U. S. Dept. of the Treasury.

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

FOR IMMEDIATE RELEASE October 1, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,900 million of 13-week bills and for $3,000 million of 26-week bills, both to be issued on October 4, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 3, 1980			26-week bills maturing April 3, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.418 a/	10.215%	10.66%	94.806	10.274%	11.02%
Low	97.379	10.369%	10.83%	94.742	10.400%	11.16%
Average	97.393	10.313%	10.77%	94.779	10.327%	11.08%

a/ Excepting 1 tender of $100,000

Tenders at the low price for the 13-week bills were allotted 18%.
Tenders at the low price for the 26-week bills were allotted 22%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 42,270	$ 37,270	$ 39,455	$ 19,455
New York	3,499,490	2,439,185	3,379,000	2,450,300
Philadelphia	20,020	20,020	13,725	13,725
Cleveland	38,470	28,470	24,655	24,655
Richmond	29,630	29,630	28,525	28,525
Atlanta	35,310	35,310	34,090	34,090
Chicago	255,150	152,850	253,845	178,845
St. Louis	37,970	17,970	35,315	17,755
Minneapolis	6,090	6,090	6,660	6,660
Kansas City	28,045	28,045	23,295	23,295
Dallas	15,100	15,100	7,770	7,770
San Francisco	184,705	66,405	192,570	160,270
Treasury	24,040	24,040	34,810	34,810
TOTALS	$4,216,290	$2,900,385	$4,073,715	$3,000,155
Type				
Competitive	$2,607,545	$1,291,640	$2,259,365	$1,185,805
Noncompetitive	444,330	444,330	336,250	336,250
Subtotal, Public	$3,051,875	$1,735,970	$2,595,615	$1,522,055
Federal Reserve and Foreign Official Institutions	$1,164,415	$1,164,415	$1,478,100	$1,478,100
TOTALS	$4,216,290	$2,900,385	$4,073,715	$3,000,155

1/Equivalent coupon-issue yield.

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

FOR IMMEDIATE RELEASE
October 2, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY TO START ANTIDUMPING
INVESTIGATION ON INDUSTRIAL
ELECTRIC MOTORS FROM JAPAN

The Treasury Department today said it will start an antidumping investigation of imports of certain industrial electric motors from Japan.

Treasury's announcement followed summary investigations conducted by the U. S. Customs Service after receipt of a petition filed by the National Electrical Manufacturers Association alleging that firms in Japan are dumping this merchandise in the United States.

The petition alleges that such imports are being sold in the United States 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.) The Customs Service will investigate the matter and make a tentative determination by May 20, 1980. This is 140 days after the effective date of the Trade Agreements Act of 1979, which establishes the time limits of cases pending on January 1, 1980, as well as those filed thereafter.

If sales at less than fair value are determined by Treasury, the U. S. International Trade Commission will subsequently decide whether they are injuring or likely to injure a domestic industry. (Both sales at less than fair value and injury must be determined before a dumping finding is reached. If dumping is found, a special antidumping duty is imposed equal to the difference between the price of the merchandise at home or in third countries and the price to the United States.)

Notice of the start of this investigation will appear in the Federal Register of October 3, 1979.

Imports of this merchandise in 1978 were valued at between $16- and $22-million.

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

FOR IMMEDIATE RELEASE
October 3, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY FINDS SODIUM ACETATE FROM CANADA IS SOLD HERE AT LESS THAN FAIR VALUE

The Treasury Department today said it has determined that sodium acetate imported from Canada is being sold in the United States at "less than fair value."

Sodium acetate is a chemical used as a dye intermediate, in kidney dialysis, in the production of detergents, and in various other applications.

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 of this merchandise will be withheld for no more than three months. The weighted average margin of sales at less than fair value in this case was 34.75 percent, computed on all sales.

Interested persons were offered the opportunity to present oral and written views before 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 sodium acetate from Canada during 1978 were valued at about $0.4-million.

Notice of this determination will appear in the Federal Register of October 4, 1979.

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

FOR IMMEDIATE RELEASE October 3, 1979

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $3,254 million of $5,595 million of tenders received from the public for the 2-year notes, Series X-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield 1/	10.20%
Highest yield	10.22%
Average yield	10.21%

The interest rate on the notes will be 10-1/8%. At the 10-1/8% rate, the above yields result in the following prices:

Low-yield price	99.869
High-yield price	99.834
Average-yield price	99.851

The $3,254 million of accepted tenders includes $910 million of noncompetitive tenders and $1,589 million of competitive tenders from private investors, including 87% of the amount of notes bid for at the high yield. It also includes $755 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the $3,254 million of tenders accepted in the auction process, $400 million of tenders were accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing short-term bills.

1/ Excepting 6 tenders totaling $70,000.

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

FOR RELEASE
October 3, 1979

ADDRESS BY
SECRETARY OF THE U.S. TREASURY
G. WILLIAM MILLER
BEFORE THE ANNUAL MEETING OF
THE INTERNATIONAL MONETARY FUND AND WORLD BANK
BELGRADE, YUGOSLAVIA
OCTOBER 3, 1979

Mr. Chairman, Mr. McNamara, Mr. De Larosiere, fellow governors, distinguished guests:

On behalf of the United States, I want to express our appreciation to the Government of Yugoslavia for inviting us here. Yugoslavia's energetic and independent spirit has long attracted the world's admiration and respect. And Yugoslavia's full participation in the work of the IMF and the World Bank has shown how nations with different economic and political systems can cooperate to mutual advantage. We join the other participants in thanking the Government of Yugoslavia for its warm hospitality to us here in Belgrade. My remarks today are addressed to one central theme. Restoring balanced growth to the world economy will require purposeful domestic adjustment on the part of all nations--large and small. The two international institutions whose work we are reviewing at this meeting can help us make these adjustments in effective and mutually reinforcing ways. We must make sure they are in a position to do so. We must make sure they have our support to do so. In the last analysis, however, the responsibility rests with each of us. My country, as the largest economy in the system, is determined to carry out that responsibility in full. Only when balance is regained, will it be possible to resume the steady economic advance we all desire.

Mr. Chairman, this is the final annual meeting of the Bank and Fund during the decade of the 1970's. It has been a decade marked by troublesome strains in the world economy. The will and ability of nations to cooperate internationally have been severely tested.

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The underlying strains might easily have led individual countries to the pursuit of inward-looking policies--to self-defeating efforts to protect their own limited interests at the expense of the broader interests of the community of nations. That this did not occur is convincing testimony to the vision of the architects of the Bretton Woods Institutions, and the maturity and wisdom of their successors--the representatives of the governments gathered here today.

The difficulties of the 1970's are all too familiar. The gains that have been achieved despite those difficulties are less widely appreciated. In the face of unprecendented payment imbalances, severe inflation, and high and persistent unemployment, international cooperation has been strengthened in important ways:

-- Agreement was reached on far-reaching trade liberalization;

-- Flows of official development resources continued to expand;

-- Private financial markets successfully channeled huge flows of funds from surplus to deficit countries, and developing countries gained access to these private capital markets on a substantial scale;

-- Intergovernmental cooperation in exchange markets became stronger and closer;

-- The IMF Articles underwent comprehensive revision, laying the basis for orderly evolution of the international monetary system.

This progress was not accidental. Nation's might have responded to the problems of the 1970's by imposing trade and capital controls, by cutting back aid, and by aggressive competition in exchange rate policies. If that had happened, the world would have suffered staggering economic losses. Instead we chose deliberately to seek cooperative solutions. Recognizing that the pervasive links among our economies made cooperation essential to our individual as well as our collective well-being. We must not forget that lesson.

Once again the world economy has been destabilized by a large oil price shock, almost equal in dollar amount to that of 1973-74. On an annual basis, the jump in oil prices will increase the import bill of the developed countries by almost $75-billion and of the developing countries by $15-billion. This action is disrupting international payments balances and adding greatly to the problems of containing inflation and reducing unemployment. Furthermore, uncertainty about the availability and price of energy seems likely to persist. Inflationary pressures, building up over a period of years, have become so virulent as clearly to require resolute, sustained, countermeasures. In this uncertain international economic environment, the prospects for world economic progress are less promising. And that is a particularly harsh prospect for the one-fifth of the world's population facing absolute poverty.

These problems are world wide. They are shared in common, to varying degrees, by all our societies. They can be successfully overcome only through persistent national action, augmented by intensified international collaboration. And that means relinquishing a degree of autonomy in national action.

It is in this context that we must examine the present and future work of the IMF and the World Bank group. These two institutions provide the infrastructure for world cooperation in economic policy, in finance, and in development. The degree to which we support them represents the central measure of our willingness to support more effective global economic management.

Intensified collaboration is the course we must choose for the 1980's. It is therefore essential that the IMF and the World Bank group be strong enough to do the job--strong enough in authority, operations effectiveness, and resources. I proposed, therefore, to outline my views on the future direction of policy in these two institutions and on the tools they will need to do the job.

International Monetary Fund

Financially, the Fund is in a strong position to face the new testing period that lies ahead. The supplementary financing facility has been activated and remains almost fully available. The quota increase scheduled to take effect next year will add a large and timely infusion of resources. The compensatory financing facility, which proved so valuable during the cyclical downturn of the mid-70's has recently been substantially liberalized and will provide an important element of security to primary producing nations. Furthermore, the IMF has revised its guidelines on conditionality so that it can foster orderly balance of payments adjustment in ways that meet the needs and circumstances of members.

Nonetheless, there is more to be done to assure the adequate utilization of the IMF's financial resources and to strengthen the Fund's capacity to manage the monetary system. Three areas deserve early attention.

First is surveillance. Under the amended articles, Fund surveillance--surveillance over members' general economic policies as well as exchange rate policies--is the centerpiece of international monetary cooperation. Without effective surveillance, there is no system. The Fund has moved cautiously and prudently in implementing its surveillance procedures. Bolder action is now required.

One possibility would be for the Fund to assess the performance of individual countries against an agreed global strategy for growth, adjustment and price stability.

Another possibility would be to provide that any nation with an exceptionally large payments imbalance--deficit or surplus--must submit for IMF review an analysis showing how it proposed to deal with that imbalance. Now, only those countries borrowing from the Fund have their adjustment programs subjected to such IMF scrutiny. Greater symmetry is needed.

We should also consider inviting the managing director to take the initiative more often in consulting members directly where he has concerns about the appropriateness of policy. Any such approaches must, of course, be fully in accordance with the fundamental principle of uniform treatment for all members. For its part, the United States welcomes and values the Fund's views and advice, and would see merit in a more active role on the part of the managing director in initiating consultations with members.

As a further step, we might now give serious consideration to the establishment of the council, as successor to the Interim Committee, and give it a more specific and direct role in the surveillance process. There would be value in such a move, both substantively and symbolically, and I urge that each of us give fresh consideration to this idea.

The second area for improvement is that of international liquidity. There has been solid progress over the past twelve months in enlarging the role of the SDR in the monetary system. A more fundamental move, the establishment of a substitution account is now under consideration. If, working together, we can resolve the problems involved in setting up that account-- and I am hopeful that with good will it will be possible to resolve them in due course--the result would represent an important new approach toward greater reliance on an international reserve asset and a more centrally managed international monetary system.

The third area in which it may be possible to strengthen the system and make the IMF more useful and influential is in the field of cooperation with the private financial markets. This is not a new idea. But the arguments in favor of it have become more compelling.

We all recognize that the private markets will, in the future as in the past, have to play by far the major role in channeling financing from surplus to deficit nations. Official institutions, including the IMF, play a vital role in this process, but it is essentially catalytic in nature.

We must ensure that the IMF is doing all it appropriately can and should do in order to ensure that private financing flows smoothly and efficiently. We should reexamine ways in which the fund can encourage the availability of better information on international bank lending, with greater uniformity with respect to potential borrowers. This could facilitate the process without jeopardizing the IMF's close and confidential relationships with members. We should also explore ways of encouraging earlier recourse to the IMF by countries facing difficulty, in the interests of maintaining overall financial stability and avoiding the need for more severe adjustment measures at a later stage if problems are left unaddressed.

World Bank

The successful contribution by the fund to the smooth operation of the world economy will help the World Bank to encourage longer-term economic improvement in the developing world. Over the past ten years we have called for a steady expansion in the scope of the bank's activities and it has never failed to respond effectively. The bank is now the largest single source of external finance and technical assistance for economic development and the primary exemplification of international cooperation to achieve social and economic advance.

It must continue to be so. As President McNamara pointedly reminded us, the goals we set and the choices we make today in this difficult area of economic policy will have a critical bearing on whether conditions in the world will be tolerable a generation from now. This is a weighty responsibility; it is one we cannot avoid addressing.

The size of the problem is graphically described in the second world development report, for which I offer my appreciation and congratulations. Over the next two decades, 750 million new job opportunities will have to be created in the developing world. The extent of success in this endeavor will determine how many people in the world are able to enjoy economic wellbeing, and any shortfall will determine how many are left to face conditions of absolute poverty at the beginning of the 21st century.

In this situation, capital will always be extremely scarce in relations to needs. It will be essential, therefore, that bank loans, IDA credits, and IFC investments should stimulate, to the maximum degree, mobilization of domestic savings in the developing countries and the flow of private capital from abroad. Specifically this means:

-- Greater emphasis on creating productive job opportunities in the rural areas, where poverty and underemployment are pervasive. Without more progress here, the food problem could become worse, population pressure will become more severe, and the flow of people to cities could become overwhelming.

-- New approaches to job creation in cities and the provision of low-cost basic services to the urban poor.

-- Investments in human capital through programs in education, health and family planning.

-- In all areas, a conscious and more effective program to reduce capital investment per job created, and to insure that in a fundamental economic sense investments pay for themselves. Only then will capital used today be recovered tomorrow to be invested for the benefit of others.

-- New initiatives to encourage co-financing.

-- More ambitious efforts to expand production of energy fuels, including new applications for renewable energy technology. The quantum jump in the price of oil is exerting a sharply constraining effect on economic growth everywhere, with particularly harsh effects in the oil importing developing countries. An increase in the availability of domestic energy supplies is necessary to increase the productivity of domestic labor and capital.

To move in this direction requires that the bank be able to expand the scope of its activities. We believe that the capital of the bank must be increased substantially, and for this reason, supported the resolution of the executive directors to that effect.

We also support a sixth replenishment of IDA, and look to the completion of the negotiations before the end of this year. In accordance with our legislative procedures, our action in both respects will involve the close cooperation of the United States Congress.

Private Financial Markets

Strengthening the capacity and effectiveness of the IMF and the World Bank is also necessary to enable private markets to function smoothly and effectively. The latest increase in oil prices will place new demands on these markets to move funds from surplus to deficit countries. The actions of the two Bretton Woods Institutions serve to strengthen the adjustment process, economic prospects and credit positions of borrowing countries--all of which is a necessary foundation on which private lending can take place on a sustainable basis. This process also emphasizes how the work of the two institutions reinforce each other.

More generally, a strengthened cooperative approach, looking toward a more orderly management of the world economy, provides a framework within which each nation can address common problems in a mutually supportive way. The United States recognizes its role in this system and will continue to act to carry out its national and international responsibilities.

United States Progress and Policies

Economic growth in the United States during the past four years has been strong, and has made a major contribution to world economic recovery. Output has increased by 22 percent in real terms. Thirteen million new jobs have been created. At the same time, our rapidly growing market has provided a major economic stimulus for other countries recovering from world recession. Most notably, this has benefitted the developing countries, which have increased their exports of manufactured goods to the United States much more rapidly than to other countries.

The United States is well aware of the important role of the dollar in the international monetary system. We are determined to maintain reasonable balance in our external accounts and to assure that the dollar is sound and stable. We have acted vigorously to meet that obligation, with policies to strengthen underlying economic conditions, and with forceful exchange market operations to counter market disruption.

The U.S. balance of payments has improved markedly. Our current account deficit will be reduced from $14 billion in 1978 to a few billion in 1979, despite an increase of $16 billion in the cost of oil imports.

Next year, 1980, we expect a substantial current account surplus. Continued strong export performance, a rising surplus on services, slower import growth, and U.S. determination to respond forcefully to unwarranted exchange market pressures, all provide a firm basis for dollar stability strength in the period ahead.

We have already achieved important progress in strengthening the dollar exchange rate. The dollar has declined in terms of some currencies, moved higher in terms of others and remained stable relative to most. Measured against the average of OECD currencies, the dollar is now about 5 percent above level prevailing last fall. From the viewpoint of the OPEC nations, in relation to the other currencies they use to purchase their imports, the dollar has increased about 8 percent on average from a year ago.

Notwithstanding the favorable changes in the value of the dollar measured in terms of these averages, the United States is determined to maintain exchange market stability for the dollar in terms of individual major currencies, such as the Deutsche Mark.

The United States also recognizes the necessity of solving its energy problem. We are making substantial progress. Since 1973 the amount of energy required to produce a unit of real output in the United States has dropped by 7-1/2 percent, and in the industrial sector, it has dropped by 20 percent. The ratio of the increase in energy consumption to the increase in GNP has fallen by one-third since 1973. That performance compares favorably with other industrial countries. Household energy consumption has leveled off. Our transportation fleet is rapidly becoming more fuel efficient--the average miles per gallon for new cars rose from 13 in 1973 to 19 in 1979, and will rise to 27.5 by 1985.

More must, and will, be done. President Carter has announced a series of measures, both administrative and legislative, which will sharply improve the overall U.S. energy position. Phased decontrol of domestic crude oil prices by September 30, 1981 will reduce oil imports by an estimated 1.5 million barrels per day by 1990. In addition, immediate decontrol of heavy crude oil prices will stimulate increase in production estimated at 0.5 million barrels per day. Creation of an Energy Security Corporation will provide the resources to help finance private sector development of synthetic fuel. Major emphasis also being placed on developing renewable sources of energy. When fully in place, our energy program will cut oil import requirements by 4 to 5 million barrels per day.

At the recent Tokyo Summit, the United States agreed that from now through 1985, we would import no more than 8.5 million barrels per day of oil, the level that prevailed in 1977. The President established a lower goal 8.2 million barrels per day, for 1979. We are firmly committed to meeting the import targets.

Inflation continues to be our country's more serious problem. It threatens our ability to achieve full employment, it impedes investment, and it impairs productivity. We are determined to bring inflation under control and regain price stability.

Our recent record is not satisfactory to us. Food and energy prices have temporarily driven U.S. price indices into the double digit range. Energy alone accounted for more than one-half the total rise in finished goods prices at the producer level in the latest three-month period. In coming months this pressure will recede as the effects of recent OPEC price actions work their way fully through the economy. Food prices have moderated in the wake of good harvests.

Special factors aside, the inflation rate is still much too high and must be brought under control. This cannot be done quickly or easily. It can only be accomplished by a firm application of sound policies which deal with the economic fundamentals.

All major instruments of U. S. economic policy are being directed toward this task. Fiscal policy is directed toward restraint.

We have arrested the increase in government outlays in real terms and tax receipts are rising. The federal deficit has been reduced from 3 percent to 1 percent of GNP. The Federal Reserve is exercising monetary discipline and will continue to keep firm limits on the growth of money supply. Despite rapid increases in recent months, the increase in M1 over the past year was held to 4.9 percent--less than half the increase in consumer prices. The Federal Reserve is committed to meeting its targets for limiting the rate of growth of money and credit.

These fiscal and monetary policies are supported by price and pay policies that will help moderate inflationary forces. On September 28, President Carter announced a national accord with U. S. trade union leadership that provides for labor's involvement and cooperation on important national issues. The national accord confirms that top priority will be given to the war against inflation. It recognizes that the discipline essential to wring out inflation will mean a period of national austerity. As part of the accord, labor leadership agreed to participate in the voluntary program of wage and price restraint. The involvement and cooperation of labor--and of management--in developing and implementing policies to control inflation is critical for success, and this cooperation has now been strengthened. The national accord will add momentum to our comprehensive attack on inflation.

The United States intends to reinforce the foundation on which to achieve sustained growth with price stability. We are headed in the right direction and are determined to stay the course. We are also determined to work with the nations gathered here to strengthen the international economic system, both through our own actions and through support of the IMF and the World Bank.

Mr. Chairman, let me add a personal postscript. The curtain will soon fall on the decade of the '70's. It has been a turbulent period for the world's economy. Progress has fallen far short of our great hopes.

Facing, as we do, another period of major adjustment, we have heard few words of encouragement at these sessions. It is right that we should be realistic about our difficulties. It is right that we should not delude ourselves with false expectations. It is possible, however, as we begin to prepare the agenda for the '80's, to see some cause for hope. In particular, we have not given in to the temptation to become self-centered.

The institutions for international economic cooperation are alive and well. The IMF and World Bank are proving their resilience, rising to meet the challenges.

For its part, the United States is unequivocally dedicated to dealing effectively with its own inflation and energy problems. This is the single most important contribution we can make to our own economic health and that of the world community.

I assure you that we have the will, determination and preserverance to succeed in this endeavor. You can count on it.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-566-2615

FOR IMMEDIATE RELEASE October 2, 1979

FEDERAL FINANCING BANK ACTIVITY

Roland H. Cook, Secretary, Federal Financing Bank ("FFB"), announced the following activity for August 1-31, 1979.

Guarantee Programs

During August, FFB entered into foreign military sales loan agreements with the following governments:

Date signed	Government	Amount
8/6/79	Cameroon	$2,000,000
8/8/79	Dominican Republic	500,000
8/14/79	Honduras	2,000,000
8/6/79	Indonesia	32,000,000

Repayment of advances made under these loan agreements are guaranteed by the Department of Defense under the Arms Export Control Act. Also during August, FFB made 30 advances totalling $96,680,566.05 to 12 governments under existing DOD-guaranteed foreign military sales loan agreements.

Under notes guaranteed by the Rural Electrification Administration, FFB advanced a total of $115,672,000 to 30 rural electric and telephone systems.

On August 22, FFB purchased a total of $6,160,000 in debentures issued by 10 small business investment companies. These debentures are guaranteed by the Small Business Administration, mature in 5, 7, and 10 years, and carry interest rates of 9.225% for the 5 year maturity, and 9.205% for the 7 and 10 year maturities.

FFB provided Western Union Space Communications, Inc., with $9,750,000 on August 1 and $7,050,000 on August 20. These amounts mature October 1, 1989, and carry interest rates of 9.426% and 9.45%, respectively. Interest is payable on an annual basis. This loan will be repaid by NASA under a satellite procurement contract with Western Union.

FFB purchased the following General Services Administration public buildings interim certificates:

Date	Series	Amount	Maturity	Interest Rate
8/9	M-049	$5,549,230.52	7/31/03	9.073%
8/14	L-057	403,227.22	11/15/04	9.151%
8/30	K-023	720,265.85	7/15/04	9.211%

Under the Department of Housing and Urban Development Section 108 Block Grant Program, FFB advanced funds to the following cities:

	Date	Amount	Maturity	Interest Rate
Kansas City, Missouri	8/20	$500,000.00	7/31/03	10.245%
Tacoma, Washington	8/29	992,630.00	9/30/81	10.119% an.
Toledo, Ohio	8/31	600,000.00	7/15/80	10.717% an.

Department of Transportation (DOT) Guarantees

FFB provided the following amounts to the National Railroad Passenger Corporation (Amtrak) under line of credit Note #20, which matures September 6, 1979.

Date	Amount	Interest Rate
8/1	$ 5,000,000	9.658%
8/16	10,000,000	9.989%
8/17	11,000,000	10.018%
8/20	3,000,000	10.129%
8/27	7,000,000	10.214%
8/29	6,000,000	10.256%
8/31	4,000,000	10.264%

FFB advanced $5 million to the Trustee of the Chicago, Milwaukee, St. Paul and Pacific Railroad under a certificate guaranteed by DOT pursuant to Section 3 of the Emergency Rail Services Act. The advance carries an interest rate of 9.165% and matures September 12, 1994.

Under notes guaranteed by DOT pursuant to Section 511 of the Railroad Revitalization and Regulatory Reform Act of 1976, FFB lent funds to the following railroads:

	Date	Amount	Maturity	Interest Rate
Trustee of Chicago, Rock Island	8/10	$1,474,818	12/10/93	9.372% an.
Trustee of The Milwaukee Road	8/13	546,625	11/15/91	9.388% an.
Trustee of Chicago, Rock Island	8/31	1,644,732	12/10/93	9.669% an.

Agency Issuers

On August 8, FFB purchased a $1,180 million Certificate of Beneficial Ownership from the Farmers Home Administration. This certificate matures August 8, 1984 and carries an interest rate of 9.281%, payable annually.

FFB advanced $50 million in new cash to the Student Loan Marketing Association, a federally-chartered private corporation.

The Tennessee Valley Authority (TVA) sold FFB a $15 million, 10.01% note on August 15, and a $70 million, 10.267% note on August 31. Both notes mature November 30, 1979. Also on August 31, TVA issued a $500 million Series C Power Bond to FFB. This bond matures August 31, 2004 and carries an interest rate of 9.195%. Of the total $585 million borrowed, $425 million retired maturing securities, and $160 million raised new cash.

FFB Holdings

As of August 31, 1979, FFB holdings totalled $62.9 billion. FFB Holdings and Activity Tables are attached.

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FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	August 31, 1979	July 31, 1979	Net Change (8/1/79-8/31/79)	Net Change-FY 1979 (10/1/78-8/31/79)
On-Budget Agency Debt				
Tennessee Valley Authority	$ 6,930.0	$ 6,770.0	$ 160.0	$ 1,710.0
Export-Import Bank	7,846.3	7,846.3	-0-	1,278.0
Off-Budget Agency Debt				
U.S. Postal Service	1,952.0	1,952.0	-0-	-162.0
U.S. Railway Association	443.7	443.7	-0-	86.9
Agency Assets				
Farmers Home Administration	30,445.0	29,765.0	680.0	8,170.0
DHEW-Health Maintenance Org. Loans	77.3	77.3	-0-	20.3
DHEW-Medical Facility Loans	160.1	160.1	-0-	-3.6
Overseas Private Investment Corp.	35.8	35.8	-0-	-4.3
Rural Electrification Admin.-CBO	921.0	921.0	-0-	283.3
Small Business Administration	95.7	97.3	-1.5	-16.5
Government Guaranteed Loans				
DOT-Emergency Rail Services Act	32.4	27.4	5.0	14.9
DOT-Title V, RRRR Act	91.0	85.5	5.5	55.3
DOD-Foreign Military Sales	5,126.5	5,031.9	94.6	1,148.6
General Services Administration	354.4	347.7	6.7	84.2
Guam Power Authority	36.0	36.0	-0-	-0-
DHUD-New Communities Admin.	38.5	38.5	-0-	-0-
DHUD-Community Block Grant	4.7	2.6	2.1	4.7
Nat'l. Railroad Passenger Corp. (AMTRAK)	368.8	427.8	-59.0	-165.6
NASA	411.9	395.1	16.8	175.4
Rural Electrification Administration	5,754.0	5,638.8	115.7	1,562.4
Small Business Investment Companies	325.8	319.7	6.2	75.2
Student Loan Marketing Association	1,230.0	1,180.0	50.0	485.0
Virgin Islands	21.6	21.6	-0-	-0.2
WMATA	177.0	177.0	-0-	-0-
TOTALS	$62,879.5	$61,797.5*	$1,082.0*	$14,801.9*

*totals do not add due to rounding

FEDERAL FINANCING BANK

September 1979 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
Department of Defense					
Jordan #4	8/3	$ 3,174,304.00	3/15/88	9.131%	
Thailand #2	8/3	34,092.00	6/30/83	9.267%	
Colombia #2	8/6	647,742.82	9/20/84	9.213%	
Turkey #7	8/6	9,605,002.00	6/3/91	9.111%	
Jordan #2	8/7	137,166.12	11/26/85	9.161%	
Jordan #3	8/7	150,483.60	12/31/86	9.145%	
Colombia #2	8/10	1,948,617.50	9/20/84	9.244%	
Colombia #3	8/10	174,767.50	9/20/85	9.216%	
Jordan #3	8/10	2,891,891.00	12/31/86	9.201%	
Israel #7	8/13	36,200,647.69	12/15/08	9.152%	
Jordan #2	8/14	878,643.00	11/26/85	9.268%	
Philippines #4	8/14	320,000.00	9/12/83	9.373%	
Jordan #3	8/15	1,317,620.15	12/31/86	9.224%	
Israel #7	8/20	15,360,166.52	12/15/08	9.134%	
Colombia #2	8/21	26,816.25	9/20/84	9.381%	
Peru #4	8/21	1,640,841.78	4/10/85	9.351%	
Jordan #4	8/22	629,529.50	3/15/88	9.316%	
Philippines #4	8/22	218,379.60	9/12/83	9.505%	
Spain #2	8/22	58,100.00	9/15/88	9.30%	
Sudan #1	8/22	1,768,705.00	5/15/89	9.27%	
Turkey #7	8/22	1,273,989.00	6/3/91	9.225%	
Israel #7	8/23	10,996,583.83	12/15/08	9.165%	
Jordan #2	8/23	86,799.60	11/26/85	9.397%	
Spain #2	8/23	200,405.00	9/15/88	9.314%	
Jordan #3	8/24	472,277.00	12/31/86	9.376%	
Spain #1	8/24	106,901.59	6/10/87	9.277%	
Thailand #6	8/24	65,076.00	9/20/85	9.417%	
Tunisia #5	8/29	4,095,018.00	6/1/86	9.515%	
Gabon #1	8/31	200,000.00	8/25/83	9.779%	
Gabon #2	8/31	2,000,000.00	8/25/84	9.689%	
Farmers Home Administration					
Certificate of Beneficial Ownership	8/8	1,180,000,000.00	8/8/84	9.075%	9.281% annually
Department of Housing and Urban Development — Section 108 Block Grant					
Kansas City, Missouri	8/20	500,000.00	6/15/80	10.245%	
Tacoma, Washington	8/29	992,630.00	9/30/81	9.875%	10.119% annually
Toledo, Ohio	8/31	600,000.00	7/15/80	10.465%	10.717% annually
General Services Administration					
Series M-049	8/9	5,549,230.52	7/31/03	9.073%	
Series L-057	8/14	403,227.22	11/15/04	9.151%	
Series K-023	8/30	720,265.85	7/15/04	9.211%	
Rural Electrification Administration					
Arkansas Electric #77	8/1	471,000.00	12/31/13	9.164	9.061 quarterly
Arkansas Electric #97	8/1	4,464,000.00	12/31/13	9.164	9.061 "
Empire Telephone #43	8/1	323,000.00	12/31/13	9.164	9.061 "
Westco Telephone #112	8/2	1,000,000.00	8/2/81	9.405	9.297 "
Basin Electric Power #137	8/2	18,034,000.00	8/2/81	9.405	9.297 "
Alabama Electric #26	8/6	2,000,000.00	8/6/81	9.445	9.336 "
Sierra Telephone #59	8/6	91,000.00	8/31/81	9.425	9.317 "
Continental Telephone #68	8/7	2,466,000.00	12/31/81	9.295	9.189 "
Colorado-Ute Electric #78	8/8	1,205,000.00	8/8/81	9.395	9.287 "
Cooperative Power #130	8/8	10,000,000.00	8/8/81	9.395	9.287 "
Pacific Northwest Gen. #118	8/8	2,274,000.00	12/31/13	9.077	8.976 "
Tri-State Gen. & Trans. #79	8/9	888,000.00	7/31/86	9.115	9.013 "
Wolverine Electric #100	8/13	2,254,000.00	8/10/81	9.445	9.336 "
Western Illinois #99	8/13	2,003,000.00	8/10/81	9.445	9.336 "
San Miguel Electric #110	8/13	12,000,000.00	8/10/81	9.445	9.336 "

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
Rural Electrification Administration					
Allegheny Electric #93	8/13	3,199,000.00	8/31/81	9.415	9.307 quarterly
Northern Michigan Elect. #101	8/13	2,878,000.00	8/10/82	9.175	9.072 "
Wabash Valley Power #104	8/13	3,007,000.00	12/31/13	9.126	9.024 "
Gulf Telephone #50	8/13	192,000.00	12/31/13	9.126	9.024
Brazos Electric Power #108	8/13	3,000,000.00	8/13/81	9.505	9.395
Big Rivers Electric #58	8/20	2,464,000.00	8/20/81	9.615	9.502
Big Rivers Electric #65	8/20	50,000.00	8/20/81	9.615	9.502
Big Rivers Electric #91	8/20	2,532,000.00	8/20/81	9.615	9.502
Big Rivers Electric #136	8/20	364,000.00	8/20/81	9.615	9.502
Tennessee Tele. Co. #80	8/20	1,000,000.00	12/31/13	9.127	9.025
Associated Electric #132	8/21	7,100,000.00	8/21/81	9.625	9.512
Tri-State Gen. & Trans. #79	8/22	997,000.00	7/31/86	9.245	9.141
South Mississippi Electric #3	8/23	410,000.00	8/27/81	9.725	9.61
South Mississippi Electric #90	8/23	435,000.00	8/27/81	9.725	9.61
St. Joseph Tele. & Telegraph #13	8/24	463,000.00	8/24/81	9.805	9.688
East Kentucky Power #73	8/24	6,586,000.00	8/24/81	9.805	9.688
Brookville Telephone #53	8/27	1,639,000.00	12/31/13	9.223	9.119
M & A Electric #111	8/28	200,000.00	8/28/81	9.855	9.737
Sugar Land Telephone #69	8/29	500,000.00	12/31/13	9.21	9.106
Eastern Iowa Light #61	8/31	960,000.00	8/31/81	9.945	9.669
Tri-State Gen. & Trans. #89	8/31	7,323,000.00	7/31/86	9.445	9.336
Central Electric Power #131	8/31	100,000.00	8/31/86	9.435	9.326
Arkansas Electric #97	8/31	4,950,000.00	12/31/13	9.256	9.151
Small Business Investment Companies					
Benson Investment Co., Inc.	8/22	500,000.00	8/1/84	9.225	
Intergroup Venture Capital Corp.	8/22	300,000.00	8/1/84	9.225	
Intergroup Venture Capital Corp.	8/22	200,000.00	8/1/86	9.205	
Builders Capital Corp.	8/22	1,500,000.00	8/1/89	9.205	
Coastal Capital Company	8/22	500,000.00	8/1/89	9.205	
Dewey Investment Corp.	8/22	360,000.00	8/1/89	9.205	
First Texas Investment Co.	8/22	650,000.00	8/1/89	9.205	
Fourth Street Capital Corp.	8/22	300,000.00	8/1/89	9.205	
Lloyd Capital Corp.	8/22	1,000,000.00	8/1/89	9.205	
San Jose Capital Corp.	8/22	400,000.00	8/1/89	9.205	
Trans-Am Bancorp, Inc.	8/22	450,000.00	8/1/89	9.205	
Student Loan Marketing Association					
Note #208	8/7	1,180,000,000.00	8/14/79	9.829	
Note #209	8/14	1,200,000,000.00	8/21/79	10.015	
Note #210	8/21	1,210,000,000.00	8/28/79	10.129	
Note #211	8/28	1,220,000,000.00	9/4/79	10.214	
Tennessee Valley Authority					
Note #104	8/15	15,000,000.00	11/30/79	10.01	
Note #105	8/31	70,000,000.00	11/30/79	10.267	
Series C Power Bond	8/31	500,000,000.00	8/31/04	9.195	
Department of Transportation					
Emergency Rail Svcs. Act Trustee of The Milwaukee Road #2	8/2	5,000,000.00	9/12/94	9.165	
National Railroad Passenger Corp. (Amtrak)					
Note #20	8/1	5,000,000.00	9/6/79	9.658	
Note #20	8/16	10,000,000.00	9/6/79	9.989	
Note #20	8/17	11,000,000.00	9/6/79	10.018	
Note #20	8/20	3,000,000.00	9/6/79	10.129	
Note #20	8/27	7,000,000.00	9/6/79	10.214	
Note #20	8/29	6,000,000.00	9/6/79	10.256	
Note #20	8/31	4,000,000.00	9/6/79	10.264	

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
Section 511					
Trustee of the Chicago, Rock Island	8/10	1,474,818.00	12/10/93	9.162	9.372 annually
Trustee of the Milwaukee Road	8/13	546,625.00	11/15/91	9.176	9.388 "
Trustee of the Chicago, Rock Island	8/31	1,644,732.00	12/10/93	9.446	9.669 "
Western Union Space Communications, Inc. (NASA)					
	8/1	9,750,000.00	10/1/89	9.214	9.426 "
	8/20	7,050,000.00	10/1/89	9.237	9.45 "

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. October 4, 1979

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $3,470 million, of 364-day Treasury bills to be dated October 16, 1979, and to mature October 14, 1980 (CUSIP No. 912793 4Q 6). This issue will not provide new cash for the Treasury as the maturing issue is outstanding in the amount of $3,474 million.

The bills will be issued for cash and in exchange for Treasury bills maturing October 16, 1979. The public holds $1,441 million of the maturing issue and $2,033 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. Additional amounts of the bills may be issued to Federal Reserve Banks, as agents of foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing bills held by them.

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 Daylight Saving time, Wednesday, October 10, 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.

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Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions 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. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held at the close of business on the day prior to the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions. 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, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

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 October 16, 1979, in cash or other immediately available funds or in Treasury bills maturing October 16, 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.

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

FOR IMMEDIATE RELEASE
October 4, 1979

Contact at DOE: Ed Vilade
202/252-5806

DOE AND TREASURY SET HEARINGS ON IMPORT QUOTA OPTIONS

The Departments of Energy and Treasury today released a notice seeking public comment on mechanisms to enforce the oil import quota announced by President Carter on July 15, 1979 and set public hearings in five cities.

Information gained at the hearings and written comments received will assist the Departments in making recommendations to the President.

The hearings will be held in San Francisco on October 29, in Dallas on October 31, in Chicago on November 2, in Boston on November 6 and in Washington, D.C. on November 7.

In his July 15 speech, the President announced that he would set a quota to ensure that oil imports remain below 1977 levels, as a backstop to the energy initiatives comprising his import reduction program. The President directed the Secretaries of Energy and Treasury to recommend mechanisms for enforcing the quota. Preliminary study has led to the development of three approaches which exemplify alternative methods of implementing a quota. However, ideas on other approaches and combinations of approaches will be welcomed and other possibilities that are capable of achieving the goals set by the President will be considered.

The three alternative quota systems described in the hearing notice are:

1. An auction system, under which a fixed quantity of oil import rights would be sold to the highest bidders. Auctions would occur periodically, with a seasonally weighted percentage of the annual quota available at each sale. Bids would be filled until the quota was exhausted. Rights would be transferable, and licenses would be valid for a specific four-month period.

(MORE)

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2. A license fee system with imports limited by imposing a fee to reduce demand to the quota level. The government would calculate the fee. If requests for import licenses approached the quota limits, the fee would be increased in later periods.

3. A no-charge allocation system, under which imports would be limited by distributing, without charge, licenses to import crude oil and products up to the quota limit. Under a previous, similar system, licenses were distributed to refiners and importers of record. Import licenses would be freely tradeable.

The Federal Register Notice announcing the hearings contains a listing of specific questions on which comments are requested, along with several general questions.

Written comments are due by November 9. Requests to speak at the regional hearings must be received by October 22, and at the Washington, D.C. hearing by October 24. All hearings will begin at 9:30 a.m., local time.

A list of hearing locations and contacts is attached.

- DOE -

News Media Contact: Ed Vilade, 202/252-5806

Attachment

R-79-446

HEARING LOCATIONS AND CONTACTS

HEARING LOCATIONS

1.	Boston	-	John W. McCormick Post Office & Court House Bldg. 2nd. Floor Conference Room No. 208 No. 5 Post Office Square Boston, Massachusetts
2.	San Francisco	-	Holiday Inn Gold Rush Room No. B 1500 Van Ness Avenue San Francisco, California
3.	Dallas	-	Dallas Dunfey Hotel Texas One Room 3800 West Northwest Highway Dallas, Texas
4.	Chicago	-	E. M. Dirksen Federal Bldg. Room 204 A 219 South Dearborn Chicago, Illinois
5.	Washington, D.C.	-	James Forrestal Building Auditorium, Room GE-086 1000 Independence Avenue, S.W. Washington, D.C.

REQUESTS TO SPEAK

1. Boston Hearing

Department of Energy
ATTN: Kathy Healy
Room 700
150 Causeway Street
Boston, MA 02114

2. San Francisco Hearing

Department of Energy
ATTN: Terry Osborne
3rd Floor
111 Pine Street
San Francisco, CA 94111

- MORE -

REQUESTS TO SPEAK (cont.)

3. Dallas Hearing

Department of Energy
ATTN: Mac L. Lacefield
2626 West Mockingbird Lane
P.O. Box 35228
Dallas, TX 75235

4. Chicago Hearing

Department of Energy
ATTN: Lou Brownlee
175 West Jackson Boulevard
Chicago, IL 60604

5. Washington, D.C. Hearing

ERA Docket No. ERA-R-79-44
Department of Energy
Room 2312
2000 M Street, N.W.
Washington, D.C. 20461

WRITTEN COMMENTS

All written comments should be addressed to:

ERA Docket No. ERA-R-79-44
Department of Energy
Room 2312
2000 M Street, N.W.
Washington, D.C. 20461

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

FOR IMMEDIATE RELEASE October 4, 1979

RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted $2,502 million of $4,457 million of tenders received from the public for the 4-year notes, Series F-1983, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	9.75% 1/
Highest yield	9.81%
Average yield	9.79%

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	100.000
High-yield price	99.806
Average-yield price	99.871

The $2,502 million of accepted tenders includes $534 million of noncompetitive tenders and $1,678 million of competitive tenders from private investors, including 83% of the amount of notes bid for at the high yield. It also includes $290 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities.

