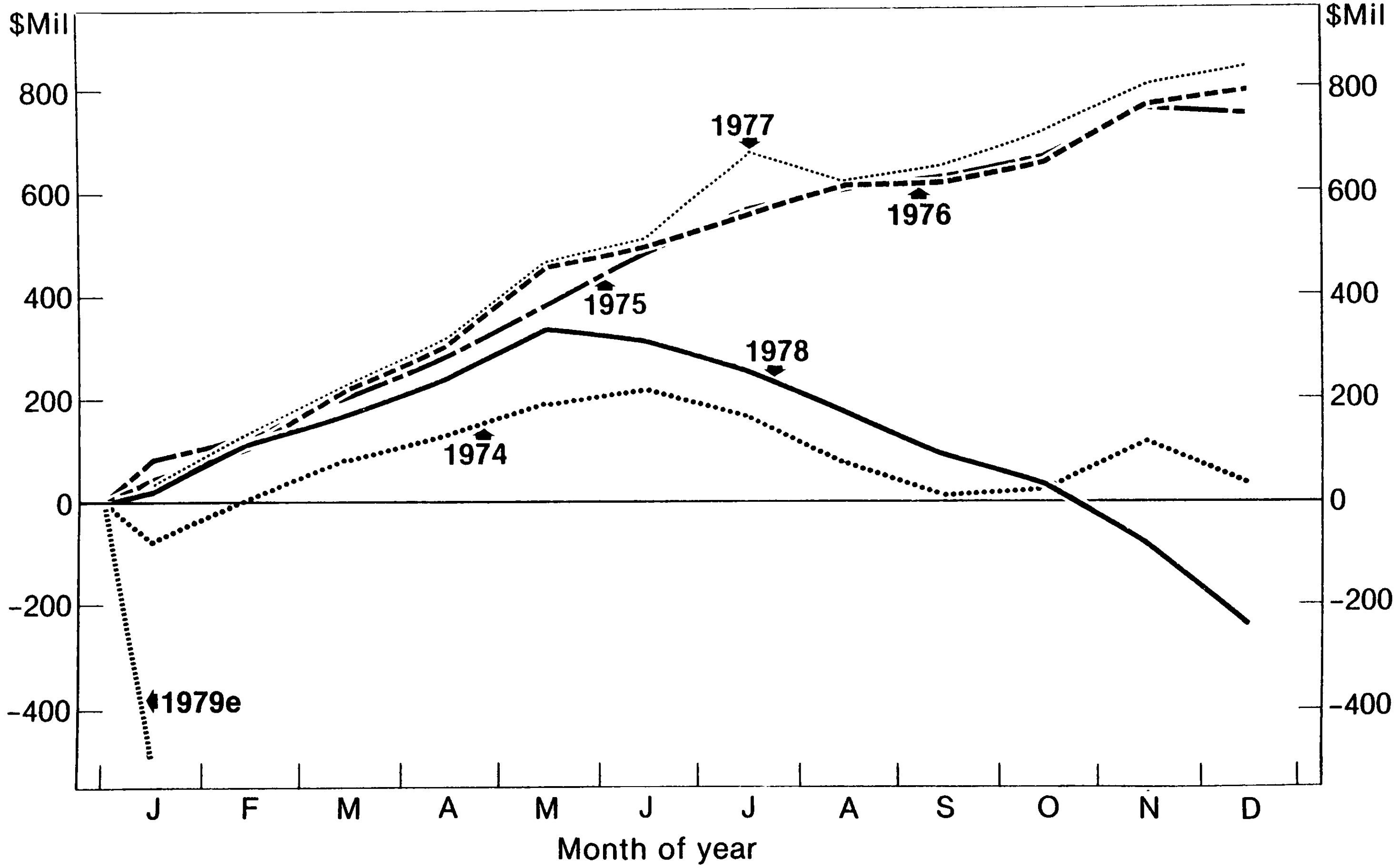
1/ F.R.B. Purchases of marketable issues as agents for foreign and international monetary authorities for new cash

2/ Partly estimated

Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979-9

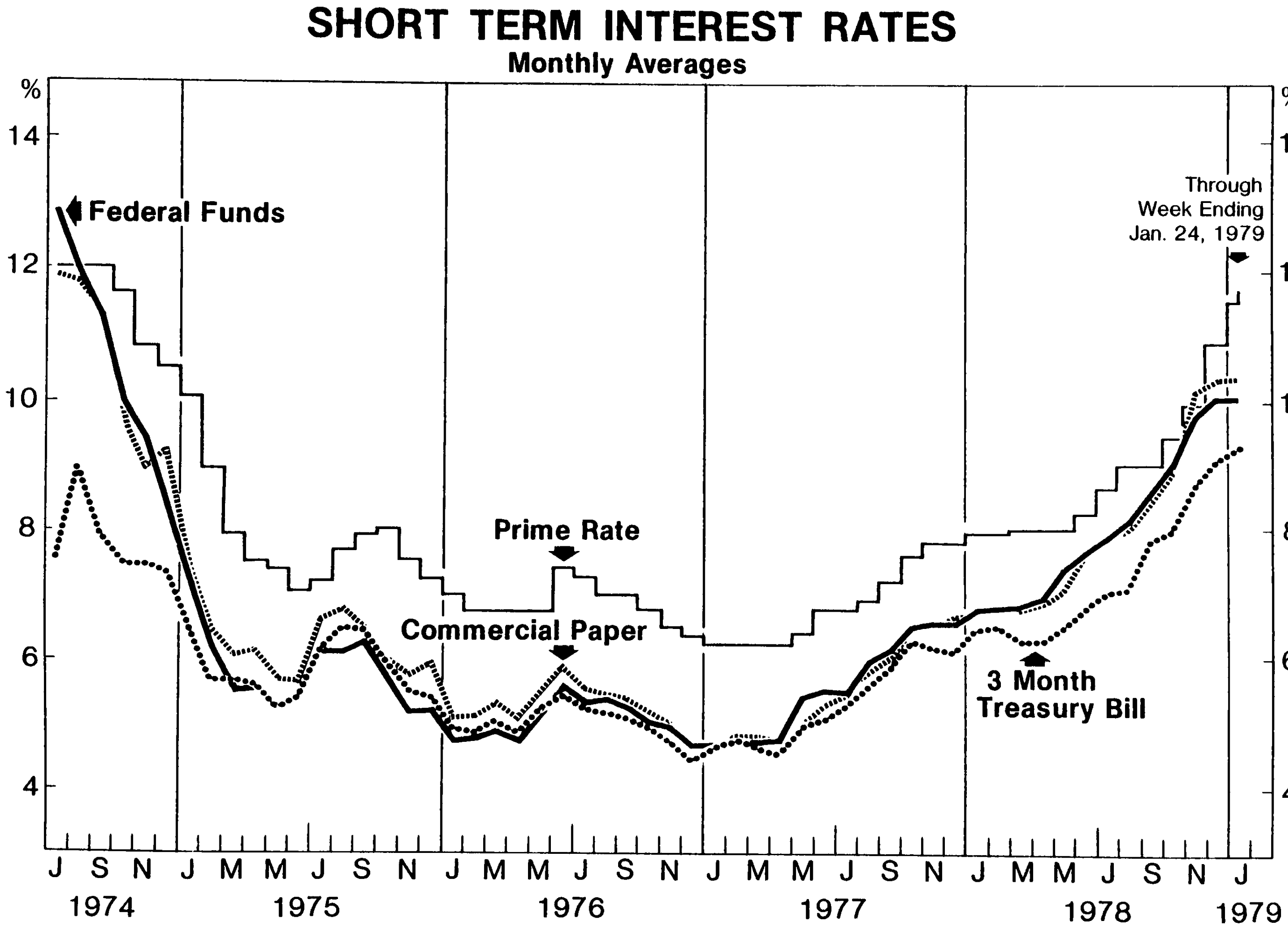
CUMULATIVE NET CASH FLOW IN E AND H SAVINGS BONDS[1]