In addition to the $2,502 million of tenders accepted in the auction process, $268 million of tenders were accepted at the average price from Federal Reserve Banks for their own account in exchange for maturing short-term bills.

1/ Excepting 2 tenders totaling $11,000

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Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226

NEWS

TELEPHONE 634-5248

CONTACT: ROBERT W. CHILDERS
(202) 634-5248

FOR IMMEDIATE RELEASE

October 11, 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 37,704 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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partment of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE 566-2041

RELEASE FOR MONDAY AMs
October 8, 1979

Contact: Robert E. Nipp
202/566-5328

STATEMENT BY
THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY

The House of Representatives voted last month to condition U.S. funding for the World Bank and the regional development banks on their refraining from extending loans to certain countries. Under their charters, the banks cannot accept funds from any country encumbered by such restrictions. The result of such legislation would be to eliminate all U.S. contributions to the banks. Since contributions from other countries are linked to our own in most of the banks, most of their funds would be lost as well.

The World Bank and related regional institutions, which were created largely at U.S. initiative, have been the centerpiece of global development efforts for over thirty years. They are now channeling essential assistance to the developing countries annually.

The action taken by the House, if it were to become law, would thus have a serious adverse effect on U.S. relations with the developing countries. It would also seriously affect our relations with our major allies, with whom these financial arrangements have been carefully developed. Indeed, such a U.S. withdrawal from its international responsibilities would raise doubts around the world about our willingness or ability to participate constructively across the range of international arrangements.

The President has indicated that elimination of these restrictions must be accorded the highest priority. The Senate Committee on Appropriations has recommended their elimination in the bill which it has just reported. We urge the Senate to eliminate the restrictions when the bill comes to the floor.

(Note: The bill is expected to reach the Senate floor on Tuesday, October 9.)

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

FOR RELEASE ON DELIVERY
EXPECTED 10:30 am CDT
OCTOBER 8, 1979

ADDRESS BY
SECRETARY OF THE U.S. TREASURY
G. WILLIAM MILLER
BEFORE THE AMERICAN BANKERS ASSOCIATION
NEW ORLEANS, LOUISIANA

IT IS A SPECIAL PLEASURE FOR ME TO BE WITH YOU THIS MORNING. YOUR INVITATION WAS EXTENDED TO ME IN MY ROLE AS CHAIRMAN OF THE FEDERAL RESERVE BOARD. I APPRECIATE THE OPPORTUNITY TO PARTICIPATE IN MY NEW CAPACITY. AND IT IS A PARTICULAR PRIVILEGE FOR ME TO BE HERE IN THE DISTINGUISHED COMPANY OF THE GREAT SENATOR RUSSELL LONG OF LOUISIANA AND THE GREAT STATESMAN HENRY KISSINGER.

CHALLENGE OF CHANGE

YOUR MEETING HERE IN NEW ORLEANS IS BEING HELD AS THE DECADE OF THE 1970'S DRAWS RAPIDLY TO A CLOSE. IT HAS BEEN A DECADE MARKED BY TURBULENT FORCES. POLITICAL AND ECONOMIC EVENTS OF FAR-REACHING CONSEQUENCES HAVE CASCADED ONE UPON ANOTHER, LEAVING AN OFTEN BREATHLESS WORLD TO NAVIGATE UNCHARTED WATERS.

IN AN ERA WHEN CHANGE HAS BEEN THE NORM, THE PACE OF CHANGE HAS QUICKENED. PEOPLE AND INSTITUTIONS, PRIVATE AND PUBLIC, HAVE BEEN CHALLENGED TO ADAPT RAPIDLY OR RISK BEING LEFT BEHIND IN THE BACK-EDDIES OF PROGRESS.

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YOUR OWN BANKING INDUSTRY HAS NOT BEEN IMMUNE FROM THESE FORCES. ON THE CONTRARY, YOU HAVE FACED A HIGH ORDER OF MAGNITUDE OF CHANGE, BOTH DOMESTIC AND INTERNATIONAL. THE NEW REGIME OF FLOATING EXCHANGE RATES, THE MAJOR SHIFTS IN INTERNATIONAL BALANCES FOLLOWING OIL PRICE SHOCKS, THE EMERGENCE OF NEW CREDIT AND FINANCIAL INSTRUMENTS BOTH WITHIN AND WITHOUT THE BANKING SYSTEM, THE AVAILABILITY OF ADVANCED TECHNOLOGY IN COMMUNICATIONS AND DATA PROCESSING, THE INCREASED VOLATILITY OF MARKETS, THE INTENSIFICATION OF COMPETITION, THE INADEQUACY OF SAVINGS AND CAPITAL FORMATION -- THESE, AND OTHER DEVELOPMENTS, HAVE PRESENTED A GREAT CHALLENGE TO THE AMERICAN BANKING SYSTEM.

IN THE FACE OF SUCH DYNAMICS, THE BANKING INDUSTRY HAS DEMONSTRATED REMARKABLE RESILIENCE, FLEXIBILITY, INNOVATION AND VIGOR. THE BANKER HAS BEEN A PERSON ON THE MOVE, STILL PRUDENT, BUT MODERN AND KEEPING UP WITH THE TIMES.

THE CHALLENGES CONTINUE, AND YOUR AGENDA FOR ACTION IS LONG. AMONG OTHERS ITEMS, THE TIME IS RIPE TO PHASE OUT INTEREST RATE CEILINGS UNDER REGULATION Q AND TO AUTHORIZE NOW ACCOUNTS NATIONWIDE. THE ADMINISTRATION IS EAGER TO WORK WITH YOU TO GAIN THE NECESSARY CONGRESSIONAL APPROVALS.

In particular, I want to take this opportunity to commend you of the American Bankers Association for your leadership in promoting monetary improvement legislation in this session of the Congress. The dual objectives of reducing burdens on member banks and providing greater competitive equality among financial institutions will help strengthen our banking system. The recent action of your Banking Leadership Conference in reaffirming endorsement for the concept of reserve requirements on transactions accounts of all financial intermediaries, with a lower reserve ratio below a certain deposit level, should provide momentum for favorable Congressional action.

In these difficult times, I am especially encouraged by your demonstration of commitment to a strong, independent and effective Federal Reserve System.

In like vein, we in the Administration are committed to a strong and effective dual banking system. Our nations's economic progress depends upon maintaining your strength and your vitality.

THE THREAT OF INFLATION

Let me turn now to a broader look at our economy. Overshadowing all else is the high and persistent rate of inflation.

THE CAUSES OF INFLATION ARE MANY AND WELL KNOWN TO YOU. INFLATION HAS BUILT UP OVER THE PAST FIFTEEN YEARS. IT IS NOW DEEPLY EMBEDDED IN OUR ECONOMIC STRUCTURE. IT IS A CLEAR AND PRESENT DANGER TO OUR NATIONAL WELL-BEING.

INFLATION REDUCES REAL INCOMES AND VALUES; IT THREATENS OUR ABILITY TO PROVIDE EMPLOYMENT OPPORTUNITIES; IT DRIES UP JOB CREATING INVESTMENTS; IT IMPEDES PRODUCTIVITY; IT BREEDS RECESSION; AND IT FALLS MOST HEAVILY ON THOSE LEAST ABLE TO BEAR THE BURDEN.

THE WAR AGAINST INFLATION MUST BE OUR TOP PRIORITY. THERE IS NO QUICK OR SIMPLE SOLUTION. THE WAR MUST BE WAGED THROUGH A COMPREHENSIVE STRATEGY ON ALL FRONTS ON A CONTINUOUS BASIS.

WE DO HAVE AN INTEGRATED STRATEGY. WE ARE MARSHALLING ALL RESOURCES. WE ARE DIRECTING ALL ECONOMIC POLICIES TOWARD A TOTAL WAR AGAINST INFLATION.

AND MOST OF ALL, WE ARE DIRECTING OUR EFFORTS AT THE FUNDAMENTAL CAUSES OF INFLATION RATHER THAN JUST THE SYMPTONS.

I WOULD LIKE TO OUTLINE THE PRINCIPAL POLICIES WHICH TOGETHER MUST FORM THE MAIN FORCES FOR OUR ASSAULT.

FISCAL POLICY

FIRST, IS A DISCIPLINED FISCAL POLICY. THE CUMULATIVE EFFECT OF LARGE FEDERAL DEFICITS YEAR AFTER year has been to fuel the fires of inflation. We are determined to apply fiscal restraint and move as quickly as possible toward a balanced budget.

Some progress can already be reported. In 1976, the federal deficit was three percent of Gross National Product. This year, it will be down to only one percent. Unless the current recession deepens, we should make further progress next year.

Even more important is to gain better control over federal spending and to reduce the relative role of federal expenditures in our national econlmy. In 1976, federal spending was 22.6 percent of GNP. This year it will be down to about 21.5 percent. And we intend to reduce it further.

The net result, over time, of reduced deficits and reduced expenditures as a percent of GNP will be to release substantial resources for the private sector. The spending and investing decisions of individuals and businesses with respect to these resources will be far more beneficial to our economy than channeling the same amounts through government.

<u>MONETARY POLICY</u>

A second weapon in the war against inflation is a disciplined monetary policy. The Federal Reserve has been pursuing a course to keep firm control over the

GROWTH OF THE MONEY SUPPLY. THE OBJECT HAS BEEN TO REDUCE PROGRESSIVELY THE RATE OF GROWTH OF MONEY AND CREDIT IN ORDER TO STARVE OUT INFLATION.

AGAIN, THERE HAS BEEN SOME PROGRESS, AND GROWTH RATES HAVE SLOWED. FOR INSTANCE, THE INCREASE IN M-1 OVER THE PAST TWELVE MONTHS HAS BEEN HELD TO 4.9 PERCENT -- LESS THAN HALF THE INCREASE IN CONSUMER PRICES. BUT IN RECENT MONTHS, FOLLOWING THE LARGE INCREASE IN OIL PRICES IN THE SECOND QUARTER, THE GROWTH HAS BEEN MUCH MORE RAPID.

THE FEDERAL RESERVE HAS RESPONDED PROMPTLY TO COUNTER THE TREND AND TO DEAL WITH RECENT EVIDENCE OF RENEWED INFLATIONARY PRESSURES. ON SATURDAY EVENING, THE FEDERAL RESERVE ANNOUNCED UNANIMOUS APPROVAL FOR A SERIES OF COMPLEMENTARY ACTIONS. THE DISCOUNT RATE WAS INCREASED A FULL PERCENT, FROM 11 TO 12 PERCENT; A MARGINAL RESERVE REQUIREMENT OF 8 PERCENT WAS ESTABLISHED FOR "MANAGED LIABILITIES"; AND THE METHOD OF CONDUCTING MONETARY POLICY WAS REVISED TO SUPPORT THE OBJECTIVE OF CONTAINING GROWTH IN THE MONETARY AGGREGATES OVER THE REMAINDER OF THIS YEAR WITHIN THE PREVIOUSLY ADOPTED RANGES. IN ADDITION, THE FEDERAL RESERVE BOARD CALLED UPON BANKS TO AVOID MAKING LOANS THAT SUPPORT SPECULATIVE ACTIVITY IN GOLD, COMMODITIES AND FOREIGN EXCHANGE MARKETS.

THESE ACTIONS SHOULD SERVE TO DAMPEN INFLATIONARY FORCES AND CONTRIBUTE TO GREATER STABILITY IN FOREIGN EXCHANGE MARKETS.

PAY-PRICE POLICY

FISCAL AND MONETARY RESTRAINT REPRESENT POWERFUL WEAPONS TO ATTACK THE FUNDAMENTAL CAUSES OF INFLATION. BUT THEY TAKE EFFECT WITH SOME LAG. THEREFORE, ANOTHER IMPORTANT POLICY IS THE VOLUNTARY PROGRAM TO MODERATE PAY AND PRICE INCREASES AND THUS PROVIDE TIME FOR THE OTHER BASIC POLICIES TO TAKE HOLD.

BECAUSE OF WIDESPREAD COOPERATION, MOST MAJOR CORPORATIONS AND MOST LABOR CONTRACTS HAVE BEEN IN COMPLIANCE WITH THE VOLUNTARY STANDARDS DURING THE FIRST YEAR. AS A RESULT, OVERALL PRICE AND PAY INCREASES HAVE BEEN SMALLER THAN OTHERWISE WOULD HAVE BEEN EXPERIENCED.

FOR THE SECOND YEAR OF THE PROGRAM, IT WAS FELT DESIRABLE TO PROVIDE FOR GREATER PARTICIPATION BY MANAGEMENT AND LABOR IN THE PROCESS OF ESTABLISHING AND APPLYING PAY STANDARDS. THIS SHOULD HELP AVOID INEQUITIES WHICH OTHERWISE MAY DEVELOP OVER TIME. A TRIPARTITE PAY COMMITTEE, TO BE CHAIRED BY JOHN DUNLOP, IS THEREFORE BEING ESTABLISHED, WITH A FIRST TASK OF RECOMMENDING PAY STANDARDS FOR THE PERIOD AHEAD.

In this connection, the Administration worked out a National Accord with American labor leadership in support of the war against inflation and providing for labor involvement in the pay-price program.

GOVERNMENT REGULATIONS

In battling inflation, we must not overlook the cost-raising actions of government. Among these are the costs of unnecessary regulation. We must intensify efforts to reduce the burden of government, and in particular the burden on the banking system.

But let me not raise false hopes. When I was at the Federal Reserve we launched Project Augeus -- to undertake the herculean task of cleaning out regulatory stables that seemed somewhat like the stables of Augeus that had gone uncleaned for thirty years. The effort continues; and I hope to launch a similar attack at Treasury.

But it is not easy. Much regulation is founded in statute, and while we can improve and shorten and clarify, we often need legislation to make real reductions in burden.

So it will take time, and will need your help and support. I would particularly welcome your suggestions and recommendations in this area.

INTERNATIONAL ECONOMIC POLICY

NOW LET ME TURN TO THE INTERNATIONAL SECTOR. A SOUND AND STABLE DOLLAR IS ESSENTIAL IF WE ARE TO ACHIEVE PRICE STABILITY IN OUR DOMESTIC ECONOMY.

A DECLINING DOLLAR INCREASES THE PRICES WE PAY FOR NECESSARY IMPORTS AND OTHERWISE CONTRIBUTES TO HIGHER PRICES HERE AT HOME.

THE INTERNATIONAL EXCHANGE VALUE OF THE DOLLAR IS ADVERSELY AFFECTED BY TWO BASIC FACTORS: INFLATION DIFFERENTIALS WITH OTHER COUNTRIES AND DEFICITS IN OUR BALANCE OF PAYMENTS.

THE CURRENT ACCOUNT POSITION OF THE UNITED STATES HAS BEEN SEVERELY IMPACTED BY THE TEN-FOLD INCREASE IN WORLD OIL PRICES SINCE 1974. CONSIDER THE CONSEQUENCES: IN 1973, THIS COUNTRY IMPORTED $8.5 BILLION OF OIL; THIS YEAR IT WILL BE ALMOST $60 BILLION.

BUT DESPITE THIS, WE HAVE MADE EXCELLENT PROGRESS TOWARD RESTORING BALANCE. IN 1978, OUR CURRENT ACCOUNT SHOWED A $14 BILLION DEFICIT. THIS YEAR, THE DEFICIT WILL BE REDUCED TO ONLY A FEW BILLION, EVEN AFTER ABSORBING AN INCREASE OF $16 BILLION IN THE COST OF OIL IMPORTS. AND NEXT YEAR, 1980, WE EXPECT A SUBSTANTIAL CURRENT ACCOUNT SURPLUS.

IN ADDITION, WE HAVE DEALT -- AND WE WILL IN THE FUTURE DEAL -- FORCEFULLY WITH UNWARRANTED EXCHANGE MARKET PRESSURES. IN THIS REGARD, STRONG MEASURES

WERE INTRODUCED LAST NOVEMBER 1, JUST A YEAR AGO. SINCE THAT TIME, WE HAVE ACHIEVED SIGNIFICANT PROGRESS IN STRENGTHENING THE DOLLAR EXCHANGE RATE. THE DOLLAR HAS MOVED UP AGAINST SOME CURRENCIES, DOWN AGAINST OTHERS, AND REMAINED STABLE AGAINST MOST. MEASURED AGAINST THE AVERAGE OF THE MAJOR INDUSTRIAL COUNTRIES, THE DOLLAR IS NOW ABOUT 5 PERCENT HIGHER THAN IT WAS A YEAR AGO. FROM THE VIEWPOINT OF THE OPEC NATIONS, IN RELATION TO THE OTHER CURRENCIES THEY USE TO PURCHASE THEIR IMPORTS, THE DOLLAR HAS INCREASED ABOUT 8 PERCENT ON AVERAGE FROM A YEAR AGO.

IT MIGHT ALSO BE NOTED THAT THE DOLLAR IS ABOUT 25 PERCENT HIGHER AGAINST THE JAPANESE YEN SINCE THIS TIME LAST YEAR.

NOTWITHSTANDING FAVORABLE CHANGES IN THE DOLLAR VALUE IN TERMS OF AVERAGES AND AGAINST SOME CURRENCIES, WE ARE DETERMINED TO MAINTAIN EXCHANGE MARKET STABILITY FOR THE DOLLAR IN TERMS OF INDIVIDUAL MAJOR CURRENCIES. IN PARTICULAR, SINCE MID-JUNE THE DOLLAR HAS BEEN DOWN SOMEWHAT IN RELATION TO THE DEUTSCHE MARK. WE HAVE THEREFORE BEEN GIVEN SPECIAL ATTENTION TO THIS SITUATION. CONSULTATIONS HAVE BEEN HELD WITH GERMAN OFFICIALS AT THE HIGHEST LEVELS TO ASSURE CLOSE COORDINATION OF COUNTER MEASURES.

THE ACTIONS TAKEN BY THE FEDERAL RESERVE OVER THE WEEKEND REPRESENT A POSITIVE RESPONSE. BY MOVING POWERFULLY TO ASSURE BETTER CONTROL OVER THE EXPANSION OF MONEY AND CREDIT, AND TO HELP CURB EXCESSIVES IN COMMODITY AND OTHER MARKETS, THE FEDERAL RESERVE WILL DAMPEN INFLATIONARY FORCES AND INFLATIONARY EXPECTATIONS AND WILL CONTRIBUTE TO GREATER STABILITY IN FOREIGN EXCHANGE MARKETS.

WE WILL CONTINUE TO MONITOR THESE MARKETS CAREFULLY, AND WILL BE PREPARED TO TAKE OTHER COMPLEMENTARY ACTIONS WHEN AND IF APPROPRIATE. WE INTEND TO MAINTAIN A SOUND DOLLAR.

ENERGY POLICY

NEXT IS ENERGY POLICY. THE TEN-FOLD INCREASE IN WORLD OIL PRICES HAS BEEN A PRINCIPAL CONTRIBUTOR TO THE ACCELERATION OF INFLATION DURING THIS DECADE. OIL PRICE INCREASES HAVE COME IN TWO MAJOR WAVES: THE FIRST IN 1974 FOLLOWING THE OIL EMBARGO AND THE SECOND EARLIER THIS YEAR FOLLOWING THE UPHEAVAL IN IRAN.

THE RECENT PRICE SHOCK HAS HAD A DESTABILIZING EFFECT ON THE WORLD'S ECONOMY. ON AN ANNUAL BASIS, THE 60 PERCENT JUMP IN OIL PRICES WILL INCREASE THE IMPORT BILL OF THE DEVELOPED COUNTRIES BY ALMOST $75 BILLION AND THE IMPORT BILL OF THE DEVELOPING COUNTRIES

BY $15 BILLION. AS A RESULT, THE PROSPECTS FOR WORLD ECONOMIC PROGRESS ARE LESS PROMISING. THE OUTLOOK IS PARTICULARLY HARSH FOR THE POOREST NON-OIL NATIONS.

TO WIN THE WAR AGAINST INFLATION, IT IS ABSOLUTELY ESSENTIAL THAT WE REDUCE OUR DEPENDENCE UPON IMPORTED OIL AND THAT WE REDUCE OUR DEPENDENCE UPON OIL ITSELF AS A SOURCE OF ENERGY. THE FUTURE AVAILABILITY AND PRICE OF OIL IS TOO UNCERTAIN. WE DARE NOT RISK OUR NATION'S FUTURE ON SUCH A FRAGILE LINE.

IT IS IMPERATIVE THAT WE ESTABLISH OUR ENERGY INDEPENDENCE. IT IS ESSENTIAL TO OUR NATION'S SECURITY THAT WE GAIN CONTROL OVER OUR OWN DESTINY. IT IS URGENT THAT WE MOVE WITH ALL POSSIBLE SPEED. IT IS VITAL THAT WE PURSUE MULTIPLE OPTIONS SO AS TO ASSURE TOTAL SUCCESS.

FOR TWO AND ONE-HALF YEARS PRESIDENT CARTER HAS SOUGHT SUPPORT FOR A BROAD AND COMPREHENSIVE ENERGY PROGRAM TO ACHIEVE THOSE OBJECTIVES. BUT BECAUSE WE ARE A HETEROGENEOUS COUNTRY, BECAUSE SOME REGIONS ARE PRODUCERS AND OTHERS ARE CONSUMERS, BECAUSE SOME AREAS HAVE ONE OR ANOTHER FORM OF LOCAL ENERGY SUPPLY AND OTHERS ARE TOTALLY DEPENDENT ON OUTSIDE SOURCES, IT HAS BEEN EXCRUCIATINGLY DIFFICULT TO HAMMER OUT A NATIONAL ENERGY PROGRAM.

SOME IMPORTANT PARTS OF THE PROGRAM HAVE FALLEN INTO PLACE EARLIER, SUCH AS THE NATURAL GAS BILL ENACTED A YEAR AGO. NOW, REMAINING CRITICAL ELEMENTS ARE UNDER ACTIVE REVIEW BY THE CONGRESS.

THE PRESIDENT HAS RECENTLY TAKEN TWO MAJOR STEPS UNDER HIS OWN POWERS AND ON HIS OWN INITIATIVE. HE HAS DECONTROLLED DOMESTIC CRUDE OIL PRICES OVER THE NEXT TWO YEARS, WITH IMMEDIATE DECONTROL OF HEAVY OIL. AND HE HAS LIMITED OIL IMPORTS FROM NOW THROUGH 1985 TO NO MORE THAN 8.5 MILLION BARRELS PER DAY, THE LEVEL THAT PREVAILED IN 1977. THE PRESIDENT HAS ESTABLISHED AN EVEN LOWER IMPORT LIMIT OF 8.2 MILLION BARRELS OF OIL PER DAY FOR THIS YEAR.

THE PRIORITIES FOR OUR NATIONAL ENERGY PROGRAM ARE CLEAR.

FIRST, CONSERVATION. THIS IS THE SUREST, CHEAPEST, CLEANEST WAY TO REDUCE OUR DEPENDENCE ON OIL.

SECOND, INCREASING THE DEVELOPMENT AND USE OF CONVENTIONAL DOMESTIC SOURCES OF ENERGY, SUCH AS OIL, GAS AND COAL.

THIRD, INCREASING THE USE OF RENEWABLE ENERGY SOURCES, SUCH AS SOLAR, ALCOHOL, BIOMASS, WIND AND WOOD.

FOURTH, TO ASSURE LONGER TERM SUPPLIES, THE RIGOROUS DEVELOPMENT OF UNCONVENTIANAL DOMESTIC ENERGY SOURCES, SUCH AS SYNTHETIC FUELS FROM COAL AND SHALE AND UNCONVENTIANAL NATURAL GAS.

TO PROVIDE CAPITAL RESOURCES FOR THE OVERALL PROGRAM, A SPECIAL EXCISE TAX -- THE WINDFALL PROFITS TAX -- HAS BEEN PROPOSED AND HAS ALREADY PASSED THE HOUSE. THE PURPOSE OF THE TAX IS TO ALLOCATE THE INCREASED REVENUES GENERATED BY DECONTROL OF DOMESTIC OIL PRICES. A GOOD PART OF THE INCREASED REVENUES WILL REMAIN WITH THE OIL PRODUCERS TO PROVIDE THE MEANS FOR THEM TO CONTINUE AND EXPAND PRODUCTION OF CONVENTIONAL ENERGY. SOME OF THE INCREASED REVENUES WILL ALSO BE ALLOCATED TO THE ENERGY SECURITY CORPORATION TO FINANCE PROJECTS WHOLLY IN THE PRIVATE SECTOR FOR THE DEVELOPMENT OF UNCONVENTIONAL ENERGY. THESE PROJECTS WILL BE LARGE SCALE VENTURES, WITH UNUSUAL RISKS, AND WOULD NOT LIKELY BE UNDERTAKEN BY PRIVATE COMPANIES ON THE SCALE NEEDED WITHOUT GOVERNMENT FINANCIAL ASSISTANCE. AS AN ALTERNATIVE, RATHER THAN SEEKING FINANCING FROM THE ENERGY SECURITY CORPORATION, PRIVATE COMPANIES WILL BE ABLE TO TAKE ADVANTAGE OF SPECIAL TAX CREDITS FOR UNCONVENTIONAL FUEL PRODUCTION.

TO ROUND OUT THE PROGRAM, AN ENERGY MOBILIZATION BOARD HAS BEEN PROPOSED IN ORDER TO SHORTEN THE TIME FOR OBTAINING PERMITS FOR ENERGY PROJECTS. WE CANNOT AFFORD UNNECESSARY DELAYS.

WHEN FULLY IN PLACE, THE ENERGY PROGRAM IS EXPECTED TO CUT OIL IMPORTS BY MORE THAN 50 PERCENT -- 4 TO 5 MILLION BARRELS PER DAY -- BY 1990. THIS WILL PUT US WELL ON THE WAY TO ENERGY INDEPENDENCE.

INVESTMENT POLICY

FINALLY, A FEW WORDS ABOUT CAPITAL INVESTMENTS. FOR SOME TIME, OUR NATION HAS GIVEN TOO MUCH EMPHASIS TO CONSUMPTION AND TOO LITTLE EMPHASIS TO INVESTMENT IN PRODUCTIVE FACILITIES THAT MAKE CONSUMPTION POSSIBLE.

WE HAVE FALLEN BEHIND OTHER LEADING INDUSTRIAL NATIONS. JAPAN SPENDS OVER 20 PERCENT OF GNP ON CAPITAL INVESTMENTS; GERMANY OVER 15 PERCENT. IN THE UNITED STATES, WE HAVE BEEN RUNNING AT 10 TO 11 PERCENT. AS A RESULT, OUR PRODUCTIVITY HAS LAGGED.

THIS MUST NOT CONTINUE, OR ELSE OUR COMPETITIVENESS IN WORLD MARKETS WILL BE SERIOUSLY IMPAIRED.

IN COMING MONTHS, THEREFORE, WE EXPECT TO BE WORKING TO CREATE CONDITIONS AND INCENTIVES THAT WILL ENCOURAGE THE SAVINGS, INVESTMENTS AND PRODUCTIVITY THAT ARE SO ESSENTIAL TO ECONOMIC PROGRESS WITH PRICE STABILITY.

PERIOD OF AUSTERITY

THE WAR AGAINST INFLATION REQUIRES DISCIPLINE AND RESTRAINT. THIS MEANS THAT WE MUST BE WILLING TO ACCEPT A PERIOD OF AUSTERITY FOR AMERICANS -- AND WORK TO SEE THAT SUCH AUSTERITY IS FAIRLY SHARED --

SO THAT WE WILL BE ABLE TO ACHIEVE BALANCED GROWTH WITH PRICE STABILITY IN THE YEARS TO COME.

IT IS RIGHT THAT GOVERNMENT SHOULD LEAD THE WAR AGAINST INFLATION. BUT THE CAMPAIGN WILL MOST SURELY SUCCEED -- AND AT A FASTER PACE -- IF EVERY AMERICAN PLAYS HIS FULL PART. IT IS A TIME OF TESTING FOR OUR NATION AND FOR EACH OF US. YOUR HELP AND YOUR SUPPORT WILL MAKE A GREAT CONTRIBUTION TOWARD AN EARLY VICTORY.

CONCLUSION

IN CONSIDERING THIS MORNING THE MANY DIFFICULTIES WE FACE, I CANNOT HELP BUT REFLECT ALSO ON OUR MANY BLESSINGS.

SOME MONTHS AGO, THIS WAS BROUGHT VIVIDLY HOME TO ME. WATCHING THE STRUGGLE OF THE BOAT PEOPLE TO FIND A LIGHT IN A DARKENED CORNER FO THE WORLD, WATCHING THE EXTREME RISKS THEY ENDURED IN SEEKING TO REACH AN AMERICAN REFUGE -- SPOKE MORE ELOQUENTLY THAN I COULD OF THE LIVING REALITY OF THE AMERICAN DREAM.

MY PURPOSE IS TO DO THE VERY BEST I CAN TO ASSURE THE LASTING VITALITY OF OUR ECONOMIC SYSTEM, TO FIGHT AND TO WIN THE WAR AGAINST INFLATION, TO REINFORCE THE PRE-EMINENCE OF AMERICA AT HOME AND ABROAD.

AND TO HELP KEEP ALIVE THAT GREAT AMERICAN DREAM.

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

FOR IMMEDIATE RELEASE
October 8, 1979

TREASURY RESCHEDULES 15-YEAR 1-MONTH BOND OFFERING

The Department of the Treasury today said it is amending its announcement of September 28, 1979 to reschedule the auction and settlement dates of its 15-year 1-month bond offering in the amount of $1.5 billion. The auction has been rescheduled from Tuesday, October 9, to Thursday October 11, 1979, while the settlement date has been reset from Tuesday October 16 to Thursday October 18, 1979.

The Treasury said that the rescheduling is to allow time for the credit markets to adjust to the actions announced by the Federal Reserve Board on Saturday, October 6.

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M-109

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

FOR IMMEDIATE RELEASE October 9, 1979

TREASURY RESCHEDULES AND AMENDS OFFERING OF
15-YEAR 1-MONTH BONDS

In its original offering of September 28, the Department of the Treasury announced that $1,500 million of 15-year 1-month bonds would be auctioned Tuesday, October 9, 1979, and issued Tuesday, October 16, 1979.

The Treasury hereby amends its original offering announcement by providing that the $1,500 million of 15-year 1-month bonds will be auctioned on Thursday, October 11, and issued Thursday, October 18, 1979. The Department said that the rescheduling is to allow time for the credit markets to adjust to the actions announced by the Federal Reserve Board on Saturday, October 6.

As stated in the original announcement, the bonds will be offered 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, as amended, are given in the attached highlights of the offering and in the official offering circular.

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Attachment

M-110

(over)

HIGHLIGHTS OF TREASURY
AMENDED OFFERING TO THE PUBLIC
OF RESCHEDULED 15-YEAR 1-MONTH BONDS

October 9, 1979

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 CJ 5)
Issue date..........................	October 18, 1979
Maturity date.......................	November 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 auctic
Interest payment dates..............	May 15 and November 15 (first payment on May 15, 198
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, October 11, 1979, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds.......	Thursday, October 18, 1979
b) check drawn on bank within FRB district where submitted..................	Tuesday, October 16, 1979
c) check drawn on bank outside FRB district where submitted..................	Monday, October 15, 1979
Delivery date for coupon securities.	Wednesday, October 31, 1979

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

FOR RELEASE AT 4:00 P.M. October 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 $5,900 million, to be issued October 18, 1979. This offering will not provide new cash for the Treasury as the maturing bills are outstanding in the amount of $5,935 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $2,900 million, representing an additional amount of bills dated July 19, 1979, and to mature January 17, 1980 (CUSIP No. 912793 3M 6), originally issued in the amount of $3,024 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,000 million to be dated October 18, 1979, and to mature April 17, 1980 (CUSIP No. 912793 4A 1).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing October 18, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,016 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 Daylight Saving time, Monday, October 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.

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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. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held at the close of business on the day prior to the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering; e.g., bills with three months to maturity previously offered as six month bills. 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, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

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 on October 18, 1979, in cash or other immediately available funds or in Treasury bills maturing October 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.

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

FOR IMMEDIATE RELEASE
Expected 10:00 A.M., E.D.T.

STATEMENT OF H. DAVID ROSENBLOOM,
INTERNATIONAL TAX COUNSEL,
BEFORE THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES,
WEDNESDAY, OCTOBER 10, 1979

Mr. Chairman and members of this distinguished Committee:

I am pleased to have the opportunity to testify today on H.R. 3756 and H.R. 3758. The Treasury Department will outline the Administration's position on tax and customs provisions; the Interior Department will address other issues. In a nutshell, we are opposed to the provisions on H.R. 3756 which would provide that the Secretary administer the present territorial tax systems. We support the three-year delay in the extension of Federal income tax laws to the Northern Marianas as provided in H.R. 3758 and section 204 of H.R. 3756.

Our opposition to IRS administration of the present territorial tax systems reflects our concern regarding problems inherent in those systems. The G.A.O. released last week its report on Guam's inadequate administration of its territorial income tax. In our view, administration is only part of the problem. The present "mirror" systems contain major inequities, ambiguities and inconsistencies. The Treasury Department expects to release shortly a detailed analysis of those systems. This study was undertaken in conjunction with the Administration's interagency task force set up at the direction of the President to review Federal government policy toward the territories. The territories, agencies of the Federal government, and the Congress are in the process of commenting on various options identified by the Task Force, including possible changes in the substance and the administration of the territorial income tax systems. These options will be sent to the President shortly for decision. Because this decision is imminent, the Administration is opposed to making fundamental changes in territorial tax administrations now.

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In addition to this general objection to the tax administration provisions of H.R. 3756, we have some specific difficulties with particular provisions of that bill:

1. The Administration is opposed to the provisions by which the territories could require the IRS to administer local taxes other than income taxes. The IRS would not bring any special skill to the administration of these taxes, which have traditionally been enacted and administered by political subdivisions of the United States.

2. The bill provisions requiring employment of local residents for administration of the territorial income tax are too restrictive. The territories have frequently found it necessary to hire retired IRS personnel as technicians or management advisors, and there appears to be a shortage of trained tax personnel in the territories at the present time. Accordingly, we would need the ability to employ competent and trained personnel from outside the territories to meet the needs of administration. Of course, to the extent possible, we would hire local residents to administer these taxes. The IRS offices in Puerto Rico are an example of hiring and developing local residents. Virtually the entire staff administering the Social Security tax is now Puerto Rican, including top management. This has been accomplished without any statutory mandate or requirement.

3. The bill does not empower the Secretary to issue any necessary and appropriate regulations in performing the duties imposed by this bill.

4. The provision of this bill that the Secretary administer the territorial income tax in the territories beginning January 1, 1980, is unrealistic. At this late date, we would be unable to assume administrative responsibility before January 1, 1981.

5. The bill does not provide authority for the Secretary to enter into agreements with the territories for an orderly transfer of work in progress. The territory should continue the ongoing examination of returns, administrative or judicial

appeals, collection of delinquent accounts, pursuit of delinquent returns, and so forth. A period of 18 months would, we estimate, permit completion of much of this work and permit a smooth transfer of the remainder.

6. We do not believe that territorial officials should be given the authority to decide unilaterally whether or not the IRS will continue to administer the tax. A series of abrupt changes in tax administrations would be exceedingly costly and disruptive.

7. Regarding the provisions for collection of territorial customs duties by the United States, H.R. 3756 would allow a customs duty to be imposed and the cost of collection borne by the Federal government even when the volume of territorial imports makes the collection of a duty wholly uneconomical. The Northern Mariana Islands, Guam and American Samoa presently import too little to justify the imposition of such duties. The Virgin Islands customs duty is presently administered by the Federal government, and we objected to the provision enacted in 1978 which provided for the Federal government to absorb the cost of collection.

Our preliminary estimate is that annual administrative costs of administering the territorial income taxes alone will range between \$5 million and \$8 million, depending on the responsibilities contained in the final legislation. Between 140 and 270 IRS personnel will be required for that purpose.

The Administration has no objection to section 204 of H.R. 3756 or to H.R. 3758, which would delay the implementation of the Internal Revenue Code in the Northern Mariana Islands. The enactment of section 204 would not create a "tax haven" or foreclose any further Federal legislation.

In summary, the Administration is deeply concerned by the inadequacies of the territorial income tax systems. We believe that legislation is necessary to restructure those systems and to improve upon present administration. The shape of that legislation involves important policy issues -- the adequacy of territorial government finances, the scope of territorial self-government, and the relationship of the territories to the Federal government -- which the Administration has not, to date, resolved internally. We request that the question of who should administer the territorial tax systems be deferred until the forthcoming Presidential decisions are made and comprehensive proposals are submitted to the Congress.

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

FOR IMMEDIATE RELEASE October 5, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,901 million of 13-week bills and for $3,000 million of 26-week bills, both to be issued on October 11, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 10, 1980			:	26-week bills maturing April 10, 1980		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	97.308 a/	10.650%	11.13%	:	94.629 b/	10.624%	11.41%
Low	97.240	10.919%	11.42%	:	94.592	10.697%	11.50%
Average	97.268	10.808%	11.30%	:	94.610	10.662%	11.46%

a/ Excepting 2 tenders totaling $1,260,000
b/ Excepting 2 tenders totaling $710,000

Tenders at the low price for the 13-week bills were allotted 48%.
Tenders at the low price for the 26-week bills were allotted 95%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 35,835	$ 35,835	:	$ 21,705	$ 21,705
New York	2,957,035	2,207,035	:	3,924,055	2,479,255
Philadelphia	44,610	19,610	:	14,605	13,615
Cleveland	56,845	31,845	:	46,710	21,710
Richmond	36,575	36,575	:	26,885	26,885
Atlanta	36,775	36,775	:	27,360	26,860
Chicago	386,045	289,045	:	366,310	196,210
St. Louis	14,185	14,085	:	21,400	17,400
Minneapolis	4,820	4,820	:	5,510	5,510
Kansas City	41,920	41,920	:	29,765	29,765
Dallas	16,605	16,605	:	21,890	11,890
San Francisco	180,840	120,840	:	197,820	87,820
Treasury	45,570	45,570	:	61,550	61,550
TOTALS	$3,857,660	$2,900,560	:	$4,765,565	$3,000,175
Type					
Competitive	$2,177,235	$1,220,135	:	$2,600,860	$ 835,470
Noncompetitive	472,075	472,075	:	398,055	398,055
Subtotal, Public	$2,649,310	$1,692,210	:	$2,998,915	$1,233,525
Federal Reserve and Foreign Official Institutions	$1,208,350	$1,208,350	:	$1,766,650	$1,766,650
TOTALS	$3,857,660	$2,900,560	:	$4,765,565	$3,000,175

1/Equivalent coupon-issue yield.

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

FOR IMMEDIATE RELEASE October 10, 1979

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $3,471 million of 52-week bills to be issued October 16, 1979, and to mature October 14, 1980, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-issue Yield)
High -	88.382	11.490%	12.81%
Low -	88.339	11.533%	12.86%
Average -	88.364	11.508%	12.83%

Tenders at the low price were allotted 92%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 4,705	$ 4,705
New York	5,669,740	3,392,085
Philadelphia	57,090	2,090
Cleveland	55,225	5,225
Richmond	44,855	4,855
Atlanta	28,760	13,060
Chicago	248,740	12,540
St. Louis	14,500	6,500
Minneapolis	12,685	2,685
Kansas City	10,525	5,525
Dallas	2,610	2,110
San Francisco	239,900	9,900
Treasury	9,505	9,505
TOTALS	$6,398,840	$3,470,785
Type		
Competitive	$4,423,280	$1,495,225
Noncompetitive	97,660	97,660
Subtotal, Public	$4,520,940	$1,592,885
Federal Reserve and Foreign Official Institutions	1,877,900	1,877,900
TOTALS	$6,398,840	$3,470,785

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REMARKS BY THE HONORABLE ROBERT CARSWELL
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE ANNUAL ASSEMBLY OF THE
ATLANTIC TREATY ASSOCIATION
WASHINGTON, D.C.

October 10, 1979

Security and the World Economy

I am honored to address this august association on the occasion of the thirtieth anniversary of the North Atlantic Treaty. Just as the signing of that Treaty in 1949 clearly reflected our common determination to attend to the security of the free Western world through close cooperation and mutual assistance, so too the earlier signing of the principal international economic agreements (OECD, Bretton Woods, GATT) evidenced a similar commitment to cooperative effort in the economic sector. The linkage between the two sectors is inescapable, and events of recent years have only served to underscore the necessity that they be addressed together.

These Annual Assemblies provide a convenient occasion for assessing whether the nations of the Atlantic community are realizing the objectives identified with this Association. Few of us here question those objectives. We accept the philosophy of leaders of previous generations that the best path to peace and a dignified existence for all people is through cooperation and reason. We continue to believe that failure to follow that path will ultimately mean not only a decline in the influence of the nations of the Atlantic Community but an abridgment of human rights and dignity in the world. Hence it is important to take time to assess how this process of cooperation is proceeding.

The major agreements on which the cooperative policies of the Atlantic nations have been based, have provided an indispensable framework for adjusting to the demands of a

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dynamic world in economic relations as well as in the security sphere. NATO remains our principal mechanism for coordinating military policies, and the OECD one of our most important economic and trade policy forums. But the velocity of events in recent years and changes in the relative strengths of different members of the group have caused modifications in the basic agreements and the adoption of ancillary arrangements in many areas. The Alliance could not have endured without accommodating change and without our continuing, active commitment to work together for our mutual benefit.

Increasingly we have come to realize that our growing interdependence both limits our real national autonomy and demands that we coordinate the management of national policies if we are to maintain the security and prosperity that we have achieved. This is especially true in the economic sphere.

The economic wellbeing of the Western nations is not determined by national economic policies alone. World growth, world availability of crucial supplies, access to world markets, world demand for our currencies, and world inflation all have a direct, significant impact on economic growth and stability at home. Nor can we ignore the consequences of our own actions on other nations, which may be forced to react in self-defense if our policies adversely affect them. We <u>cannot</u> act in a vacuum, even should we want to.