[1]/Cash sales less redemptions

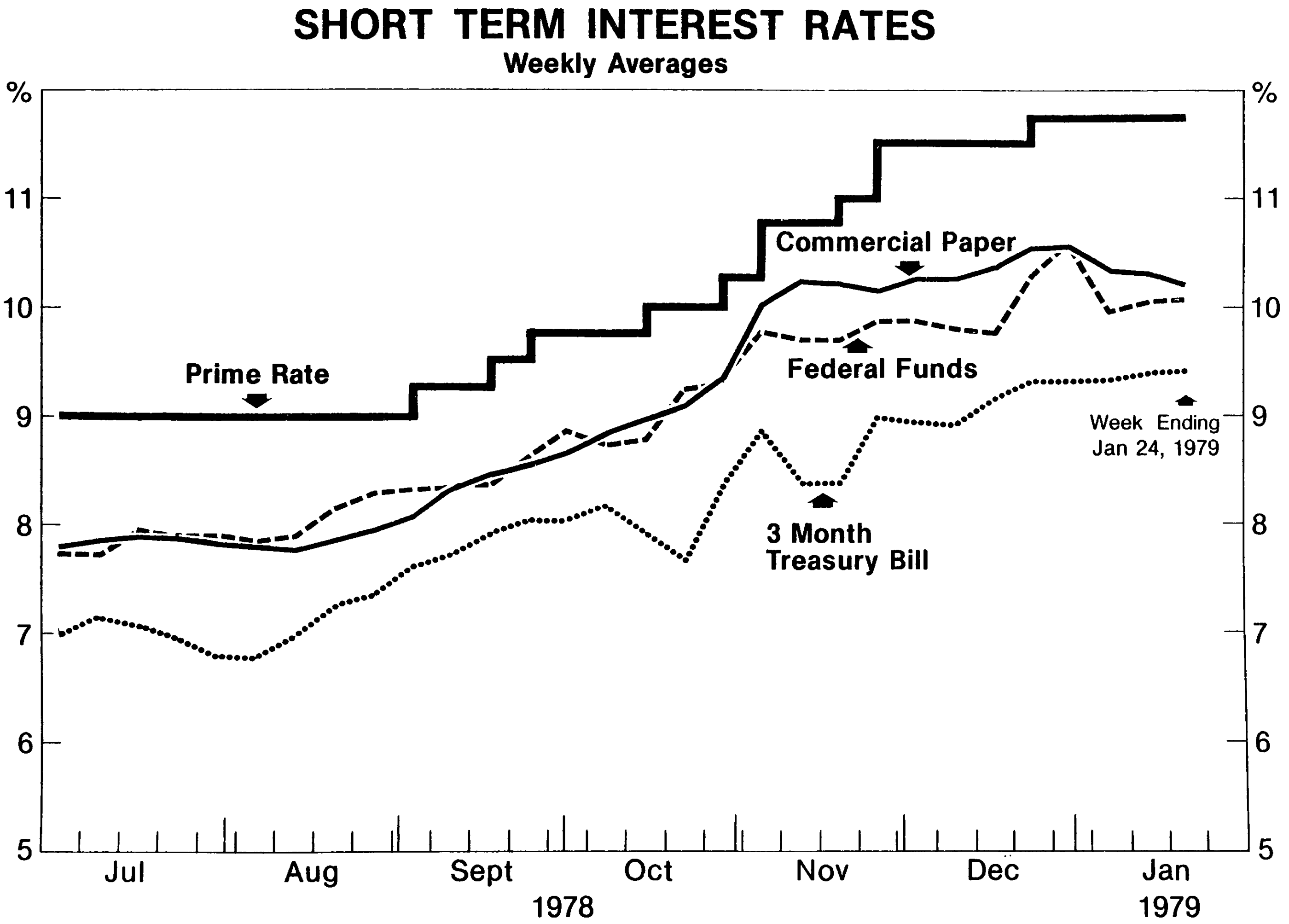
Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 -26



Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 -13

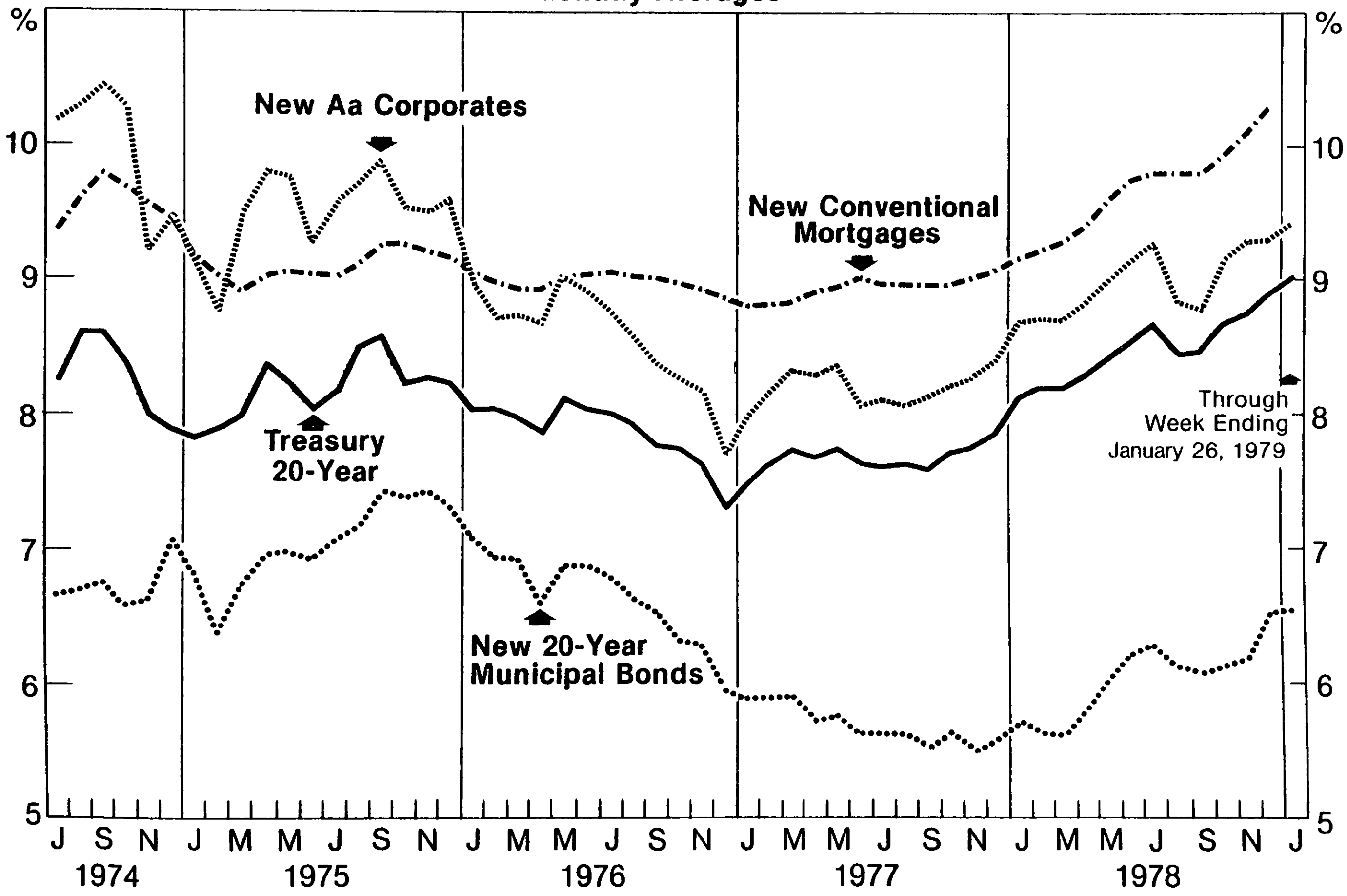


Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 -14

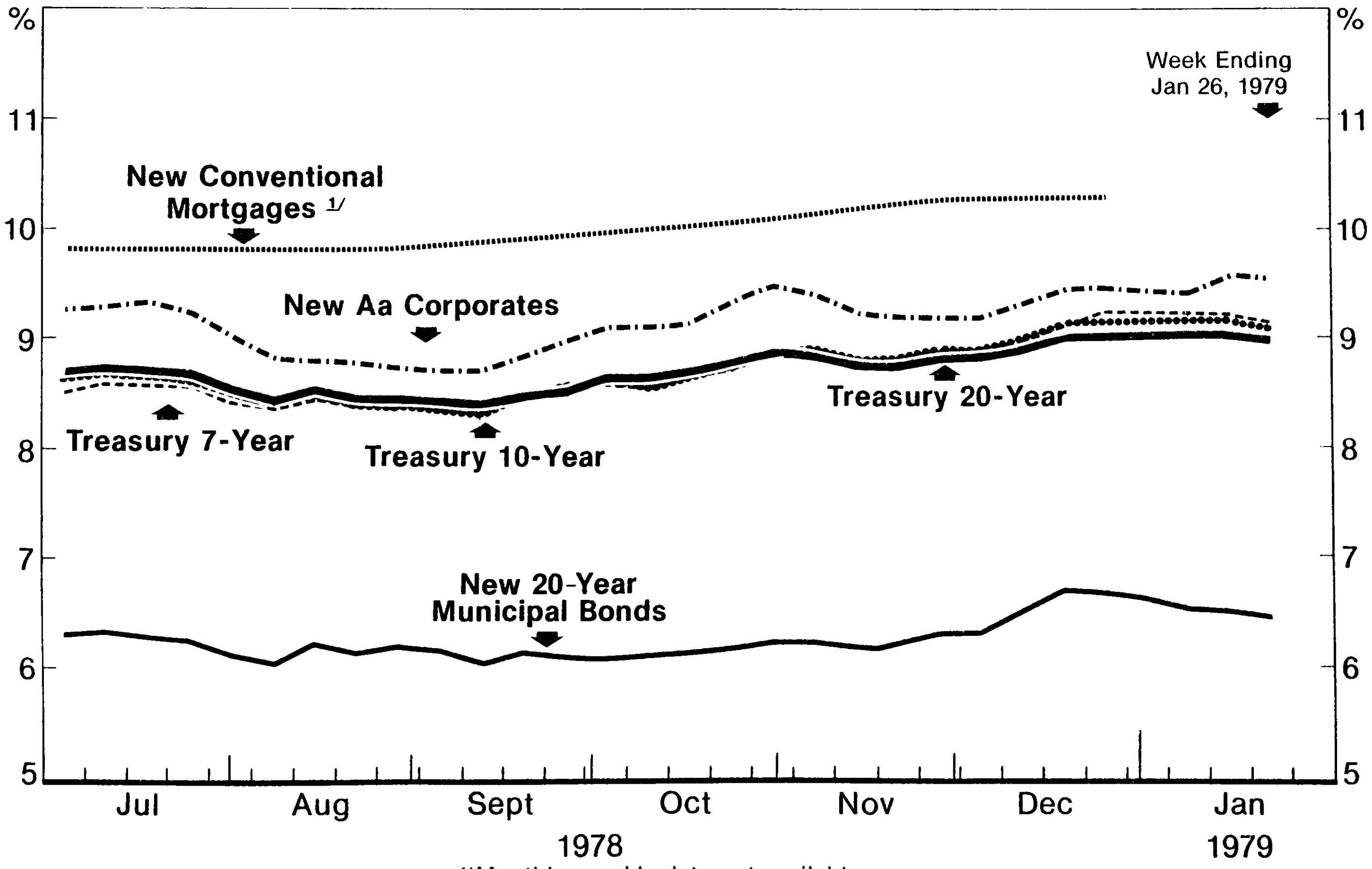
LONG MARKET RATES

Monthly Averages



INTERMEDIATE AND LONG MARKET RATES

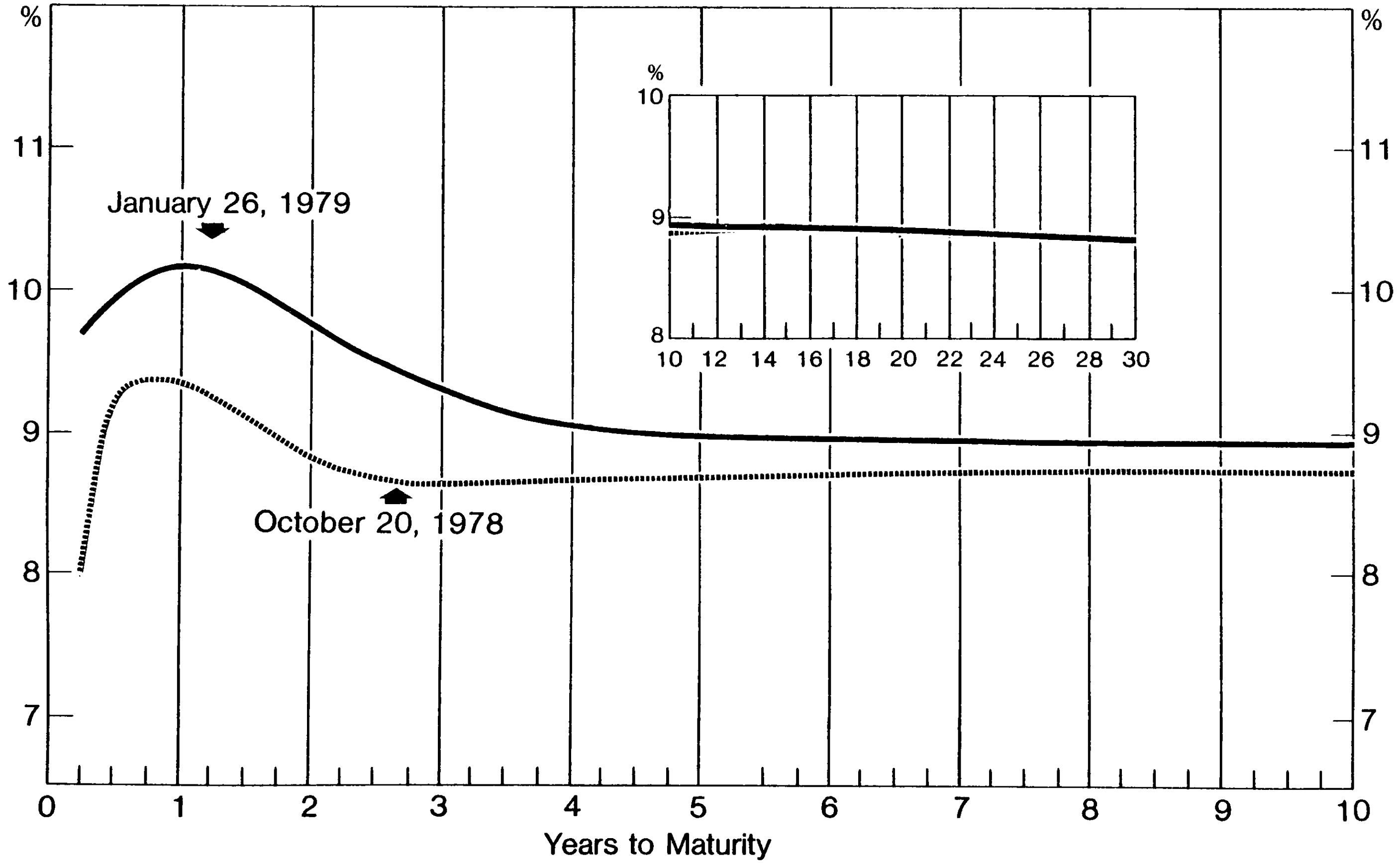
Weekly Averages



1/ Monthly, weekly data not available.