In that context and with some trepidation because the clear light of hindsight is not yet available, I propose to make some preliminary comments on four significant economic areas: the international monetary system, energy, trade and inflation.

The International Monetary System

During the decade of the 1970's the world economy has been punctuated by recurrent strains and unusual demands. These have challenged the integrity of the international monetary system--and the willingness of nations to cooperate in this vital sphere. Accommodation has not been easy. Fixed exchange rates have largely given way to variable rates; extraordinary increases in energy prices have created extraordinary financing needs; individual nations have temporarily required emergency assistance. But as the decade comes to a close, the institutions organized at Bretton Woods remain at the center of our system. Equally important, the nations of the West have taken or encouraged a series of cooperative actions:

-- The IMF Articles have been very significantly revised, laying the basis for orderly evolution of the international monetary system;

-- Intergovernmental cooperation in exchange markets has become stronger and closer;

-- Private financial markets have successfully channeled huge flows of funds from surplus to deficit countries, and developing countries gained access to these private capital markets on a substantial scale;

-- Flows of official development resources have continued to expand.

The next decade will no doubt require actions of comparable importance. Markets and needs will continue to change and test our technical capacity and our commitment to a collegial system. The record of the '20's and '30's when a succession of divisive policies ended in a decade of world-wide depression and conflict, evidences how high the stakes are.

Energy

Until the 1973 oil crisis, there seemed little need for multilateral action in energy, which was cheap and plentiful. Today there is almost no area in which the need for common action is more obvious or more urgent. And there is virtually no other area where the Western nations as a whole depend so strongly on supplies from one turbulent part of the world, the Middle East, which contains over half of the world'd proven energy reserves.

By the fall of 1974, the Western nations had agreed that energy was a global problem that required a multilateral solution. They agreed on an International Energy Program and the creation of an International Energy Agency within the OECD. The Program provides for oil-sharing in the case of major supply disruptions to limit the damage from any future embargo, but also for demand restraint, long-term cooperation to reduce dependence on imported oil, the collection of data on the international oil market and establishment of relations with producers and other consumer countries. The IEA remains the major forum for coordination of industrial nations' energy policies.

The economic summits have also considered energy to be a major issue requiring the attention of Chiefs of State to assure cooperation and the reduction of dependence on imported oil. Energy was the major issue at the last Summit in Tokyo, which agreed on specific limits on oil imports and a concerted effort to increase the supply of alternative energy resources. President Carter has subsequently indicated that the United States will ensure a reduction in imports even below the ambitious levels set at the Tokyo Summit. Last Thursday, the Administration asked for public comment on alternative ways of ensuring that U.S. consumption will stay within the limits set by the President.

In the longer run, the enormous investment needs of developing alternative energy supplies will impinge on the availability of resources for other purposes. Implementing the Summit commitments, therefore, will require difficult decisions and hard choices. But they must be made, and we must make them in a cooperative, joint effort to assure the future security of our national economies.

Trade

The recent successful conclusion of the Multilateral Trade Negotiations provides an essential framework for the management of the world trading system in the 1980's. The new agreements revise and update the General Agreement on Tariffs and Trade to meet the demands of today's increasingly complex trading environment. This is crucial, for trade relations have become an important element of all nations' foreign policies, with political as well as economic aspects. Increasing government involvement in trade through policies that directly affect both imports and exports has made it especially important to achieve international agreement on acceptable bounds for this involvement.

The new codes regulating government involvement in trade are clearly the most significant achievement of the negotiations. They cover a wide array of burgeoning non-tariff barriers to trade: standards, government procurement, licensing procedures, customs regulations, government subsidies and countervailing duties. Hopefully, they also reflect a willingness to consult in problem areas before trade is adversely affected.

The agreements as a whole provide tangible progress toward a more open and equitable international trading system. The United States Congress has already ratified the new understandings, and provided detailed guidance for their administration, through the Trade Agreements Act of 1979, which President Carter signed in July. But I should point out that no other OECD nation has yet taken these steps. The United States urges all OECD countries to redouble their efforts to ratify the agreement and provide meaningful guidance for administrative implementation.

Work must also be completed on a safeguards code, which has been stalled by inability to agree on the desirability of selective safeguard action, i.e. the imposition of import restraints against specific suppliers. The developing nations regard the lack of agreement on safeguard actions as a direct, protectionist threat against their trade. We must try to assure that trade remains as open as possible for all nations. A safeguard code is one important step toward this objective.

The United States is also concerned that very few developing nations have agreed to join the new codes on subsidies, government procurement, standards, and other government measures. Failure to join the codes could well mean that a two-tier trading system will be created, with assured benefits for signatories and discrimination against those that do not join.

The benefits of joining the codes are substantial. As trade becomes increasingly important to the developing nations, LDC participation in the future interpretation and evolution of the code regulations, which will be central to the future management of international trade problems, is clearly in their interest.

Two related areas of government intervention (official export credits and investment incentives) must also be addressed on an international basis. I would like to discuss them briefly.

(1) Export Credits. What countries were willing to do in reducing export subsidies in the context of the MTN, they have been unwilling to do in the context of official trade finance. Accordingly, the Export-Import Bank of the United States, operating within the framework of the International Agreement on Export Credits, has been much more aggressive in providing export financing in support of U.S. exports.

-- The Bank has increased the percentage of cover from around 40 percent of export value to over 60 percent in FY 1979.

-- It has held down its interest rates, which are still considerably higher than the Arrangement minimums, while dollar interest rates in the private market and the cost of money to the Bank have continued to rise.

-- In support of U.S. aircraft manufacturers, the Bank has met the generous financing offers made by the governments of Germany and France in support of the Airbus, in spite of the huge expense involved.

-- The provision of mixed credits by France and the United Kingdom also has a distinct adverse impact on exports of countries seeking sales on commercial terms. Eximbank has matched these credits on a selective basis, as necessary to maintain a competitive U.S. position.

The United States will continue to match foreign practices in this area, if necessary, to assure a fair shake for U.S. exporters in international trade. The competitive scuffle this involves is not necessary. It is disruptive and counterproductive to those nations involved.

Competition among the developed nations to subsidize the construction of foreign facilities of categories that are already in oversupply is especially troublesome. In particular, the United States believes that greater discipline over the use of official export credits for steel plants is in our mutual interest and will help avoid artificial stimulation of excessive and uneconomic steel production.

Better coordination of policies would be much more beneficial for all of us--in terms of economic efficiency, cost to our treasuries, and political good will. We cannot afford an export credit war. Let's step back from confrontation and then move forward together in more effective common management of our export finance policies.

(2) Investment. Governments also actively intervene in the international investment process to garner benefits for their national economies. Government-sponsored investment incentives and performance requirements, in particular, can have the effect of shifting the location and benefits of investment across national borders--in essence, exporting one country's problem to another. The potential for proliferation of such measures in a beggar-thy-neighbor fashion makes increased multilateral discipline on incentives and other interventions an important aspect of our international economic relations. Our objective should be to maintain an open investment environment and to avoid emulative countermeasures.

Most governments have not yet recognized the need for increased international cooperation and management of investment issues. Direct investment is a relatively recent development in our international relations. Individual clashes regarding the use of national measures have occurred, but vital interests have not yet been called into question. The writing is on the wall, however, and the United States is convinced that the time to address problems is at an early stage--before politics or vested interests create a crisis in our economic relations.

Inflation

The final area I would like to discuss involves our most important common problem and the greatest threat to our common economic security: inflation. Inflation affects all of us--industrialized and developing nations alike. It saps our economic strength and undermines our national wellbeing.

Inflation in the United States also has called into question the soundness of the dollar as a store of value and medium of exchange with attendant instability and unwarranted speculation in the exchanges and other markets.

There is little disagreement in the countries of the Atlantic alliance on the many causes of inflation: rising energy and raw material prices, inadequate investment and a gradual decline in productivity, historically high government deficits and overly expansionary monetary policies, expensive and sometimes redundant government regulation.

Recent initiatives of the Administration address all these areas, including the actions taken this weekend by the Federal Reserve Board to check increases in the money supply. We expect to persevere in our domestic policies and in time to bring down the rate of inflation. The impressive improvement in the U.S. current account balance this year and next should provide a basis for a more stable U.S. dollar and thus also contribute to a reduction in the externally-generated portion of our inflation.

Globally, the MTN will help reduce import barriers in all nations as an aid to our anti-inflation efforts. Price-stabilizing commodity agreements for sugar and natural rubber, and efforts to revise the tin and cocoa agreements in ways that would contribute more to global price stability, should also help.

More can and must be done to coordinate our individual efforts through the OECD, through the economic summits, and through regular consultations at mid-levels of government to ensure that monetary or other actions taken by one government are not diluted or frustrated by actions of another. The fight against inflation must be our number one priority--and effective coordination of national policies our primary objective.

Conclusion

I think it is fair to say that in all the critical areas I have touched on--the international monetary system, energy, trade and inflation--there has been a recent record of significant and productive cooperation among the nations of the alliance. Such cooperation is now more vital than ever before. Yet politically the Western industrialized nations are not prepared to contemplate openly a partial ceding of national authority over economic policy to an international body. But realistically, we must face this issue in the not-too-distant future.

The question for all of us--but particularly for the industrialized market economies--is whether we will learn to coordinate the management of our economies, to the benefit of all concerned, or whether, because of the strains and pressures arising from our interdependence, we end up retreating from the thrust of the past three decades and slipping back into a nationally-oriented and ultimately autarchic international regime. The pressure of events is forcing us toward a choice because grudging compromises in an atmosphere of near crisis cannot produce consistent and constructive policies. There is no viable middle ground in the long run--and the long run is getting shorter and shorter.

We have all benefited from the vibrance and growth of the world economy, and from the increased interdependence that has been part and parcel of that growth. Clearly, a reversal of this trend--through conscious decision or through failure to act together--cannot possibly benefit either the United States or the world as a whole.

The crucial task now is to build upon the framework of cooperation we have achieved to assure the effective policy coordination and problem management we require for the future.

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Ask what the
Federal Debt
Subject to
Statutory Limitation
is - today Oct 16, 1979

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FOR IMMEDIATE RELEASE
October 11, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY PROPOSES REVISION OF CUSTOMS REGULATIONS FOR ANTIDUMPING DUTY INVESTIGATIONS

Robert H. Mundheim, General Counsel of the Treasury, today announced a Proposed Revision of the Customs Regulations Relating to Antidumping Duties. These proposed regulations will implement changes in the antidumping law, effective January 1, 1980, resulting from enactment of the Trade Agreements Act of 1979, P.L. 96-39, which replaces the Antidumping Act, 1921, as amended.

The principal changes implemented by the Trade Agreements Act of 1979 are (1) shortened time limits during the investigative phase of antidumping proceedings, (2) detailed provisions concerning the suspension of investigations, (3) imposition of time limits on the liquidation of entries subject to the assessment of antidumping duties, (4) yearly administrative review of outstanding Antidumping Duty Orders and suspension agreements, and (5) greater public participation in, and access to, information developed during antidumping proceedings.

The regulations also codify many current practices of the Treasury in the administration of the antidumping law and propose some modifications to present rules to render determinations more equitable.

Oral comments on the proposed revisions and the previously announced proposed revisions of the Countervailing Duty Regulations (published in the Federal Register on October 3) are invited at a meeting to be held at 9:30 a.m., November 5 and 6, in Room 4121 of the Main Treasury Building, 1500 Pennsylvania Avenue, N.W., Washington, D. C. The meeting, originally scheduled for October 24 and 25, will be conducted by Deputy Assistant Secretary Peter Ehrenhaft. Written comments on the proposed revision of Antidumping Duty Regulations will be accepted until November 30, 1979.

Notice of these actions will be published in the Federal Register on October 16, 1979, which will include instructions for requesting an opportunity to present oral comments at the November meeting.

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

FOR IMMEDIATE RELEASE October 11, 1979

RESULTS OF AUCTION OF 15-YEAR 1-MONTH TREASURY BONDS

The Department of the Treasury has accepted $1,501 million of $2,514 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	10.10% 1/
Highest yield	10.25%
Average yield	10.17%

The interest rate on the bonds will be 10-1/8%. At the 10-1/8% rate, the above yields result in the following prices:

Low-yield price	100.155
High-yield price	99.013
Average-yield price	99.620

The $1,501 million of accepted tenders includes $93 million of noncompetitive tenders and $1,408 million of competitive tenders from private investors, including 17% of the amount of bonds bid for at the high yield.

1/ Excepting 2 tenders totaling $22,000

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TREASURY BONDS OF 1994

10-1/8% ~~TREASURY NOTES OF SERIES~~

DATE: October 11, 1979

HIGHEST ~~SINCE:~~ EVER

LAST ISSUE: 6-27-79

8 3/4 %

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LOWEST SINCE:

TODAY:

10 1/8 %

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FOR RELEASE AT 8 P.M.

REMARKS OF THE HONORABLE
G. WILLIAM MILLER
SECRETARY OF THE TREASURY
AT DINNER HONORING
C. C. HOPE, JR., PRESIDENT ELECT OF THE
AMERICAN BANKERS ASSOCIATION
AND
CLAUDE E. POPE
OUTGOING PRESIDENT, MORTGAGE BANKERS ASSOCIATION
AT CHARLOTTE, NORTH CAROLINA
OCTOBER 11, 1979

It is a great pleasure to be in Charlotte tonight to join Governor Hunt, Jesse Helms, Bob Morgan and your other distinguished guests in honoring two North Carolinians that have given so much service to their country and the banking industry.

The decade of the 1970's has been marred by continuous and sometimes dramatic changes in our political and economic environment. In these troublesome times, we are very fortunate to have leaders like C.C. Hope and Claude Pope to work with. C.C. and Claude have two outstanding characteristics that make their leadership especially valuable to us now: First, a natural love for working with people in all walks of life to resolve our common problems; second, an ability to understand change and what we all must do to meet its challenges.

C.C. Hope's career has changed in many ways since 1947 when he first started in banking as a teller. However, C.C.'s approach to life hasn't changed. I understand he will still take the Greyhound bus to see banks out in the countryside rather than keep a driver waiting to bring him back in. Also, despite the enormous amount of time he has dedicated to just about every ABA task force and committee in recent years, he has managed to remain heavily involved with Wake Forest University and with his church. The ABA is fortunate to have C.C. as the third North Carolinian to be its president.

Claude Pope is the second from your state to serve as President of the Mortgage Bankers Association. Claude has been involved with the M.B.A. for at least the last fifteen years. He has worked with the M.B.A. on a wide range of issues including education, ethics in Mortgage Banking, and the M.B.A.'s political action committee. Despite these professional involvements, like C.C. Hope, he still manages to save some time for a wide range of church and community involvements. I don't see how all of this leaves Claude much time for anything else, but I do know he likes to travel around your state in his camper. I guess he thought that if C.C. could use a Greyhound bus, he could at least use a van.

Both of these men signify what is best about business leaders in our country. The energy to devote themselves tirelessly not only to their own business interests, but to improving the common welfare of their communities as well.

Changes in Our Financial Structure

Like the economy as a whole, there have been dramatic changes in banking over the last decade. The challenge of meeting these changes seems likely to become even greater in the future.

There has been a gradual breaking down of the walls which once separated the activities that different financial institutions performed. For example, many more types of institutions now offer transaction accounts. Because of regulatory differences in how these accounts were treated, and the burden of Federal Reserve membership in particular, this development has led to troublesome competitive inequities. I want to take this opportunity to commend C.C. Hope, in particular, for the leading role he played with the ABA in promoting monetary improvement legislation in this session of Congress.

The dual objectives of reducing burdens on member banks and providing greater competitive equality among financial institutions will help strengthen our banking system. The recent action of the ABA in reaffirming endorsement for the concept of reserve requirements on transactions accounts of all financial intermediaries, with a lower reserve ratio below a certain deposit level, should provide momentum for favorable Congressional action.

The banking industry has also been called upon to play an increasingly difficult role in international capital markets. Floating exchange rates have added new complexity to many international transactions. Similarly, many were concerned that the huge surpluses the OPEC countries generated by successive price increases could not be effectively recycled. This fear has been proven unfounded largely as a result of the effective role that has been played by private financial institutions.

American banks are also facing much more intensive competition from overseas institutions than in the past. In the past, the rules of the international banking game have not always been the same for everyone and these inequities have lessened competition and reduced economic efficiency. That is the reason that this Administration so strongly supported the passage of the International Banking Act of 1978, which addressed many of the competitive inequalities between U.S. banks and foreign institutions operating here.

These are just some examples of the challenges banking has had to face both domestically and internationally. We are also seeing the emergence of new credit and financial instruments both within and without the banking system, the availability of advanced technology in communications and data processing, and an overall intensification of competition. Both commercial banking and mortgage banking have demonstrated remarkable resourcefullness, flexibility and vigor in responding to these challenges.

Inflation's Challenge

The greatest challenge confronting all of us now is dealing with inflation. Inflation is the dominant economic problem of our time.

The causes of inflation are many and well known to you. Inflation has built up over the past fifteen years. It is now deeply embedded in our economic structure. It is a clear and present danger to our national well-being.

Inflation reduces real incomes and values; it threatens our ability to provide employment opportunities; it dries up job creating investments; it impedes productivity; it breeds recession; it falls most heavily on those least able to bear the burden.

The war against inflation must be our top priority. There is no quick or simple solution. The war must be waged through a comprehensive strategy on all fronts on a continuous basis.

We do have an integrated strategy. We are marshalling all resources. We are directing all economic policies toward a total war against inflation.

And most of all, we are directing our efforts at the fundamental causes of inflation rather than just the symptoms.

I would like to outline the principal policies which together must form the main forces for our assault.

Fiscal Policy

First, is a disciplined fiscal policy. The cumulative effect of large federal deficits year after year has been to fuel the fires of inflation. We are determined to apply fiscal restraint and move as quickly as possible toward a balanced budget.

Some progress can already be reported. In 1976, the federal deficit was three percent of Gross National Product. This year, it will be down to only one percent. Unless the current recession deepens, we should make further progress next year.

Even more important is to gain better control over federal spending and to reduce the relative role of federal expenditures in our national economy. In 1976, federal spending was 22.6 percent of GNP. This year it will be down to about 21.5 percent. And we intend to reduce it further.

The net result, over time, of reduced deficits and reduced expenditures as a percent of GNP will be to release substantial resources for the private sector. The spending and investing decisions of individuals and businesses with respect to these resources will be far more beneficial to your economy than channeling the same amounts through government.

Monetary Policy

A second weapon in the war against inflation is a disciplined monetary policy. The Federal Reserve has been pursuing a course to keep firm control over the growth of the money supply. The object has been to reduce progressively the rate of growth of money and credit in order to starve out inflation.

Again, there has been some progress, and growth rates have slowed. For instance, the increase in M-1 over the past twelve months has been held to 4.9 percent -- less than half the increase in consumer prices. But in recent months, following the large increase in oil prices in the second quarter, the growth has been much more rapid.

The Federal Reserve has responded promptly to counter the trend and to deal with recent evidence of renewed inflationary pressures. On Saturday evening, the Federal Reserve announced unanimous approval for a series of complementary actions. The discount rate was increased a full percent, from 11 to 12 percent; a marginal reserve requirement of 8 percent was established for "managed liabilities"; and the method of conducting monetary policy was revised to support the objective of containing growth in the monetary aggregates over the remainder of this year within the previously adopted ranges. In addition, the Federal Reserve Board called upon banks to avoid making loans that support speculative activty in gold, commodities and foreign exchange markets.

These actions should serve to dampen inflationary forces and contribute to greater stability in foreign exchange markets.

Pay-Price Policy

Fiscal and monetary restraint represent powerful weapons to attack the fundamental causes of inflation. But they take effect with some lag. Therefore, another important policy is the voluntary program to moderate pay and price increases and thus provide time for the other basic policies to take hold.

Because of widespread cooperation, most major corporations and most labor contracts have been in compliance with the voluntary standards during the first year. As a result, overall price and pay increases have been smaller than otherwise would have been experienced.

For the second year of the program, it was felt desirable to provide for greater participation by management and labor in the process of establishing and applying pay standards. This should help avoid inequities which otherwise may develop over time. A tripartite Pay Committee, to be chaired by John Dunlop, is therefore being established, with a first task of recommending pay standards for the period ahead.

In this connection, the Administration worked out a National Accord with American labor leadership in support of the war against inflation and providing for labor involvement in the pay-price program.

Government Regulations

In battling inflation, we must not overlook the cost-raising actions of government. Among these are the costs of unnecessary regulation. We must intensify efforts to reduce the burden of government, and in particular the burden on the banking system.

But let me not raise false hopes. When I was at the Federal Reserve we launched Project Augeus -- to undertake the herculean task of cleaning out regulatory stables that seemed somewhat like the stables of Augeus that had gone uncleaned for thirty years. The effort continues; and I hope to launch a similar attack at Treasury.

But it is not easy. Much regulation is founded in statute, and while we can improve and shorten and clarify, we often need legislation to make real reductions in burden.

So it will take time, and will need your help and support. I would particularly welcome your suggestions and recommendations in this area.

Energy Policy

There can be no doubt that reducing our reliance on imported oil is essential for both controlling inflation and strengthening the dollar. The ten-fold increase in world oil prices has been a principal contributor to the acceleration of inflation during this decade. Oil price increases have come in two major waves: the first in 1974 following the oil embargo and the second earlier this year following the upheaval in Iran.

It is imperative that we establish our energy independence. It is essential to our nation's security that we gain control over our own destiny. It is urgent that we move with all possible speed. It is vital that we pursue multiple options so as to assure total success.

For two and one-half years President Carter has sought support for a broad and comprehensive energy program to achieve those objectives. But because we are a heterogeneous country, because some regions are producers and others are consumers, because some areas have one or another form of local energy supply and others are totally dependent on outside sources, it has been excruciatingly difficult to hammer out a national energy program.

Some important parts of the program have fallen into place earlier, such as the natural gas bill enacted a year ago. Now, remaining critical elements are under active review by the Congress.

The President has recently taken two major steps under his own powers and on his own initiative. He has decontrolled domestic crude oil prices over the next two years, with immediate decontrol of heavy oil. And he has limited imports to no more than 8.5 million barrels per day, the level that prevailed in 1977. The President has established an even lower import limit of 8.2 million brrels of oil per day for this year.

The priorities for our national energy program are clear.

First, conservation. This is the surest, cheapest, cleanest way to reduce our dependence on oil.

Second, increasing the development and use of conventional domestic sources of energy, such as oil, gas, and coal.

Third, increasing the use of renewable energy sources, such as solar, alcohol, biomass, wind and wood.

Fourth, to assure longer term supplies, the rigorous development of unconventional domestic energy sources, such as synthetic fuels from coal and shale and unconventional natural gas.

To provide capital resources for the overall program, a special excise tax--the Windfall Profits Tax--has been proposed and has already passed the House. The purpose of the tax is to allocate the increased revenues generated by decontrol of domestic oil prices. A good part of the increased revenues will remain with the oil producers to provide the means for them to continue and expand production of conventional energy. Some of the increased revenues will also be allocated to the Energy Security Corporation to finance projects wholly in the private sector for the development of unconventional energy. These projects will be large scale ventures, with unusual risks, and would not likely be undertaken by private companies on the scale needed without government financial assistance. As an alternative, rather than seeking financing from the Energy Security Corporation, private companies will be able to take advantage of special tax credits for unconventional fuel production.

To round out the program, an Energy Mobilization Board has been proposed in order to shorten the time for obtaining permits for energy projects. We cannot afford unnecessary delays.

When fully in place, the energy program is expected to cut oil imports by more that 50 percent so that in 1990 we are importing 4-5 million barrels per day rather than our current level of more than 8 million barrels per day. This will put us well on the way to energy independence.

Investment Policy

Finally, a few words about capital investments. For some time, our nation has given too much emphasis to consumption and too little emphasis to investment in productive facilities that make consumption possible.

We have fallen behind other leading industrial nations. Japan spends over 20 percent of GNP on capital investments; Germany over 15 percent. In the United States, we have been running at 10 to 11 percent. Our savings rate, at about 4.5%, is the lowest in the developed world. As a result, our productivity has lagged.

This must not continue, or else our competitiveness in world markets will be seriously impaired.

In coming months, therefore, we exppect to be working to create conditions and incentives that will encourage the savings, investments and productivity that are so essential to economic progress with price stability.

The Dollar

I have not spoken specifically about the dollar tonight, but let me point out that controlling inflation and reducing our dependence on imported oil are essential to strengthening its international value. We have taken strong steps recently to strengthen the dollar. Let me emphasize again that this Administration is fully committed to that course. I am fully confident these steps will be successful and we are prepared to take successive actions should that become necessary.

Conclusion

Inflation will not disappear overnight, but I am confident it can be defeated if we have the courage and the willpower necessary to devote ourselves to the fight. This will require that all of us be willing to accept a period of austerity in America and focus on the long term public good rather than just our own short term self interest. In that regard let me return to why we are here. C.C. Hope and Claude Pope symbolize the kind of American business leader who works long and hard in their own business as well as in their outside activities to make things a little better for everyone. If all of us take that approach more often, we will be able to successfully address the difficult economic challenges of our time.

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epartment of the TREASURY NEWS
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FOR IMMEDIATE RELEASE
October 12, 1979

Contact: Charles Arnold
202/566-2041

SECRETARY MILLER NAMES SIX NEW MEMBERS TO TREASURY SMALL BUSINESS ADVISORY COMMITTEE

Secretary of the Treasury G. William Miller today announced the appointment of six new members to the Treasury Small Business Advisory Committee. Secretary Miller also announced the appointment of Susan Hager as Chairperson of the Committee, replacing William L. Hungate, former Congressman from Missouri, who has been appointed to the federal bench.

Committee members are chosen from small businesses of various types and sizes in different sections of the country, from the academic community, and from professional organizations representing small business. The objective of the Committee is to provide information and advice to the Secretary on the broad range of economic issues which from time to time affect the small business community. The Committee was created to provide a means of communication between the small business community and the Secretary on economic issues including capital formation, tax policy, tax administration and governmental regulation.

A two-day meeting of the advisory group is scheduled for October 29 and 30 in Washington.

Attached is a listing of the new members of the Treasury Small Business Advisory Committee, as well as a listing of current members of the Committee who are being reappointed.

Attachements

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NEW MEMBERS

Ms. Norma K. Bork, Angwin, California; owner and operator of a consulting firm in speech and language therapy; former member of Napa County Commission on the Status of Women; Board of Directors of the Mental Health Association.

Mr. Wilber S. Doyle, Martinsville, Virginia; President of Doyle Lumber Inc.; member of the Small Business Council of the United States Chamber of Commerce.

Dean Donald H. Driemeier, St. Louis, Missouri; Dean of the School of Business Administration; University of Missouri-St. Louis.

Ms. Marlene Johnson, St. Paul, Minnesota; President of Split Infinitive; President of the Minnesota Chapter of the National Association of Women Business Owners; Treasurer of the National Association of Women Business Owners.

Mr. J. Fred Kubik, Wichita, Kansas; managing partner, F.B. Kubik & Company, Certified Public Accountants; Chairman of Small Business Taxation Subcommittee of AICPA.

Mr. Richard A. Lewis, Nashville, Tennessee; President and Chief Executive Officer of Citizens Savings Bank and Trust Company; member of Advisory Council of the Small Business Administration.

CURRENT MEMBERS

Chairperson: Ms. Susan Hager, Washington, D.C.; President, Hager, Sharp & Abramson Associates, Inc.; National Advisory Council to the Small Business Administration; past President, National Association of Women Business Owners.

Mr. Harry G. Austin, Mars, PA.; President, James Austin Company; past President Smaller Manufacturers Council of Western Pennsylvania.

Mr. Walton E. Bell, III, Washington, D.C.; Partner, Arthur Andersen & Company, Certified Public Accountants.

Mr. Alan J. Bennett, Los Angeles, CA; Secretary, Black Businessmen's Association of Los Angeles; President, Centaurans 7 Enterprises, Inc.

Mr. Craig M. Bollman, Jr., Denver, CO; President, Aristek Corporation; Chairman, Advocacy and Public Communication Committee of the Small Business Advisory Council.

Mr. Eugene N. Bryant, Atlanta, GA; Owner and operator, service station; owner and operator, day care and early achievement center.

Mr. Bruce G. Fielding, Mountain View, CA; Bruce G. Fielding & Co., Certified Public Accountants; member, Commission on Federal Paperwork; Director of National Federation of Independent Business.

Mr. Patrick Ionatta, Bethpage, NY; President, Ecolotrol, Inc.; Chairman, New York State Association of Small Business Councils; Chairman, Executive Committee, National Mobilization Task force of the U.S. Chamber of Commerce on Small Business; Vice President, Small Business of Long Island Association of Commerce and Industry; member Executive Committee, U.S. Chamber of Commerce Council on Small Business.

Ms. Carol R. Johnson; Cambridge, MA; President, Carol R. Johnson & Associates, Inc.

Mr. James D. McKevitt, Washington, D.C.; Washington Council, National Federation of Independent Business.

Mr. Clayton L. Norman, Detroit, MI; Owner and operator two McDonald's franchises; member, Booker T. Washington Business Association.

Mr. Vincent M. Panichi, Beachwood, OH; Monastra, Ciuni & Panichi, Certified Public Accountants; Professor, John Carrol University; member, Board of Directors of the Council of Smaller Enterprises for Northern Ohio.

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FOR IMMEDIATE RELEASE
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Contact: Alvin M. Hattal
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TREASURY TENTATIVELY REVOKES FINDING
OF DUMPING ON WATER CIRCULATING PUMPS
FROM THE UNITED KINGDOM

The Treasury Department today announced its preliminary determination that water circulating pumps from the United Kingdom are no longer being sold in the United States at less than fair value.

("Sales at less than fair value" generally occur when imported merchandise is sold here for less than in the home market or to third countries.)

If this action is made final, imports of this merchandise will no longer be subject to special dumping duties.

Notice of Treasury's earlier determination that this merchandise was being dumped was published in the July 7, 1976, issue of the Federal Register. The Department has tentatively revoked that finding because, except for a very small number of sales for which minimal dumping duties have been assessed, there have been no shipments of this merchandise since that date sold at less than fair value prices. There are also no unliquidated entries of such products.

Notice of this action appears in the October 15, 1979, issue of the Federal Register.

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FOR IMMEDIATE RELEASE October 15, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,900 million of 13-week bills and for $3,000 million of 26-week bills, both to be issued on October 18, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 17, 1980			26-week bills maturing April 17, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.069	11.595%	12.14%	94.105 a/	11.660%	12.60%
Low	96.983	11.935%	12.51%	94.053	11.763%	12.72%
Average	97.008	11.836%	12.40%	94.077	11.716%	12.66%

a/ Excepting 2 tenders totaling $205,000

Tenders at the low price for the 13-week bills were allotted 94%.
Tenders at the low price for the 26-week bills were allotted 89%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 38,145	$ 38,145	$ 37,620	$ 37,620
New York	3,366,485	2,254,085	4,236,345	2,521,945
Philadelphia	32,065	32,065	66,835	66,835
Cleveland	49,605	44,605	47,875	27,875
Richmond	35,675	35,675	30,450	30,450
Atlanta	57,190	57,190	37,285	37,285
Chicago	347,985	77,985	287,020	57,020
St. Louis	67,940	47,940	48,265	19,265
Minneapolis	7,195	7,195	7,600	7,600
Kansas City	39,795	39,795	31,630	31,630
Dallas	30,940	30,940	10,895	10,895
San Francisco	280,225	180,225	195,790	90,790
Treasury	54,360	54,360	61,030	61,030
TOTALS	$4,407,605	$2,900,205	$5,098,640	$3,000,240
Type				
Competitive	$2,631,445	$1,124,045	$3,020,425	$1,122,025
Noncompetitive	666,780	666,780	500,355	500,355
Subtotal, Public	$3,298,225	$1,790,825	$3,520,780	$1,622,380
Federal Reserve and Foreign Official Institutions	$1,109,380	$1,109,380	$1,577,860	$1,377,860
TOTALS	$4,407,605	$2,900,205	$5,098,640	$3,000,240

1/Equivalent coupon-issue yield.

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FOR RELEASE UPON DELIVERY
EXPECTED AT 10:00 A.M.
TUESDAY, OCTOBER 16, 1979

TESTIMONY OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FISCAL AND INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE

Mr. Chairman and Members of this distinguished Subcommittee:

Thank you for this opportunity to discuss the economic outlook, its regional impact, and what might be done to mitigate the effects of a recession on our State and local governments. I am pleased that the Subcommittee is giving its attention to this important subject.

Economic Outlook

Let me begin by summarizing briefly my assessment of the current economic outlook. In recent weeks the economy has shown more strength than earlier anticipated. Indeed GNP growth in the third quarter of this year is likely to show some recovery from the depressed levels of the second quarter. The September unemployment rate fell back to 5.8 percent after rising to 6.0 percent in August. Retail sales for August and September were up 5 percent in nominal terms, and almost 3 percent in real terms, from second quarter levels. However, this strengthening of economic

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activity has been coupled with an acceleration of inflation, a heightening of inflationary expectations, an expansion in credit flows and increasing evidence of speculative activity in commodity and financial markets.

In September, the rate of inflation, as measured by producers' finished goods prices, accelerated. The monthly increase of 1.4 percent was the largest single monthly advance since late 1974.

In recognition of accelerating inflationary pressures and developments in the domestic and international financial markets, on Saturday, October 6 the Federal Reserve Board acted to slow the growth in money and credit expansion.

The recent policy actions by the Federal Reserve--actions which are appropriate and necessary--will help us get a better handle on inflation, the dominant economic problem of our time. If we are to preserve the economic advances that have been made since the end of the last recession, we have no reasonable alternative but to mount a strong and broad attack on inflation and inflationary expectations.

We must recognize, however, that the underlying factors have now changed somewhat and we cannot be as certain as previously about the depth and severity of the economic slow-down. However, there are few signs that we are facing a deep downturn of the 1973-75-type, and with economic policies focused on curbing inflationary expectations, the outlook continues to indicate a moderate recession.

The Administration intends to continue its comprehensive fiscal discipline, monetary restraint, responsible pay-price policy, an overall energy program, reduction of regulatory burden and other measures. This will contribute to a slowing of price increases during the coming months. By doing so, we can avoid an acceleration of wage and price increases and a new inflationary spiral.

By acting to slow the rate of inflation, we will be able to shore-up real incomes, reduce uncertainty, reverse expectations of future inflation, strengthen consumer and business confidence, and reduce significantly the chances for a deeper recession.

The steps that have been taken to reduce inflation are necessary to restore economic stability and balanced growth. We must prove to ourselves and demonstrate to others that we have the conviction, the courage, and the fortitude to stick with the policies that are needed to bring inflation under control.

Regional Impact of Recession

With this brief background on the economic outlook, let me now address the question of the regional impact of a recession.

The sensitivity of regions to a national economic recession varies widely and is dependent upon a number of factors, including industrial composition and growth rates. Historically, during periods of declining economic activity, manufacturing industries (particularly durable goods manufacturing) have tended to experience relatively wider fluctuations in output and employment than other industries. Purchases of consumer durables (such as automobiles and large household applicances) and capital goods are more readily postponed during economic slowdowns than purchases of non-durables (such as clothing and food) and many services. Thus regions which are heavily dependent upon manufacturing activity as a source of income and employment are generally more severely impacted by national recessions.

Regions that have been experiencing rapid increases in economic growth due to increased capital investment, in-migration of labor, favorable climate, relatively cheap resources, or any number of other factors may be less severely affected by national economic recession than regions with slower growth rates and regions that have a relatively older, less-efficient capital base. Regions heavily engaged in agriculture are not usually affected by recession to the same degree as regions heavily dependent upon industry.

During the post-war period, 1948-1975, the East North Central, New England, and Mid-Atlantic States have displayed the greatest sensitivity to national economic slowdowns in terms of employment declines relative to the national average. On the other hand, the Mountain, West South Central, West North Central and South Atlantic States have shown the least sensitivity. The degree of sensitivity is explainable basically in terms of the make-up of the economic base of the various regions.

Using the latest data then available, a 1978 Boston Federal Reserve Bank study indicates that:

(1) During the six business cycle episodes of the post-war period, employment in the East North Central, New England and Middle Atlantic States has almost always shown percentage declines far in excess of the national average. In the 1973-1975 recession, for example, total U.S. employment declined 2.9 percent from its peak-to-trough. Employment declined 4.7 percent, however, in the East North Central States, 4.3 percent in the New England States and 3.8 percent in the Middle Atlantic States. Although employment declines in other regions occasionally exceeded the national average, this has been the exception rather than the rule.

In the three regions where employment declines are more severe than the nationwide average, manufacturing is the predominant source of labor and proprietor's income. Manufacturing is also more important to these three regions than to any other region in the Nation and durable manufacturing is substantially more important than nondurable manufacturing.

(2) Except for the 1969-1970 recession, when employment losses in the Pacific States were aggravated by the winding down of the Vietnam War and its impact on the aerospace industry, employment declines in this region have been less than the national average. During the last recession, the Pacific States suffered employment declines of only 1.3 percent, less than half of the national average. Although manufacturing accounts for about 25 percent of the region's total labor and proprietor's income, the relative importance of income from government, services, trade, and other nonmanufacturing sectors is greater in the Pacific region than in the Nation as a whole. Thus, the Pacific region is more diversified than many of the other regions and is less sensitive to recessions.

(3) In each of the six post-war recessions, employment declines in the Mountain States have also been substantially less than the national average. During the severe 1973-1975 recession, for example, this region experienced an employ-

ment decline only half that of the national average; and in the two preceding recessions these States suffered no declines in nonagricultural employment. The Mountain States receive a smaller share of their income (less than 15 percent) from manufacturing than any other region. This fact and the fact that government and services account for larger income shares than in any other region probably assures this region of only a minimal adverse impact from recessions.

A region's industrial mix also has implications for the timing of the recession's impact. Since manufacturing activity is most sensitive to a recession, those States or regions most heavily dependent upon manufacturing (particularly durable manufacturing) generally should feel the effects of a recession first. Those States or regions also would probably be among the first to qualify for fiscal assistance from the Federal Government under the Administration's proposed Intergovernmental Fiscal Assistance program that I will discuss shortly. Private forecasts of the regional impacts of the current recession seem to bear out this point.

Not all regions will be affected to the same extent by the current recession. Only those regions relatively heavily engaged in manufacturing (particularly durable goods manufacturing) or experiencing slow growth are likely to be seriously affected. In the mild 1969-1970 recession, for instance, the South Atlantic, East South Central, and Mountain States experienced no declines in employment while the West South Central States showed only minimal declines. In contrast, the New England, East North Central, and Mid-Atlantic regions endured employment declines far above the national average. (Regional employment data for past recessions is presented in Table 1 and regional definitions are shown in Table 2.)

During the 1973-1975 recession, the most severe economic downturn since the Great Depression, no region escaped unscathed. All suffered employment losses. Even the East South Central and South Atlantic States, which experienced no employment declines during the mild 1969-1970 recession, showed large declines. At the same time, however, three regions--the West South Central, Pacific and the West North Central States--experienced milder relative declines in employment during the last recession than they had during the mild 1969-1970 recession, highlighting the fact that the regional impacts of recession differ from recession to recession.

Studies of the Regional Impacts of the Current Recession

The Administration has no official economic forecasts of individual States, local areas, or regions. However, there have been a number of private forecasts of the regional impacts of the expected current recession. Those forecasts were undertaken several months ago and are predicated upon the assumption of a modest recession for the national economy.

The private forecasts indicate that the recession's regional impact pattern will not differ greatly from that experienced during the mild 1969-1970 recession.

- The New England, Middle Atlantic, and East North Central regions are expected to bear the brunt of the recession. As noted previously, all three of these regions rely heavily upon durable manufacturing for jobs and income.
- The Mountain States are expected to suffer little or no employment losses--only a slowdown in employment growth. As also noted earlier, of all the regions of the country, this one is least dependent upon manufacturing.
- The Pacific, South Atlantic, East South Central, West North Central and West South Central States all are predicted to experience mild employment declines. Except for the Pacific region, where specific factors were operative, none of these areas experienced marked

employment declines during the mild 1969-1970 recession.

Of course, these studies of the regional impacts of the current recession are largely based upon historical regional impact patterns. To the extent that the weaknesses and causes underlying the current recession differ significantly from previous recessions and to the extent that structural changes in communications and transportation have taken place, the regional impact of the current recession could differ from the past.

Current Fiscal Position of State and Local Governments

There has been considerable attention directed to the "huge" budget surpluses enjoyed by States. However, only a few States account for most of these surpluses. More importantly, virtually all of these surpluses consist of contributions to various social insurance funds (such as retirement funds, workmen compensation, and temporary disability insurance funds) which are not generally available for other purposes. During the second quarter of this year, State and local governments actually ran a $6.3 billion deficit (based on national income and product accounts data) after allowances are made for contributions to social insurance funds (See Table 3). This was the first such deficit since the second quarter of 1976. With the anticipated declines in the growth of employment, personal income, and retail sales due to the recession, further reductions in the rate of growth in State and local government revenues can be expected. If it were to continue for some time, such a development could jeopardize the fiscal posture of many State and local governments.

The spread of public sentiment for Proposition 13-type tax reductions could result in a further deterioration of the fiscal position of States and localities unless public spending is also curtailed. Curtailing public spending, however, could exacerbate the recession. A countercyclical fiscal assistance program for State and local governments would help avoid such pro-cyclical actions.

Many of the regions that will be most affected by the recession have older cities that are experiencing secularly declining economic growth rates. These cities may be particularly hard-pressed to maintain service levels in the face of the current slowdown.

The Administration considered the prospects for regional variation in the effects of a recession in preparing its fiscal assistance proposal, which was submitted to the Congress last March. Let me first relate the basic justification for a countercyclical program to the evidence on varying regional effects from a recession. Then, I will summarize the provisions of the bill recently passed by the Senate, which is very similar to the Administration's March proposal.

The Rationale for Countercyclical Fiscal Assistance

During periods of economic prosperity, most States and local governments accumulate fund balances that allow them to sustain spending for as much as a year after a recession begins. At such a point, typically about the time recovery begins, fund balances have been reduced to the point where the normal spending trend can no longer be sustained, and outlays in real terms may actually begin to decline. This pattern is observable in the record of every recession and recovery since World War II, including the 1973-77 period. Although the continued growth in spending during the decline helps to reduce the seriousness of the recession, the fall-off in spending tends to slow the pace of the early phase of the recovery. Thus, from the perspective of macroeconomic policy, countercyclical fiscal assistance should be triggered well after the economy has turned down. However, payments should cease after the recovery is well under way, in order to minimize potential inflationary effects.

payments should cease after the recovery is well under way, in order to minimize potential inflationary effects.

In the current economic environment, decisions on macroeconomic policy must take serious account of the potential inflationary side-effects of any anti-recession fiscal policy option under consideration. The choice among the available policy options should be based upon a careful balancing of relative job-creation effectiveness per dollar of federal deficit against potential inflationary side-effects.

Other things equal, a policy that targets the first-round economic stimulus to areas with significant concentrations of unemployed or underutilized human and capital resources is likely to have the least inflationary effect on prices. Such targeting cannot be achieved by traditional forms of antirecession tax cuts, which must apply uniformly throughout the nation. However, a geographically differentiated spending program can be targeted to areas with high levels of unemployed resources.

Studies of the recent experience suggest that a countercyclical fiscal assistance program--such as Antirecession Fiscal Assistance (ARFA) adopted in 1976 and extended in 1977, or the similar countercyclical tier of the Targeted Fiscal Assistance Program currently before the House--can be very effective in terms of job creation with minimal inflationary side-effects.

Logic and the evidence on the experience with ARFA suggest that local governments with high unemployment rates are most likely to commit such grants quickly and for job-creating purposes. This is a major reason why the targeting mechanism in the proposed program is based on local unemployment rates, rather than on such alternatives as the change in real wages and salaries.

While the recession facing the nation is expected to be moderate, the current economic outlook remains volatile, particularly in light of the uncertainties about energy prices and availability. It therefore seems prudent to put in place a stand-by countercyclical fiscal assistance program, such as the countercyclical tier of the Senate-approved bill that is now pending before the House Subcommittee on Intergovernmental Relations and Human Resources.

As in the Administration's March proposal, there are two tiers in the Senate bill. The first involves the payment of $85 million per quarter in targeted fiscal assistance payments in FY 1980 to a very small number of particularly distressed local governments.

The second tier, which is germane to this discussion today, involves a stand-by countercyclical fiscal assistance program which would trigger on during periods of high national unemployment rates.

Stand-by Countercyclical Fiscal Assistance Program

Let me indicate briefly how this countercyclical tier would work. By comparison with the 1976-78 ARFA program, the proposed program is much more highly targeted. It would only operate when the national unemployment rate reaches 6.5 percent or more for a full quarter, instead of 6 percent as under ARFA. Once the program is triggered, a recipient government would be eligible for payment under the Senate-passed bill only if its quarterly unemployment rate is at least 6 percent, instead of the 4.5 percent under ARFA. This additional targeting, in the present inflationary context, is highly desirable. It would ensure that countercyclical funds go only to areas with substantial amounts of unemployed human and physical capital, and thus are less likely to fuel inflation. Moreover, governments in areas with high unemployment rates are more likely to be experiencing significant fiscal stress, and such governments are most likely to use the payments for purposes that involve maximum job-creation effects.

The Administration's mid-session economic forecast anticipated that national unemployment rates would have reached 6.5 percent or more by the last calendar quarter of 1979. This would have triggered payments under the proposed stand-by program. The apparent strength of the economy in the third quarter, and the events of the last few weeks, have caused us to reconsider the economic forecast, but a new one is not yet available. If the national unemployment rate reaches 6.5 percent by the first calendar quarter of 1980, this would trigger payments under the countercyclical tier, which would be distributed in the last quarter of fiscal year 1980. Given the lags in State and local budgetary processes and the spend-down of balances accumulated during the past few years, this is approximately the time when recession induced revenue losses raise the prospect of serious budgetary disruption. This disruption will then threaten to require fiscal behavior by State and local governments that will tend to impede the early stage of the recovery from the recession.

When the program provided for in the Senate bill is triggered, it would distribute $125 million per quarter plus an additional $30 million for each one-tenth of one percent by which national unemployment exceeds 6.5 percent. One-third of the funds would be distributed to the States, the balance to eligible local governments.

Conclusions

The proposed fiscal assistance program is an important element of the President's domestic program. It is a balanced, two-tiered program that would address the immediate needs of a limited number of fiscally strained local communities, as well as the prospective needs of State and local governments as they strive to deal with substantial economic uncertainty.

In particular, the stand-by tier of the program is a sensible fiscal insurance program for State and local governments in the event of future excessive unemployment.

I appreciate the opportunity to discuss the pending proposals for countercyclical fiscal assistance in the context of regional variation in the economic effects of a recession. I look forward to working with you and other members of Congress toward enactment and implementation of the program.

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Table 1

Percentage Drop in Nonagricultural Employment
during Six Postwar Recessions

	United States	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific**
1948-49	5.0	5.6	6.8	6.7	1.8	4.8	7.4	2.3	1.8	4.5
1953-54	3.5	3.9	4.5	6.2	2.3	3.0	3.6	2.2	2.7	1.9
1957-58	4.4	5.0	4.5	8.5	2.3	2.0	2.5	1.8	1.4	3.1
1960-61	2.3	1.1	2.5	4.9	1.2	1.3	*	1.6	*	0.4
1969-70	1.4	3.1	2.1	4.3	1.7	*	*	0.5	*	2.6
1973-75	2.9	4.3	3.8	4.7	2.8	4.5	4.3	0.7	1.5	1.3

* No decline in absolute level of employment during the recession.

** Data for the first three expansion periods calculated using California and Oregon employment only; data for final three periods calculated using employment figures for the entire region.

Source: Federal Reserve Bank of Boston, New England Economic Review (November/December 1978).

Table 2

Census Bureau's Regions of the United States

New England

Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

Middle Atlantic

New Jersey
New York
Pennsylvania

South Atlantic

Delaware
District of Columbia
Florida
Georgia
Maryland
North Carolina
South Carolina
Virginia
West Virgina

East North Central

Illinois
Indiana
Michigan
Ohio
Wisconsin

East South Central

Alabama
Kentucky
Mississippi
Tennessee

West North Central

Iowa
Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

West South Central

Arkansas
Louisiana
Oklahoma
Texas

Mountain

Arizona
Colorado
Idaho
Montana
Nevada
New Mexico
Utah
Wyoming

Pacific

Alaska
California
Hawaii
Oregon
Washington

Table 3
State and Local Government
Receipts and Expenditures

	1975	1976	1977	1978	1979 I	1979 II
	Billions of dollars; annual rates					
Receipts	236.9	268.0	298.8	331.0	343.9	345.9
Expenditures	230.6	250.1	271.9	303.6	316.3	326.1
Surplus or deficit (-) National income and Product accounts	6.2	17.9	22.8	27.4	27.6	19.7
Social insurance funds	12.4	15.7	19.6	23.2	25.0	26.0
Other funds	-6.2	2.3	7.3	4.2	2.6	-6.3

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Note: Figures may not add due to rounding.

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

FOR IMMEDIATE RELEASE
October 16, 1979

CONTACT: GEORGE G. ROSS
(202) 566-2356

U.S.A.-UNITED KINGDOM ESTATE AND GIFT TAX TREATY
INSTRUMENTS OF RATIFICATION EXCHANGED

The Treasury Department today announced that instruments of ratification were exchanged on October 11, 1979, with respect to 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 Estates of Deceased Persons and on Gifts." Arthur W. Rovine, Assistant Legal Adviser for Treaty Affairs, Department of State and Andrew S. Winckler, First Secretary, British Embassy, exchanged the instruments of ratification in Washington, D.C.

The Convention will enter into force on November 11, 1979 and will have effect, in the United States, in respect of estates of individuals dying and transfers taking effect after that date and, in the United Kingdom, in respect of property by reference to which there is a charge to tax which arises after that date.

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

IMMEDIATE RELEASE
October 16, 1979

Contact: Charles Arnold
202/566-2041

TREASURY NAMES CONSULTANTS ON CHRYSLER PLAN

The Treasury Department today announced it has hired two consultants to assist the Department in evaluating the revised business and financing plan to be submitted by Chrysler Corporation in support of its request for U.S. Government assistance.

Ernst & Whinney, a national accounting firm, has been hired as an accounting consultant. The assignment will involve a review of Chrysler's historical financial data and its financial projections, but not an audit of the corporation.

John Secrest, retired financial vice president of the American Motors Corporation, has been hired as a financial consultant. The consultants began work last week.

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

FOR RELEASE AT 4:15 P.M. October 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 $6,200 million, to be issued October 25, 1979. This offering will provide $ 200 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $ 6,022 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,100 million, representing an additional amount of bills dated July 26, 1979, and to mature January 24, 1980 (CUSIP No. 912793 3N 4), originally issued in the amount of $3,024 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,100 million to be dated October 25, 1979, and to mature April 24, 1980 (CUSIP No. 912793 4B 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing October 25, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,925 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 Daylight Saving time, Monday, October 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.

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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. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held at the close of business on the day prior to the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering; e.g., bills with three months to maturity previously offered as six month bills. 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, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

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 on October 25, 1979, in cash or other immediately available funds or in Treasury bills maturing October 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.

artment of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:15 P.M. October 16, 1979

TREASURY TO AUCTION $3,900 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $3,900 million of 2-year notes to refund approximately the same amount of notes maturing October 31, 1979. The $3,864 million of maturing notes are those held by the public, including $1,454 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 $470 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 security may also be issued at the average price to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing securities held by them.

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)

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 2-YEAR NOTES TO BE ISSUED OCTOBER 31, 1979

October 16, 1979

Amount Offered:	
To the public	$3,900 million
Description of Security:	
Term and type of security	2-year notes
Series and CUSIP designation	Series Y-1981 (CUSIP No. 912827 KA 9)
Maturity date	October 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	April 30 and October 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, October 23, 1979, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds	Wednesday, October 31, 1979
b) check drawn on bank within FRB district where submitted	Friday, October 26, 1979
c) check drawn on bank outside FRB district where submitted	Friday, October 26, 1979
Delivery date for coupon securities.	Wednesday, November 7, 1979

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

October 16, 1979

The Department of the Treasury said today that future sales of Treasury gold will be subject to variations in amounts and dates of offering.

New standard bid forms for use in future auctions will be made available. Dates and amounts will not be specified in these bid forms, but would be the subject of Treasury announcement prior to an auction.

Under the new procedures, auctions can be held within a few days of an announcement and the amounts to be auctioned can be varied as may be appropriate at the time.

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

FOR IMMEDIATE RELEASE
October 16, 1979

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 8 successful bidders at an average price of $391.98 per ounce.

Awards were made in 300 ounce bars whose fine gold content is 89.9 to 91.7 percent at prices ranging from $390.16 to $398.07 per ounce. Bids for this gold were submitted by 11 bidders for a total amount of 1.2 million ounces at prices ranging from $350.00 to $398.07 per ounce.

Gross proceeds from the sale were $294.0 million. Of the proceeds, $31.7 million will be used to retire Gold Certificates held by Federal Reserve Banks. The remaining $262.3 million will be deposited into the Treasury as a miscellaneous receipt.

The list of the successful bidders and the amount awarded to each is attached. The General Services Administration will release information on the individual bids made by all bidders, and the details of the individual awards to successfull bidders.

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	OUNCES
BANK LEU NEW YORK NY	4300
CREDIT SUISSE ZURICH SWITZERLAND	3600
DERBY AND CO. LTD. LONDON ENGLAND	3600
DRESDNER BANK FRANKFURT WEST GERMANY	503100
PHILLIP BROS NEW YORK NEW YORK	33000
SHARPS, PIXLEY INC. NEW YORK NEW YORK	39000
SWISS BANK CORP ZURICH SWITZERLAND	92400
UNION BANK OF SWITZERLAND ZURICH SWITZERLAND	70500

rtment of the TREASURY NEWS
GTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 11:00 A.M.
WEDNESDAY, OCTOBER 17, 1979

TESTIMONY OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE

Mr. Chairman and Members of this distinguished Committee:

Thank you for this opportunity to appear before the whole Committee. The primary focus of this hearing is on Federal Reserve monetary policy, its contribution to the fight against inflation and to the maintenance of exchange market stability. Chairman Volcker will comment in detail on monetary policy. I will briefly outline the major elements of our comprehensive strategy to deal with inflation, in which monetary policy plays a critical role.

High and persistent inflation has become deeply embedded in our economic structure and is a clear and present danger to our national well-being. It reduces real incomes and values; it inhibits job creating investment and threatens our ability to provide employment opportunities; it impedes productivity; it breeds recession; and it bears most heavily on those least able to afford it.

Containment of inflation is fundamental to restoration of sound economic growth. It is our top priority.

The causes of inflation are many, and the war against inflation must be dealt with on a broad front. We have a comprehensive, integrated strategy. All economic policies are being directed toward a total war against inflation.

First, the Administration is pursuing a disciplined fiscal policy. We are determined to reverse the trend of expanding federal deficits and expanding federal claims on the national economy. Progress has been made, both in reducing the deficit and in reducing the relative role of federal expenditures in the economy. We intend to make further progress. The net result over time will be to reduce the demands of the federal government on the economy and to release substantial resources to the private sector.

Monetary policy represents the second major weapon in the attack on inflation. The objective is to reduce progressively the rate of growth of money and credit in order to starve out inflation. Again, progress has been made. But in recent months monetary growth has accelerated. Earlier this month, the Federal Reserve announced a series of forceful actions that should serve to contain growth in the monetary aggregates and dampen inflationary pressures. These steps were needed and appropriate.

Third, fiscal and monetary restraints are being supplemented by the voluntary program to moderate pay and price increases. Widespread cooperation during the first year brought smaller price and pay increases than would otherwise have been recorded. We are providing for greater participation by management and labor in establishing and applying pay standards during the second year, which should help avoid inequities that could otherwise develop over time. A broadly representative pay committee, to be chaired by John Dunlop, will have as its first task the development of pay standards for the period ahead. The Administration has developed a National Accord with labor leadership in support of the war against inflation, and providing for labor involvement in the pay-price program.

Fourth is energy. The ten-fold increase in world oil prices has been a principal contributor to the acceleration of inflation during this decade. Constraints on energy supply pose important questions about the prospects for real economic progress worldwide.

To win the war against inflation, it is essential that we reduce our dependence on imported oil and that we reduce our dependence on oil itself as a source of energy.

For 2-1/2 years, President Carter has sought support for a broad and comprehensive program to achieve these objectives. The diversity of individual circumstances and interests in our vast country has made it exceedingly difficult to hammer out a national energy program. Some important parts of the program have already been put into place. The President has recently taken two major steps--on decontrol of domestic crude prices and on limiting oil imports--under his own powers and his own initiative. Remaining critical elements are now under active review by the Congress.

The priorities for our energy program are clear. We must conserve. We must increase the development and use of conventional domestic energy sources. We must increase the use of renewable energy sources. And we must rigorously develop unconditional domestic energy sources. Fully in place, our national energy program is expected to cut oil imports by about 50 percent--4 to 5 million barrels per day--from present levels and by about 8 to 9 million barrels per day from levels that would have been reached without a comprehensive energy plan.

Also of major importance for the longer run, we are attacking unnecessary cost-raising government regulation. Much has been done to reduce regulatory barriers to efficiency and competition, and to reduce the administrative burdens on business in complying with excessive regulation. But much regulation is founded in statute. Administratively, we can clarify and simplify. But we will frequently need legislation to achieve real reductions in burden.

These domestic policies--our efforts to wring out inflation, secure sufficient independence and restore efficiency and vitality to the U.S. economy--are also the policies needed to assure a strong external position, a sound and stable dollar. Indeed, maintenance of exchange market stability is essential in the fight against inflation and forms an important part of our comprehensive attack on inflation.

Despite the massive buildup in our oil import bill, the effort to strengthen the United States balance of payments has made significant progress. In 1978, the U.S. current account was in deficit by $14 billion. This year, even though the recent oil price increases are imposing a $16 billion rise in the cost of our imports, we anticipate a deficit of only a few billion dollars. Next year the U.S. current account will be in substantial surplus. This major positive shift in our balance of payments--together with our concerted attack on inflation--provide the fundamental basis for dollar strength and stability.

Action on the fundamentals is being supplemented forcefully with action to deal with unwarranted exchange market pressures. The Committee is familiar with the program announced last November 1, nearly a year ago. Since that time, the dollar has strengthened by over 6-1/2 percent against other currencies used in our trade, and by nearly 10 percent from the viewpoint of the oil exporting nations in relation to the other major currencies they use to purchase their imports.

We are not, of course, interested only in averages. We are concerned about the dollar's value in terms of major individual currencies. The dollar is now about 30 percent higher against the Japanese yen than it was a year ago, reflecting in part the dramatic--and welcome--moderation of the large Japanese balance of payments surplus. But the dollar has also been somewhat lower in relation to the German mark at times since mid-June, and this movement has attracted market interest and speculative pressure. We have therefore given this situation special attention in our exchange market operations, and have consulted closely with German officials at the highest levels to assure that our joint techniques and resources are adequate and effective.

We are determined to maintain a sound and stable dollar. This is in the interests of our own domestic economic stability, and consonant with our broader world interests and responsibilities. Our basic economic policies are headed in a direction that will ensure that result. Our external position is strengthening sharply. And cooperative arrangements with other major countries are in place to deal with unwarranted exchange market pressures.

In sum, we are pursuing a comprehensive strategy to deal with U.S. economic problems, internal and external. Inflation is central to all aspects of those problems. Our domestic and international objectives are closely related by the overriding importance of controlling the inflationary pressures affecting our economy.

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

FOR RELEASE UPON DELIVERY
Expected at 10:00 a.m.
October 18, 1979

TESTIMONY OF
THE HONORABLE ROBERT CARSWELL
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
HOUSE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATIONS AND INSURANCE
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

Mr. Chairman and members of this distinguished Subcommittee:

I appreciate this opportunity to present the views of the Administration on the several bills under consideration today, including H.R. 1539, H.R. 2747 and H.R. 2856. In this brief testimony I will not be able to analyze each of the many provisions of the several bills; rather I will concentrate on the subject of commercial bank underwriting and dealing in currently ineligible revenue bonds and on the some of the major provisions of the proposed legislation pertaining to bank holding companies. The Treasury staff stands ready to assist the Subcommittee in analyzing the sections of legislation not covered by today's testimony and, of course, I will try to answer any questions Subcommittee members may wish to ask concerning these other sections of the bills.

Commercial Bank Underwriting/Dealing in Municipal Revenue Bonds

Commercial banks in the United States have engaged for many decades in underwriting and dealing in general obligation debt of States and municipalities. The G.O. market appears to be a smoothly functioning one, with banks and nonbank dealer/brokers sharing in the provision of underwriting services to issuers and the maintenance of a secondary market for investors. Currently, commercial banks underwrite approximately 40 percent of the value of new long-term G.O. issues, with nonbank securities firms underwriting the other 60 percent. In recent years, however, municipalities and States have turned increasingly to revenue bonds as a source of financing new projects, apparently because of statutory limits on the use of G.O. debt and because the debt service costs of revenue bond issues are more clearly borne by the users of the project rather than by the State and local taxpayers as a whole. In 1978, revenue bonds accounted for 63 percent of the value of new long-term tax-exempt issues, compared with 43 percent of such new issues in 1968. Projections are that this trend will continue, making revenue bonds an increasingly more important part of the municipal securities market.

Under the provisions of the Glass-Steagall Act of 1933, commercial banks were prohibited from underwriting and dealing in municipal revenue bonds. This prohibition was relaxed somewhat by the 1968 Amendments to the Housing Act which permitted banks to underwrite and deal in housing, dormitory, and university revenue bonds. Based on current value of new issues, banks are permitted under the 1968 legislation to underwrite and deal in approximately 30 percent of new issues of revenue bonds. However, SEC analysis suggests that banks actually underwrite only approximately 10 percent of total new revenue bond issues.

The question of commercial bank participation as underwriters and dealers in the market for currently ineligible municipal revenue bonds has come before the Congress on several occasions since the 1968 legislation. The Treasury Department has, in the past, supported legislative proposals that would permit further bank participation in the revenue bond market. As described in more detail below, we continue to support bank participation in this market. We also support continuation of bank underwriting and dealing in general obligations bonds issued by States and municipalities, and oppose the provisions of H.R. 2747 which would prohibit existing bank participation in the G.O. market.

Broadening bank participation in the municipal securities market would result in increased competition, with some potential benefits. First, issuers should benefit from lower underwriter spreads. The greater number of underwriters available to bid for competitive issues should also result in smaller spreads on negotiated issues, as the additional number of potential rivals will cause negotiating underwriters, for fear of losing future business, to offer more favorable terms to issuers. Municipal issuer groups regard this increased competition as a significant matter in reducing their overall borrowing costs.

Second, although banks can purchase ineligible revenue bonds for their investment portfolio, they cannot "make a market" in ineligible bonds. Further bank entry into revenue bond underwriting/dealing would increase the number of potential dealers by more than 20 percent. Currently, there are approximately 1,440 nonbank dealers registered with the Municipal Securities Rulemaking Board (MSRB), while registered bank dealers number about 325. Of course, only a portion of the 325 bank dealers might actually be dealing at any one time in currently ineligible revenue bonds. Nevertheless, even this extent of bank participation will result in increased liquidity in the secondary market. Increased liquidity in turn should reduce the risk to dealers in general and enhance the attractiveness of revenue bonds to investors, thus broadening the scope of the market.

Third, a larger number of competitors could result in the expansion of the market for currently ineligible revenue bonds as a consequence of the net addition of banks' marketing (or search) capability to that of the nonbank dealer community. This net addition to the investor population would derive, in part, from the banks' ability to market and deal in a fuller line of tax-exempt bonds in a manner similar to nonbanks. Such an expansion of the market would tend also to reduce issuer costs.

We conclude, as do the municipal issuer groups, that the increased competition, as well as the dealing and distribution capabilities that banks would bring to revenue bond underwriting, will produce savings for the issuers. The precise range of issuer savings that would result is difficult to predict. Various empirical studies in this area point to issuer savings ranging up to $400 million, based on 1977 new issue volume. We have reviewed these studies and have concluded that they do not provide sufficient basis for assuming that the issuer savings will be on the order of $400 million. Our general conclusion is that the savings will be of a considerably more modest order of magnitude.

The benefits of increased bank participation in the municipal securities market must be balanced against some potential costs. First, there is legitimate concern over possible conflicts of interest for banks. For example, conceivably a bank might induce its trust department to purchase securities underwritten by the bank, perhaps at above-market prices. However, safeguards such as those contained in H.R. 1539, plus existing laws and regulations, would minimize the possibility of conflicts of interest. Indeed, we are not aware of evidence indicating significant abuses from banks' participation in the G.O. market.

Another concern sometimes referred to in the analyses of this issue is the potential for tie-ins. Under this theory, a bank might "tie" the terms under which a municipality or its agencies receive banking services such as interim financing to the choice of that bank as underwriter on its revenue bonds. We do not believe that this represents a significant danger. Tie-ins are illegal. They are prohibited for banks by section 106(b) of the Bank Holding Company Act as well as by other provisions of the antitrust laws. Of course, the most effective way of preventing such abuses is to preserve free entry and viable competition both in the market for bank services such as interim financing and in the market for underwriting. With sufficient numbers of potential rivals, no bank or dealer/broker can force municipalities to pay excessive prices for financial services.

Another area of concern is that banks, by virtue of their size and their apparent tax advantage over nonbank dealers, will eventually take over the revenue bond market, resulting in increased concentration and reduced competition over the long run. Banks, unlike nonbank dealers, can deduct the interest cost-to-carry of their inventories of municipal securities. This tax advantage has been of little consequence in underwriting *per se*, because the majority of new issues are sold before the underwriter must take delivery, thus involving no cost-to-carry. Moreover, the actual market procedures followed by some securities firms may have the effect of minimizing their tax exposure.

Indeed, the data indicate that neither banks' absolute size nor their apparent tax advantage has allowed them to dominate the business of underwriting municipal bonds. SEC analysis suggests that nonbank broker/dealers account for 60 percent of the underwriting of new G.O. issues and 90 percent of eligible revenue bond issues. In 1978, 10 years after the 1968 legislation, no bank was among the top 10 syndicate managers and only 3 were among the top 20 managers of new eligible housing bonds. Apparently, the expertise and the market position of the dealer/brokers are well established. Indeed, because of the growing importance of revenue bonds vis-a-vis G.O.s, banks have lost market share in overall municipal underwriting in recent years.

While it is unclear whether the differing tax treatment for banks and broker-dealers amounts to a substantial competitive difference, we are prepared to address this issue of potential competitive inequality and to support legislation to equalize the tax treatment for banks and broker-dealers.

A final area of concern over bank entry into revenue bond underwriting and dealing is that such entry would reduce the profits of broker/dealer firms at a time when the earnings of the securities industry already are under pressure. Losses could lead to insolvencies of individual securities firms and thus to a reduction in the number of firms eligible for underwriting and dealing in *corporate* securities, reducing competition in that very important sector of the financial industry.

In fact, the track record of banks in competing with broker/dealers in the G.O. market, and the banks' rather limited incursions into the eligible revenue bond underwriting market in the past 11 years, indicate that the short-term effect on securities firms of permitting banks to enter the new segments of revenue bond market is not likely to be great.

These are manifestly turbulent times for the securities industry, and the legitimate concerns of its leaders should not be ignored. We would therefore suggest, Mr. Chairman, that if your Committee should determine to support further bank entry into the revenue bond market, it consider a phase in, perhaps initially by adding only utility revenue bonds to those currently eligible for bank underwriting and dealing, with banks to be given full authority to underwrite and deal in all revenue bonds covered by H.R. 1539 five years after enactment of legislation. At present, utility bonds account for approximately 35% of the value of new issues of currently ineligible revenue bonds and 25% of all new revenue bonds. This phase-in of bank entry into the revenue bond market would ease the transitional effects of such entry on the securities industry. And the Congress would have an additional five years in which to assess the effects of the bank entry "experiment" which was initiated by the 1968 legislation.

In summary, we recognize that there is considerable debate over the sources and size of potential benefits of additional competition in the municipal revenue bond market. Our position is based on the potential for a flow of benefits to society; at the same time we have not found any evidence that further bank entry into the revenue bond area, if phased in over time, would have significant detrimental effects either in the short or the long run. The question of bank entry remains a close one. But, on balance, at a time when we are striving to reduce inflationary costs wherever possible, we believe we should pursue the potential for savings that increased competition holds.

Let me turn now to several of the more important provisions of the bills under discussion as they would relate to bank holding company activities.

Bank Holding Company Issues

Ceilings on Asset Size

H.R. 2856 and H.R. 2747 both would prohibit banks and bank holding companies from acquiring another bank if, as a result, the acquiring bank organization would hold in excess of 20 percent of the total banking assets held by all banks and bank holding companies in the state in which the acquiring bank organization is located. Exceptions to the statutory limit would include situations in which an acquisition was essential to prevent a bank failure and where no feasible less anticompetitive alternative was available.

This statutory language presumably is aimed at long-held concerns regarding concentration in banking, particularly that high state-wide concentration can limit potential entry into local markets, given the existing legal restrictions on competition from out of state banks. But close examination suggests that a statutory limit on the percentage of state-wide assets held by a banking organization as a result of mergers raises extremely difficult issues. First, the empirical evidence does not lend support to the hypothesis of steadily increasing concentration in banking. Recent Federal Reserve Board studies have shown that on a nationwide basis the shares of domestic deposits held by the 100 largest and the ten largest U.S. banking organizations have declined since 1960. Also, analyses of three-firm and five-firm concentration ratios on a state-by-state basis fail to show any significant overall trend towards increased statewide concentration since 1960. Finally, the great growth in the share of deposits held by bank holding companies in recent years is due primarily to the conversion of independent banks to the holding company form of organization rather than to bank acquisitions by multi-bank holding companies.

Second, the relevant banking market is more or less "local" in nature, and the aggregation of all statewide assets (or deposits) as the base against which to measure monopoly power or lack of competition can be misleading. The statewide market-share measure simply would not capture other important information such as the number and size distribution of the banking organizations operating in the various local banking markets of a state. Also, the flat percentage ceiling conceivably could prevent the de novo expansion of some banking organizations in otherwise concentrated markets -- an anticompetitive result. Further, the inclusion of all banking assets -- domestic and foreign -- in the measurement of a banking organization's share of statewide banking assets would tend to discriminate against those institutions with a relatively large foreign business, despite the focus of the proposed legislation which presumably is the competitive structure of the domestic banking market. Finally, the emphasis on banking assets in a single state, narrowly defined, tends to overlook the role of numerous nonbank depository and nondepository financial institutions that compete directly with banks. It also overlooks the ongoing consideration of the merits of absolute restrictions on the offering of certain banking services on an interstate basis. Thus, we believe that the necessity for the proposed legislation at this time is open to serious question and that the legislation in its current form could prove to be inequitable and even anticompetitive.

Federal Reserve Determination of Permissible

Section 4(c)(8) Nonbank Activities

Currently the Federal Reserve Board is empowered to determine the nonbanking activities in which a bank holding company may engage. Proposals to engage in such activities must pass two tests before receiving Board approval. The first test requires a proposed activity to be "so closely related to banking or managing or controlling banks as to be a proper incident thereto." The second test requires that a proposed activity "can reasonably be expected to produce benefits to the public that outweigh possible adverse effects."

The proposed legislation would greatly strengthen the "closely related" and the "public benefits" tests of Section 4(c)(8) of the Bank Holding Company Act. To gain Board approval proposed nonbank activities would have to be "so closely and directly related ... as to be a proper and necessary incident thereto" and be "likely to produce substantial benefits to the public which clearly and significantly outweigh possible adverse effects." A narrow interpretation of this language could preclude banks from offering any and all nonbanking financial services, even if such activity were to result, on net, in a social benefit. Also, it would treat national banks (acting for themselves or through affiliates or subsidiaries) as bank holding companies subject to the Section 4(c)(8) determinations of the Federal Reserve Board.

Here too, the proposed legislation is premature and possibly counterproductive. The empirical record to date fails to demonstrate that the public has suffered adverse effects by reason of the Section 4(c)(8) activities of bank holding companies. Rather, the record seems to show that on balance the public has benefited, albeit modestly, in terms of enhanced convenience and competition. Also, practically all of the nonbank activities currently approved by the Board for bank holding companies have long been engaged in by national banks (with the most notable exception being the underwriting of credit life and credit accident and health insurance).

Prohibited Activities of Banks and Bank Holding Companies

In addition to the more stringent "closely related" and "public benefits" tests and the extension of the nonbanking activities rulemaking authority of the Federal Reserve to national banks, the proposed legislation also would classify certain activities as statutorily not related to banking; i.e., as impermissible. These prohibited activities include: (1) selling or distributing securities except those of the BHC, the U.S., or deposit-like securities of a subsidiary bank, (2) serving as investment adviser to collective investment funds, investment companies, and other investment vehicles other than the traditional commingled investment fund, (3) engaging in the business of directly or indirectly taking deposits from the general public at rates above the Regulation Q ceilings, (4) engaging in certain real estate related activities such as brokerage, real property management, land development, real estate appraisal, and underwriting mortgage guarantee insurance, (5) engaging in the business of leasing motor vehicles directly to the public, and (6) providing insurance as a principal, agent, or broker, with certain exceptions.

The call for this "negative laundry list" of activities stems from concern over the concentration of resources, the threat of conflicts-of-interest, tie-ins, the safety and soundness of banking, and unfair competition. These are concerns to which the regulators should be attentive. If serious abuses were to be documented in the specific activity areas mentioned in the proposed legislation, then legislation might be appropriate. However, the case for the proposed statutory prohibitions is, in our judgment, clearly insufficient at this time.

First, even though BHCs have assumed a significant role in a limited number of nonbank industries -- most notably mortgage banking, factoring, and consumer finance -- overall BHC nonbanking activities amount to less than 5 percent of total BHC assets at present. This suggests that the fear of an excess concentration of resources stemming from nonbanking activities of BHCs is unfounded in fact. Also, recent analyses of BHC performance in certain nonbank activities have failed to uncover any adverse effects on the public.

BHC nonbanking activities do not appear <u>in general</u> to be inherently more risky than "pure" banking; indeed, some diversification of BHC activity may reduce overall bank risk. With respect to abuses such as forced tie-ins, no evidence of systematic abuse has been found even after intense study such as the recent Federal Reserve study of tie-ins in the insurance area. Thus, concerns with respect to bank safety and soundness, conflicts-of-interest, and so on are <u>not</u> best addressed by singling out certain related activities and classifying them as impermissible for banks or BHCs. Statutory barriers to bank participation in these activities can do little but diminish competition and inconvenience the public. Rather, potential abuses of this type are more appropriately subjected to the vigilance of the bank regulators and corrected on a case-by-case basis.

* * *

Mr. Chairman, that concludes my formal testimony. I would be glad to answer any questions the members of the Subcommittee may have.

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

FOR IMMEDIATE RELEASE
October 18, 1979

Contact: Alvin M. Hattal
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TREASURY SAYS IT WILL OPEN
ANTIDUMPING INVESTIGATION OF
COKE IMPORTS FROM WEST GERMANY

The Treasury Department today said it will open a full-scale antidumping investigation of U.S. imports of West German coke.

The investigation is based on a petition filed on behalf of the domestic coking coal and coke industries by three domestic producers. The petitioners claim that coke is being sold in this country at prices below those charged in the European Coal & Steel Community, and that some grades may be sold at less than their cost of production.

The Customs Service will immediately initiate the price phase of the investigation and is seeking some additional facts to determine whether a full-scale inquiry into the claim of sales below cost is warranted.

The case has been referred to the U.S. International Trade Commission for a preliminary consideration of the question of whether there is a reasonable indication that imports of coke from West Germany have caused or threaten to cause injury to the domestic industry.

Imports of West German coke during 1978 were valued at $300 million.

The Treasury also said that a complaint of unfair competition filed by domestic anthracite coal producers before the U.S. International Trade Commission and referred to Treasury by the Commission under section 337(b)(3) of the Tariff Act of 1930 does not contain sufficient information to establish a basis for initiating a full-scale investigation under either the Antidumping Act or the Countervailing Dury Law.

Notice of these actions will appear in the Federal Register of October 22, 1979.

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M-131

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

FOR RELEASE UPON DELIVERY
October 22, 1979 10:00 AM EDST

TESTIMONY OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY

BEFORE THE SUBCOMMITTEE OF TAXATION
AND DEBT MANAGEMENT OF THE SENATE FINANCE COMMITTEE

Thank you for inviting me to discuss S. 1435, a very significant proposal to restructure the system of depreciation allowances. I am pleased to see the broad interest in legislation to encourage capital formation and increase productivity.

The 10-5-3 proposal would restructure the system of tax allowances for capital recovery. It would greatly shorten the periods over which most capital expenditures can be written off. The proposal provides for non-residential buildings to be written off over 10 years, in a pattern so accelerated that 70 percent of the acquisition cost could be deducted in the first 5 years. Expenditures for most machinery and equipment could be fully written off, also in an accelerated pattern, over 5 years. A limited amount of expenditures for cars and light trucks used in businesses would be written off over a three-year period. This proposal would also liberalize the investment tax credit, by allowing the full 10 percent credit (instead of 6 2/3 percent) for equipment depreciated over 5 years, and a 6 percent credit (instead of 3 1/3 percent) for the 3-year class of assets. A phase-in over 5 years is proposed whereby the write-off periods, starting from a 1980 base, are reduced year-by-year. The 1980 lives are determined by reference to the current Asset Depreciation Range (ADR) system. Advocates of 10-5-3 argue that it would promote simplification and certainty, aid small business, and provide incentives for capital expansion. These are laudable goals, and should be considerations in evaluating any tax structure. Evaluation of our current system shows that there is room for improvement.

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Economic Background

The increase of 2.4 percent in real GNP for the third quarter of this year is further indication of strength in the economy, but prices continue to show rapid increase. I want to emphasize that the Administration intends to sustain a firm and consistent policy to reduce inflation. This policy has a number of aspects, but none is more important than the maintenance of strict fiscal discipline. At the present time, the action of steady budget pressure to slow the rate of inflation offers the strongest promise of restoring the health of our economy, reducing economic uncertainty, and reversing expectations for future inflation.

I believe that a commitment to widen the budget deficit by the magnitude of S. 1435 would be premature at this time. However, we should study possibilities for a program that will promote longer-range economic objectives as effectively and fairly as possible. At the appropriate time, you should be prepared to act on a program carefully structured to expand economic capacity, to reduce production costs, and to promote productivity. Appropriate depreciation allowances can help to accomplish these goals and should be given serious consideration as an element of any future tax package.

Revenue Costs of 10-5-3

Looking specifically at the 10-5-3 proposal, I would first point out that it would have a massive budget impact. The cost of S.1435 rises from about $4 billion in the first year to over $50 billion in 1984 and over $85 billion in 1988 (see Table 1).

These estimates have been carried out further into the future than we would normally show in order to see the full effect of the proposed phase-in rules. Because the program would be implemented gradually during the first five years, it is not until 1984 that the full benefit of the more liberal depreciation allowances would be given to investment for any one year. For this reason, the revenue costs continue to build until 1988, after which revenue losses begin to fall. Eventually, the level of these losses stabilizes and thereafter they grow at about the same rate as investment expenditures. By 1987, when corporate tax receipts are expected to be $116.7 billion, S.1435 would provide corporate tax reduction of nearly half that amount. The total revenue cost also includes a reduction in individual income taxes resulting from deductions taken by unincorporated businesses. This is equal to about 15 percent of the total revenue cost.

The year-by-year revenue costs do not take account of the additional tax receipts resulting from economic expansion induced by the tax reductions. These "feedback" revenues amount to about 30 percent of the static revenue loss and are reflected primarily in increases in individual tax receipts. If these "feedback" revenues are taken into account, the result is a net revenue loss of about $35 billion in 1984. It should be noted that the additional tax receipts that would be induced by this tax cut are about the same as that from any tax reduction having a comparable impact on GNP.

Background on Depreciation Allowances

The present tax depreciation system is cumbersome and complex. It involves a number of choices and uncertainties, and is especially burdensome for small businesses. It should be simplified. The present system provides an insufficient incentive for capital expansion in periods of rapid inflation and financial uncertainty. These incentives should be strengthened as much as our budget resources will allow.

Under the present rules, the business taxpayer is confronted with a myriad of choices. The first choice is whether to use the Asset Depreciation Range (ADR) System or to justify tax allowances on taxpayer's particular facts and circumstances. For those electing ADR, there is a choice of useful life within the allowable range for each class of assets. For all taxpayers there is also a choice of depreciation methods over the chosen lifetime. For some types of assets, especially buildings, there may be no ADR class and there may be a restricted choice of methods. With regard to types of equipment having allowable lives less than 7 years, the taxpayer must choose whether to foresake some portion of the investment tax credit in favor of more rapid write-off. For large firms having computerized accounting systems, these options present no formidable problems. They elect ADR, using the most rapid method of depreciation, and the shortest available useful life after taking account of the investment credit rules. These large firms own the great bulk of depreciable assets.

A very small percentage of small business taxpayers have chosen to elect the ADR system. Despite recent changes in regulations to reduce requirements for reporting, small businesses apparently believe that ADR dictates a more complicated accounting system and involves more complex regulations. If these small businesses choose not to elect

ADR, but to use the shorter lives that are allowed without question to ADR electors--and we believe many small businesses so choose--they face the possibility that upon audit they may be required to justify those lives on facts and circumstances. For these reasons, small businesses may regard the ADR system as not addressed to their needs and circumstances.

Productivity and Investment

The stimulation of investment and improvement of productivity performance must be among the foremost objectives of economic policy. The share of business fixed investment in GNP has varied around a nearly flat trend for about the last 15 years (Chart 1). However, in the last expansion it neither grew as rapidly nor reached as high a peak as during the previous cycle that peaked in 1974. Investment in nonresidential structures has shown a persistent downward trend since 1966, while the equipment component has tended to increase as a percentage of GNP. This is partly explained by mandated expenditures for pollution control equipment, which are now about 7 percent of equipment spending.

Aggregate productivity growth has exhibited a pronounced decline in the last decade and output per hour worked is now well below its post-war trend (Chart 2). For the 20 years ending 1968, the annual rate of growth in output per hour worked was about 2 1/2 percent. More recently, and beginning even before the oil embargo and the recession of 1974 and 1975, the rate of this productivity growth has markedly slowed. In the years 1968 through 1973 the growth rate was only about 1 3/4 percent.

In the last recovery cycle, the upturn in productivity growth that normally accompanies expansion occurred later and was generally weaker than in other post-war recoveries (Chart 3). The average for this latest period, 1973-78 was an annual productivity gain of only one percent. This slowing of productivity growth has helped to perpetuate a spiral of inflationary wage price adjustments in the economy and has eroded our ability to compete in international markets.