MARKET YIELDS ON GOVERNMENTS

Bid Yields



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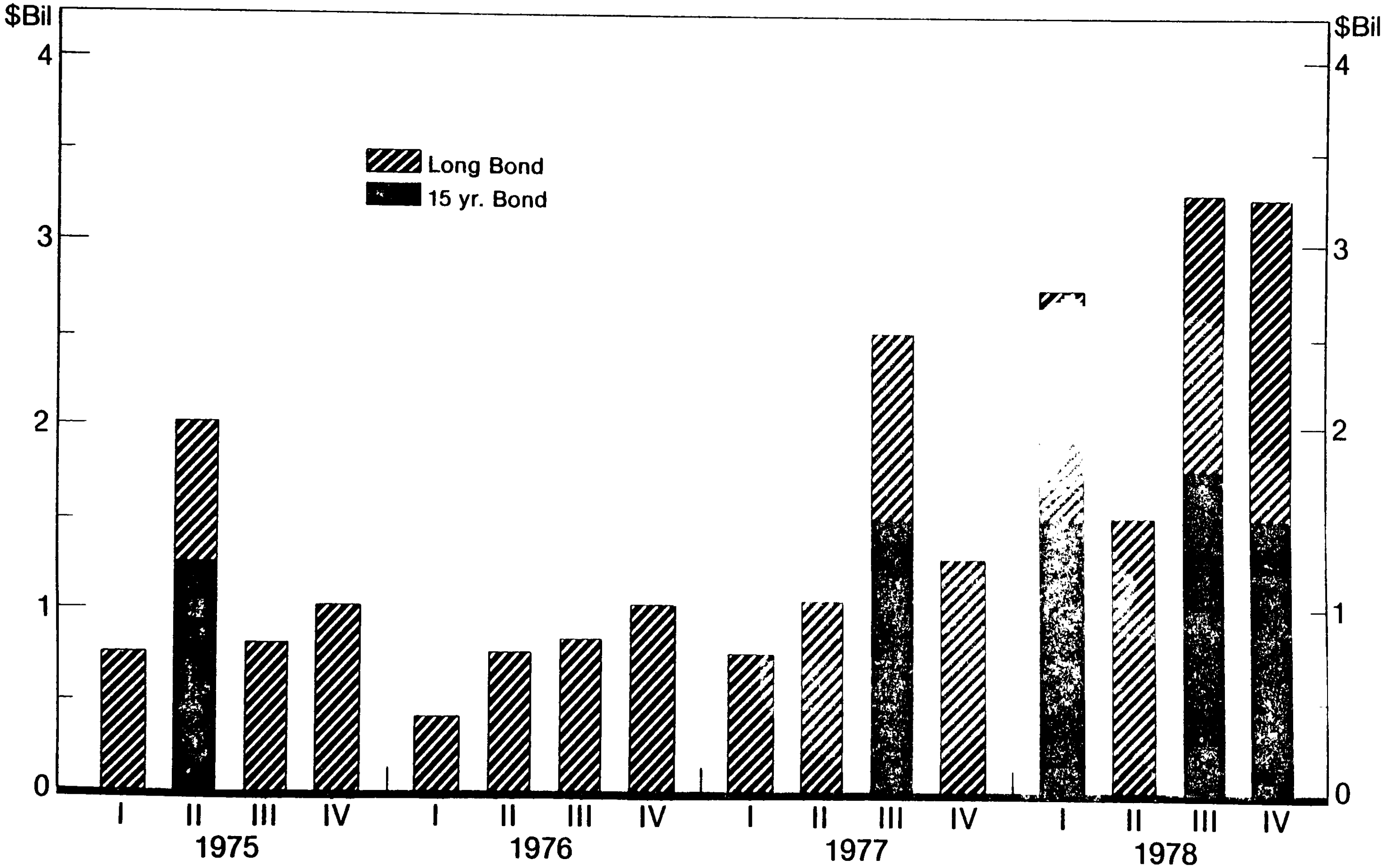
Office of Government Financing