While the recent growth in average productivity throughout the economy is unmistakably lower in recent years, this record is by no means uniform across major productive sectors (see Chart 4). The communications sector has experienced rapid and even accelerating growth in productivity throughout the period, while at the other extreme, the construction industries have suffered declines in productivity in absolute terms since the late sixties, particularly over the most recent years. Among the public utilities, productivity growth has also slowed markedly since the late 1960s after rapid and steady increases up to that time. The record in manufacturing also shows a decline in the productivity growth throughout the 1970s but that growth has continued up to the present time, except for a one-year downturn in 1974. In the trade sector, output per hour has grown at less than a 2 percent annual rate over the entire period and is nearly flat in recent years.

Within the manufacturing sector, productivity growth has been and continues to be somewhat stronger in non-durables manufacturing as compared to the durables sector (see Chart 5). Among the durable goods industries the record of the motor vehicle industry has been particularly strong since 1974, while a pronounced decline in productivity has occurred in that some period for the primary metals industry.

The wide diversity in productivity gains across sectors and industries illustrates the importance of looking behind the aggregate trends. To the extent that declines in productivity in particular sectors can be attributed to lagging capital formation, we should pay close attention to the distribution of tax incentives among sectors of the economy, in addition to the aggregate amount of incentive. This is not to suggest that we attempt to direct all of the tax relief to particular industries that have poor productivity records (or those that have performed well) in the recent past but we should know the degree to which any proposal matches the incentives to the economic objectives.

Acceleration of depreciation allowances can be effective in providing investment stimulus. The direct tax savings that accompany the acquisition of capital provides additional cash flow to business firms for further investment and replacement. It is as if interest-free loans from the government were provided in the early years of a capital asset's use to be repaid out of the future productive output of these assets. These accelerated deductions reduce the "tax wedge" that is interposed between the returns to the physical investment and the rewards that can be paid to those who supply funds for investment. The reduction in the tax wedge reduces the cost of capital and, thereby, increases the amount of capital that can be profitably employed for the benefit of the company, its employees, and its customers.

The Concept of Capital Recovery

Before I get to a specific analysis of some of its likely consequences of the 10-5-3 proposal, I would like to discuss briefly the concept of capital recovery allowances. Many people regard depreciation as an arcane topic involving "useful lives," complicated formulas such as double declining balance and sum-of-years-digits, vintage accounting, and numerous other technicalities. Although the subject of depreciation is replete with imposing terminology, the underlying concept is straightforward. Depreciation is a cost of employing capital; as such, it must be deducted to arrive at net income, the same way that a wage deduction is taken for payments for labor.

In order to impose a tax on net income, the timing of receipts and expenses must be matched, and this requires that the cost of assets be deducted as they are consumed by use in a business. The Internal Revenue Code provides that there shall be a reasonable allowance for exhaustion, wear and tear, and obsolescence.

Of course, the determination of capital recovery allowances in any tax system is more difficult than for wage deductions because there is no current payment that measures the exact amount of capital consumed from one year to the next. The cost of depreciation each year is, therefore, estimated to be some proportion of the acquisition, or historical, cost of the asset. Inflation, however, increases capital consumption as measured in current dollars, and, therefore, depreciation allowances based on historical cost may be inadequate. Acceleration of tax depreciation may compensate for the general understatement of depreciation.

If the allowable depreciation deduction is greater for any year than the amount of capital consumed, the government is in effect extending an interest-free loan to the business. In the opposite case, inadequate depreciation allowance will prematurely increase taxable income, impose prepayment of taxes, and reduce internal cash flow.

The Effects of 10-5-3

The 10-5-3 proposal is a major departure from current practice in the determination of depreciation or capital recovery allowances. It would allow a large share of the acquisition cost of equipment and structures to be deducted for tax purposes much more rapidly than currently. The proposal deals with the problem of complexity by substituting a single mandatory system in place of the existing complex of choices. The proposed system has simple categories, certain recovery periods, and a fully prescribed pattern of recovery allowances. This approach to both investment incentives and simplification deserves condieration, but there are deficiencies that should be examined carefully.

For example, the proposal is not as simple as it first appears. As drafted, the 10-5-3 proposal would have to establish mandatory guidelines lives during the five year phase-in that are tied to the ADR classification system. Each year, for five years, every taxpayer would apply a new schedule of depreciation rates to assets acquired in that year until they are fully written off. The phase-in rules also create a perverse incentive effect that postponment of investment until the following year will increase the rate of capital recovery allowances. The phase-in is intended to postpone the revenue losses, but it also increases complexity and uncertainty. To the extent that investment is delayed, feedback revenues are also delayed.

When the 10-5-3 rules are fully effective, their combination of rapid write-offs of and increased investment credit for machinery and equipment would be very generous, indeed. The investment credit would immediately pay for 10 percent of the cost of acquiring new equipment. Then 76 percent of the gross cost could be written off in the first three years; the entire amount in 5 years. The present value of the tax saving from the combination of the investment credit and the accelerated deductions is greater than full, first-year write-off would be. The treatment of equipment under 10-5-3 would be better for the taxpayer than immediate expensing.

Such a dramatic increase in capital allowance is not only expensive in terms of the budget, but it could also greatly increase tax shelter activity. The proposed deductions and credits would be most attractive to high-income individuals who could obtain the tax benefits through net leasing of machinery and equipment. Tax shelter opportunities could also increase for those investing in buildings, such as offices and shopping centers, as the proposed bill both shortens the recovery period for these buildings and accelerates the depreciation method. A tougher recapture rule for buildings is proposed in the bill, but this only offsets a portion of the potential tax-shelter benefits.

Another result of 10-5-3 is a wide range of differential benefits among businesses according to the types of assets that they use and their present industry classification. For example, machinery and equipment (other than automobiles and light trucks) are now depreciated as if they had an average depreciation lifetime of 10.2 years (Table 2); the recovery period prescribed in S. 1435 is less than half that current average. For buildings, present practice is equivalent to an average lifetime of 32.6 years. The proposal would allow these buildings to be written off in less than one-third that time. For autos and light trucks, the reduction is relatively small from 3.5 years to 3.0 years, although, in many cases, autos and trucks would benefit from an increase in the investment credit.

The variation in benefits provided by 10-5-3 is most pronounced when industry categories are compared. After the five year phase-in, all major industry classes would have higher depreciation allowances under 10-5-3. However, the share of projected total investment "paid for" by accelerated depreciation is generally higher for those industries employing longer-lived assets. For machinery and equipment, you can see (Table 2) that the reduction in the recovery period is minimal in the case of construction and very small for manufacture of motor vehicles. Toward the other end of the spectrum, the recovery period for assets used in the primary metals industry would be nearly half the present ADR lives, communications would be about one-third, and public utilities about one-fourth. (Table 3 attached to this statement provides quarter industry detail.)

The Treasury Department has simulated changes in depreciation periods, together with the changes in the investment credit, to estimate potential tax savings during the period of phase-in. These estimates are then used to compute the tax saving per dollar of projected investment. Not surprisingly, the relative magnitudes generally follow in the same order as the degree of reduction in write-off periods (Chart 6). In 1984, the tax saving per dollar of projected investment in the construction industry would be less than 5 percent; for motor vehicles it is 8 percent; for primary metals it is around 15 percent; for communications just less than 20 percent; and the tax saving would pay for more than 20 percent of investment in the public utilities.

You may wonder about the apparent revenue increase in motor vehicle manufacturing for 1981. This results from a phase-in rule that immediately increases the recovery period for the auto companies' special tools from three years up to five years. In later years, the year-by-year reduction prescribed for longer-lived assets becomes dominant.

Highway transportation, services, agriculture, wholesale and retail trade, fabricated metals, and electronics are among other industries with relatively smaller benefits (Table 4). Among the other larger gainers are railroads, shipping, and oil pipelines.

The benefits estimated here are "potential" in the sense that no allowance is made for the possibility that certain companies will have insufficient tax liabilities against which to take the full amount of any additional deduction. Likewise, the estimates for public utilities take no account of the rule that disallows the use of 10-5-3 to utilities that "flow through" the benefits of accelerated depreciation to consumers.

Among industries with relatively poor productivity performance over the last five years, the construction industry has the smallest amount of potential benefit from 10-5-3 among all industries and utilities has the largest (Chart 7). Looking at the stronger productivity sectors, communication is among the larger gainers from 10-5-3, while communications and motor vehicles are among the more modest beneficiaries. In general, there is no discernible relationship between the amount of additional capital formation incentive provided by 10-5-3 and the relative strength of productivity performance over the past five years. The point here is not that these should be exactly matched, but rather that it is very difficult to see any purpose to the vastly different amounts of investment incentive provided across industries by 10-5-3.

I do not come to you today with any specific proposal nor, in view of the deficiencies of 10-5-3, can I support S.1435. I am obviously concerned about the large revenue cost, and the implication that greatly differing amounts of investment stimulus would be scattered about indiscriminantly among industries and asset types.

The simplification objectives of 10-5-3 could be achieved through other depreciation proposals. I would further suggest that you should consider the continuation of some administrative mechanism for the system to assure that the capital recovery deductions allowed for tax purposes are consistent with changes in true depreciation costs. I believe we should analyze carefully a wide range of depreciation plans, and I will continue to develop and work with you to promote a depreciation or capital recovery system that we can all regard as simple, effective and fair. Such a system should be put into effect as soon as budgetary resources and prudent fiscal policy permit.

Table 1

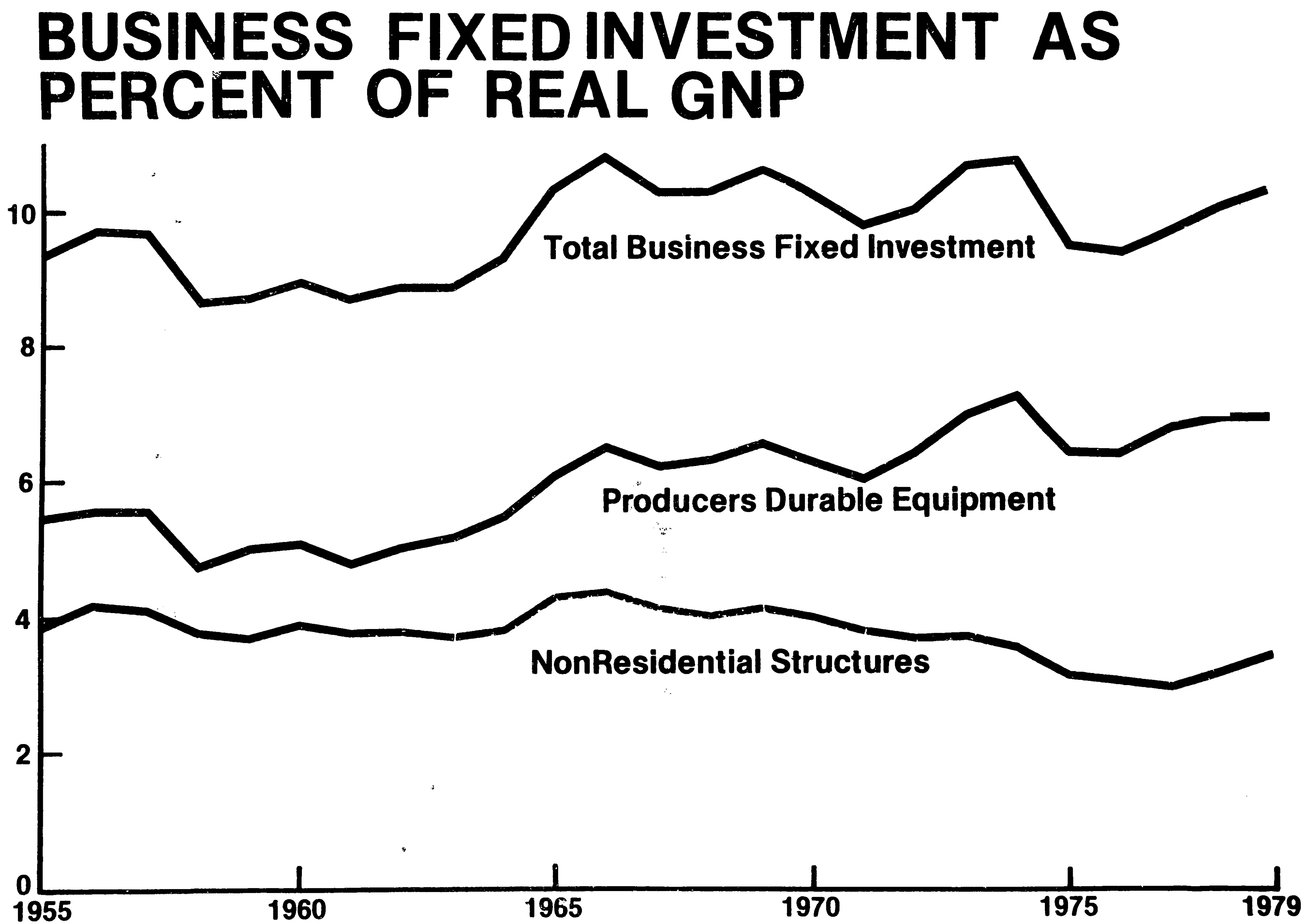
Revenue Estimates
($Billions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
				Change in Tax Liability - Calendar Years						
Corporate	-3.2	-8.5	-17.9	-29.9	-44.1	-57.2	-67.6	-72.9	-73.3	-70.9
Individual	-0.6	-1.5	-3.2	-5.3	-7.8	-10.1	-11.9	-12.9	-12.9	-12.5
Total	-3.8	-10.0	-21.1	-35.2	-51.9	-67.3	-79.5	-85.8	-86.2	-83.4
				Change in Receipts - Fiscal Years						
Corporate	-1.5	-5.6	-12.7	-23.3	-36.2	-49.8	-61.7	-69.8	-73.0	-72.1
Individual	-0.2	-0.9	-2.1	-4.0	-6.2	-8.7	-10.8	-12.3	-12.9	-12.8
Total	-1.7	-6.5	-14.8	-27.3	-42.4	-58.5	-72.5	-82.1	-85.9	-84.9

Office of the Secretary of the Treasury
Office of Tax Analysis

October 19, 1979

Chart 1



BUSINESS FIXED INVESTMENT AS
PERCENT OF REAL GNP
Total Business Fixed Investment
Producers Durable Equipment
NonResidential Structures
10
8
6
4
2
0
1955
1960
1965
1970
1975
1979

Chart 2

Output Per Hour, Private Nonfarm Business Sector

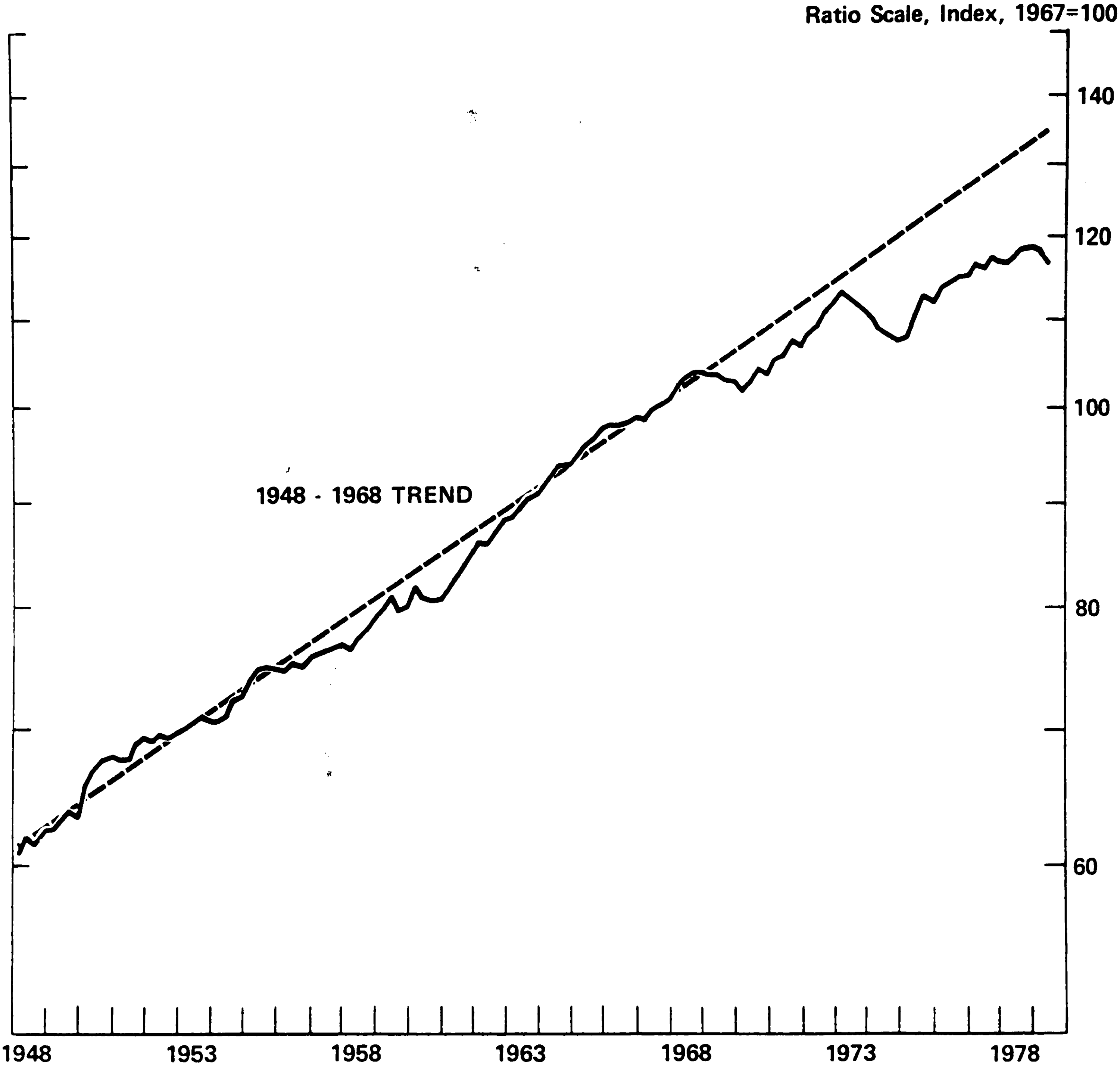
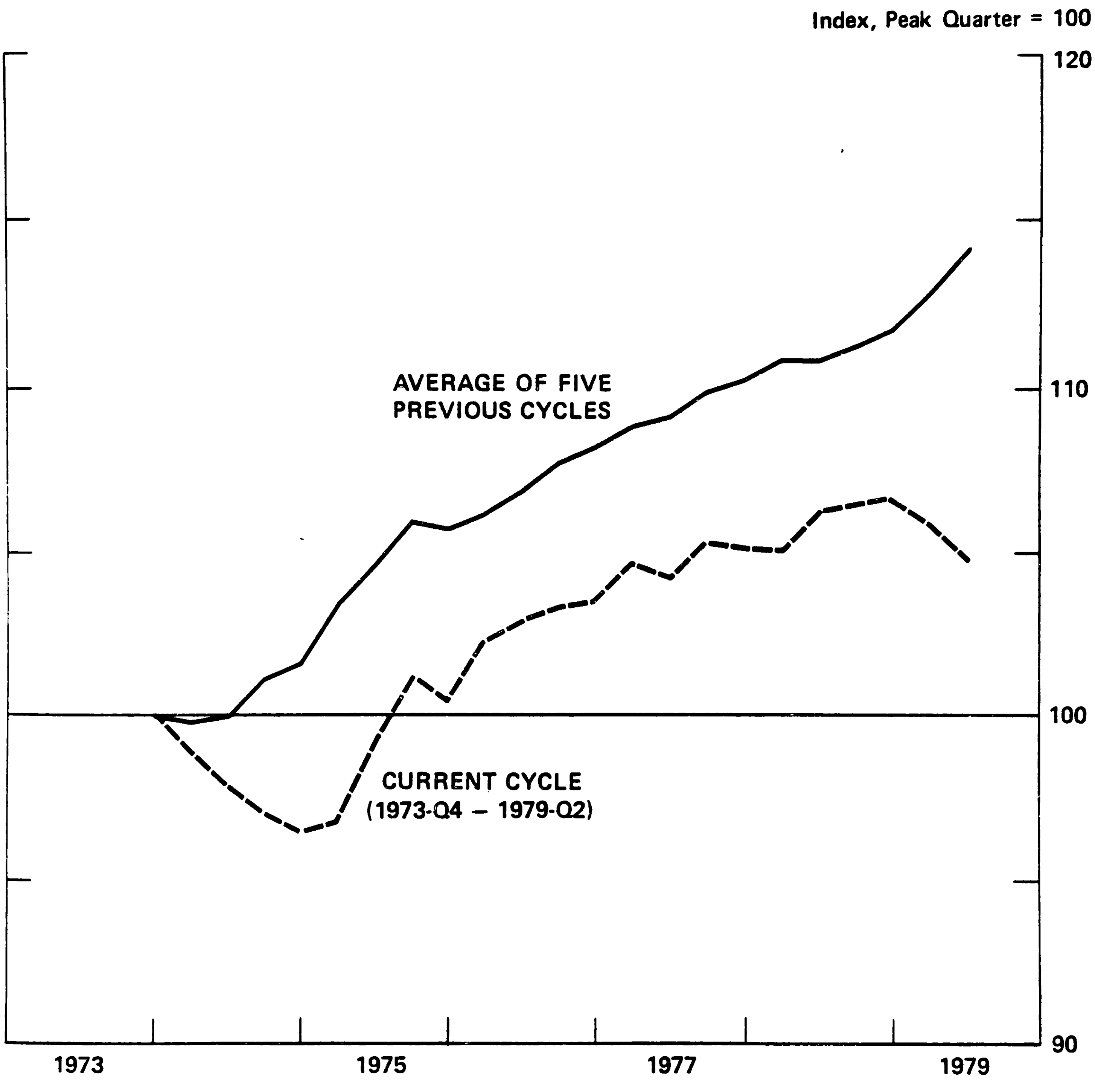


Chart 3

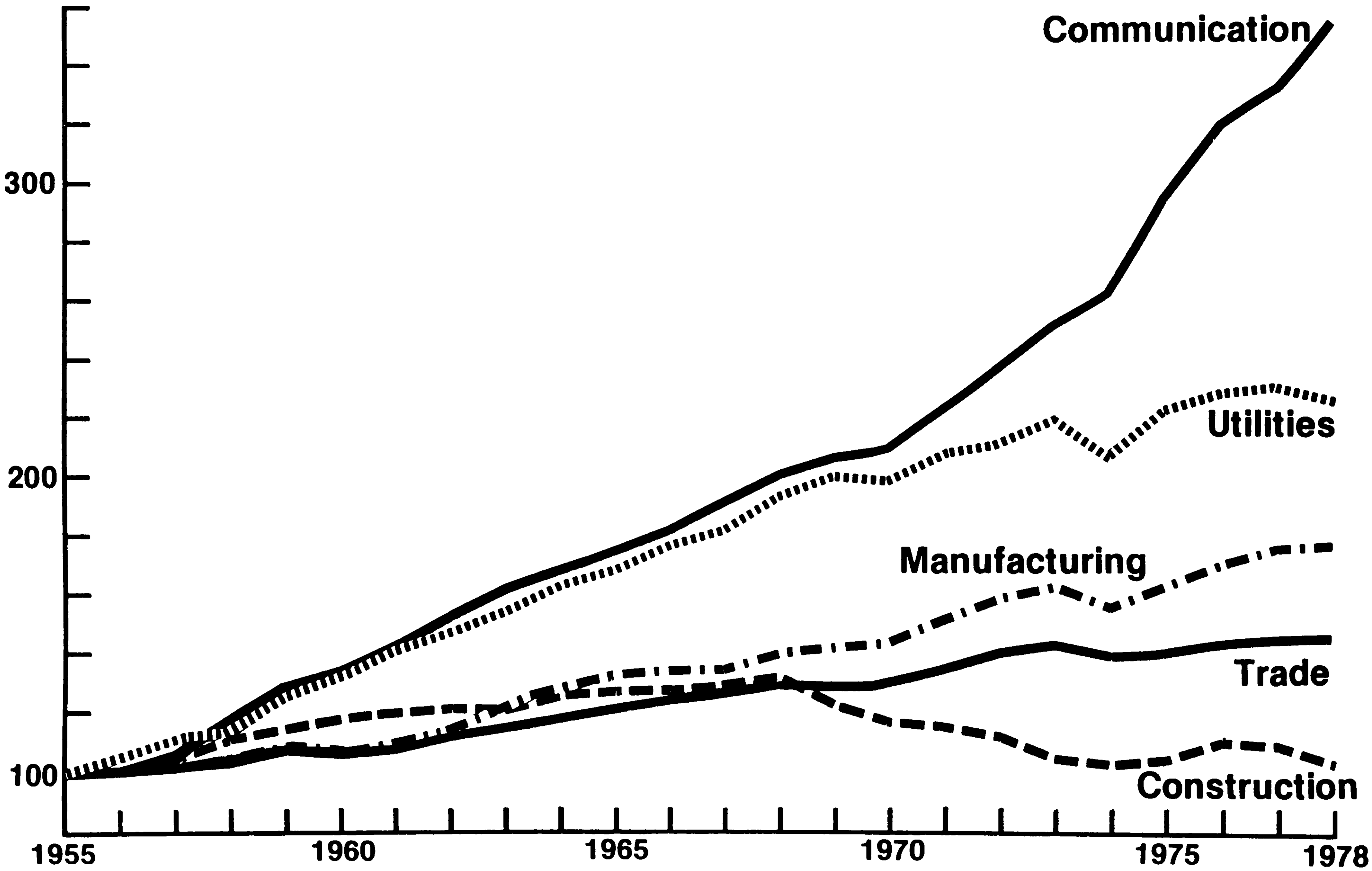
Cyclical Comparisons of Output Per Hour, Private Nonfarm Business Sector*



* Changes following the cyclical peaks as specified by NBER.

Chart 4

INDEX OF PRODUCTIVITY, SELECTED INDUSTRIES (1955=100)



INDEX OF PRODUCTIVITY, SELECTED MANUFACTURING INDUSTRIES (1955=100)

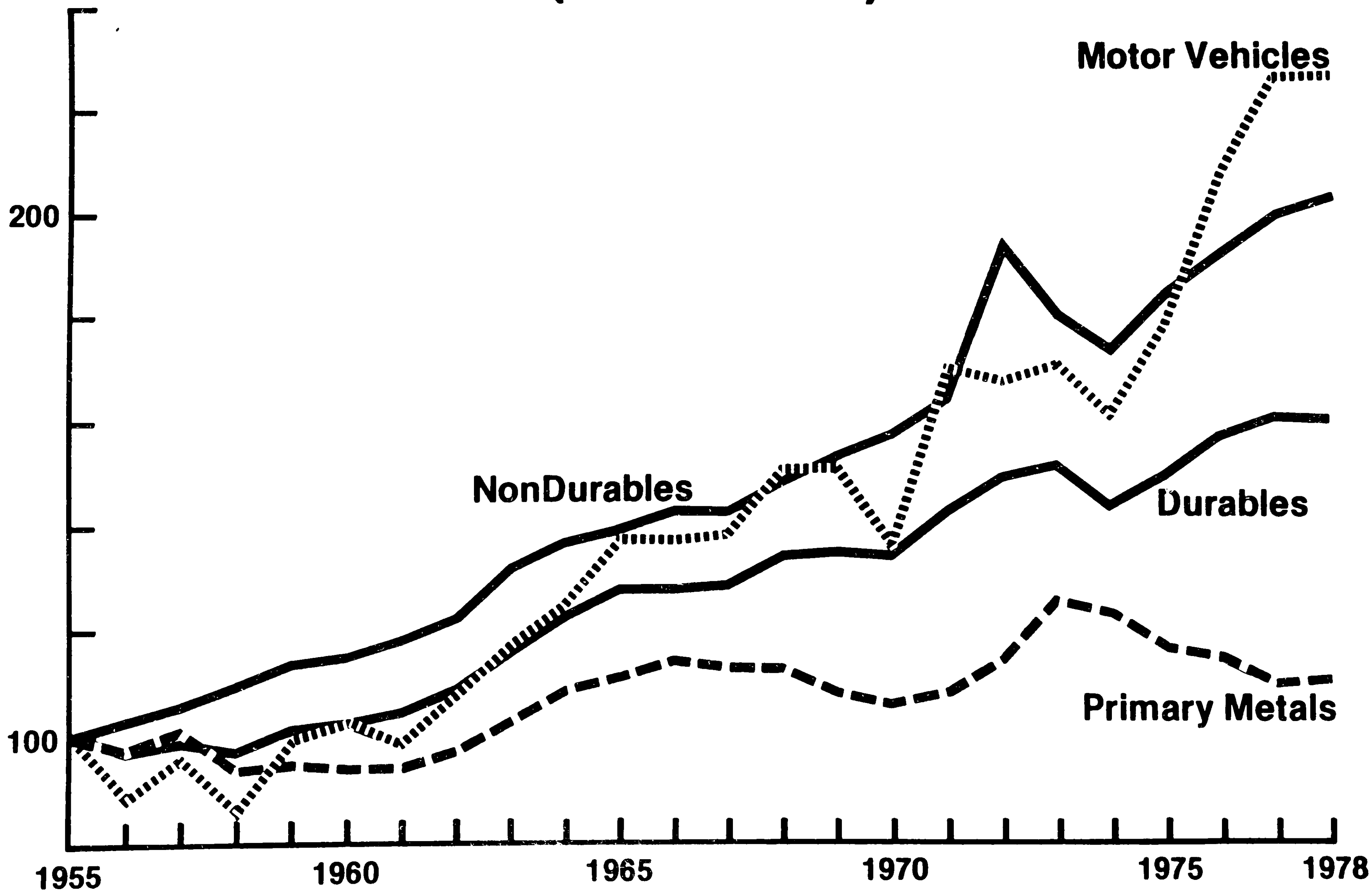


Table 2

"BEST ALLOWABLE" ADR DEPRECIATION PERIODS AS COMPARED TO 10-5-3 SELECTED INDUSTRIES

	10-5-3	ADR					
Asset Class	All Industries	All Industries	Construction	Motor Vehicles	Communication	Primary Metals	Utilities
Autos & Light Trucks	3	3.5	3.8	3.1	4.4	3.2	4.5
Other Machinery and Equipment	5	10.2	5.1	5.8	14.6	11.3	20.4
Buildings	10	32.6	35.0	35.0	36.0	35.0	35.0
Total	5.9	12.7					

Table 3

"Best Allowable" Depreciation Life (Years)
Under Present Law, by Industry

	Cars and Light Trucks	Machinery and Equipment	Building
All Industries	3.5	10.2	32.6
Agriculture	3.9	7.7	20.0
Construction	3.8	5.1	35.0
Oil and Gas			
Drilling	3.2	7.0	35.0
Production	3.2	11.0	35.0
Refining	3.4	12.4	35.0
Marketing	-	13.0	13.0
Mining	3.6	7.8	35.0
Manufacturing			
Food	3.2	9.2	35.0
Tobacco	3.3	11.4	35.0
Textiles	3.2	8.1	35.0
Apparel	3.1	7.1	35.0
Logging/Saw Mills	3.9	6.8	35.0
Wood Products	3.8	7.1	35.0
Pulp and Paper	3.2	9.9	35.0
Printing and publishing	3.1	8.7	35.0
Chemicals	3.1	7.7	35.0
Rubber Products	3.1	9.6	35.0
Plastic Products	3.0	8.0	35.0
Leather	3.0	8.5	35.0
Glass	3.0	9.2	35.0
Cement	3.5	14.0	35.0
Stone and Clay Products	3.5	10.9	35.0
Primary Metal	3.2	11.3	35.0
Fabricated Metal	3.1	4.9	35.0
Machinery	3.0	7.9	35.0
Electrical Machinery	3.0	9.3	35.0
Electronics	3.0	7.1	35.0
Motor Vehicles	3.1	5.8	35.0

"Best Allowable" Depreciation Life (Years)
Under Present Law, by Industry
(continued)

	Cars and Light Trucks	Machinery and Equipment	Buildings
Areospace	3.0	7.8	35.0
Shipbuilding	3.3	9.7	35.0
Railroad Equipment	3.3	8.8	35.0
Instruments	3.1	9.0	35.0
Other	3.1	9.0	35.0
Transportation			
Rail	-	11.7	-
Air	-	9.4	35.0
Water	-	15.7	35.0
Highway	3.4	5.6	35.0
Communication	4.4	14.6	36.0
Utilities			
Electric	4.5	20.5	35.0
Gas	4.5	23.1	35.0
Pipeline	-	17.5	35.0
Wholesale and Retail Trade	3.5	6.8	35.0
Services	3.3	7.8	35.0
Amusements	3.0	9.8	35.0

Note: The "best allowable" depreciation period for an industry is a special type of weighted average of the best available depreciation periods (taking account of the investment credit effects of lives lower than five or seven years) for equipment used in the industry. The weights are estimated 1976 investment in the several types of equipment. The weighted average takes account of the time value of tax saving. In the case of builidngs not covered by ADR, the best available depreciation period is assumed to be 35 years, which is approximately the average useful life employed by taxpayers, as revealed by Treasury Department surveys in 1972 and 1973.

TAX SAVINGS DUE TO 10-5-3 PER DOLLAR OF PROJECTED INVESTMENT IN DEPRECIABLE ASSETS ; 1980,1981, AND 1984, SELECTED INDUSTRIES

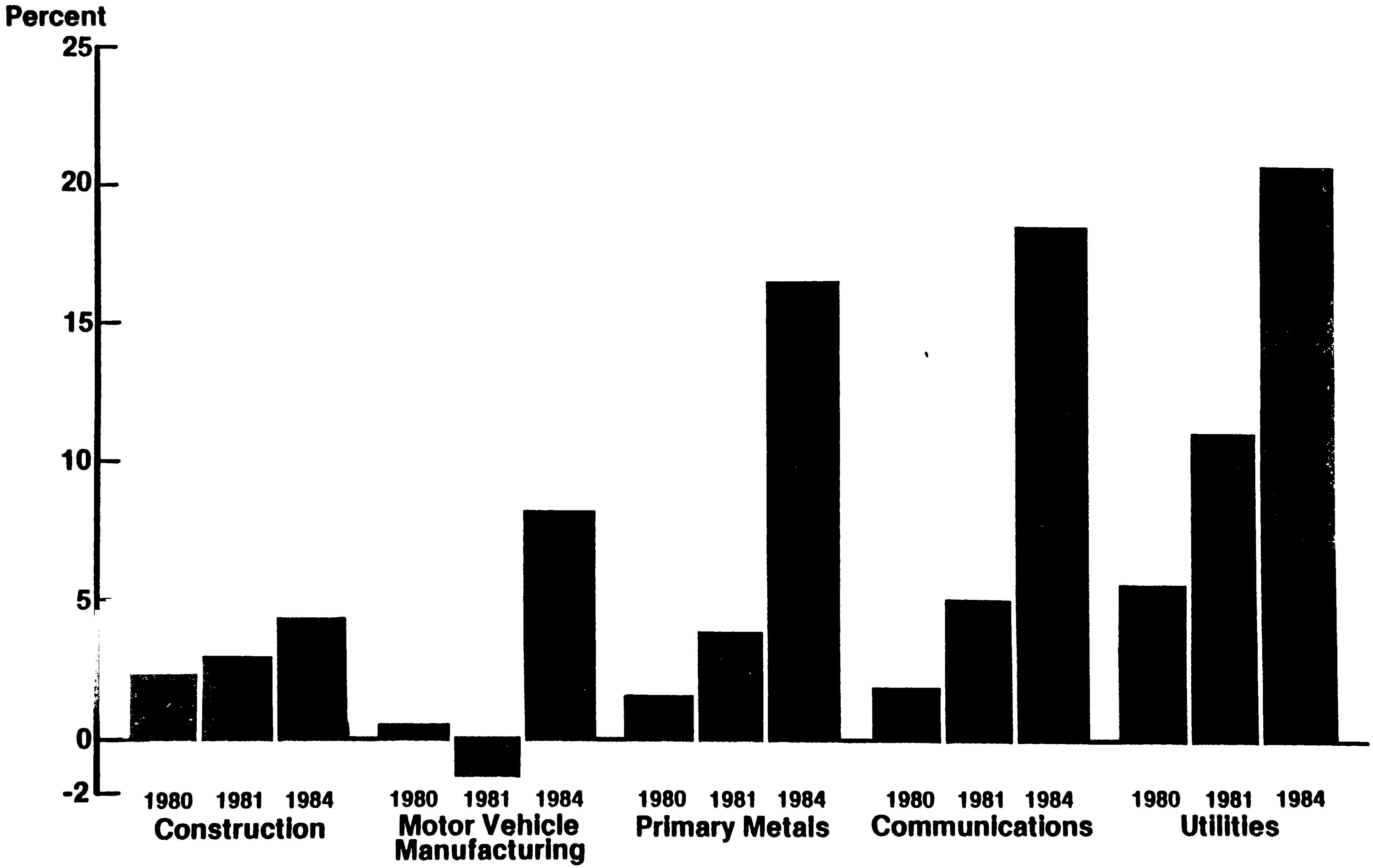


Table 4

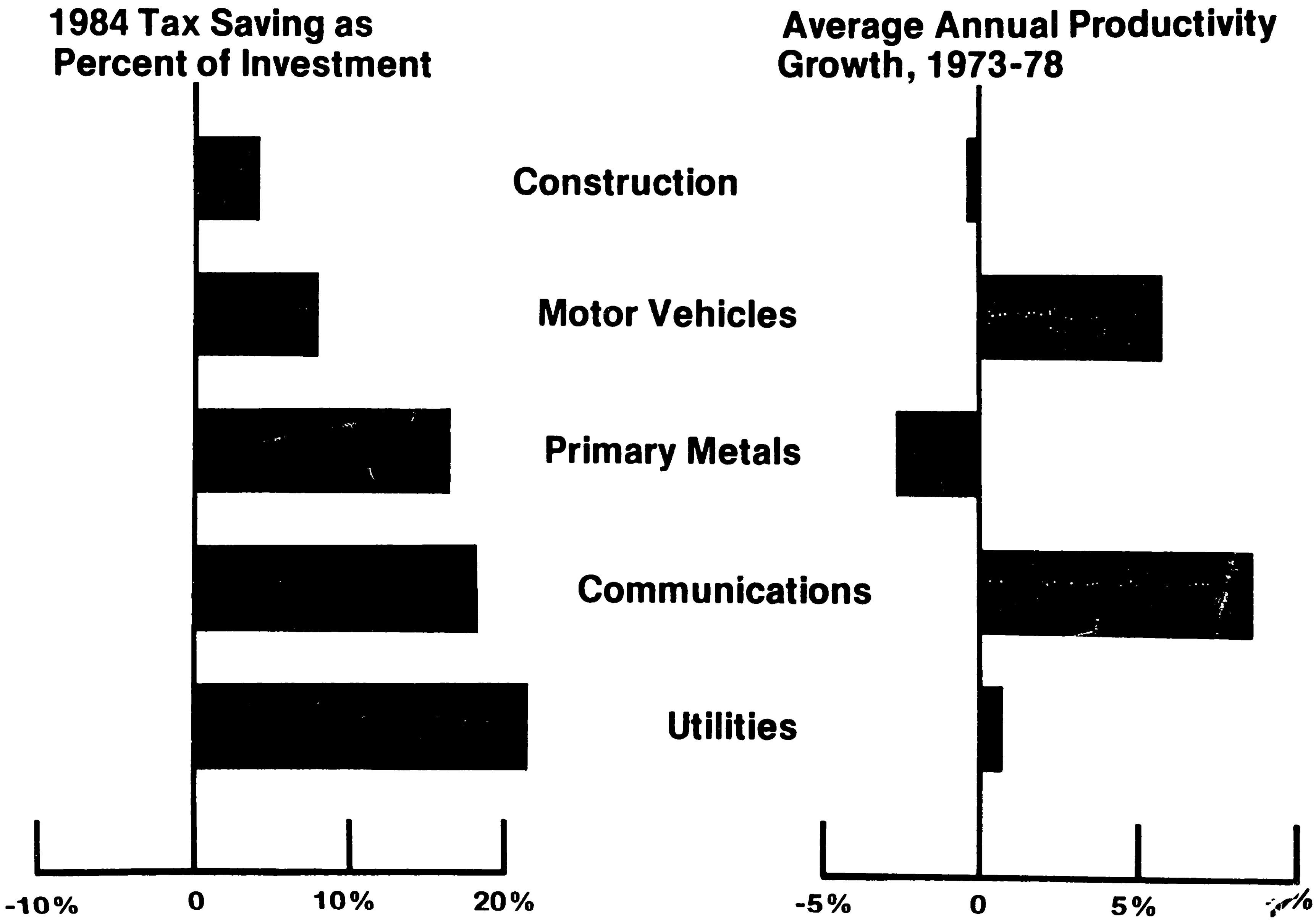
Estimated Tax Reduction Due to 10-5-3
as a Percent of Projected Investment 1/, 1984

Industry Class	Estimated 1984 Tax Reduction ($ Millions)	Projected 1984 Investment ($ Millions)	1984 Tax Reduction As Percent of Investment
Manufacturing:			
Non-durables	5,729	50,016	11.5
Food	1,258	10,624	11.8
Tobacco	50	369	13.6
Textiles	332	2,757	12.0
Apparel	121	1,196	10.1
Pulp and Paper	837	7,777	10.8
Printing and Publishing	341	3,390	10.1
Chemicals	2,345	19,838	11.8
Rubber	123	927	13.3
Plastics	303	2,918	10.4
Leather	16	220	7.3
Durables	5,606	51,496	10.9
Wood Products and Furniture	98	2,100	4.7
Cement	90	622	14.5
Glass	146	1,258	11.6
Other Stone and Clay	281	2,150	13.1
Ferrous Metals	1,107	6,739	16.4
Non-ferrous Metals	421	3,004	14.0
Fabricated Metals	504	6,587	7.7
Machinery	950	8,345	11.4
Electrical Equipment	493	4,448	11.1
Electronics	266	2,884	9.2
Motor Vehicles	458	5,716	8.0
Aerospace	182	1,591	11.4

1/ Estimates of investment by purchasing sector are based on Annual Survey of Manufacturers, 1976, and data from regulatory agencies, trade associations, and other industry sources.

Industry Class	Estimated 1984 ($Millions)	Projected 1984 ($Millions)	1984 Tax Reduction As Percent of Investment
Shipbuilding	169	1,534	11.0
Railroad Equipment	17	129	13.2
Instruments	222	2,383	9.3
Other Manufacturing	202	2,006	10.1
Transportation	4,048	40,504	10.0
Railroads	562	3,362	16.7
Airlines	814	6,175	13.2
Water Transport	1,432	9,492	15.1
Highway Transport	1,240	21,475	5.8
Communication	5,956	32,130	18.5
Utilities	9,162	42,187	21.7
Electric Utilities	7,533	35,853	21.0
Gas Utilities and Pipelines	1,629	6,334	25.7
Mining, except oil and gas	1,120	10,796	10.4
Oil and Gas Drilling	238	2,945	8.1
Oil and Gas Production	5,079	38,390	13.2
Petroleum Refining	1,207	8,785	13.7
Petroleum Marketing	142	1,254	11.3
Oil Pipelines	2,202	10,175	21.6
Construction	1,114	25,085	4.4
Wholesale and Retail Trade	3,823	44,097	8.7
Agriculture	2,069	27,220	7.6
Services	3,337	41,109	8.1
Grand Total	51,912	435,725	11.9

BENEFITS OF 10-5-3 AS COMPARED TO RECENT GROWTH IN PRODUCTIVITY, SELECTED INDUSTRIES



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STATEMENT OF
THE HONORABLE DONALD C. LUBICK
ASSISTANT SECRETARY OF THE TREASURY (TAX POLICY)
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE
SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

My testimony today relates to three bills: S. 1021, S. 1078 and S. 1467. I will begin with S. 1021, the bondholder taxable option proposal, introduced by Senator Danforth.

I. BONDHOLDER TAXABLE OPTION (S. 1021)

This innovative proposal would provide a 66 2/3 percent tax credit to the holders of tax-exempt bonds who elect to treat the income from the bonds and the amount of the credit as taxable income. This proposal would accomplish the same results as the taxable bond option proposal recommended by the Administration in 1978. It would promote tax equity, increase the efficiency of Federal tax subsidies to State and local government, and help to stabilize the tax-exempt bond market. Unfortunately, it would--as would our 1978 proposal--also provide greater economic and political incentives to expand the use of the tax-exempt market for nongovernmental purposes. In recent years, the amount of tax-exempt bonds issued for nongovernmental purposes has sharply increased. We believe that it is unwise to enact either a bondholder taxable option or a taxable bond option in this climate. If tighter limits on the use of tax exemption for nongovernmental purposes were imposed, particularly for pollution control facilities and single family housing, we would at once support the adoption of a taxable bond option, either as proposed in 1978 or in the form now proposed in S. 1021.

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Similarities Between S. 1021 and Taxable Bond Option

The taxable bond option ("TBO") would provide for a direct subsidy to a State or local government electing to issue taxable bonds in an amount equal to 40 percent of the interest due on the bonds. The bondholder taxable option of S. 1021 ("BTO"), on the other hand, would provide a 66 2/3 percent tax credit to the holders of tax-exempt bonds who elect to treat the interest and the amount of the credit as taxable. BTO would thus be an option for investors; TBO would be a choice available to State and local governments.

Both TBO and BTO would lower the cost of borrowing to State and local governments. Both proposals would lower the interest rate of tax-exempt bonds from approximately 70 percent to 60 percent of the interest rate on taxable bonds of comparable risk. This change in the relationship between tax-exempt and taxable interest rates will result from market forces. For example, under BTO, investors in marginal tax brackets of less than 40 percent would have an incentive to purchase tax-exempt bonds and claim the credit because it would provide them with a higher after-tax return than taxable bonds at current interest rates.

A taxpayer in the 30 percent marginal tax bracket could, for example, purchase $100 of tax-exempt bonds paying 7 percent interest. By electing BTO, the interest would be taxable. A tax credit of two-thirds of the interest would be available which also would be taxable. The credit would exceed the tax liability resulting from the increased income, increasing the after-tax return for a taxpayer in the 30 percent marginal tax bracket from $7 to $8.17.* If, on the other hand, the taxpayer had purchased a taxable bond for $100 paying 10 percent interest, he would be subject to $3 tax resulting in an after-tax return of $7, or 7 percent. Thus, the demand for tax-exempt bonds would increase, driving up the price of tax-exempt bonds and lowering the tax-exempt interest rates. The market would reach an equilibrium when the tax-exempt interest rate is 40 percent below taxable rates (such as a taxable rate of 10 percent and a tax-exempt

*The taxpayer's total taxable income would be $11.67 ($7 plus $4.67). At the 30 percent marginal tax bracket, his tax liability would be $3.50. He would, however, be entitled to a credit of $4.67, producing a net tax benefit of $1.17 or a total after-tax return of $8.17.

rate of 6 percent); at that point, investors in marginal tax brackets of less than 40 percent would receive the same after-tax return from holding tax-exempt State and local bonds and claiming the credit as from holding taxable corporate bonds.*

Under TBO, States and localities will initially find net interest costs on subsidized taxable bonds (60 percent of the taxable rate) lower than the net interest costs on tax-exempt bonds (approximately 70 percent of the taxable rate). As subsidized taxable bonds replace tax-exempt bonds, the supply of tax-exempt bonds will fall. The price of tax-exempt bonds will rise until tax-exempt interest rates fall to 40 percent below taxable rates. Therefore, TBO and BTO would have the same overall economic effects.

Both TBO and BTO would provide a more efficient subsidy to State and local governments than the current system. The current system is inefficient. Tax-exempt borrowers over the years have benefited from interest rates which on the average have been about 70 percent of taxable rates. Thus, the implicit subsidy of exemption to State and local governments is equivalent to a 30 percent interest rate reduction. Although the average subsidy is 30 percent, a reasonable estimate of the average marginal tax rate of all purchasers of tax-exempt bonds is about 42 percent. In other words, if municipal bond interest income were subject to tax, issuers of this debt would lose a subsidy of 30 percent of the taxable rate and the Treasury would gain revenues equal to about 42 percent of the taxable rate. This means that, with the present stock of tax-exempt debt outstanding, less than 75 percent of the Treasury revenue loss flows to State and local governments. Under both TBO and BTO, the incremental benefit to State and local governments in lower

*The taxpayer in the 30 percent marginal tax bracket would thus receive $6 of interest from the tax-exempt bond and would be entitled to a tax credit of $4 (2/3 of $6). The additional tax, on the other hand, would be only $3 (30% x $10 taxable income comprised of $6 (interest) + $4 (taxable credit)). The $1 excess of the credit over the tax increases the return on the tax-exempt bond from $6 to $7, the after-tax return from a taxable bond.

BTO would require some system for allowing the IRS to verify that taxpayers claiming the tax credit have in fact received interest entitling them to the credit. The most effective system would be to require issuers to file information returns with the IRS as is presently required for interest on taxable bonds.

interest costs will exceed the increased budget cost to the Federal government, thereby increasing the efficiency of tax exemption as a subsidy. As described below, this improvement is derived from a reduction in the windfall gains to high bracket investors.

TBO and BTO, therefore, would also improve the equity of the tax system. Much of the inequity under current law stems from the high tax-exempt interest rate as compared with the taxable rate. An investor in the 50 percent tax bracket, for example, would be willing to buy tax-exempt bonds as long as the return was just above one-half of that on taxable instruments. Tax-exempt bonds thus have an implicit "tax" resulting from the acceptance by the investor of a lower return than that which is otherwise available. If municipal rates were in fact one-half of taxable rates, tax-exempt bonds would have an implicit tax to the investor in the 50 percent bracket of 50 percent; the implicit tax would equal his marginal tax bracket. As municipal rates rise to 60 percent, 65 percent and 70 percent of the taxable rate, this investor in the 50 percent marginal tax bracket finds that the after-tax return becomes increasingly above that required to induce him to invest. This extra return is purely a windfall gain. Thus, the higher the tax-exempt rate relative to the taxable rate, the greater the windfall gain. By lowering the interest rate on tax-exempt bonds from 70 percent to 60 percent of the taxable interest rate, both TBO and BTO would reduce this inequity by increasing the implicit tax to 40 percent.

Both TBO and BTO would broaden the market for State and local securities by making them potentially attractive to taxpayers in low brackets and to tax-exempt institutions. Under TBO, low bracket investors would be attracted to subsidized taxable bonds issued by State and local governments. Under BTO, low bracket investors would generally select the taxable option. By so broadening the market for State and local debt, both proposals would reduce the volatility of the tax-exempt bond market.

Differences Between S. 1021 and Taxable Bond Option

There are several significant differences between TBO and BTO. Under BTO, unlike TBO, all State and local borrowing would continue to be conducted by issuing tax-exempt bonds and therefore BTO would not alter existing arrangements for marketing State and local debt. Institutions currently involved in underwriting and marketing tax-exempt bonds will not be adversely affected by BTO because the volume of tax-exempt issues will not be reduced.

Under TBO, the subsidy to State and local governments would appear on the expenditure side of the budget. In contrast, BTO would be a tax expenditure; it would be recorded as a reduction in tax revenues. As such, BTO might appear to be less subject to review under Executive Branch and Congressional Budget Procedures.

Because of these two differences, States and localities may regard BTO more favorably than TBO. Although Treasury's advocacy of TBO was intended to help State and local governments by making an existing subsidy deeper, more stable, and more efficient, some organizations feared that TBO might be a first step toward elimination of tax-exemption. We have always viewed TBO as a supplement, not a substitute for tax-exemption. While accomplishing the same economic objectives as TBO, BTO may appear less suspect to States and localities because it does not directly affect the institutions that issue tax-exempt bonds and because, as a tax provision, it may appear less subject to future dilution than an expenditure program.

Reasons BTO or TBO Should Not Be Enacted At This Time

Notwithstanding the advantages of these proposals, the Administration does not support enacting either proposal at this time. Our principal concern is that a substantial portion of the increased subsidy would inure to the benefit of private persons and that the increased subsidy would provide further political and economic incentives to even further increase the amount of tax-exempt financing for nongovernmental purposes.

In recent years, the volume of tax-exempt bonds issued for nongovernmental purposes--principally for housing, private hospitals, pollution control and small issue industrial development bonds--has increased sharply as a share of the total tax-exempt market. There are indications that this trend is likely to increase. Just last week the Senate Finance Committee voted to significantly expand the exceptions to the industrial development bond provisions dealing with electric energy and solid waste disposal facilities.

A rough picture of the increased importance of the nongovernmental use of tax-exempt financing is provided by data compiled by the Public Securities Association. The PSA data subdivide new tax-exempt borrowing by purpose. Two of the categories are industrial aid (which includes pollution control bonds and all other industrial development bonds issued for corporations) and social welfare (which includes housing bonds and hospital bonds). These two categories--which include most tax-exempt borrowing for nongovernmental use--have increased, from 9 percent of all new tax-exempt borrowing (excluding refundings) in 1970, to 20 percent in 1972, 28 percent in 1976, 35 percent in 1977 and 41 percent in the first six months of 1979. In addition, there is evidence that PSA data underestimate the recent growth in small issue industrial development bonds because most small issues are direct placements which usually are not reported.

Congress is currently considering legislation to limit the use of tax-exempt bonds for home mortgages which have in part been responsible for this increase. However, this legislation, under consideration since last May, has not been enacted; nor has last year's Administration proposal to eliminate the use of tax-exempt bonds for pollution control facilities. In addition, we have no doubt that imaginative promoters are turning their attention to finding other legal devices to use tax exemption to finance nongovernmental activities. The increase in the subsidy under BTO would encourage this activity as well as making existing opportunities more attractive. It would aggravate the misallocation of limited capital resources which occurs when some industries can borrow at the tax-exempt rate while others cannot. Finally, it would insulate the tax-exempt market from the rise in interest rates which would normally accompany expansion of borrowing in the tax-exempt market. Thus, it may be some time before there is firm and effective legislation limiting tax exemption to governmental purposes or at least constraining the nongovernmental uses of tax-exempt borrowing to an acceptable level.

S. 1021 attempts to deal with the problem of tax exemption for nongovernmental purposes by not allowing the bondholder taxable option for interest received from tax-exempt industrial development bonds. Unfortunately, market forces would defeat the laudable intent of this provision. This provision would not affect the general level of tax-exempt interest rates. Its only effect would be to cause low bracket investors and tax-exempt institutions, who would seek to claim the credit, to concentrate on holdings of public purpose State and local bonds while high bracket investors, who would not claim the credit, would concentrate on holding tax-exempt industrial development bonds. Because the spread between tax-exempt and taxable interest rates would be equal to the subsidy rate provided by BTO, all tax-exempt borrowers, including users of the proceeds of industrial development bonds, would receive the same benefit from BTO.

Conclusion

Treasury reluctantly concludes that BTO should not be enacted at this time. The benefits that would flow to nongovernmental activities, and the encouragement given to expansion of nongovernmental uses of tax exemption, outweigh the benefit which would be derived by State and local governments in financing governmental facilities.

Treasury strongly supports tax-exempt State and local borrowing. We believe, however, that this tax exemption should not be used as a device to provide an indirect Federal subsidy to a wide range of nongovernmental activities, such as pollution control facilities and single family housing.

Treasury believes that the first legislative priority in the area of tax-exempt financing is to control the nongovernmental use of tax-exempt borrowing. Once this has been accomplished, we would support proposals such as S. 1021 or TBO which would contribute to tax equity and provide greater, more efficient Federal support for State and local governments.

II. THE "ARTISTS' TAX EQUITY ACT OF 1979" (S. 1078)

Section (2) of this bill would allow the estate of any artist to meet its liability for estate tax by transferring works of the artist's creation, included in the estate, to an arm of the United States government. The transferee would be required to certify the significance of the work and that it will be held for display to the public, but would not be required to reimburse the Treasury for the estate tax forgiven. Section (3) of the bill would allow a 30 percent credit against income tax liability, subject to certain dollar limitations, for artistic, literary or musical compositions contributed to a government or exempt organization by the individual whose personal efforts created the work. Section (4) would provide that an activity consisting of artistic, literary or musical creation is presumptively carried on for profit if the artist produced a profit in any 2 of 10 consecutive years rather than 2 out of 5 as under present law. Section (5) would provide that art works received by an artist's beneficiaries from the artist's estate would be treated as capital assets notwithstanding their having a carryover basis.

The Treasury is opposed to sections (2) through (4) of the bill. The change that would be achieved by section (5) is supported by Treasury and is included in H.R. 4694, the carryover basis "clean up" bill introduced by Congressman Fisher.

<u>Payment of Estate Tax</u>

Section (2) of the bill, which would allow a credit against tax liability for the full fair market value of art works contributed to the Federal government, is presumably motivated by a desire to alleviate liquidity problems perceived to be faced by artists' estates. The provision perhaps would be defended by its proponents on the ground that, if the Federal government places a value on an art work for estate tax purposes, it should be prepared to accept the work at that value in satisfaction of estate tax liability.

The Tax Reform Act of 1976 mitigated significantly the liquidity problems sometimes faced by authors' and artists' estates. Under that Act, payment of estate taxes may be deferred up to 10 years on a showing of "reasonable cause"--a standard more easily satisfied than the "undue hardship" test of prior law. In addition, professional authors and artists whose estates include significant portions of their literary or art works could qualify for the new "automatic" 15 year deferral of estate tax payment. It is our view that these provisions, together with the "automatic" 10 year deferral of estate tax permitted under prior law, afford adequate relief for illiquid estates.

The perceived need for additional liquidity relief, such as that provided by section (2) of the bill, stems from concern that the inventory of art works in an artist's estate will be overvalued, by being valued either at the sum of their "retail" prices rather than as inventory in the hands of a dealer, or at their undiscounted current value, disregarding the time needed to liquidate the inventory. In this context it is important to note that as a matter of practice the Internal Revenue Service has accepted the decision in Estate of David Smith v. Commissioner, 57 T.C. 650 (1972), aff'd on other grounds, 510 F.2d 479 (2d Cir. 1975), and has initiated a regulation project to consider the application of its current estate tax valuation regulations to artists' estates.

We are strongly opposed to creating a precedent that could significantly impair the efficiency of the government's revenue collecting function by substituting in-kind transfers for cash payments in satisfaction of tax liabilities. There is no logical basis on which a provision such as that contained in section (2) could be limited to works of an artist's creation. Nor do we think that artists should be afforded more favorable treatment with respect to their estate tax liabilities than other taxpayers.

This section does not, however, merely create a precedent that could significantly impair the efficiency of collection of Federal revenues. It also has the effect of subverting the appropriations process. It is the function of Congress to determine the purposes for which funds will be appropriated. Direct appropriations allow aid to be targeted much more carefully to specific groups of people and specific objectives. Direct appropriations also allow coordination among related programs. In contrast, this bill would permit an artist's executor to decide what works of art will be transferred to various governmental arms, to the extent of an artist's estate tax liability. Thus, an artist's executor would have the power to determine how government funds will be spent.

For the foregoing reasons the Treasury opposes section (2).

Charitable Contribution Credit

Section (3) of the bill would allow a 30 percent credit against income tax liability for property consisting of an artistic, literary or musical composition contributed by its creator to the government or an exempt organization. This credit would be in lieu of the charitable deduction. The bill also contains a series of provisions that have the effect of limiting the amount of the credit in any year to the greater of $2,500 or 50 percent of the taxpayer's liability for tax, and in no event may the credit exceed $10,500.

Prior to the Tax Reform Act of 1969, a taxpayer, including an artist, who contributed appreciated property to charity, was entitled to a charitable contribution deduction based on fair market value even though the appreciation was never subject to tax. In many cases, this enabled an individual to obtain a benefit through a charitable contribution that would exceed the after-tax proceeds from a sale. For example, assume an individual in a marginal tax bracket of 70 percent who owns property worth $100 that has a negligible cost. If the property were sold, the individual would owe $70 in tax and would retain $30. If the property were given to charity, the charitable deduction would reduce the donor's taxes by $70, resulting in a $40 increase in after-tax profit on a supposedly charitable transfer. Since this possibility was more evident in the case of property that would result in ordinary income if sold, Congress in 1969 modified the law primarily as to ordinary income property. Capital gain property was generally unaffected except in particular cases--for example, transfers to private foundations.

Works of art are treated as inventory in the hands of the artist and gain on their disposition by the artist is taxed as ordinary income. Thus, the 1969 Act affected the charitable deduction for contributions by artists of their work but not for contributions by investors in art. Under the Act, an artist's income tax deduction for works of the artist's creation contributed to a charity is generally limited to cost. Under this provision an artist donating art works to charity would be in the same position as if the works had been sold and the after-tax proceeds contributed to the charity.

We believe this approach is correct. It is also consistent with the treatment of other income producers. For example, a physician who works a half day in a hospital without pay does not get a charitable contribution deduction. The physician's income is unaffected, just as if he earned $100 for his services and donated a like amount to charity.

We recognize that S. 1078 attempts to meet some of our concerns by providing the artist with a tax credit rather than a deduction and by limiting the dollar amount of the credit. This would equalize the benefit to artists at all income levels and is intended to prevent any artist from obtaining a greater benefit from a charitable transfer than would be available from a sale. However, the latter would be achieved only if the deduction for charitable contributions could be limited to the actual fair market value that could be obtained by sale. The Commissioner's Art Advisory Panel cannot possibly evaluate all transfers for which taxpayers seek charitable deductions.

Moreover, a tax credit is in many ways similar to a direct appropriation. The government is offering 30 cents on the dollar for any art work the artist is willing to transfer to charity. However, a tax credit, unlike a direct payment, is not included in income. Moreover, other government programs to promote the arts already exist. If government aid to the arts is to be increased, it would be better to do so through existing or new programs subject to the appropriations process rather than through tax credits. The Treasury is therefore opposed to section (3) of the bill.

Activities Entered into for Profit

Section (4) of the bill would amend section 183 to extend from 5 to 10 years the period in which to determine whether an activity consisting of artistic, literary or musical creation is presumed to be carried on for profit under section 183(d). We can discern no legitimate reason for providing preferential treatment in this area to artistic, literary or musical activities. We see no justification for providing that if a writer's activities are profitable in 2 out of 10 years, the favorable presumption of section 183(d) is created while a farmer would be entitled to the favorable presumption only if his activities were profitable in 2 out of 5 years. It should also be kept in mind that section 183(d) merely creates a presumption; all relevant facts and circumstances are considered in determining whether a particular taxpayer is engaged in an activity for profit.

The Treasury therefore opposes section (4).

Capital Asset Status

Section (5) would provide that art works received by an artist's beneficiary from the artist's estate would be treated as capital assets notwithstanding their having a carryover basis. Such a provision should be enacted as part of any bill to clean up carryover basis, such as H.R. 4694 introduced by Mr. Fisher.

The Treasury therefore supports section (5).

III. METHODS OF DEPRECIATION - RAILROADS (S. 1467)

S. 1467 deals with methods of depreciation available to railroads. The bill would amend section 167 of the Internal Revenue Code to provide that the retirement-replacement-betterment ("RRB") method of accounting for depreciation is an acceptable method of depreciation for Federal income tax purposes.

Under the RRB method, the original costs of an asset are capitalized, and no ratable depreciation is taken. When the asset is retired, the original costs are written off. If, instead of being retired, the asset is replaced by an asset of similar quality, the original costs remain capitalized, and the costs of replacement (less the fair market value of the asset replaced) are expensed. In addition, a full investment tax credit is allowed, even though the cost is currently deducted. To the extent a "replacement" represents an asset of a better quality than the one being replaced, the costs of replacement, to that extent, are treated as a "betterment" and are capitalized. The method can be illustrated with the following example. Assume that rail with an original cost of $25 per ton (and a current fair market value of $40 per ton), is replaced by new rail of equal quality with a current cost of $150 per ton. The original cost of $25, on which no ratable depreciation has been taken, remains capitalized, and the replacement cost of $150, less the fair market value of the rail being replaced ($40), or $110, is deducted. If, however, the rail is replaced by rail of a better quality at a cost of $200 per ton, the increase in cost of $50 is a betterment and is capitalized.

The RRB method has historically been used by railroads for regulatory, financial and tax purposes, although we understand that five railroads use ratable depreciation for financial statement purposes. Its origin goes back about 100 years when a similar method was adopted by state railroad commissioners. Since the beginning of the income tax in 1913, the method has been used for tax purposes for roadway assets. However, in 1943 the Interstate Commerce Commission (ICC) ordered Class I railroads to change from the RRB method to straight-line depreciation for roadway assets (buildings, bridges, tunnels, etc.) other than roadbed or track. Such change was also made in 1943 for tax purposes with the Technical Amendments Act of 1958 resolving the method of adjustment on the change.

As stated by a number of courts, the RRB method is based on an accounting theory of equalization through the law of averages. The theory of the RRB method is that in a mature industry, such as railroads, annual retirements and replacements of property tend to become uniform in amount each year, and consequently, the deductions under the RRB method will approximate the results if straight-line depreciation were used. For example, if, on the average, a railroad replaces its track every 25 years and, therefore, on the average replaces one twenty-fifth a year, the deduction for depreciation will be the same, on average, under the RRB method and the straight-line method.

That the RRB method has been an acceptable method for tax purposes has been confirmed by numerous court decisions and the Internal Revenue Service's acquiescence in 1960. It is our understanding that the reason the railroad industry is now asking for legislation to codify the method is due to the fact that the ICC is currently reexamining its accounting rules for railroad track property, and the railroads fear that if the ICC changes the method of depreciation from RRB to straight-line, the IRS will similarly disallow RRB.

The railroads obviously are concerned that the denial of RRB depreciation will result in an increased tax burden on the industry. The concern arises in part because ratable depreciation based on the basis of existing book accounts under RRB (which could relate to property acquired many years ago) would likely be less than ratable depreciation based on the current cost of replacement property. However, two issues should be kept separate. First, we should ask ourselves whether it is sound policy to freeze the RRB method for tax purposes when it is no longer used for regulatory or financial purposes. Second, if a change in depreciation practices is warranted except for the increased tax burden that accompanies it, we should consider whether there are better or more logical ways to mitigate that burden.

Thus, we believe Congress should reexamine the RRB method. Although a practice has been accepted over a long period of time, it should be examined periodically to determine if it continues to be appropriate in light of changes in economic conditions and financial practices. Based on such a reexamination, the Treasury Department opposes the enactment of S. 1467 as introduced. The Treasury Department believes that RRB should be discontinued for tax purposes if the ICC disallows it. We can assure you, however, with the concurrence of Commissioner Kurtz, that the Internal Revenue

Service will not mandate any change in depreciation for track until an alternative has been developed and fully explored by this Subcommittee during the 96th Congress. We propose that this bill be revised to provide for an appropriate transition from the RRB method to ratable depreciation should the IRS require the change for tax purposes. The objective of such transitional rules should be the minimization of the revenue cost to the railroads of the change during a transition period.

We believe that the RRB method is not appropriate because 1) it is, in effect, indexing, 2) it is subject to various abuses, 3) if the ICC were no longer to allow it, its continuance would be administratively burdensome, and 4) it does not clearly reflect income.

First, as I previously stated, the courts have historically accepted the RRB method based on the theory that in a mature industry, annual depreciation and the cost of replacement will on average be identical. However, the initial court decisions that accepted the method dealt with taxable years prior to 1943. There is a major distinction between those years and today--namely, inflation. The "law of averages" theory works only in terms of constant dollars. That is, if one twenty-fifth of track is replaced each year, straight-line depreciation of the historical cost of the track in place will be the same as the amount currently spent on track, only if there has been no change in the cost of the track. However, if, for example, the cost of track in the current year is 75 percent greater than the average historical cost of the track in place, an immediate deduction for the cost of the current year's replacement will be 75 percent greater than the deduction based on straight-line depreciation of the track in place. Thus, in a period of inflation, RRB amounts to indexation of depreciation. Regardless of what one concludes about indexing depreciation generally, we submit that indexing depreciation only for a single industry or group of taxpayers cannot be justified.

The second reason for our opposition is that a number of existing or possible abuse situations have come to our attention regarding the use of the RRB method. The IRS is currently considering a situation where a railroad has been purchased at a price that was less than the book value of its gross assets. In this case, at the time of purchase a low amount was allocated to track. Since the taxpayer then elected to use the RRB method, the amount of the purchase price allocated to the track would not be relevant until the track was retired. This is unlike normal purchase situations where the portion of the purchase price allocated to depreciable assets is relevant in determining the future depreciation deductions. When the RRB method is used, the future depreciation deductions are based on replacements, not the historical cost of track in place. In a separate situation, we understand that in a prospectus it is stated that the company acquiring the subject railroad would use the RRB method and could assign a zero basis to the railroad track. It is clear that in these situations, even assuming constant dollars, the deduction under the RRB method will be much greater than that under straight-line depreciation and is therefore inappropriate since the courts have based allowability of RRB on the theory that deductions under it equal the deductions under straight-line depreciation. Further, such abuse situations will be more difficult to detect if RRB is used solely for tax purposes and the allocations in question are not subject to review by the ICC or independent accountants.

Third, we believe that if the ICC changes the method of depreciating track for regulatory purposes, it would be less of an administrative burden for both taxpayers and the IRS if for tax purposes the method is also changed from the RRB method to a ratable method. Since 1913, the accounting for railroad track has been similar for the ICC and the IRS. At a minimum, a change to ratable depreciation by the ICC and not the IRS would require the keeping of two sets of books. No doubt there would be complaints of excessive paper work if the law imposed the additional burden. Reconciliations between records for ICC and IRS purposes would be difficult and it would certainly make IRS audits more complex and time-consuming. While reconciliation between ICC and IRS computations would still be required if both were to disallow the use of RRB, such reconciliation between straight-line depreciation and double declining balance depreciation would certainly be less of a burden than between straight-line depreciation and RRB. We believe it would be a step backward if you were to allow the continued use of the RRB method if the ICC were to change. In addition, we believe that a change from the RRB method to ratable depreciation would result in fewer tax disputes than now exist. For example, for all other taxpayers there is some natural tension between treating an item (such as repairs) as an ordinary and necessary business expense and treating it as a capital expenditure. While the benefit of the former is a current deduction, the benefit of the latter may be the availability of a 10 percent investment tax credit. When the RRB method is used, taxpayers naturally tend toward treating more items as "capital expenditures" because they obtain both a current deduction with respect to replacements as well as an investment tax credit. Other existing issues often contested which are peculiar to RRB accounting involve whether an item is a replacement or a betterment and whether salvage value equals fair market value. Maintaining RRB for tax purposes would mean these difficult questions would be resolved only for tax purposes without consideration of their complementary effect for regulatory or financial purposes.

Fourth, we believe that the RRB method does not clearly reflect income. We understand this is the major reason for the ICC's reexamination. It is our understanding that it is common practice in the industry that in years of high revenue, railroads incur high capital expenses and replace higher than average amount of track, whereas in low revenue years railroads replace lower than average amount of track. Such practices are not uncommon in other industries. However, in high revenue years, railroads are able to increase capital expenditures and to immediately reduce their tax liability, while other taxpayers, consistent with the requirement to clearly reflect income, must spread the deductions over the years the assets are used. Thus, railroads have a clear advantage in timing their tax liability over other taxpayers who must use ratable depreciation. While the accounting profession allows the use of RRB as a generally accepted accounting principle, I would like to point out that one can assume that such allowability is based more on the method having been generally accepted over many years rather than that it clearly reflects income.

While we believe that it is no longer appropriate for railroads to use the RRB method, we are not unmindful of transitional problems which could, absent legislation, result in substantial immediate revenue cost to the railroad industry. We therefore propose that S. 1467 be revised to provide for appropriate transitional rules with the objective of minimizing the transitional cost. It seems reasonable to assume that the real question here is the tax burden of the industry and not the theoretical correctness of the RRB method.

A short-term tax increase can arise because in the past the RRB method has resulted in larger depreciation deductions than would have been allowed under ratable depreciation; for example, double declining balance. Normally, in such a situation the larger deductions in the past would be offset by lower deductions in the future. Thus, the taxpayer changing to the new method would not be entitled to as large future deductions for depreciation as a similarly situated taxpayer electing to use double declining balance from the beginning.

However, because of the very unusual circumstances of this case, we do not object to allowing the same deductions to a railroad switching from RRB as would have been allowed as if it had originally used ratable depreciation.

Toward that end, we propose the following as a general framework for transition. As of the beginning of the year of change, the book value of the track would be restated to reflect (a) the original cost of the track actually in place, and (b) the accumulated depreciation to such date that would have resulted had the straight-line method been used. It is our understanding that this is the method that would probably be used for book purposes if the ICC decides that the method should be changed. We would expect to work with the ICC to develop and agree on the detailed methodology to be used in making such restatement with the objective that the same restatement be applicable for both the ICC and for tax purposes. This restatement of the book value of the track assets would result in the allowance of a double deduction since the cost of most of the existing track (except betterments) has previously been deducted under the RRB method. The excess of the cost of the existing track (less accumulated straight-line depreciation) over the capitalized basis under RRB would be deducted again as part of ratable depreciation. A double deduction of this type is common when a method of accounting is changed. To avoid windfalls, section 481 of the Internal Revenue Code provides that the amount duplicated is to be taken into account as an adjustment to taxable income in the year of the change. Normally, to reduce distortions, such adjustment, which in this case would increase taxable income, is taken into account over a ten-year period. However, because of the very unusual circumstances involved, we propose that such adjustment not be taken into income at the time of the change, nor spread over a period of years, but that it be placed in a suspense account, and deferred until a later time; for example, when the taxpayer is no longer in the railroad business. This type of suspense account has been enacted in situations involving reserves for guaranteed debt obligations, accrued vacation pay, paperback and record returns, and discount coupons. In those situations the suspense account was used by Congress to allow the taxpayers to change to a more generous method of accounting without a resulting revenue loss to the Treasury due solely to double deductions in the period of transition. We believe it is appropriate to apply similar principles to the very unusual circumstances here.

With respect to future ratable depreciation, we propose that railroads be allowed the same method as other taxpayers. At present this is the use of the ADR (asset depreciation range) system including accelerated depreciation. Any difference in depreciation between ADR-double declining balance and RRB would be due to the effect of the current levels of inflation. Congress, as indicated by the earlier testimony this morning, will likely consider the possibility of liberalizing depreciation for taxpayers generally. Railroad depreciation practices should certainly be a part of this study. If depreciation is liberalized this may eliminate any revenue cost to the railroads from a change in method. If the effect of inflation is not otherwise mitigated by the adoption of changes in the depreciation system generally, we would consider the use of other benefits, such as additional first-year depreciation, to reduce the cost during the transition period to an acceptable level. Any such benefits would be phased out over the transition period.

We believe that these proposals are both generous and easy to administer. We presented these proposals on September 27 in testimony before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means. We have not as yet had an opportunity to discuss these proposals with representatives of the railroad industry. We believe, however, that with these proposals as a framework, the details could be developed into a legislative proposal to correspond to the similar objectives of the industry and the Treasury.

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

FOR IMMEDIATE RELEASE October 22, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,100 million of 13-week bills and for $3,101 million of 26-week bills, both to be issued on October 25, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 24, 1980			26-week bills maturing April 24, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	96.758 a/	12.825%	13.48%	93.620 b/	12.620%	13.70%
Low	96.701	13.051%	13.72%	93.590	12.679%	13.77%
Average	96.731	12.932%	13.59%	93.604	12.651%	13.74%

a/ Excepting 3 tenders totaling $190,000
b/ Excepting 1 tender of $20,000

Tenders at the low price for the 13-week bills were allotted 38%.
Tenders at the low price for the 26-week bills were allotted 40%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 47,710	$ 47,710	$ 50,590	$ 40,590
New York	3,723,015	2,522,665	4,019,935	2,592,390
Philadelphia	31,235	31,235	18,610	18,610
Cleveland	65,640	65,640	40,625	28,015
Richmond	39,570	39,570	67,045	42,045
Atlanta	53,690	51,820	53,900	47,250
Chicago	355,135	82,015	387,270	101,770
St. Louis	29,880	29,880	22,710	18,175
Minneapolis	6,225	6,225	8,620	7,120
Kansas City	47,545	47,545	21,645	21,645
Dallas	23,845	23,845	12,745	12,745
San Francisco	225,860	99,660	222,535	107,535
Treasury	52,520	52,520	62,620	62,620
TOTALS	$4,701,870	$3,100,330	$4,988,850	$3,100,510
Type				
Competitive	$2,926,295	$1,324,755	$3,112,935	$1,324,595
Noncompetitive	702,115	702,115	512,545	512,545
Subtotal, Public	$3,628,410	$2,026,870	$3,625,480	$1,837,140
Federal Reserve and Foreign Official Institutions	$1,073,460	$1,073,460	$1,363,370	$1,263,370
TOTALS	$4,701,870	$3,100,330	$4,988,850	$3,100,510

1/Equivalent coupon-issue yield.

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

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
October 22, 1979

STATEMENT OF THE HONORABLE ROGER C. ALTMAN
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE

Mr. Chairman and Members of the Committee:

I welcome this opportunity to discuss H.R. 3905, the National Alcohols and Alcohol Fuel and Farm Commodity Production Act of 1979, as reported by the House Agriculture Committee. I will comment on the new Federal credit program which would be created by section 2 of the bill. The Subcommittee has specifically requested the Department's assessment of any possible inflationary or anti-inflationary effects of the bill.

The total volume of credit in our economy at any time is limited by a number of constraints, including the constraints of monetary policy and the level of interest rates. Federal credit programs have the effect of changing the allocation of these limited credit resources by lowering the cost of credit

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to preferred borrowers. Indeed, that is their purpose. Federal credit programs reflect determinations by Congress that the credit markets in their normal functioning do not supply the amount of credit deemed desirable to the class of borrowers made eligible for assistance under the program. Yet, given a limited supply of credit available to the economy, the increased demands of Federal credit programs add to the pressures on interest rates, tending to raise interest costs for all borrowers including the Federal Government. For these reasons, proposals to create new Federal credit programs or to expand existing programs should be carefully scrutinized.

Let me turn now to the importance of the structure of a Federal credit program. The existence of a Federal credit program will generate a demand for it, whether it is needed or not. Thus, it is important that a Federal credit program be structured to minimize unnecessary spending and inflationary pressures. As I will develop, the structure of a credit program -- that is, the eligibility requirements, terms and conditions, manner in which the credit assistance would be provided, inadequate provision for Congressional control over the program, etc. -- can contribute to unnecessary spending and costs to the Federal Government.

Duplication of programs

Enactment of a credit program, absent a demonstration of clear need, would result in confusion on the part of potential applicants as to Federal agency responsibility, duplication of Federal agency activities, and inefficient use of Federal resources. In this regard, I understand that loans for alcohols plants and alcohol fuel plants are available under programs now conducted by the Farmers Home Administration in the Department of Agriculture, the Economic Development Administration in the Department of Commerce, and the Small Business Administration. In addition, there are pending proposals, such as Chairman Moorhead's bill, H.R. 3930, which would provide a variety of financial incentives for synthetic fuels production, including alcohol fuels.

Credit needs test

Most credit programs are intended to facilitate the flow of credit to borrowers who are unable to obtain credit in the private market. The needs of more creditworthy borrowers are expected to be met in the private market without Federal credit aid. Accordingly, we believe it is essential that an applicant for a direct loan demonstrate that credit is not otherwise available on reasonable terms. Such a requirement would help direct Federal credit assistance to cases of demonstrated need, minimize unnecessary demands for Federal credit assistance, reduce Federal competition with and duplication of the activities of private lenders which would otherwise make the loans, and provide a built-in control over program growth. There is no such requirement in section 2 of H.R. 3905.

Interest rate subsidies

In H.R. 3905, the interst rate on direct loans would be determined by the Secretary of Agriculture, except that the rate could not exceed the current average yield on outstanding marketable obligations of the United States of comparable maturities plus one percent. We believe that provision for a statutory ceiling on the interest rate which may be charged on direct loans should also be accompanied by a floor on such rates. Otherwise, a sub-market rate of interest would stimulate increased demands for loans, and this problem would be exacerbated by not requiring the borrower to demonstrate that credit is not otherwise available on reasonable terms. Without such an interest rate floor, there will be inevitable demands to charge lower interest rates for particular projects or preferred borrowers. Unless the interest rate actually charged is sufficient to cover the Treasury's borrowing costs, as measured by current market yields on outstanding obligations of comparable maturities, and program administrative expenses and probable losses, the result will be hidden subsidies to program borrowers and costs to the Federal Government. In this regard, it is not clear that the additional charge of up to one percent would be sufficient to cover program administrative expenses and losses.

With respect to the interest rate formula in section 2, we believe that a determination of the current average market yield on outstanding obligations of the United States should be made by the Secretary of the Treasury and certified to the Secretary of Agriculture. The actual interest rates charged would then be determined by the Secretary of Agriculture under the authority which permits the Secretary of Agriculture to charge more than the current average market yield.

Federal guarantees of tax-exempt obligations

The interest on obligations of public bodies is generally exempt from Federal income taxation. The authority in section 2 to guarantee loans to public bodies would result in Federal guarantees of tax-exempt obligations. The Treasury opposes Federal guarantees of tax-exempt municipal bonds. They create a class of securities which is stronger than the Federal Government's own securities. Like Treasury securities, they would be backed by the full Federal credit but, unlike Treasuries, they would be exempt from Federal taxes. In addition, such guarantees would convey the benefits of both the Federal credit and the tax exemption to high income taxpayers -- the principal buyers of tax-exempt securities. Also, tax-exempt guarantees are an ineffective means of delivering Federal aid to local governments, since much of the benefit goes to high income investors and since the financing of Federal programs in the municipal market competes directly with other State and local bond issues for essential local public facilities and increases the cost of financing the facilities. For these reasons, we believe that municipal bonds should only be guaranteed if they are taxable securities. On at least 19 occasions in recent years, Congress has enacted legislation which specifically prohibits Federal guarantees of tax-exempt obligations and provides other more efficient means of financing credit assistance to public bodies, including assistance to public bodies under other provisions of the Consolidated Farm and Rural Development Act of 1972.

Coordination with Treasury financing

There is no provision for Treasury coordination of the financing of obligations guaranteed under the bill. Requiring the approval of the Secretary of the Treasury of the interest rate, timing, and other terms and conditions of guaranteed obligations helps assure more efficient financing of these obligations and coordination with the financing of other government and government-backed obligations in the securities market. Also, in this regard, limiting the guarantee to private lenders, as proposed in section 2, could result in excessive financing costs because the Federal Financing Bank would be precluded from purchasing the guaranteed obligations. The Federal Financing Bank was created in 1973 for the stated purpose of reducing the cost of Federal and Federally-assisted borrowings from the public.

Other loan terms and conditions

There is no authority in the bill for the Secretary of Agriculture to charge a guarantee fee. Failure to charge a guarantee fee in an amount sufficient to cover administrative expenses and probable losses will result in hidden subsidies to guaranteed borrowers and costs to the Government. Requiring an affirmative finding of reasonable assurance of repayment prior to making or guaranteeing a loan, limiting the maximum maturity of the loan to less than the useful life of the project, and requiring the borrower to have an equity stake in the project will help minimize Federal exposure to loss under the program.

Congressional control

In the 1980 Budget the Administration proposed the establishment of a system of control over Federal credit programs based on annual limitations on gross loan activity for both direct lending and loan guarantee programs. Under the Administration's proposal, annual limitations on gross lending for direct and guaranteed loans would be established in the regular Budget and appropriations process. Yet, there is no provision in the bill that would limit annual direct and guaranteed lending under the program to amounts specified in annual appropriations Acts. Such a provision would provide a firm basis for Congressionl control over annual activity under the program. Firm Congressional control, in turn, would help to minimize unnecessary pressures on our credit markets.