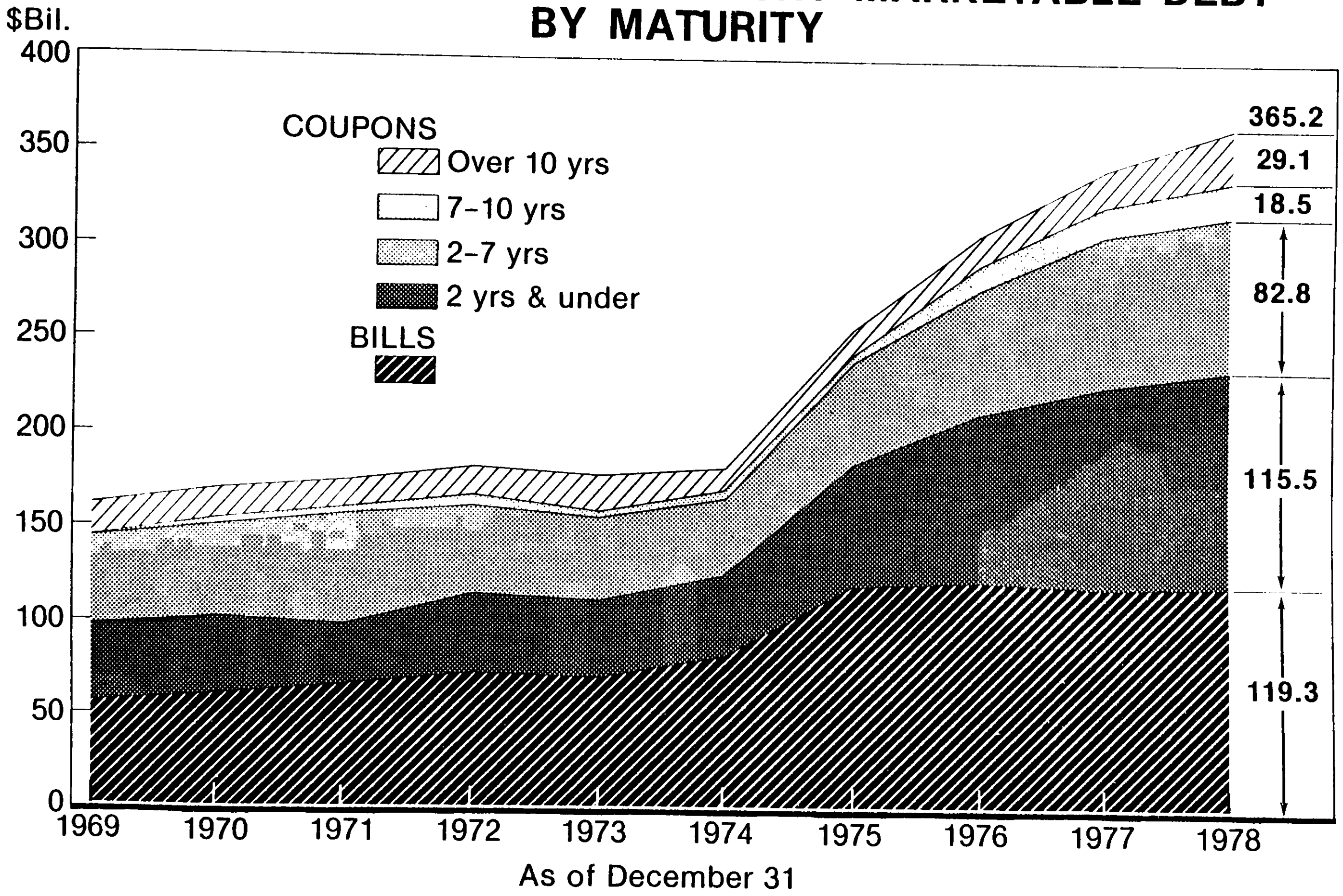
TREASURY MARKETABLE BOND ISSUES 1/



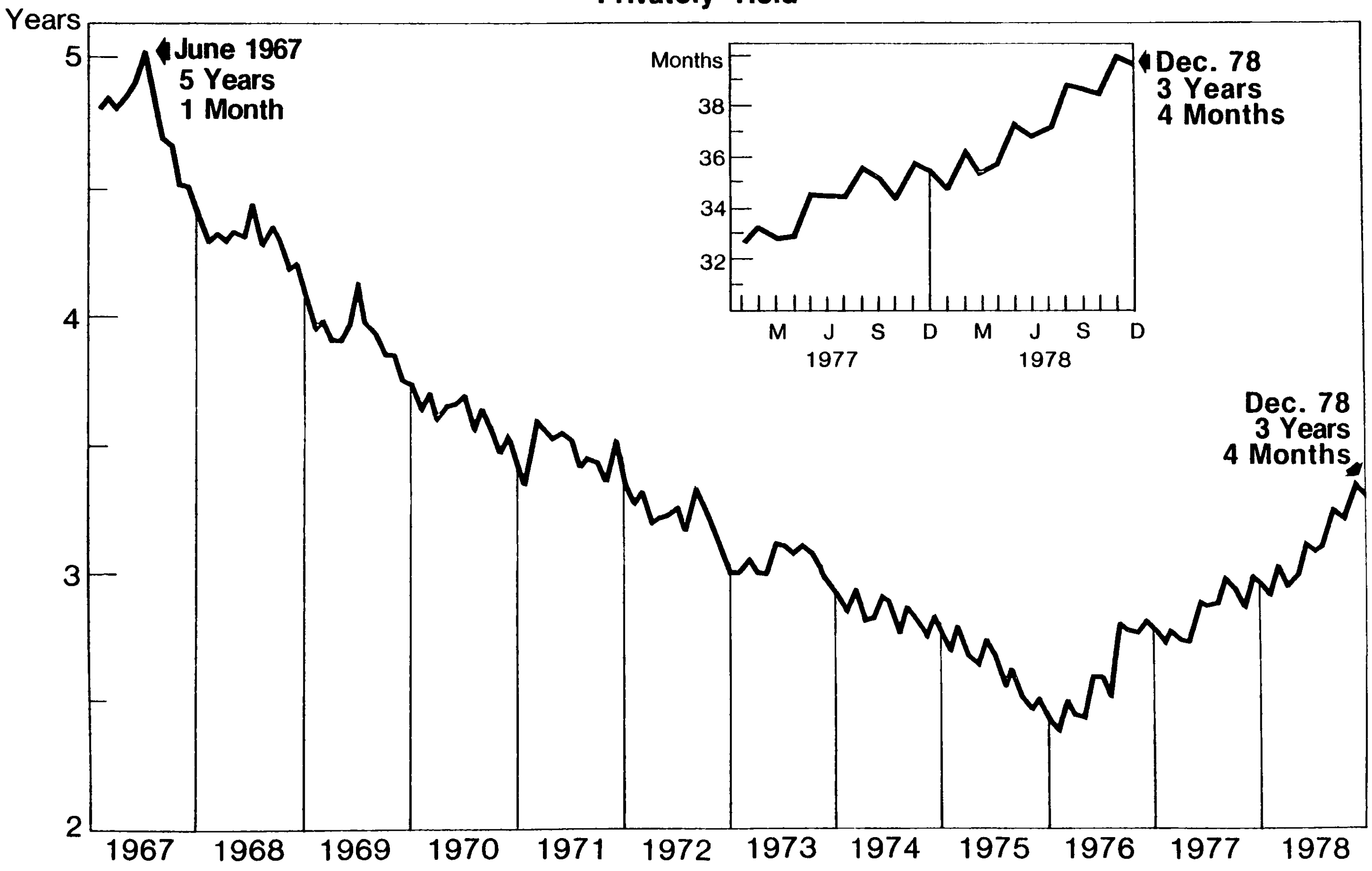
1/ Excludes Federal Reserve and Government Account transactions.

Office of the Secretary of the Treasury
Office of Government Financing

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY



AVERAGE LENGTH OF THE MARKETABLE DEBT
Privately Held



Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 4

OWNERSHIP OF THE MATURING ISSUES

February 1979—January 1980*

(In Millions of Dollars)

Maturing Issues	Total Privately Held	Commerical Banks	Savings Institutions		State & Local General Funds	Corpora-tions	Other Private Holders	Foreign
			Long-term 1/ Investors	Intermediate-term Investors 2/				
7% Nt. 2-15-79	2,961	1,225	30	276	49	84	585	712
5 7/8% Nt. 2-28-79	2,477	730	1	228	265	376	332	545
6% Nt. 3-31-79	2,874	1,070	23	217	263	69	476	756
5 7/8% Nt. 4-30-79	1,833	528	0	154	181	208	144	618
7 7/8% Nt. 5-15-79	1,719	952	9	142	92	41	360	123
6 1/8% Nt. 5-31-79	1,848	484	1	147	221	210	96	689
7 3/4% Nt. 6-30-79	1,624	728	15	252	45	26	447	111
6 1/8% Nt. 6-30-79	2,017	504	3	324	154	127	-63	842
6 1/4% Nt. 7-31-79	3,021	850	7	320	410	326	89	1,019
6 1/4% Nt. 8-15-79	2,739	744	28	209	114	167	683	794
6 7/8% Nt. 8-15-79	2,109	985	10	254	118	319	89	334
6 5/8% Nt. 8-31-79	3,042	968	6	358	183	456	36	1,035
8 1/2% Nt. 9-30-79	1,851	693	44	250	56	13	704	91
6 5/8% Nt. 9-30-79	3,527	957	6	227	423	415	183	1,316
7 1/4% Nt. 10-31-79	3,879	1,206	37	283	301	347	570	1,135
6 1/4% Nt. 11-15-79	3,112	1,337	19	470	223	552	76	435
6 5/8% Nt. 11-15-79	465	146	38	57	32	39	153	0
7% Nt. 11-15-79	1,806	733	12	235	49	273	504	0
7 1/8% Nt. 11-30-79	4,317	1,465	40	347	434	647	30	1,354
7 1/2% Nt. 12-31-79	1,869	926	5	309	125	13	271	220
7 1/8% Nt. 12-31-79	3,347	1,085	116	286	396	317	272	875
7 1/2% Nt. 1-3-80	3,474	1,534	53	344	303	193	519	528
Total	55,911	19,850	503	5,689	4,437	5,218	6,682	13,532

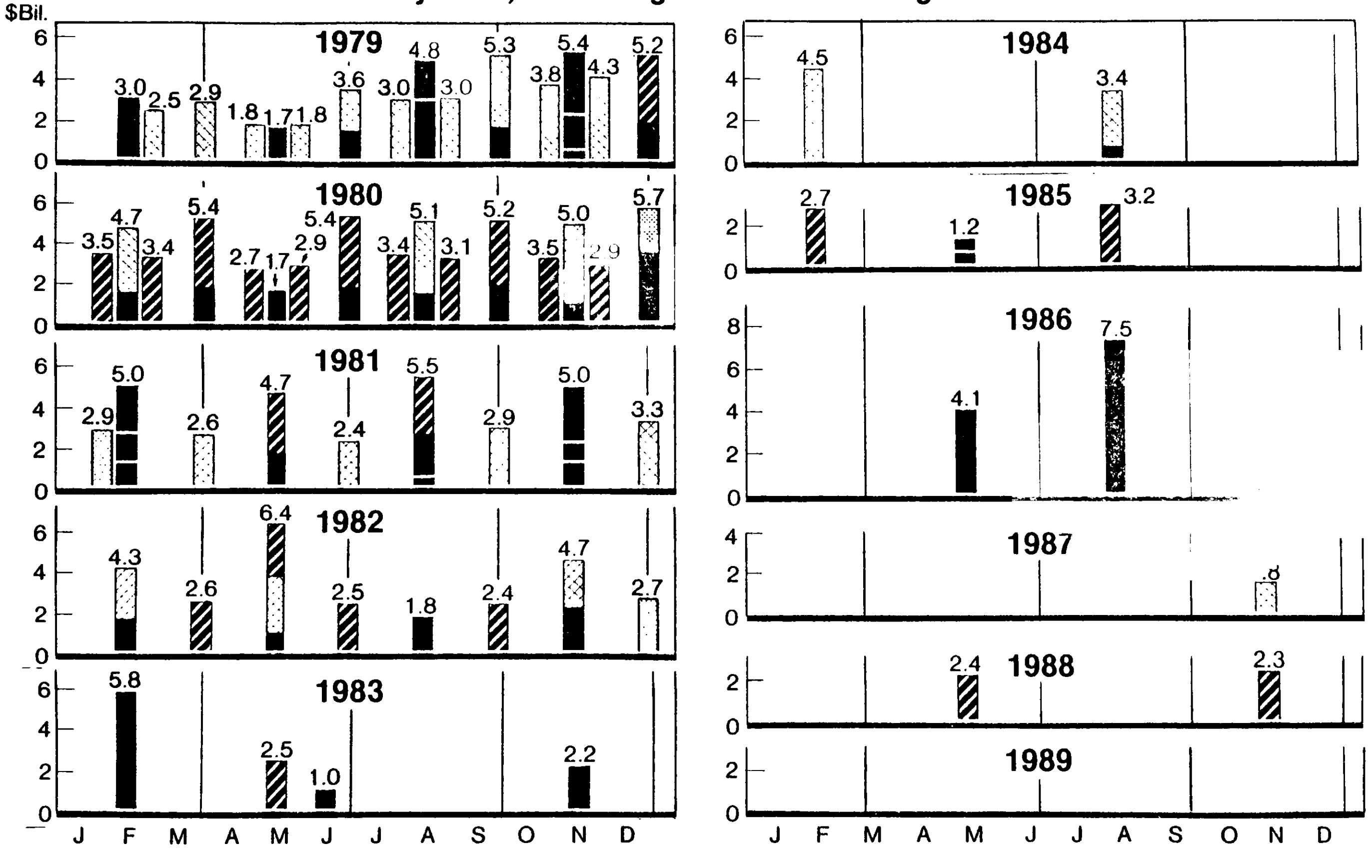
* Amounts for investor classes are based on the November 1978 Treasury Ownership Survey.