In conclusion, the Treasury Department believes that the deficiencies in program structure will generate unnecessary demands for Federal credit assistance, resulting in unnecessary spending, and thus tend to contribute to inflationary pressures. Accordingly, the Department recommends against enactment of section 2 of H.R. 3905 in its present form.

I would be happy to answer any questions.

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

FOR IMMEDIATE RELEASE

October 23, 1979

STATEMENT BY TREASURY SECRETARY G. WILLIAM MILLER
ON OIL COMPANY EARNINGS

This week's reports of major increases in oil company earnings reinforce the urgent need for the Congress to enact promptly the Administration's Windfall Profits Tax. The Windfall Profits Tax proposed by President Carter and passed by the House of Representatives left ample incentives for oil companies to explore for new oil. Furthermore, substantial increases in world oil prices since the House action mean profits will be higher than previously expected, even after the Windfall Profits Tax.

These changing circumstances make it even clearer that there is no justification for diluting the proposed Windfall Profits Tax. Continuous changes in both price and availability in world oil markets demonstrate the importance of the Administration's program to diminish our reliance on imported oil. A substantial Windfall Profits Tax is essential in order to provide adequate funds for development of domestic sources of unconventional energy, for major conservation projects such as expanded public transportation, and to offset economic hardship on those least able to bear the burden.

The third quarter earnings reports of major U.S. oil companies dramatize the merits of our proposed Windfall Profits Tax, which is fair both to the oil companies and to the American people.

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

FOR RELEASE AT 4:00 P.M. October 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 $6,200 million, to be issued November 1, 1979. This offering will provide $100 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $6,129 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,100 million, representing an additional amount of bills dated August 2, 1979, and to mature January 31, 1980 (CUSIP No. 912793 3P 9), originally issued in the amount of $3,026 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,100 million to be dated November 1, 1979, and to mature May 1, 1980 (CUSIP No. 912793 4C 7).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 1, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,184 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, October 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.

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. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held at the close of business on the day prior to the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering; e.g., bills with three months to maturity previously offered as six month bills. 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, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

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 on November 1, 1979, in cash or other immediately available funds or in Treasury bills maturing November 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 October 23, 1979

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $3,902 million of $6,775 million of tenders received from the public for the 2-year notes, Series Y-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	12.55% 1/
Highest yield	12.69%
Average yield	12.66%

The interest rate on the notes will be 12-5/8%. At the 12-5/8% rate, the above yields result in the following prices:

Low-yield price	100.129
High-yield price	99.888
Average-yield price	99.940

The $3,902 million of accepted tenders includes $718 million of noncompetitive tenders and $2,249 million of competitive tenders from private investors, including 14% of the amount of notes bid for at the high yield. It also includes $935 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 $3,902 million of tenders accepted in the auction process, $470 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 October 31, 1979.

1/ Excepting 6 tenders totaling $125,000.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE
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JOINT STATEMENT OF
G. WILLIAM MILLER, SECRETARY OF THE TREASURY
AND
JAMES T. McINTYRE, JR.,
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
ON
BUDGET RESULTS FOR FISCAL YEAR 1979

SUMMARY

The Treasury Department is today releasing the September Monthly Statement of Receipts and Outlays of the United States Government, which shows the actual budget totals for the fiscal year that ended on September 30, 1979.

-- Deficit.--The 1979 actual deficit was $27.7 billion, $9.7 billion below the January estimate of $37.4 billion, and $2.6 billion below the revised Mid-Session Review estimate. This is the smallest deficit since fiscal year 1974.

-- Receipts.--Receipts were $465.9 billion in 1979, $10.0 billion above the January estimate and almost the same as the revised Mid-Session Review estimate.

-- Outlays.--Budget outlays were $493.6 billion in 1979, $0.3 billion above the January estimate, but $3.1 billion below the revised Mid-Session Review estimate.

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Table 1.--BUDGET TOTALS
(in billions of dollars)

	Receipts	Outlays	Deficit (-)
1978 Actual......................	402.0	450.8	-48.8
1979 Estimates and Actual:			
January 1/....................	456.0	493.4	-37.4
July 2/.......................	466.5	496.8	-30.3
Actual........................	465.9	493.6	-27.7

1/ January 1979 from the 1980 Budget.

2/ Based on the revision of the Mid-Session Review of the 1980 Budget released on July 31, 1979, adjusted to include revised estimates for the energy security program and Department of Defense increases.

NOTE: The administrative expenses and interest receipts of the Exchange Stabilization Fund, which previously were excluded from the budget, are now included. Because of the latter change, the 1978 and 1979 figures differ slightly from those in the Monthly Treasury Statement.

RECEIPTS

Receipts in 1979 were $465.9 billion, $10.0 billion above the January estimate of $456.0 billion. An increase in individual income tax receipts of $14.2 billion was partially offset by a decrease in corporation income tax receipts of $4.6 billion. Higher personal incomes and overwithholding on the part of individuals account for most of the increase in individual income tax receipts.

OUTLAYS

Budget outlays for 1979 were $493.6 billion, only $0.3 billion above the January estimate, although there were many offsetting changes. The larger increases were for military procurement ($2.9 billion) and Farmers Home Administration ($1.4 billion). The largest decreases were for the Commodity Credit Corporation ($1.5 billion) and military assistance programs ($1.4 billion).

Table 2 shows the changes from the January estimates by agency and major program. A description of some of the major outlay changes follows.

Funds Appropriated to the President

-- Almost all the change for military assistance programs occurred in the foreign military sales trust fund. Outlays in that account represent the net effect of disbursements and receipts. Actual disbursements in the fund were $7.1 billion, $2.3 billion below the January estimate. They fell dramatically because of cancellation of major procurement by Iran. A shortfall in receipts (which increases outlays) also occurred due to a combination of the Iranian cancellation and our effort to reduce billings to Saudi Arabia in order to use up excess Saudi funds already on deposit. The net impact of these changes is a $1.3 billion reduction in actual outlays compared to the January estimate.

-- For foreign economic assistance, the major decrease was in the security supporting assistance programs. The actual amount for these programs was $1.8 billion, down $0.3 billion from January. The decrease is primarily because outlays for the Egyptian aid program, originally estimated for 1979, are now expected to occur in 1980.

-- The decrease in outlays for petroleum reserves, from an estimated $0.2 billion in January to $-0.5 billion, was due to a changed treatment of receipts. The actual receipts for the sale of oil were credited to the petroleum reserves account rather than to the Department of Energy, as was assumed in January.

Department of Agriculture

-- For the Commodity Credit Corporation, sharply higher grain prices and improved export markets resulted in larger than expected offsetting collections from loan repayments, reducing actual outlays $1.5 billion from the January estimate.

-- For the Farmers Home Administration, outlays increased $1.4 billion from the January estimate of $0.5 billion. This was primarily because of a five-fold increase in emergency disaster loans from the January estimate.

-- Outlays for the Food and Nutrition Service were $10.5 billion, $0.7 billion higher than estimated in January. Almost all of the increase was for the food stamp program. Following elimination of the purchase requirement in January, people came on to the program rolls earlier and at a slightly higher level than was anticipated.

Department of Commerce

Outlays for the local public works program were $1.7 billion, $0.3 billion lower than projected in January. This decrease was due partly to lower costs than expected for some projects and partly to the fact that many grantees are withholding final payments on completed projects until they are reviewed and corrections are completed.

Department of Defense-Military

Military procurement increased $2.9 billion from the January estimate, to $25.4 billion. The February amendment for U.S. purchase of equipment, originally ordered by the Iranian government, increased outlays by about $500 million. The balance of the increase resulted from faster than expected performance by contractors.

Department of Defense-Civil

The Army Corps of Engineers construction programs, including over 200 individual projects, experienced fewer than expected delays and greater than expected inflation, increasing 1979 outlays to $2.9 billion, $0.3 billion above the January estimate.

Department of Energy

Outlays for 1979 were $7.9 billion, $1.1 billion less than the January estimate. The decline was due primarily to the decision to halt purchases of oil for the strategic petroleum reserve program because of the shortage of oil in the world markets caused by the Iranian crisis. This decrease is a net figure, reflecting an offset of $0.7 billion attributable to the fact that receipts from the sale of oil (which increases net outlays), which were assumed in January to appear in the Department of Energy, were recorded in the Funds Appropriated to the President section of the budget.

Department of Health, Education, and Welfare

-- The increase for social security was primarily due to higher than expected average benefit payments, more retroactive payments, and a higher than expected June cost-of-living adjustment. The January estimate assumed a 9.1% adjustment, while the actual adjustment was 9.9%.

-- The increased outlays for medicaid resulted from higher than anticipated State expenditures under the program.

Department of Housing and Urban Development

Outlays for community development block grants were $3.2 billion in 1979, an increase of $0.3 billion since the January estimate. The January estimate was low primarily because it is difficult to anticipate the rate at which localities will use the funds.

Department of Labor

-- For employment and training assistance, the actual outlays were $6.2 billion, $1.0 billion lower than the January estimate. The January figures were based on preliminary estimates of the effect of the October 1978 amendments to the Comprehensive Employment and Training Act (CETA) and assumed enactment of a supplemental for the private sector employment initiative, newly authorized by CETA:Title VII. The amendments caused delays in grantee spending as administrative systems were changed and new rules, especially for public service jobs, went into effect. The July estimates were based on a better understanding of these changes and reduced outlay estimates by $779 million. The July estimates also recognized that the Congress would not enact the supplemental. The final shortfall is probably the result, in part, of uncertainty over the 1980 appropriation level, leading to conservative use by grantees of available funds near the end of the year.

-- For the black lung disability trust fund, the $0.3 billion increase over the January budget reflects the supplemental that was needed because the re-examination of previously denied claims (required by the Black Lung Benefits Act of 1977) proceeded faster, more claims were approved, and the average size of retroactive payments was higher than previously anticipated.

Department of Transportation

-- Federal Highway Administration outlays were $7.3 billion, $0.4 billion higher than estimated in January. The increase was due to more construction than anticipated in Federal-aid highways, and to expanded use of State funds for interstate construction in 1978 and early 1979, thus increasing Federal outlays in 1979.

-- Other transportation outlays were down primarily because Federal Railroad Administration outlays of $1.2 billion were $0.3 billion below the January estimate. The shortfall was largely the result of lower than expected activity for the Northeast corridor rail project. This decrease was partially offset by Urban Mass Transit Administration outlays of $2.5 billion in 1979, which were $0.2 billion higher than the January estimate.

Department of the Treasury

The January estimate included \$0.2 billion for the proposed targeted fiscal assistance program for 1979, but it was not enacted. The payments to U.S. territories, also \$0.2 billion, were not made because of a ruling by the Comptroller General that the payments must be appropriated. The ruling was made late in the year, and no appropriation was requested for 1979. There were net increases in offsetting receipts of \$0.3 billion, primarily from earnings on Treasury tax and loan accounts. In addition, there was a net increase in outlays of \$0.6 billion, resulting from operations of the Exchange Stabilization Fund. These operations were not projected in the January estimate.

Environmental Protection Agency (EPA)

Outlays for EPA were \$4.8 billion in 1979, \$0.6 billion higher than estimated in January. All of the increase is for the sewage treatment plant construction program, partly because increased technical assistance by Federal officials to grantees made it possible for construction to proceed faster.

Veterans Administration (VA)

The VA had outlays of \$19.9 billion in 1979, down \$0.4 billion from the January estimate. Most of the decrease was due to later than expected commitment of funds in the medical care program.

Table 2.--1979 BUDGET RECEIPTS BY SOURCE AND OUTLAYS BY AGENCY: CHANGE FROM JANUARY
(fiscal years; in millions of dollars)

	1978 Actual	1979 January Budget Estimate*	1979 Actual	1979 Change from January Estimate
Receipts by Source				
Individual income taxes	180,988	203,602	217,841	14,239
Corporation income taxes	59,952	70,307	65,677	-4,630
Social insurance taxes and contributions:				
Employment taxes and contributions	103,893	119,749	120,074	325
Unemployment insurance	13,850	15,870	15,387	-483
Contributions for other insurance and retirement	5,668	6,170	6,130	-40
Subtotal, Social insurance taxes and contributions	123,410	141,789	141,591	-197
Excise taxes	18,376	18,395	18,745	350
Estate and gift taxes	5,285	5,686	5,411	-275
Customs	6,573	7,517	7,439	-78
Miscellaneous	7,413	8,693	9,237	544
Total, Receipts	401,997	455,989	465,940	9,951

Table 2 (continued)

	1978 Actual	1979 January Budget Estimate*	1979 Actual	1979 Change from January Estimate
Outlays by Major Agency				
Legislative branch and the Judiciary............	1,484	1,736	1,557	-179
Executive Office of the President...............	75	88	80	-9
Funds appropriated to the President:				
Disaster relief.................................	461	275	284	9
Military assistance programs....................	96	424	-947	-1,371
Foreign economic assistance.....................	3,469	3,768	3,312	-457
Petroleum reserves..............................	162	239	-458	-696
Other...	262	384	345	-39
Subtotal, Funds appropriated to the President..................................	4,450	5,090	2,537	-2,554
Agriculture:				
Commodity Credit Corporation, foreign assistance, and special export...............	6,465	6,103	4,587	-1,515
Farmers Home Administration.....................	1,638	537	1,897	1,361
Food and Nutrition Service......................	8,653	9,832	10,513	682
Other...	3,613	3,734	3,636	-98
Subtotal, Agriculture...........................	20,368	20,205	20,634	429
Commerce:				
Local public works program......................	3,057	2,051	1,741	-310
Other...	2,181	2,280	2,331	51
Subtotal, Commerce..............................	5,239	4,331	4,072	-260
Defense-Military:				
Procurement.....................................	19,976	22,476	25,404	2,928
Other...	83,066	89,424	89,609	185
Subtotal, Defense-Military......................	103,042	111,900	115,013	3,113
Defense-Civil...................................	2,553	2,644	2,908	265
Energy..	6,286	8,946	7,889	-1,057

Table 2 (continued)

	1978 Actual	1979 January Budget Estimate*	1979 Actual	1979 Change from January Estimate
Health Education, and Welfare:				
Social security (OASDI net)	92,242	102,323	102,595	273
Medicare and medicaid	35,891	40,900	41,564	664
Education division	8,764	10,794	10,713	-81
Other	25,959	26,696	26,313	-383
Subtotal, Health Education, and Welfare	162,856	180,714	181,186	472
Housing and Urban Development:				
Community development grants	2,464	2,875	3,161	286
Other	5,125	6,087	6,057	-30
Subtotal, Housing and Urban Development	7,589	8,962	9,218	256
Interior	3,821	4,015	4,087	72
Justice	2,397	2,586	2,522	-64
Labor:				
Employment and training assistance	4,764	7,110	6,158	-952
Unemployment trust fund	11,169	11,000	11,173	173
Black lung disability trust fund	112	314	622	308
Other	6,851	4,429	4,697	268
Subtotal, Labor	22,896	22,854	22,650	-203
State	1,252	1,399	1,548	149
Transportation:				
Federal Highway Administration	6,076	6,885	7,253	368
Other	7,376	8,478	8,232	-246
Subtotal, Transportation	13,452	15,363	15,486	122
Treasury:				
Interest on the public debt	48,695	59,800	59,837	37
Other	7,660	5,662	5,179	-484
Subtotal, Treasury	56,355	65,462	65,016	-446
Environmental Protection Agency	4,071	4,194	4,800	606

Table 2 (continued)

	1978 Actual	1979 January Budget Estimate*	1979 Actual	1979 Change from January Estimate
General Services Administration	83	158	173	15
National Aeronautics and Space Administration	3,980	4,401	4,187	-214
Veterans Administration	18,962	20,315	19,887	-428
Community Services Administration	768	668	779	111
Export-Import Bank	-106	91	200	109
Federal Deposit Insurance Corporation	-567	-1,121	-1,218	-97
Federal Home Loan Bank Board	-403	-390	-488	-98
Office of Personnel Management	10,952	12,529	12,655	126
Postal Service payment	1,778	1,803	1,787	-17
Railroad Retirement Board	4,075	4,382	4,365	-16
Small Business Administration	2,766	1,523	1,631	109
Other	6,133	7,191	6,972	-219
Undistributed offsetting receipts:				
Federal employer contributions to retirement funds	-4,983	-5,388	-5,271	117
Interest received by trust funds	-8,530	-9,782	-9,951	-168
Rents and royalties on the Outer Continental Shelf	-2,259	-3,500	-3,267	233
Total, Outlays	450,836	493,368	493,641	273
Deficit (-)	-48,839	-37,379	-27,701	9,678

* January 1979 from the 1980 Budget.

NOTE: Detail may not add to totals due to rounding. The administrative expenses and interest receipts of the Exchange Stabilization Fund, which previously were excluded from the budget, are now included. Because of the latter change, the 1978 and 1979 figures differ slightly from those in the Monthly Treasury Statement.

Erratum to the Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for the period October 1, 1978 through September 30, 1979.

General note B on page 3 should read as follows:

The joint Treasury/Office of Management and Budget press statement released with this Monthly Treasury Statement has adjusted these totals to include operating expenses and interest receipts of the Exchange Stabilization Fund. The totals in the press release are $493.6 billion for outlays and $-27.7 billion for the deficit.

Final[1] Monthly Treasury Statement of Receipts and Outlays of the United States Government

for period from October 1, 1978 through September 30, 1979

TABLE I--TOTALS OF BUDGET RESULTS AND FINANCING (In millions)

Period	Budget Receipts and Outlays			Means of Financing			
	Net Receipts	Net Outlays	Budget Surplus (+) or Deficit (-)	By Borrowing from the Public	By Reduction of Cash and Monetary Assets Increase (-)	By Other Means	Total Budget Financing
rrent month (September 1979)	$47,295	$29,625	+$17,670	$4,249	-$16,562	-$5,358	-$17,670
tual 1979 (twelve months)	465,940	493,221	-27,281	33,641	-408	-5,951	27,281
mparative data:							
Actual 1978 (twelve months)	401,997	450,938	-48,940	59,106	-3,023	-7,143	48,940
timated 1979 [2]	466,497	496,758	-30,261	31,200	9,944	-10,883	30,261
timated 1980 [2]	513,865	547,092	-33,227	42,887	....	-9,660	33,227

TABLE II--SUMMARY OF BUDGET RECEIPTS AND OUTLAYS (In millions)

Classification	Actual This Month	Actual This Fiscal Year to Date	Actual Comparable Prior Period	Budget Estimates Full Fiscal Year[2]
NET RECEIPTS				
ividual income taxes	$23,341	$217,841	$180,988	$216,642
rporation income taxes	9,633	65,677	59,952	67,792
ial insurance taxes and contributions:				
Employment taxes and contributions	10,310	120,074	103,893	119,854
Unemployment insurance	154	15,387	13,850	15,296
Contributions for other insurance and retirement	344	6,130	5,668	6,170
cise taxes	1,660	18,745	18,376	18,608
tate and gift taxes	434	5,411	5,285	5,380
stoms duties	559	7,439	6,573	7,400
scellaneous receipts	859	9,237	7,413	9,355
Total	47,295	465,940	401,997	466,497
NET OUTLAYS				
gislative Branch	84	1,077	1,049	1,220
e Judiciary	34	480	435	511
ecutive Office of the President	5	80	75	89
nds Appropriated to the President:				
nternational security assistance	212	839	2,004	2,517
nternational development assistance	84	1,476	1,523	1,566
Other	52	222	932	983
partment of Agriculture	904	20,634	20,368	21,459
partment of Commerce	278	4,072	5,239	4,123
partment of Defense - Military	9,353	115,013	103,042	112,815
partment of Defense - Civil	347	2,908	2,553	2,894
partment of Energy	685	7,889	6,264	7,554
partment of Health, Education, and Welfare	6,413	181,186	162,856	181,936
partment of Housing and Urban Development	826	9,218	7,597	8,866
partment of the Interior	458	4,087	3,795	4,004
partment of Justice	191	2,522	2,397	2,542
partment of Labor	1,855	22,650	22,951	23,387
partment of State	122	1,548	1,252	1,479
partment of Transportation	1,462	15,486	13,452	15,291
partment of the Treasury:				
General revenue sharing	....	6,848	6,823	6,852
nterest on the public debt	4,360	59,837	48,695	60,100
Other	-329	-2,089	939	-1,636
vironmental Protection Agency	424	4,800	4,071	4,386
neral Services Administration	90	173	117	121
ional Aeronautics and Space Administration	387	4,187	3,980	4,239
erans Administration	597	19,887	18,962	20,269
er independent agencies	2,384	26,682	25,339	27,574
distributed offsetting receipts:				
Federal employer contributions to retirement funds	-960	-5,271	-4,983	-5,391
nterest on certain Government accounts	-95	-9,951	-8,530	-9,783
Rents and royalties on the Outer Continental Shelf lands	-600	-3,267	-2,259	-3,209
Total	29,625	493,221	450,938	496,758
plus (+) or deficit (-)	+17,670	-27,281	-48,940	-30,261

footnotes on page 3.

rce: Bureau of Government Financial Operations, Department of the Treasury.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of Receipts	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Individual income taxes:									
Withheld	[3]$16,193,722			$195,295,203			$165,215,153		
Presidential Election Campaign Fund	159			35,934			39,077		
Other	[3]7,349,082			56,214,840			47,803,913		
Total--Individual income taxes	23,542,963	$201,493	$23,341,470	251,545,977	$33,705,011	$217,840,966	213,058,144	$32,070,370	$180,987,774
Corporation income taxes	10,096,195	463,068	9,633,126	71,447,876	5,771,288	65,676,588	65,380,145	5,428,280	59,951,866
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[3]6,821,238	....	6,821,238	71,445,682	449,013	70,996,669	62,366,140	387,225	61,978,915
Self-Employment Contributions Act taxes	[3]310,179	....	310,179	3,733,056	....	3,733,056	3,302,166	....	3,302,166
Deposits by States	[4]-865,564	....	-865,564	8,680,185	....	8,680,185	7,859,698	....	7,859,698
Total--FOASI trust fund	6,265,853	....	6,265,853	83,858,923	449,013	83,409,910	73,528,004	387,225	73,140,779
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[3]1,198,450	....	1,198,450	12,519,847	82,032	12,437,815	10,517,122	50,900	10,466,222
Self-Employment Contributions Act taxes	[3]53,395	....	53,395	671,021	....	671,021	471,623	....	471,623
Deposits by States	366,934	....	366,934	1,474,907	....	1,474,907	1,312,550	....	1,312,550
Total--FDI trust fund	1,618,779	....	1,618,779	14,665,775	82,032	14,583,743	12,301,296	50,900	12,250,396
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[3]1,633,601	....	1,633,601	17,184,934	105,390	17,079,544	14,213,688	79,600	14,134,088
Self-Employment Contributions Act taxes	[3]53,645	....	53,645	629,442	....	629,442	493,668	....	493,668
Receipts from railroad retirement account	....	....	....	175,600	....	175,600	196,506	....	196,506
Deposits by States	513,707	....	513,707	1,989,592	....	1,989,592	1,843,511	....	1,843,511
Premiums collected for uninsured individuals	921	....	921	16,507	....	16,507	12,094	....	12,094
Total--FHI trust fund	2,201,875	....	2,201,875	19,996,074	105,390	19,890,684	16,759,467	79,600	16,679,867
Railroad retirement accounts:									
Railroad Retirement Act taxes	223,249	-17	223,266	2,190,293	406	2,189,887	1,822,725	719	1,822,006
Total--Employment taxes and contributions	10,309,756	-17	10,309,774	120,711,065	636,841	120,074,224	104,411,493	518,444	103,893,049
Unemployment insurance:									
Unemployment trust fund:									
State taxes deposited in Treasury	89,115	....	89,115	12,272,625	....	12,272,625	11,031,805	....	11,031,805
Federal Unemployment Tax Act taxes	22,000	2,387	19,613	2,958,000	51,434	2,906,566	2,642,000	42,090	2,599,910
Railroad Unemployment Ins. Act contributions	45,666	....	45,666	207,542	....	207,542	217,883	....	217,883
Total--Unemployment trust fund	156,781	2,387	154,394	15,438,167	51,434	15,386,733	13,891,687	42,090	13,849,598
Contributions for other insurance and retirement:									
Federal supplementary medical ins. trust fund:									
Premiums collected for the aged	33,867	....	33,867	2,373,192	....	2,373,192	2,186,489	....	2,186,489
Premiums collected for the disabled	532	....	532	262,813	....	262,813	244,644	....	244,644
Total--FSMI trust fund	34,400	....	34,400	2,636,005	....	2,636,005	2,431,133	....	2,431,133
Federal employees retirement contributions:									
Civil service retirement and disability fund	301,315	....	301,315	3,405,596	....	3,405,596	3,153,352	....	3,153,352
Foreign service retirement and disability fund	2,089	....	2,089	21,121	....	21,121	19,311	....	19,311
Other	132	....	132	1,606	....	1,606	1,600	....	1,600
Total--Federal employees retirement contributions	303,536	....	303,536	3,428,322	....	3,428,322	3,174,263	....	3,174,263

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of Receipts--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Social insurance taxes and contributions--Continued									
Contributions for other insurance and retirement--Continued									
Other retirement contributions:									
Civil service retirement and disability fund........	$6,476	....	$6,476	$66,042	....	$66,042	$62,324	....	$62,324
Total--Contributions for other insurance and retirement..................................	344,412	....	344,412	6,130,369	....	6,130,369	5,667,720	....	5,667,720
Total--Social insurance taxes and contributions......	10,810,949	$2,370	10,808,579	142,279,601	$688,275	141,591,326	123,970,900	$560,534	123,410,366
Excise taxes:									
Miscellaneous excise taxes	960,453	19,279	941,175	9,977,519	169,253	9,808,266	10,202,959	149,309	10,053,649
Airport and airway trust fund	134,003	....	134,003	1,528,126	1,866	1,526,260	1,328,058	2,008	1,326,050
Highway trust fund..	567,000	....	567,000	7,322,235	133,422	7,188,812	7,041,882	137,447	6,904,434
Black lung disability trust fund......................	18,200	....	18,200	221,614	....	221,614	92,050	....	92,050
Total--Excise taxes..............................	1,679,656	19,279	1,660,378	19,049,494	304,541	18,744,953	18,664,949	288,765	18,376,184
Estate and gift taxes	445,467	11,377	434,090	5,519,090	108,534	5,410,556	5,381,499	96,097	5,285,402
Customs duties..	582,941	23,680	559,261	7,639,620	201,087	7,438,533	6,728,612	155,894	6,572,718
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve Banks........	800,682	....	800,682	8,326,930	....	8,326,930	6,641,092	....	6,641,092
All other..	57,900	25	57,875	912,158	1,841	910,317	772,598	622	771,976
Total--Miscellaneous receipts	858,582	25	858,557	9,239,088	1,841	9,237,246	7,413,690	622	7,413,068
Total--Budget receipts............................	48,016,752	721,292	47,295,460	506,720,745	40,780,577	465,940,168	440,597,938	38,600,561	401,997,377

GENERAL NOTES

A: Throughout this statement, details may not add to totals due to rounding.

B: The Joint Treasury-Office of Management and Budget Press Statement, released with this Monthly Treasury Statement, has adjusted these totals to include administrative expenses and interest receipts of the Exchange Stabilization Fund. The totals in the press release are $492.5 billion for outlays and -$26.5 billion for the deficit.

FOOTNOTES

[1] This statement contains the final figures showing budget results for the fiscal year ending September 30, 1979.

[2] Based on the revision of the Mid-Session Review of the 1980 Budget released on July 31, 1979; adjusted to include revised estimates for the Energy Security Program and Department of Defense increases.

[3] In accordance with the provisions of the Social Security Act, as amended, "Individual Income Taxes Withheld" have been decreased and "Federal Insurance Contribution Act Taxes" correspondingly increased by $82,688 thousand to correct estimates for the quarter ended December 31, 1978. "Individual Income Taxes Other" have been decreased and "Self Employment Contributions Act Taxes" correspondingly increased in the amount of $23,220 thousand to correct estimates for calendar year 1977 and prior.

[4] Includes $366,934 thousand distributed to the Federal Disability Insurance Trust Fund and $513,707 thousand distributed to the Federal Hospital Insurance Trust Fund.

[5] Represents benefit payments customarily paid in September but were paid in August as provided by the early check provision in Public Law 95-216.

[6] Includes adjustments to amounts previously reported.

[7] The Federal Emergency Management Agency was activated on March 25, 1979, in accordance with Reorganization Plan No. 3 of 1978. Activity of FEMA in this statement represents transactions resulting from appropriations made to the existing component agencies and functions.

[8] The Office of Personnel Management and the Merit System Protection Board were established on December 29, 1978, pursuant to Reorganization Plan No. 2 and the Civil Service Reform Act of 1978. These agencies assume the responsibilities formerly vested in the U.S. Civil Service Commission.

[9] Effective November 2, 1978, Treasury implemented investments authority provision of Public Law 94-147, enacted October 28, 1977. The Law permits Federal depositaries to select either a Note or Remittance Option tax and loan account. The balance of Treasury operating cash at Note Option depositaries is referred to as "Tax and Loan Note Accounts". The balances in those depositaries choosing the Remittance Option are included in the "Federal Reserve account" category.

[10] Effective January 1, 1979, the profit on the sale of Treasury-held gold was reclassified from a proprietary receipt offset against Treasury outlays to a transaction not applied to the current year's surplus or deficit.

[11] Represents overstatement in agency reporting in July, corrected this month.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS	This Month			Current Fiscal Year			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Legislative Branch:									
Senate	$14,166	....	$14,166	$169,455	....	$169,455	$158,209	....	$158,209
House of Representatives	26,404	$7	26,397	303,810	$91	303,720	289,318	$73	289,245
Joint Items	472	....	472	45,746	....	45,746	54,184	....	54,184
Congressional Budget Office	1,069	....	1,069	10,139	....	10,139	9,835	....	9,835
Architect of the Capitol	7,216	....	7,216	93,025	....	93,025	100,256	....	100,256
Library of Congress	12,890	....	12,890	162,626	....	162,626	146,380	....	146,380
Government Printing Office:									
Revolving fund (net)	11,161	....	11,161	11,908	....	11,908	1,912	....	1,912
General fund appropriations	1,364	....	1,364	101,525	....	101,525	115,469	....	115,469
General Accounting Office	13,851	....	13,851	179,613	....	179,613	169,507	....	169,507
United States Tax Court	356	....	356	8,658	....	8,658	8,759	....	8,759
Other Legislative Branch Agencies	2,274	....	2,274	17,698	....	17,698	14,000	....	14,000
Proprietary receipts from the public	....	7,522	-7,522	....	26,282	-26,282	....	18,592	-18,592
Intrabudgetary transactions	-60	....	-60	-729	....	-729	-388	....	-388
Total--Legislative Branch	91,162	7,529	83,633	1,103,474	26,373	1,077,101	1,067,442	18,666	1,048,776
The Judiciary:									
Supreme Court of the United States	686	....	686	9,736	....	9,736	8,964	....	8,964
Courts of Appeals, District Courts, and other Judicial Services	29,989	....	29,989	441,257	....	441,257	401,493	....	401,493
Other	3,355	....	3,355	30,363	....	30,363	57,311	....	57,311
Proprietary receipts from the public	....	123	-123	....	1,692	-1,692	....	1,543	-1,543
Intrabudgetary transactions	....	....	....	....	....	....	-31,100	....	-31,100
Total--The Judiciary	34,031	123	33,908	481,357	1,692	479,665	436,668	1,543	435,125
Executive Office of the President:									
Compensation of the President and the White House Office	969	....	969	16,159	....	16,159	16,822	....	16,822
Office of Management and Budget	1,545	(*)	1,545	29,913	125	29,788	29,299	....	29,299
Other	2,569	....	2,569	33,642	....	33,642	28,446	....	28,446
Total--Executive Office of the President	5,083	(*)	5,083	79,715	125	79,589	74,567	....	74,567
Funds Appropriated to the President:									
Appalachian Regional Development Programs	33,452	8	33,444	304,348	11	304,337	261,729	54	261,675
Disaster relief	49,422	....	49,422	284,220	....	284,220	470,291	....	470,291
Foreign Assistance:									
International Security Assistance:									
Military assistance	17,854	....	17,854	139,641	....	139,641	169,259	....	169,259
Foreign military credit sales	248,338	....	248,338	640,259	....	640,259	569,549	....	569,549
Security supporting assistance	61,364	....	61,364	1,786,014	....	1,786,014	1,907,872	....	1,907,872
Advances, foreign military sales	845,862	....	845,862	7,110,679	....	7,110,679	8,104,016	....	8,104,016
Other	2,347	....	2,347	25,672	....	25,672	22,511	....	22,511
Proprietary receipts from the public:									
Advances, foreign military sales	....	951,303	-951,303	....	8,544,542	-8,544,542	....	8,445,172	-8,445,172
Other	....	12,316	-12,316	....	318,541	-318,541	....	324,389	-324,389
Total--International Security Assistance	1,175,764	963,619	212,145	9,702,265	8,863,083	839,182	10,773,207	8,769,560	2,003,647
International Development Assistance:									
Multilateral Assistance:									
Contributions to International Financial Institutions:									
International development association	....	....	....	375,621	....	375,621	323,325	....	323,325

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Funds Appropriated to the President--Continued									
Foreign Assistance--Continued									
International Development-Assistance--Continued									
Multilateral Assistance--Continued									
Contributions to International Financial Institutions--Continued									
Inter-American development bank	$21,082	....	$21,082	$235,711	....	$235,711	$381,722	....	$381,722
Other	....	....	....	71,265	....	71,265	153,171	....	153,171
Payment to the International Fund for Agricultural Development	....	....	....	....	....	....	19,600	....	19,600
International organizations and programs	-21	....	-21	200,102	....	200,102	210,223	....	210,223
Bilateral Assistance:									
Public enterprise funds:									
Overseas Private Investment Corporation	4,174	$2,072	2,102	9,976	$74,108	-64,132	1,891	$67,286	-65,395
Inter-American Foundation	1,020	1	1,018	10,162	333	9,829	6,911	400	6,511
Other	-27,763	1,660	-29,423	37,134	13,823	23,311	75,869	11,030	64,840
Functional development assistance program	99,467	....	99,467	837,449	....	837,449	614,269	....	614,269
Payment to Foreign Service retirement and disability fund	856	....	856	25,676	....	25,676	24,220	....	24,220
Operating expenses of the Agency for International Development	14,694	....	14,694	229,810	....	229,810	206,620	....	206,620
Other	26,851	....	26,851	144,179	....	144,179	117,768	....	117,768
Proprietary receipts from the public	....	52,712	-52,712	....	613,063	-613,063	....	533,861	-533,861
Total--Bilateral Assistance	119,299	56,445	62,854	1,294,385	701,327	593,058	1,047,549	612,577	434,972
Total--International Development Assistance	140,360	56,445	83,914	2,177,084	701,327	1,475,757	2,135,589	612,577	1,523,012
International Narcotics Control Assistance	1,900	....	1,900	46,702	....	46,702	34,987	....	34,987
President's foreign assistance contingency fund	44	....	44	3,031	....	3,031	3,627	....	3,627
Total--Foreign Assistance	1,318,068	1,020,065	298,003	11,929,082	9,564,410	2,364,672	12,947,411	9,382,137	3,565,273
Petroleum Reserves:									
Energy Supply	45,971	....	45,971	67,568	....	67,568	354,445	....	354,445
Proprietary receipts from the public	....	79,440	-79,440	....	525,208	-525,208	....	192,813	-192,813
Other	565	....	565	41,029	....	41,029	201	....	201
Total--Funds Appropriated to the President	1,447,478	1,099,513	347,965	12,626,248	10,089,630	2,536,618	14,034,077	9,575,004	4,459,073
Department of Agriculture:									
Departmental Administration	3,458	....	3,458	49,411	....	49,411	5,664	....	5,664
Office of the Inspector General	2,945	....	2,945	32,487	....	32,487	28,921	....	28,921
Science and Education Administration:									
Agricultural Research	12,588	....	12,588	330,119	....	330,119	310,055	....	310,055
Cooperative Research	17,989	....	17,989	153,069	....	153,069	134,724	....	134,724
Extension activities	39,360	....	39,360	272,936	....	272,936	251,739	....	251,739
Other	916	....	916	14,427	....	14,427	16,979	....	16,979
Economics, statistics, and cooperative service	8,666	....	8,666	82,579	....	82,579	74,198	....	74,198
Foreign Agricultural Service	4,338	....	4,338	49,632	....	49,632	44,120	....	44,120
Foreign Assistance Program	76,430	....	76,430	805,900	....	805,900	922,885	....	922,885
Agricultural Stabilization and Conservation Service:									
Salaries and expenses	26,229	....	26,229	226,082	....	226,082	215,124	....	215,124
Agricultural conservation program	19,352	....	19,352	232,243	....	232,243	264,949	....	264,949
Other	4,385	....	4,385	49,133	....	49,133	42,351	....	42,351
Federal Crop Insurance Corporation	9,205	5,687	3,519	76,717	84,655	-7,938	138,600	81,164	57,436
Commodity Credit Corporation:									
Price support and related programs	349,248	646,722	-297,474	10,486,691	6,914,589	3,572,102	12,172,787	6,549,440	5,623,347
Intragovernmental funds	170,002	....	170,002	170,002	....	170,002	-64,646	50,000	-114,646
National Wool Act program	720	....	720	39,421	....	39,421	33,037	....	33,037
Total--Commodity Credit Corporation	519,970	646,722	-126,752	10,696,114	6,914,589	3,781,525	12,141,179	6,599,440	5,541,739
Rural Electrification Administration (salaries and expenses)	2,102	....	2,102	23,923	....	23,923	23,429	....	23,429

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands) 9

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Agriculture--Continued									
Farmers Home Administration:									
Public enterprise funds:									
Rural housing insurance fund	$648,491	$901,626	-$253,135	$6,140,443	$5,956,621	$183,822	$6,761,435	$6,312,348	$449,087
Agricultural credit insurance fund	400,911	603,702	-202,791	8,843,078	7,825,927	1,017,151	6,472,529	5,819,078	653,451
Rural development insurance fund	69,424	86,326	-16,902	1,508,919	1,356,930	151,990	1,300,595	1,163,975	136,620
Other	-92	31	-123	-1,477	673	-2,151	-764	598	-1,363
Rural water and waste disposal grants	26,216	....	26,216	286,989	....	286,989	180,034	....	180,034
Salaries and expenses	19,599	....	19,599	211,505	....	211,505	188,037	....	188,037
Other	3,320	....	3,320	48,193	....	48,193	31,955	....	31,955
Total--Farmers Home Administration	1,167,868	1,591,685	-423,817	17,037,650	15,140,151	1,897,499	14,933,820	13,295,999	1,637,821
Soil Conservation Service:									
Conservation operations	19,189	....	19,189	256,417	....	256,417	242,465	....	242,465
Watershed and flood prevention operations	24,075	....	24,075	228,239	....	228,239	174,628	....	174,628
Other	7,588	....	7,588	75,534	....	75,534	82,393	....	82,393
Animal and Plant Health Inspection Service	18,108	....	18,108	230,098	....	230,098	200,779	....	200,779
Federal Grain Inspection Service	1,181	....	1,181	18,306	1	18,306	11,273	(*)	11,273
Agricultural Marketing Service	4,592	2,000	2,592	70,781	24,255	46,526	70,066	23,909	46,157
Food Safety and Quality Service:									
Salaries and expenses	3,692	....	3,692	262,928	....	262,928	261,997	....	261,997
Funds for strengthening markets, income, and supply	5,208	....	5,208	273,889	....	273,889	272,910	....	272,910
Expenses and refunds, inspection and grading of farm products	6,840	....	6,840	48,853	....	48,853	46,107	....	46,107
Food and Nutrition Service:									
Food program administration	6,390	....	6,390	71,300	....	71,300	66,851	....	66,851
Food stamp program	610,758	....	610,758	6,821,746	....	6,821,746	5,498,775	....	5,498,775
Special milk program	2,779	....	2,779	134,086	....	134,086	138,596	....	138,596
Child nutrition programs	132,144	....	132,144	2,879,668	....	2,879,668	2,526,732	....	2,526,732
Special supplemental food programs (WIC)	51,251	....	51,251	542,158	....	542,158	370,569	....	370,569
Food donations program	26,684	....	26,684	64,139	....	64,139	51,686	....	51,686
Total--Food and Nutrition Service	830,005	....	830,005	10,513,097	....	10,513,097	8,653,210	....	8,653,210
Forest Service:									
Forest management, protection and utilization	67,432	....	67,432	927,384	....	927,384	782,379	....	782,379
Construction and land acquisition	25,140	....	25,140	136,869	....	136,869	65,719	....	65,719
Forest roads and trails	39,526	....	39,526	212,917	....	212,917	174,928	....	174,928
Forest Service permanent appropriations	7,908	....	7,908	364,650	....	364,650	327,292	....	327,292
Cooperative work	40,074	....	40,074	64,018	....	64,018	77,261	....	77,261
Other	5,038	....	5,038	79,877	....	79,877	81,888	....	81,888
Total--Forest Service	185,119	....	185,119	1,785,715	....	1,785,715	1,509,467	....	1,509,467
Other	3,610	....	3,610	24,436	....	24,436	17,283	....	17,283
Proprietary receipts from the public	....	-146,109	146,109	....	1,023,106	-1,023,106	....	687,198	-687,198
Intrabudgetary transactions	-20,642	....	-20,642	-100,230	....	-100,230	-35,203	....	-35,203
Total--Department of Agriculture	3,004,365	2,099,985	904,380	43,820,482	23,186,757	20,633,725	41,056,112	20,687,711	20,368,401
Department of Commerce:									
General Administration	-24	....	-24	25,858	....	25,858	24,096	....	24,096
Bureau of the Census	28,833	....	28,833	197,914	....	197,914	121,472	....	121,472
Economic and Statistical Analysis	1,380	....	1,380	16,432	....	16,432	14,269	....	14,269