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.

TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes

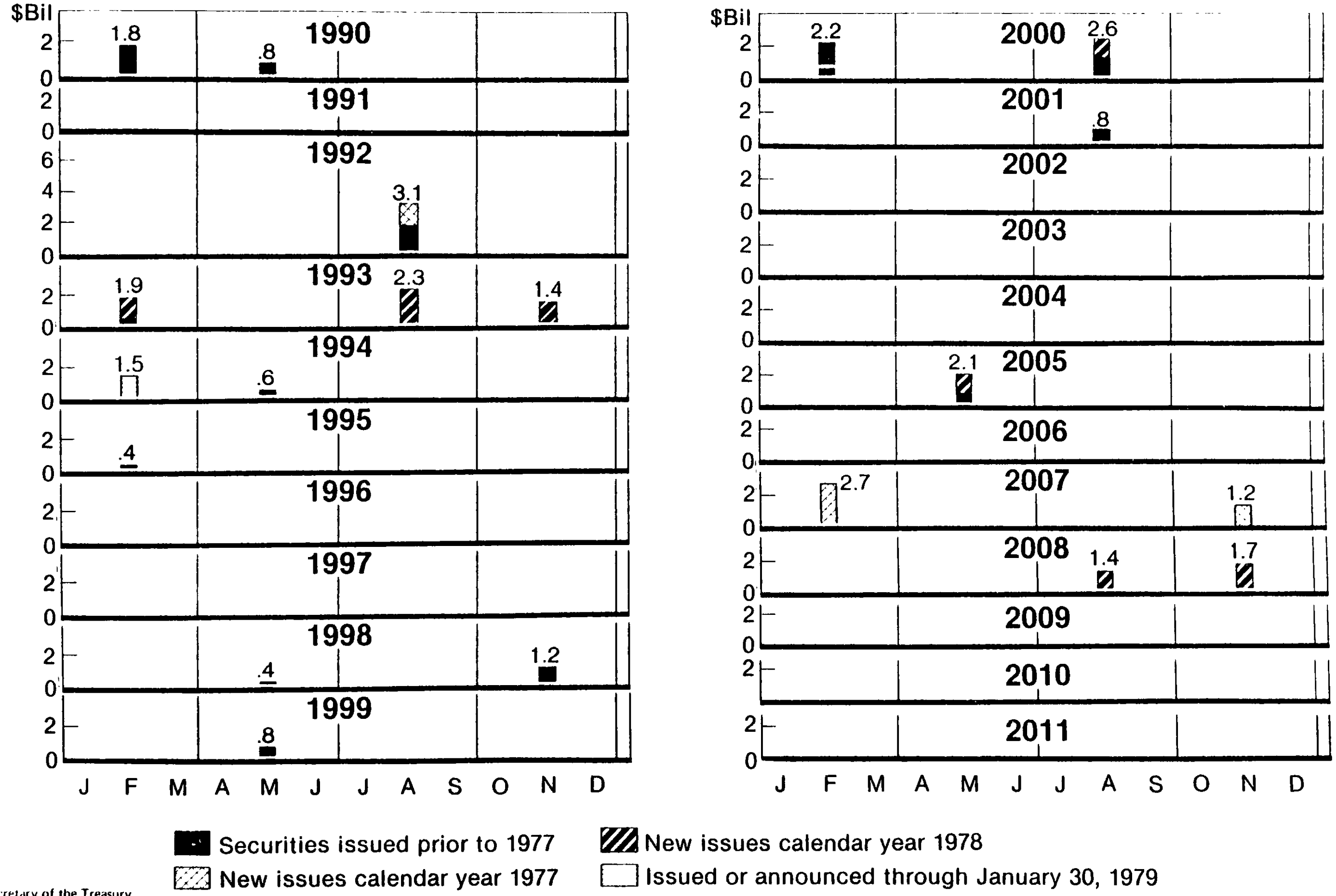


Securities issued prior to 1977 | New issues calendar year 1978

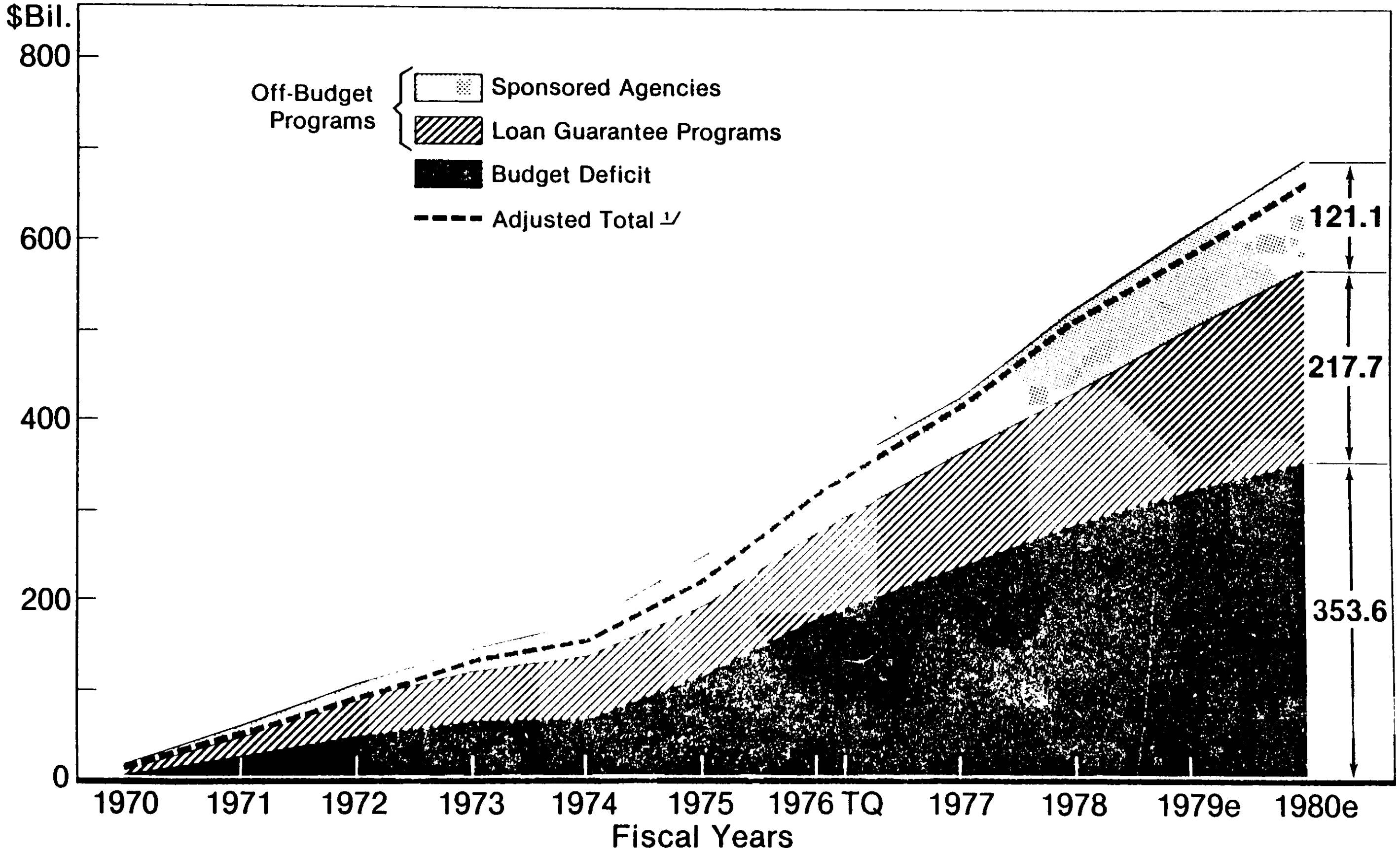
New issues calendar year 1977 | Issued or announced through January 30, 1979

TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes



CUMULATIVE FEDERAL AND FEDERALLY-ASSISTED BORROWING FROM THE PUBLIC



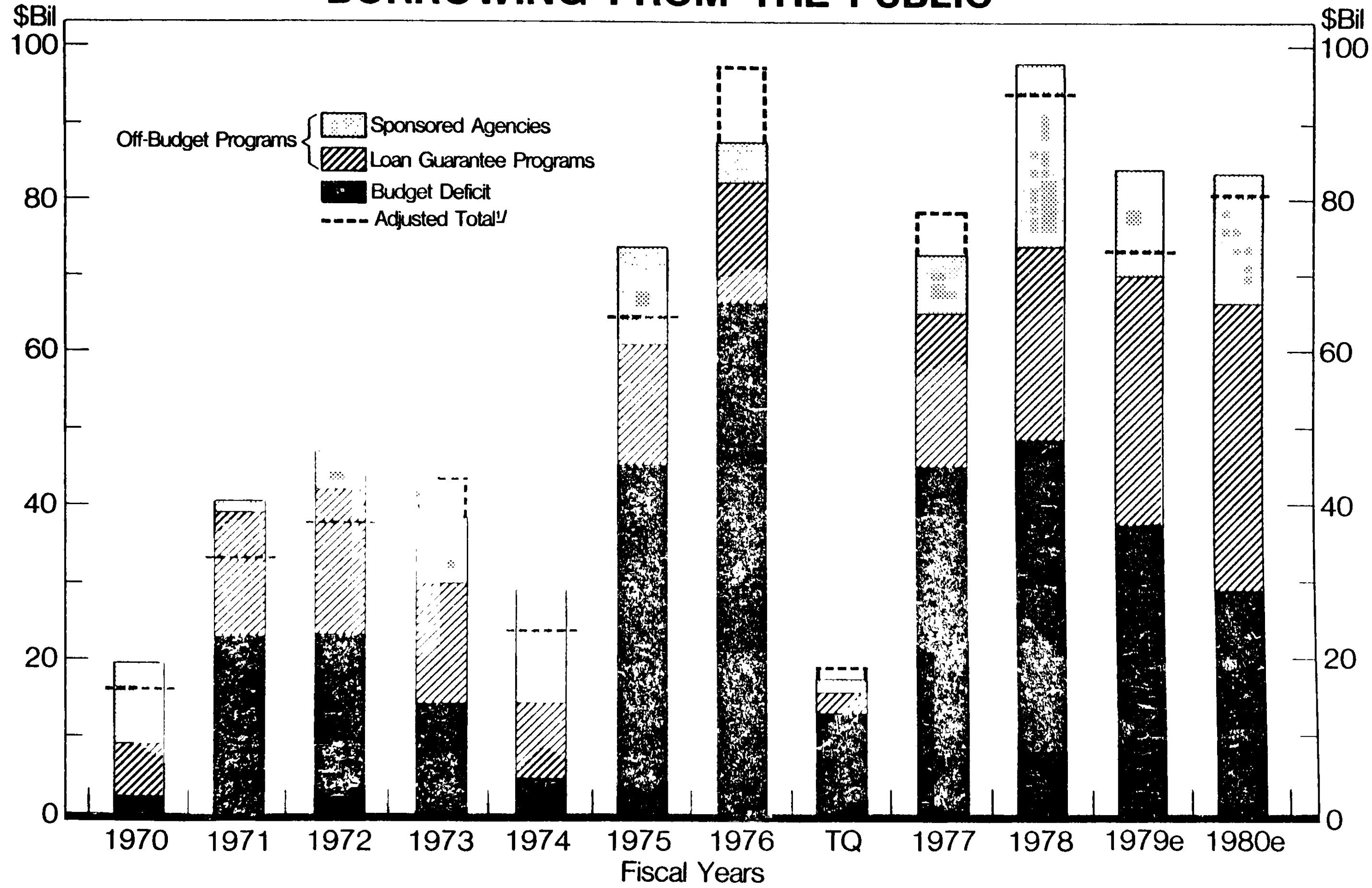
1/Adjusted (1) to eliminate double counting of obligations purchased by Federal and Federally sponsored agencies and (2) for changes in Treasury cash balances and other minor items.

e–Fiscal Year 1980 Budget estimate.

Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 -30

FEDERAL AND FEDERALLY ASSISTED BORROWING FROM THE PUBLIC



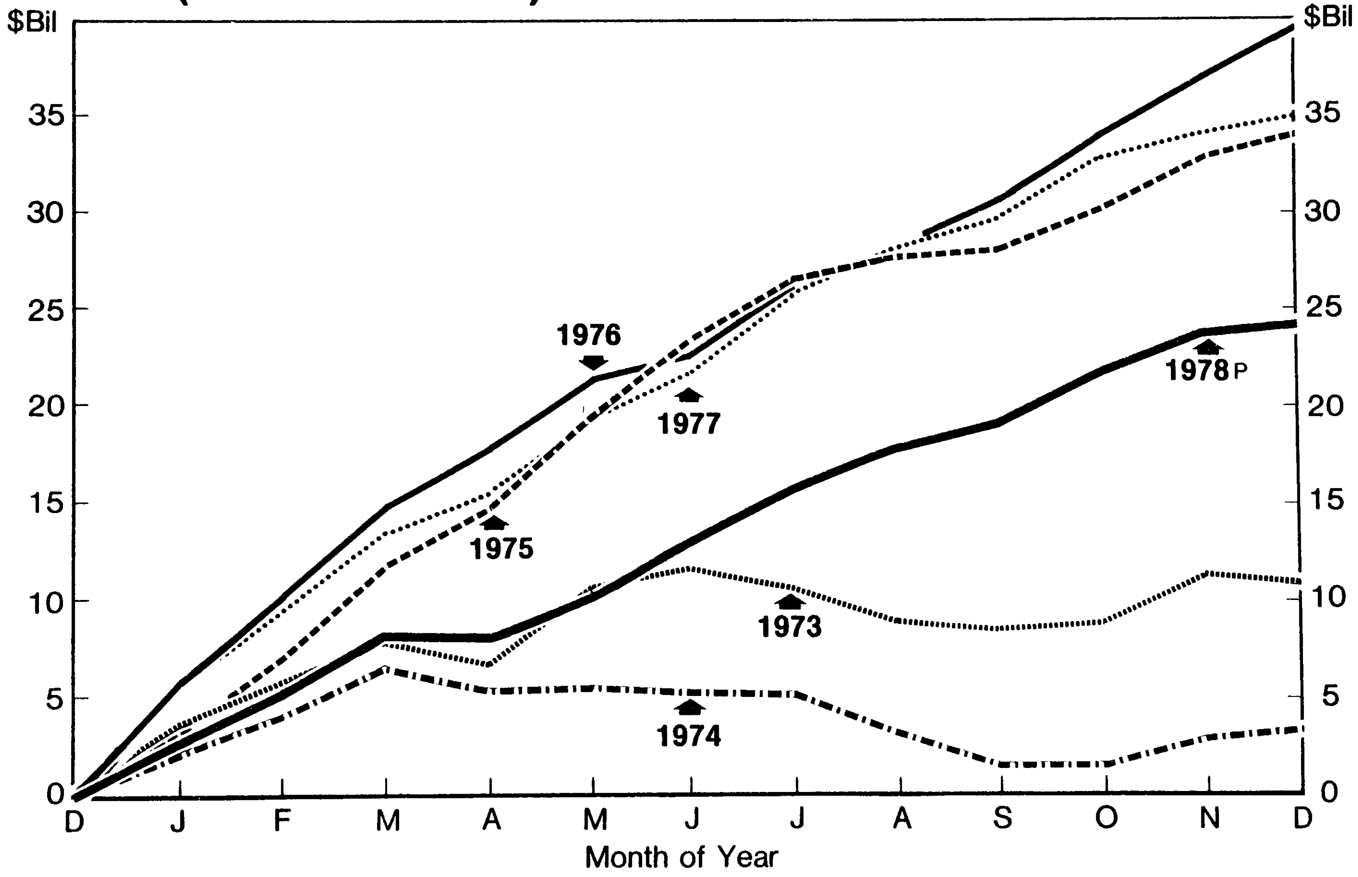
[1]Adjusted (1) to eliminate double counting of obligations purchased by Federal and Federally sponsored agencies and (2) for changes in Treasury cash balances and other minor items.

e-Fiscal Year 1980 Budget estimate.

Office of the Secretary of the Treasury
Office of Government Financing

January 30, 1979 27

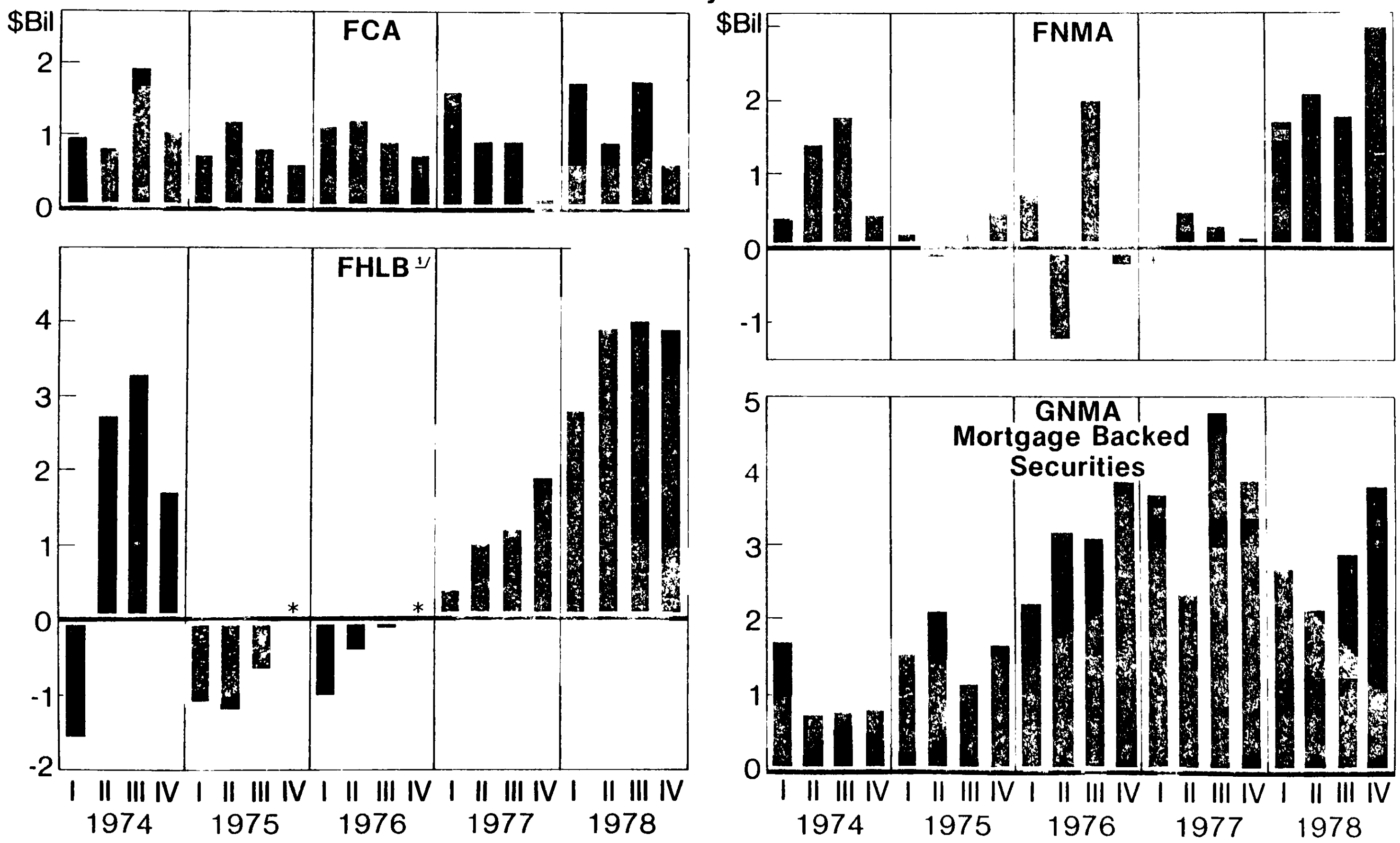
CUMULATIVE NET SAVINGS INFLOWS (LESS INTEREST) TO THRIFT INSTITUTIONS*



* Savings & Loan Assns. & Mutual Savings Banks.

NET NEW MONEY IN AGENCY FINANCE, QUARTERLY

Privately Held

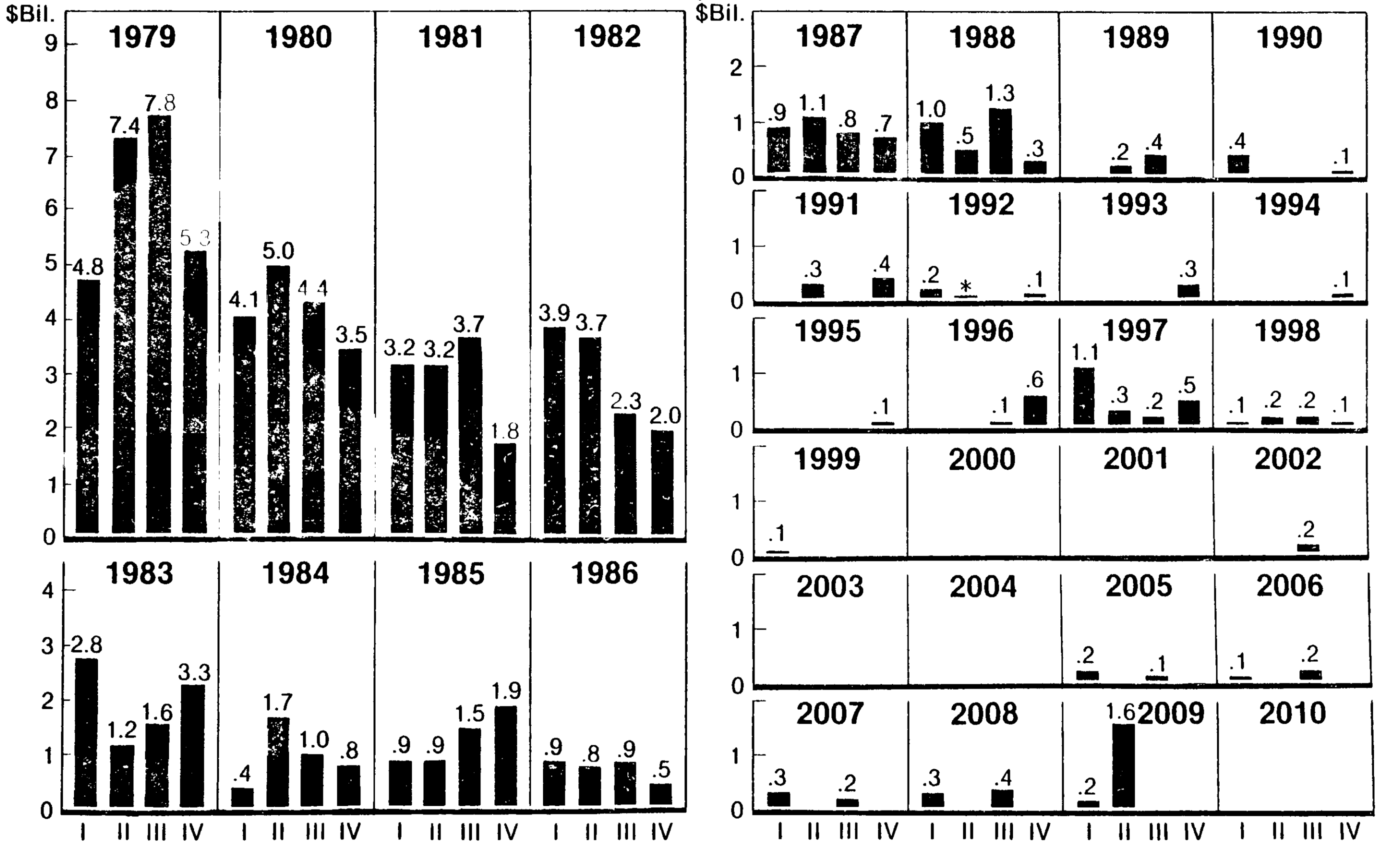


* Less than $50 million

1/ Includes FHLB discount notes, bonds, and FHLMC certificates, mortgage-backed bonds, and mortgage participation certificates.

AGENCY MATURITIES[1/]

Privately Held



Calendar Years Quarterly

[1/] Issued or announced through January 23, 1979

* Less than $50 million