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Commerce--Continued									
Economic Development Assistance:									
Economic Development Administration:									
Economic development assistance programs	$40,678	....	$40,678	$435,561	....	$435,561	$329,856	....	$329,856
Local public works program	65,461	....	65,461	1,740,678	....	1,740,678	3,057,363	....	3,057,363
Other	2,231	$4,775	-2,545	74,952	$64,088	10,863	199,663	$58,863	140,800
Regional Action Planning Commissions	5,459	....	5,459	106,143	....	106,143	103,149	....	103,149
Total--Economic Development Assistance	113,829	4,775	109,054	2,357,334	64,088	2,293,246	3,690,031	58,863	3,631,168
Promotion of Industry and Commerce	10,589	....	10,589	145,037	....	145,037	140,564	....	140,564
Science and Technology:									
National Oceanic and Atmospheric Administration	71,381	214	71,167	731,031	2,003	729,028	683,871	1,755	682,116
Patent and Trademark Office	7,488	....	7,488	97,124	....	97,124	91,763	....	91,763
Science and Technical Research	11,097	....	11,097	102,946	....	102,946	96,027	....	96,027
National Telecommunications and Information Administration	1,605	....	1,605	20,653	....	20,653	4,005	....	4,005
Total--Science and Technology	91,571	214	91,358	951,753	2,003	949,750	875,666	1,755	873,911
Maritime Administration:									
Public enterprise funds	2,552	3,516	-964	33,332	58,909	-25,577	108,607	42,734	65,874
Ship construction	17,207	....	17,207	200,777	....	200,777	156,657	....	156,657
Operating-differential subsidies	23,859	....	23,859	300,522	....	300,522	303,194	....	303,194
Other	3,951	....	3,951	71,693	....	71,693	72,554	....	72,554
Proprietary receipts from the public	....	3,391	-3,391	....	55,297	-55,297	....	118,791	-118,791
Intrabudgetary transactions	-3,660	....	-3,660	-48,590	....	-48,590	-46,179	....	-46,179
Total--Department of Commerce	290,088	11,897	278,191	4,252,063	180,298	4,071,765	5,460,933	222,143	5,238,790
Department of Defense--Military:									
Military Personnel:									
Department of the Army	919,438	....	919,438	10,943,273	....	10,943,273	10,450,163	....	10,450,163
Department of the Navy	770,126	....	770,126	9,117,173	....	9,117,173	8,688,661	....	8,688,661
Department of the Air Force	683,915	....	683,915	8,346,725	....	8,346,725	7,936,523	....	7,936,523
Total--Military Personnel	2,373,479	....	2,373,479	28,407,171	....	28,407,171	27,075,347	....	27,075,347
Retired Military Personnel	943,379	....	943,379	10,279,058	....	10,279,058	9,171,474	....	9,171,474
Operation and Maintenance:									
Department of the Army	844,270	....	844,270	10,365,093	....	10,365,093	9,616,754	....	9,616,754
Department of the Navy	1,092,625	....	1,092,625	12,301,979	....	12,301,979	11,266,342	....	11,266,342
Department of the Air Force	777,144	....	777,144	10,475,850	....	10,475,850	9,757,321	....	9,757,321
Defense agencies	284,962	....	284,962	3,281,383	....	3,281,383	2,937,554	....	2,937,554
Total--Operation and Maintenance	2,999,000	....	2,999,000	36,424,304	....	36,424,304	33,577,971	....	33,577,971
Procurement:									
Department of the Army	224,536	....	224,536	4,464,526	....	4,464,526	3,223,817	....	3,223,817
Department of the Navy	920,819	....	920,819	11,796,724	....	11,796,724	9,197,137	....	9,197,137
Department of the Air Force	713,312	....	713,312	8,905,780	....	8,905,780	7,334,942	....	7,334,942
Defense agencies	17,214	....	17,214	237,225	....	237,225	219,657	....	219,657
Total--Procurement	1,875,880	....	1,875,880	25,404,254	....	25,404,254	19,975,554	....	19,975,554

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands) 8

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Defense--Military--Continued									
Research, Development, Test, and Evaluation:									
Department of the Army	$195,957	....	$195,957	$2,408,870	....	$2,408,870	$2,342,208	....	$2,342,208
Department of the Navy	391,685	....	391,685	3,826,449	....	3,826,449	3,824,871	....	3,824,871
Department of the Air Force	270,686	....	270,686	4,079,757	....	4,079,757	3,626,026	....	3,626,026
Defense agencies	73,697	....	73,697	837,101	....	837,101	714,859	....	714,859
Total--Research, Development, Test, and Evaluation	932,025	....	932,025	11,152,177	....	11,152,177	10,507,964	....	10,507,964
Military Construction:									
Department of the Army	65,045	....	65,045	701,942	....	701,942	737,194	....	737,194
Department of the Navy	72,870	....	72,870	759,708	....	759,708	634,045	....	634,045
Department of the Air Force	62,889	....	62,889	614,786	....	614,786	537,152	....	537,152
Defense agencies	1,425	....	1,425	3,550	....	3,550	23,113	....	23,113
Total--Military Construction	202,229	....	202,229	2,079,987	....	2,079,987	1,931,504	....	1,931,504
Family Housing	149,073	$203	148,871	1,470,525	$3,007	1,467,517	1,407,960	$3,187	1,404,773
Revolving and Management Funds:									
Public Enterprise Funds	123	208	-84	1,504	3,064	-1,559	1,622	2,216	-593
Intragovernmental Funds:									
Department of the Army	-18,511	....	-18,511	108,909	....	108,909	-180,858	....	-180,858
Department of the Navy	-124,207	....	-124,207	118,784	....	118,784	-61,302	....	-61,302
Department of the Air Force	31,153	....	31,153	-9,766	....	-9,766	69,718	....	69,718
Defense Agencies	8,259	....	8,259	69,227	....	69,227	-255,584	....	-255,584
Other	17,656	16,097	1,559	208,113	191,874	16,238	149,732	163,431	-13,700
Proprietary receipts from the public	....	4,284	-4,284	....	492,493	-492,493	....	149,118	-149,118
Intrabudgetary transactions	-15,478	....	-15,478	-10,760	....	-10,760	-11,050	....	-11,050
Total--Department of Defense--Military	9,374,061	20,792	9,353,270	115,703,486	690,439	115,013,047	103,360,052	317,951	103,042,101
Department of Defense--Civil:									
Corps of Engineers:									
General investigations	13,849	....	13,849	124,293	....	124,293	96,145	....	96,145
Construction, general	181,380	....	181,380	1,609,906	....	1,609,906	1,428,768	....	1,428,768
Operations and maintenance, general	96,933	....	96,933	806,418	....	806,418	757,278	....	757,278
Flood control	39,298	....	39,298	252,891	....	252,891	230,341	....	230,341
Other	-7,823	....	-7,823	149,567	....	149,567	99,096	....	99,096
Proprietary receipts from the public	....	4,910	-4,910	....	56,850	-56,850	....	57,827	-57,827
Total--Corps of Engineers	323,637	4,910	318,727	2,943,075	56,850	2,886,226	2,611,628	57,827	2,553,801
The Panama Canal:									
Canal Zone Government	13,539	....	13,539	74,824	....	74,824	71,155	....	71,155
Panama Canal Company	56,404	31,168	25,236	363,837	364,297	-459	301,273	324,887	-23,613
Proprietary receipts from the public	....	7,043	-7,043	....	49,239	-49,239	....	46,372	-46,372
Intrabudgetary transactions	-4,473	....	-4,473	-23,671	....	-23,671	-20,431	....	-20,431
Other	1,770	25	1,745	24,278	307	23,971	22,209	276	21,932
Proprietary receipts from the public	....	312	-312	....	3,246	-3,246	....	3,275	-3,275
Total--Department of Defense--Civil	390,877	43,457	347,420	3,382,344	473,938	2,908,406	2,985,835	432,637	2,553,198
Department of Energy	775,129	89,739	685,390	8,743,768	854,976	7,888,792	7,115,331	851,232	6,264,099
Department of Health, Education, and Welfare:									
Public Health Service:									
Food and Drug Administration	19,598	432	19,166	307,132	7,299	299,834	283,410	7,439	275,971
Health Services Administration:									
Health services	135,489	....	135,489	1,183,174	....	1,183,174	1,078,694	....	1,078,694
Indian health services and facilities	50,222	....	50,222	555,455	....	555,455	467,232	....	467,232
Emergency health	....	....	....	3	....	3	-9	....	-9
Center for Disease Control	23,554	....	23,554	238,335	....	238,335	187,982	....	187,982

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Health, Education, and Welfare--Continued									
Public Health Service--Continued									
National Institutes of Health:									
Intragovernmental funds	$6,677	....	$6,677	-$11,099	....	-$11,099	-$517	....	-$517
Cancer Research	94,498	....	94,498	861,205	....	861,205	880,517	....	880,517
Heart, Lung, and Blood Research	50,370	....	50,370	453,997	....	453,997	393,993	....	393,993
Arthritis, Metabolism, and Digestive Diseases	30,478	....	30,478	263,015	....	263,015	223,029	....	223,029
Neurological and Communicative Disorders and Stroke	23,862	....	23,862	194,234	....	194,234	175,092	....	175,092
Allergy and Infectious Diseases	13,156	....	13,156	167,871	....	167,871	158,379	....	158,379
General Medical Sciences	26,229	....	26,229	246,509	....	246,509	215,225	....	215,225
Child Health and Human Development	12,408	....	12,408	164,252	....	164,252	166,715	....	166,715
Other research institutes	18,880	....	18,880	250,009	....	250,009	225,734	....	225,734
Research resources	9,945	....	9,945	159,255	....	159,255	129,883	....	129,883
Other	5,338	....	5,338	120,317	....	120,317	107,653	....	107,653
Total--National Institutes of Health	291,841	....	291,841	2,869,565	....	2,869,565	2,675,703	....	2,675,703
Alcohol, Drug Abuse, and Mental Health Administration	47,509	....	47,509	1,008,903	....	1,008,903	1,006,067	....	1,006,067
Health Resources Administration:									
Public enterprise funds	2,001	$102	1,899	52,376	$16,465	35,911	53,353	$22,111	31,241
Health resources	43,677	....	43,677	555,488	....	555,488	918,467	....	918,467
Office of Assistant Secretary for Health	24,651	....	24,651	181,861	....	181,861	116,178	....	116,178
Total--Public Health Service	638,540	534	638,006	6,952,291	23,764	6,928,528	6,787,077	29,551	6,757,527
Health Care Financing Administration:									
Intragovernmental funds	238	....	238	-1,413	....	-1,413	265	....	265
Grants to States for Medicaid	1,076,238	....	1,076,238	12,407,317	....	12,407,317	10,679,881	....	10,679,881
Payments to health care trust funds	566,115	....	566,115	7,747,968	....	7,747,968	7,242,941	....	7,242,941
Program management	10,392	....	10,392	101,507	....	101,507	58,542	....	58,542
Other	4,451	....	4,451	-8,882	....	-8,882	-6,897	....	-6,897
Federal hospital insurance trust fund:									
Benefit payments	1,569,903	....	1,569,903	19,898,459	....	19,898,459	17,415,132	....	17,415,132
Administrative expenses and construction	33,647	....	33,647	444,572	....	444,572	446,545	....	446,545
Total--FHI trust fund	1,603,550	....	1,603,550	20,343,031	....	20,343,031	17,861,676	....	17,861,676
Federal supplementary medical ins. trust fund:									
Benefit payments	683,869	....	683,869	8,259,077	....	8,259,077	6,852,252	....	6,852,252
Administrative expenses and construction	43,763	....	43,763	554,504	....	554,504	504,240	....	504,240
Total--FSMI trust fund	727,632	....	727,632	8,813,581	....	8,813,581	7,356,491	....	7,356,491
Total--Health Care Financing Administration	3,988,616	....	3,988,616	49,403,109	....	49,403,109	43,192,900	....	43,192,900
Education Division:									
Office of Education:									
Public enterprise funds:									
Student loan insurance fund	22,888	6,358	16,530	958,978	61,035	897,944	577,838	32,141	545,697
Other	24,623	1,491	23,132	34,044	28,439	5,605	55,540	26,467	29,074
Elementary and secondary education	268,115	....	268,115	3,133,227	....	3,133,227	2,814,994	....	2,814,994
Indian education	563	....	563	60,581	....	60,581	58,697	....	58,697
School assistance in federally affected areas	118,290	....	118,290	911,587	....	911,587	766,349	....	766,349
Emergency school aid	11,723	....	11,723	317,078	....	317,078	231,699	....	231,699
Education for the handicapped	58,667	....	58,667	589,120	....	589,120	327,032	....	327,032
Occupational, vocational, and adult education	68,231	....	68,231	775,376	....	775,376	692,967	....	692,967

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Health, Education, and Welfare--Continued									
Education Division--Continued									
Office of Education--Continued									
Student assistance	$257,639	...	$257,639	$2,871,316	...	$2,871,316	$2,515,494	...	$2,515,494
Higher and continuing education	27,106	...	27,106	564,623	...	564,623	294,200	...	294,200
Library resources	24,758	...	24,758	255,888	...	255,888	208,989	...	208,989
Salaries and expenses	11,829	...	11,829	130,781	...	130,781	129,513	...	129,513
Other	10,515	...	10,515	101,613	...	101,613	59,638	...	59,638
Total--Office of Education	904,947	$7,849	897,097	10,704,213	$89,474	10,614,739	8,732,950	$58,608	8,674,343
National Institute of Education	6,538	...	6,538	69,373	...	69,373	64,293	...	64,293
Office of the Assistant Secretary for Education	2,221	...	2,221	28,925	...	28,925	24,983	...	24,983
Total--Education Division	913,706	7,849	905,857	10,802,511	89,474	10,713,037	8,822,226	58,608	8,763,619
Social Security Administration:									
Payments to social security trust funds	...	...	...	756,892	...	756,892	740,930	...	740,930
Special benefits for disabled coal miners	757	...	757	989,387	...	989,387	982,230	...	982,230
Supplemental security income program	49,078	...	49,078	5,471,126	...	5,471,126	5,854,560	...	5,854,560
Assistance payments program	556,308	...	556,308	6,610,490	...	6,610,490	6,639,462	...	6,639,462
Refugee assistance	10,270	...	10,270	140,625	...	140,625	143,290	...	143,290
Other	2	...	2	24	...	24	24	...	24
Federal old-age and survivors insurance trust fund:									
Benefit payments	[5]80,489	...	80,489	87,591,968	...	87,591,968	78,524,092	...	78,524,092
Administrative expenses and construction	64,119	...	64,119	1,072,373	...	1,072,373	1,086,238	...	1,086,238
Payment to railroad retirement account	...	...	...	1,447,532	...	1,447,532	1,588,664	...	1,588,664
Vocational rehabilitation services	976	...	976	16,980	...	16,980	6,461	...	6,461
Total--FOASI trust fund	145,584	...	145,584	90,128,853	...	90,128,853	81,205,455	...	81,205,455
Federal disability insurance trust fund:									
Benefit payments	[5]81,553	...	81,553	13,428,454	...	13,428,454	12,213,895	...	12,213,895
Administrative expenses and construction	53,957	...	53,957	406,778	...	406,778	327,254	...	327,254
Payment to railroad retirement account	...	...	...	29,906	...	29,906	29,797	...	29,797
Vocational rehabilitation services	7,024	...	7,024	78,886	...	78,886	84,339	...	84,339
Total--FDI trust fund	142,534	...	142,534	13,944,024	...	13,944,024	12,655,285	...	12,655,285
Total--Social Security Administration	[5]904,534	...	904,534	118,041,422	...	118,041,422	108,221,236	...	108,221,236
Special Institutions	14,909	...	14,909	174,278	...	174,278	151,791	...	151,791
Human Development Services:									
Grants to states for social services	243,000	...	243,000	3,090,730	...	3,090,730	2,808,723	...	2,808,723
Human development services	217,540	...	217,540	2,241,227	...	2,241,227	2,077,621	...	2,077,621
Work incentives	41,556	...	41,556	385,042	...	385,042	364,099	...	364,099
Research and training activities overseas	309	...	309	1,599	...	1,599	1,821	...	1,821
Total--Human Development Services	502,405	...	502,405	5,718,598	...	5,718,598	5,252,264	...	5,252,264
Departmental Management	23,000	...	23,000	230,333	...	230,333	174,204	...	174,204
Proprietary receipts from the public	...	-1,958	1,958	...	56,742	-56,742	...	35,073	-35,073

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Health, Education, and Welfare--Continued									
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	....	....	....	-$733,849	....	-$733,849	-$716,941	....	-$716,941
Federal supplementary medical insurance trust fund	-$566,116	....	-$566,116	-6,840,785	....	-6,840,785	-6,385,503	....	-6,385,503
Payments for military service credits and special benefits for the aged:									
Federal old-age and survivors insurance trust fund	....	....	....	-615,229	....	-615,229	-612,927	....	-612,927
Federal disability insurance trust fund	....	....	....	-141,663	....	-141,663	-128,003	....	-128,003
Federal hospital insurance trust fund	....	....	....	-141,000	....	-141,000	-142,997	....	-142,997
Receipts transferred to railroad retirement account	....	....	....	-1,477,438	....	-1,477,438	-1,618,461	....	-1,618,461
Interest on reimbursement of administrative and vocational rehabilitation expenses:									
Federal old-age and survivors insurance trust fund	....	....	....	-435	....	-435	1,794	....	1,794
Federal disability insurance trust fund	....	....	....	-1,431	....	-1,431	-2,098	....	-2,098
Federal hospital insurance trust fund	....	....	....	884	....	884	88	....	88
Federal supplementary medical insurance trust fund	....	....	....	-431	....	-431	217	....	217
Other	....	....	....	-15,549	....	-15,549	-17,239	....	-17,239
Total--Department of Health, Education, and Welfare	6,419,594	$6,426	6,413,168	181,355,617	$169,980	181,185,638	162,979,627	$123,232	162,856,396
Department of Housing and Urban Development:									
Housing Programs:									
Public enterprise funds:									
Federal Housing Administration fund	136,822	152,433	-15,611	1,622,593	1,429,745	192,848	1,728,780	1,372,015	356,764
Housing for the elderly or handicapped fund	58,748	3,554	55,194	495,340	35,958	459,382	200,144	23,778	176,366
College housing--loans and other expenses	13,711	6,106	7,605	160,649	164,064	-3,414	104,836	166,094	-61,259
Rental housing assistance fund	12,915	1,462	11,453	82,879	16,887	65,992	968	13,158	-12,191
Other	12,204	73,816	-61,612	328,183	335,085	-6,902	249,667	229,646	20,021
Subsidized housing programs	311,941	....	311,941	3,559,120	....	3,559,120	2,920,223	....	2,920,223
Payments for operation of low income housing projects	44,954	....	44,954	653,584	....	653,584	691,329	....	691,329
Other	-11,034	....	-11,034	6,152	....	6,152	-33,717	....	-33,717
Total--Housing Programs	580,261	237,370	342,891	6,908,501	1,981,739	4,926,762	5,862,228	1,804,691	4,057,536
Government National Mortgage Association:									
Special assistance functions fund	48,772	48,899	-127	677,380	619,848	57,532	734,249	788,877	-54,629
Emergency mortgage purchase assistance	94,991	27,476	67,515	1,539,953	1,269,220	270,733	1,118,271	758,493	359,778
Management and liquidating functions fund	4,567	3,424	1,143	73,061	108,616	-35,555	72,077	114,715	-42,638
Guarantees of mortgage-backed securities	-48	4,282	-4,330	7,253	61,878	-54,625	58,323	99,716	-41,393
Participation sales fund	11,467	....	11,467	-11,682	....	-11,682	-20,529	....	-20,529
Total--Government National Mortgage Association	159,749	84,081	75,668	2,285,965	2,059,562	226,402	1,962,389	1,761,802	200,588
Community Planning and Development:									
Public enterprise fund:									
Rehabilitation loan fund	16,469	3,732	12,737	149,121	48,799	100,322	84,187	37,011	47,176
Urban renewal programs	72,502	30,667	41,835	472,001	190,902	281,099	543,933	168,255	375,678
Community development grants	307,691	....	307,691	3,161,229	....	3,161,229	2,464,267	....	2,464,267
Urban development action grants	15,003	....	15,003	73,167	....	73,167	....	....	....
Comprehensive planning grants	4,324	....	4,324	61,613	....	61,613	67,083	....	67,083
Other	167	....	167	14,535	....	14,535	10,750	....	10,750
Total--Community Planning and Development	416,155	34,398	381,757	3,931,666	239,701	3,691,965	3,170,220	205,266	2,964,954

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Housing and Urban Development--Continued									
New Communities Development Corporation	$1,787	$421	$1,365	$33,271	$2,116	$31,154	$106,698	$8,221	$98,477
Management and Administration	18,407	....	18,407	273,938	....	273,938	222,956	....	222,956
Other	6,398	....	6,398	69,872	....	69,872	55,953	....	55,953
Proprietary receipts from the public	....	139	-139	....	2,003	-2,003	....	3,653	-3,653
Total--Department of Housing and Urban Development	1,182,757	356,410	826,347	13,503,212	4,285,121	9,218,091	11,380,443	3,783,633	7,596,810
Department of the Interior:									
Land and Water Resources:									
Bureau of Land Management:									
Management of lands and resources	29,085	....	29,085	307,445	....	307,445	274,808	....	274,808
Payments in lieu of taxes	91,779	....	91,779	105,438	....	105,438	97,608	....	97,608
Other	11,792	....	11,792	387,608	....	387,608	367,447	....	367,447
Bureau of Reclamation:									
Colorado River projects	30,140	10,514	19,626	219,921	58,014	161,907	196,974	68,631	128,344
Construction and rehabilitation	28,832	....	28,832	330,035	....	330,035	323,735	....	323,735
Operation and maintenance	9,698	....	9,698	80,981	....	80,981	79,266	....	79,266
Other	12,284	....	12,284	133,219	....	133,219	137,250	....	137,250
Office of Water Research and Technology	1,682	....	1,682	23,702	....	23,702	17,620	....	17,620
Total--Land and Water Resources	215,292	10,514	204,778	1,588,348	58,014	1,530,335	1,494,710	68,631	1,426,079
Fish and Wildlife and Parks:									
Heritage Conservation and Recreation Service	43,509	....	43,509	653,737	....	653,737	667,014	....	667,014
United States Fish and Wildlife Service:									
Resource management	16,584	....	16,584	197,117	....	197,117	167,251	....	167,251
Recreational resources	5,731	....	5,731	90,762	....	90,762	87,584	....	87,584
Other	7,739	....	7,739	85,236	....	85,236	60,769	....	60,769
National Park Service:									
Operation of the national park system	32,548	....	32,548	365,416	....	365,416	331,454	....	331,454
Construction	9,761	....	9,761	91,530	....	91,530	94,561	....	94,561
Other	3,621	....	3,621	26,397	....	26,397	22,493	....	22,493
Total--Fish and Wildlife and Parks	119,493	....	119,493	1,510,195	....	1,510,195	1,431,125	....	1,431,125
Energy and Minerals:									
Geological Survey	36,663	....	36,663	598,036	....	598,036	501,795	....	501,795
Office of Surface Mining Reclamation and Enforcement	4,943	....	4,943	47,572	....	47,572	5,412	....	5,412
Bureau of Mines	11,745	400	11,345	155,040	11,683	143,357	135,463	14,051	121,412
Total--Energy and Minerals	53,351	400	52,951	800,648	11,683	788,965	642,669	14,051	628,619
Bureau of Indian Affairs:									
Public enterprise funds	952	432	519	8,482	7,029	1,453	13,092	6,442	6,650
Operation of Indian programs	60,785	....	60,785	691,559	....	691,559	643,943	....	643,943
Construction	13,809	....	13,809	198,116	....	198,116	165,843	....	165,843
Indian tribal funds	71,803	....	71,803	292,865	....	292,865	255,826	....	255,826
Other	2,507	....	2,507	49,099	....	49,099	63,120	....	63,120
Total--Bureau of Indian Affairs	149,856	432	149,424	1,240,121	7,029	1,233,092	1,141,825	6,442	1,135,383

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month: Outlays	This Month: Applicable Receipts	This Month: Net Outlays	Current Fiscal Year to Date: Outlays	Current Fiscal Year to Date: Applicable Receipts	Current Fiscal Year to Date: Net Outlays	Comparable Period Prior Fiscal Year: Outlays	Comparable Period Prior Fiscal Year: Applicable Receipts	Comparable Period Prior Fiscal Year: Net Outlays
Department of the Interior--Continued									
Office of Territorial Affairs	$26,948	....	$26,948	$226,243	....	$226,243	$176,808	....	$176,808
Office of the Solicitor and Office of the Secretary	[6]-4,161	....	-4,161	56,176	....	56,176	38,738	....	38,738
Proprietary receipts from the public	....	$91,835	-91,835	....	$1,150,130	-1,150,130	....	$972,378	-972,378
Intrabudgetary transactions	....	....	....	-107,868	....	-107,868	-69,610	....	-69,610
Total--Department of the Interior	560,780	103,180	457,599	5,313,864	1,226,856	4,087,007	4,856,266	1,061,501	3,794,765
Department of Justice:									
General Administration	-423	....	-423	26,470	....	26,470	23,444	....	23,444
Legal Activities	30,646	....	30,646	387,630	....	387,630	340,344	....	340,344
Federal Bureau of Investigation	41,534	....	41,534	585,991	....	585,991	552,001	....	552,001
Immigration and Naturalization Service	28,988	....	28,988	304,963	....	304,963	274,681	....	274,681
Drug Enforcement Administration	14,150	....	14,150	184,781	....	184,781	177,883	....	177,883
Federal Prison System	29,150	967	28,183	359,148	11,749	347,399	324,113	12,088	312,025
Law Enforcement Assistance Administration	52,615	....	52,615	699,931	....	699,931	724,075	7	724,068
Proprietary receipts from the public	....	4,589	-4,589	....	15,450	-15,450	....	7,074	-7,074
Total--Department of Justice	196,660	5,556	191,104	2,548,913	27,199	2,521,715	2,416,541	19,169	2,397,372
Department of Labor:									
Employment and Training Administration:									
Program administration	5,946	....	5,946	90,183	....	90,183	89,299	....	89,299
Employment and training assistance	569,996	....	569,996	6,158,034	....	6,158,034	4,763,671	....	4,763,671
Community service employment for older Americans	15,122	....	15,122	207,832	....	207,832	134,333	....	134,333
Temporary employment assistance	192,561	....	192,561	3,285,210	....	3,285,210	4,769,404	....	4,769,404
Federal unemployment benefits and allowances	93,454	....	93,454	825,056	....	825,056	1,165,356	....	1,165,356
Grants to States for unemployment insurance and employment services	3,201	....	3,201	65,133	....	65,133	46,356	....	46,356
Advances to the unemployment trust fund and other funds	73,355	....	73,355	576,084	....	576,084	1,109,907	....	1,109,907
Other	1	....	1	2,981	....	2,981	-980	....	-980
Unemployment trust fund:									
Federal-State unemployment insurance:									
State unemployment benefits	626,833	....	626,833	8,585,261	....	8,585,261	9,368,307	....	9,368,307
Grants to States for unemployment insurance and employment services	136,053	....	136,053	1,562,561	....	1,562,561	1,521,606	....	1,521,606
Federal administrative expenses	2,723	....	2,723	68,877	....	68,877	67,306	....	67,306
Interest on refunds of taxes	86	....	86	768	....	768	1,061	....	1,061
Repayment of advances from the general fund	200,000	....	200,000	800,000	....	800,000	....	....	....
Railroad-unemployment insurance:									
Railroad unemployment benefits	10,524	....	10,524	142,061	....	142,061	197,370	....	197,370
Administrative expenses	1,138	....	1,138	12,698	....	12,698	10,710	....	10,710
Payment of interest on advances from railroad retirement account	....	....	....	755	....	755	2,767	....	2,767
Total--Unemployment trust fund	977,356	....	977,356	11,172,982	....	11,172,982	11,169,128	....	11,169,128
Total--Employment and Training Administration	1,930,991	....	1,930,991	22,383,496	....	22,383,496	23,246,473	....	23,246,473
Labor-Management Services Administration	3,810	....	3,810	55,138	....	55,138	54,392	....	54,392
Employment Standards Administration:									
Salaries and expenses	8,679	....	8,679	151,178	....	151,178	107,226	....	107,226
Special benefits	56,291	....	56,291	190,392	....	190,392	191,469	....	191,469
Black Lung Disability Trust Fund	110,600	....	110,600	621,926	....	621,926	112,143	....	112,143
Special workers' compensation expenses	620	....	620	7,791	....	7,791	4,998	....	4,998
Occupational Safety and Health Administration	14,521	....	14,521	154,915	....	154,915	147,380	....	147,380

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Labor--Continued									
Mine Safety and Health Administration	$10,394	...	$10,394	$131,416	...	$131,416	$109,176	...	$109,176
Bureau of Labor Statistics	4,202	...	4,202	87,615	...	87,615	79,809	...	79,809
Departmental Management	8,521	...	8,521	71,217	...	71,217	57,934	...	57,934
Proprietary receipts from the public	...	$278	-278	...	$3,940	-3,940	...	$7,210	-7,210
Intrabudgetary transactions	-293,355	...	-293,355	-1,200,809	...	-1,200,809	-1,153,258	...	-1,153,258
Total--Department of Labor	1,855,273	278	1,854,995	22,654,276	3,940	22,650,336	22,957,741	7,210	22,950,532
Department of State:									
Administration of Foreign Affairs:									
Salaries and expenses	65,842	...	65,842	669,837	...	669,837	655,217	...	655,217
Acquisition, operation, and maintenance of buildings abroad	15,170	...	15,170	107,506	...	107,506	57,283	...	57,283
Payment to Foreign Service retirement and disability fund	83,800	...	83,800	125,369	...	125,369	107,407	...	107,407
Foreign Service retirement and disability fund	10,793	...	10,793	113,202	...	113,202	93,683	...	93,683
Other	-2,093	...	-2,093	8,250	...	8,250	4,473	...	4,473
Total--Administration of Foreign Affairs	173,511	...	173,511	1,024,164	...	1,024,164	918,063	...	918,063
International Organizations and Conferences	1,619	...	1,619	494,887	...	494,887	381,670	...	381,670
International Commissions	821	...	821	21,722	...	21,722	21,274	...	21,274
Other	34,718	...	34,718	175,120	...	175,120	77,154	...	77,154
Proprietary receipts from the public	...	3,826	-3,826	...	15,576	-15,576	...	14,026	-14,026
Intrabudgetary transactions:									
Foreign Service retirement and disability fund:									
Receipts transferred to Civil Service retirement and disability fund	-34	...	-34	-707	...	-707	-453	...	-453
General fund contributions	-84,656	...	-84,656	-151,045	...	-151,045	-131,627	...	-131,627
Other	-86	...	-86	-519	...	-519	-519	...	-519
Total--Department of State	125,893	3,826	122,066	1,563,622	15,576	1,548,046	1,265,562	14,026	1,251,536
Department of Transportation:									
Office of the Secretary	3,725	...	3,725	58,217	...	58,217	41,855	...	41,855
Coast Guard:									
Operating expenses	93,070	...	93,070	980,780	...	980,780	897,803	...	897,803
Acquisition, construction, and improvements	17,549	...	17,549	192,058	...	192,058	131,650	...	131,650
Retired pay	16,031	...	16,031	174,414	...	174,414	156,465	...	156,465
Other	9,510	344	9,166	93,088	3,840	89,248	102,810	4,666	98,144
Total--Coast Guard	136,160	344	135,817	1,440,340	3,840	1,436,500	1,288,728	4,666	1,284,062
Federal Aviation Administration:									
Operations	22,876	...	22,876	1,691,083	...	1,691,083	1,622,319	...	1,622,319
Other	2,520	2	2,518	44,442	14	44,429	40,277	16	40,262
Airport and airway trust fund:									
Grants-in-aid for airports	60,730	...	60,730	556,454	...	556,454	562,156	...	562,156
Facilities and equipment	13,588	...	13,588	187,932	...	187,932	211,002	...	211,002
Interest on refunds of taxes	...	...	...	14	...	14	35	...	35
Other	135,681	...	135,681	369,740	...	369,740	342,168	...	342,168
Total--Airport and airway trust fund	209,999	...	209,999	1,114,140	...	1,114,140	1,115,361	...	1,115,361
Total--Federal Aviation Administration	235,394	2	235,392	2,849,665	14	2,849,651	2,777,957	16	2,777,941

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Transportation--Continued									
Federal Highway Administration:									
Highway trust fund:									
Federal-aid highways	$781,156	...	$781,156	$6,875,980	...	$6,875,980	$5,866,612	...	$5,866,612
Other	14,953	...	14,953	72,855	...	72,855	36,079	...	36,079
Off-systems roads programs	20,969	...	20,969	197,983	...	197,983	82,262	...	82,262
Other programs	16,063	...	16,063	106,520	...	106,520	90,945	...	90,945
Total--Federal Highway Administration	833,140	...	833,140	7,253,339	...	7,253,339	6,075,898	...	6,075,898
National Highway Traffic Safety Administration:									
Operations and Research	975	...	975	50,279	...	50,279	61,552	...	61,552
Trust fund share of traffic safety programs	15,800	...	15,800	193,400	...	193,400	143,700	...	143,700
Other	4,409	...	4,409	2,849	...	2,849	5,101	...	5,101
Federal Railroad Administration:									
Railroad rehabilitation and improvement financing funds	5,404	...	5,404	79,786	...	79,786	66,247	...	66,247
Railroad research and development	5,182	...	5,182	57,996	...	57,996	62,381	...	62,381
Rail service assistance	7,019	...	7,019	65,373	...	65,373	-4,601	...	-4,601
Northeast corridor improvement program	17,050	...	17,050	198,766	...	198,766	203,830	...	203,830
Grants to National Railroad Passenger Corporation	...	...	...	779,000	...	779,000	716,000	...	716,000
Other	5,985	$2,566	3,419	80,359	$36,577	43,782	74,698	$43,071	31,627
Total--Federal Railroad Administration	40,639	2,566	38,073	1,261,280	36,577	1,224,703	1,118,556	43,071	1,075,485
Urban Mass Transportation Administration	196,858	...	196,858	2,457,996	...	2,457,996	2,027,529	...	2,027,529
Other	3,897	1,632	2,264	24,727	11,125	13,602	8,888	10,727	-1,838
Proprietary receipts from the public	...	4,006	-4,006	...	54,967	-54,967	...	39,494	-39,494
Total--Department of Transportation	1,470,998	8,550	1,462,447	15,592,092	106,524	15,485,569	13,549,765	97,974	13,451,791
Department of the Treasury:									
Office of the Secretary	2,834	...	2,834	31,075	3	31,072	26,278	264	26,013
Office of Revenue Sharing:									
General Revenue Sharing	266	...	266	6,847,709	...	6,847,709	6,822,957	...	6,822,957
Other	411	...	411	6,883	...	6,883	1,336,278	...	1,336,278
Federal Law Enforcement Training Center	1,527	...	1,527	25,740	...	25,740	17,451	...	17,451
Bureau of Government Financial Operations:									
Salaries and expenses	12,572	...	12,572	184,086	...	184,086	141,051	...	141,051
Payments to states for social service claims	...	...	...	533,648	...	533,648	...	...	...
Claims, judgments, and relief acts	8,733	...	8,733	236,413	...	236,413	198,306	...	198,306
Other	2,664	...	2,664	14,507	...	14,507	12,307	...	12,307
Total--Bureau of Government Financial Operations	23,968	...	23,968	968,654	...	968,654	351,664	...	351,664
Bureau of Alcohol, Tobacco and Firearms	8,486	...	8,486	131,162	...	131,162	128,110	...	128,110
United States Customs Service	22,561	...	22,561	653,355	...	653,355	634,379	...	634,379
Bureau of Engraving and Printing	-3,677	...	-3,677	-11,351	...	-11,351	-3,361	...	-3,361
Bureau of the Mint	4,291	...	4,291	43,910	...	43,910	42,466	...	42,466
Bureau of the Public Debt	8,540	...	8,540	163,076	...	163,076	121,508	...	121,508
Internal Revenue Service:									
Federal tax lien revolving fund	80	223	-142	980	804	175	1,316	1,248	68
Salaries and expenses	6,214	...	6,214	128,059	...	128,059	54,310	...	54,310
Taxpayer service and returns processing	26,741	...	26,741	738,449	...	738,449	904,115	...	904,115
Examinations and appeals	33,557	...	33,557	774,869	...	774,869	981,878	...	981,878
Investigations and collections	21,105	...	21,105	437,434	...	437,434	...	...	...

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of the Treasury--Continued									
Internal Revenue Service--Continued									
Payment where credit exceeds liability for tax	$6,032	....	$6,032	$772,673	....	$772,673	$880,890	....	$880,890
Refunding internal revenue collections, interest	28,227	....	28,227	357,977	....	357,977	316,937	....	316,937
Internal revenue collections for Puerto Rico	30,004	....	30,004	212,543	....	212,543	187,568	....	187,568
Total--Internal Revenue Service	151,960	$223	151,738	3,422,983	$804	3,422,178	3,327,014	$1,248	3,325,767
United States Secret Service	8,451	....	8,451	139,003	....	139,003	129,100	....	129,100
Comptroller of the Currency	6,239	375	5,864	91,347	99,109	-7,762	90,273	94,699	-4,426
Interest on the public debt:									
Public issues (accrual basis)	4,194,792	....	4,194,792	48,261,637	....	48,261,637	39,199,117	....	39,199,117
Special issues (cash basis)	165,141	....	165,141	11,575,566	....	11,575,566	9,495,738	....	9,495,738
Total--Interest on the public debt	4,359,933	....	4,359,933	59,837,203	....	59,837,203	48,694,856	....	48,694,856
Proprietary receipts from the public	....	88,949	-88,949	....	1,186,128	-1,186,128	....	701,510	-701,510
Receipts from off-budget Federal agencies	....	396,733	-396,733	....	4,041,716	-4,041,716	....	2,767,670	-2,767,670
Intrabudgetary transactions	-78,480	....	-78,480	-2,427,066	....	-2,427,066	-1,696,881	....	-1,696,881
Total--Department of the Treasury	4,517,310	486,280	4,031,030	69,923,684	5,327,762	64,595,923	60,022,092	3,565,392	56,456,699
Environmental Protection Agency:									
Agency and regional management	6,155	....	6,155	95,197	....	95,197	71,089	....	71,089
Research and development:									
Energy supply	30,351	....	30,351	302,107	....	302,107	250,514	....	250,514
Pollution control and abatement	427	....	427	11,941	....	11,941	31,400	....	31,400
Abatement and control	53,378	....	53,378	541,660	....	541,660	459,614	....	459,614
Enforcement	7,466	....	7,466	82,595	....	82,595	64,842	....	64,842
Construction grants	326,298	....	326,298	3,756,079	....	3,756,079	3,186,825	....	3,186,825
Other	373	68	305	11,399	541	10,858	8,132	435	7,697
Proprietary receipts from the public	....	29	-29	....	668	-668	....	509	-509
Total--Environmental Protection Agency	424,447	97	424,350	4,800,978	1,209	4,799,768	4,072,416	944	4,071,472
General Services Administration:									
Real Property Activities	121,790	....	121,790	-69,771	....	-69,771	-167,885	....	-167,885
Personal Property Activities	-25,947	....	-25,947	115,794	....	115,794	196,338	....	196,338
Records Activities	6,905	767	6,137	84,382	8,928	75,454	79,105	6,421	72,684
General activities	10,563	5	10,557	104,398	667	103,731	99,986	752	99,234
Other	3,704	....	3,704	63,802	....	63,802	56,359	....	56,359
Proprietary receipts from the public:									
Stockpile receipts	....	8,091	-8,091	....	73,497	-73,497	....	89,811	-89,811
Other	....	18,345	-18,345	....	33,335	-33,335	....	48,038	-48,038
Intrabudgetary transactions	218	....	218	-9,417	....	-9,417	-1,839	....	-1,839
Total--General Services Administration	117,232	27,209	90,023	289,189	116,427	172,761	262,064	145,021	117,043
National Aeronautics and Space Administration:									
Research and Development	307,909	....	307,909	3,138,749	....	3,138,749	2,988,697	....	2,988,697
Construction of facilities	11,291	....	11,291	132,716	....	132,716	124,258	....	124,258
Research and program management	67,603	....	67,603	925,007	....	925,007	870,164	....	870,164
Other	22	....	22	84	....	84	558	....	558
Proprietary receipts from the public	....	292	-292	....	9,324	-9,324	....	3,655	-3,655
Total--National Aeronautics and Space Administration	386,825	292	386,533	4,196,556	9,324	4,187,232	3,983,677	3,655	3,980,022

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Veterans Administration:									
Public enterprise funds:									
Loan guaranty revolving fund	$34,601	$21,858	$12,743	$481,498	$274,386	$207,112	$525,860	$445,624	$80,236
Direct loan revolving fund	4,772	35,144	-30,372	86,134	151,492	-65,358	99,408	138,398	-38,990
Veterans reopened insurance fund	2,467	1,562	906	25,960	53,859	-27,900	23,021	51,645	-28,624
Education loan fund	387	104	284	7,226	858	6,367	34,868	275	34,593
Other	23,078	25,513	-2,434	263,316	265,350	-2,034	273,806	275,101	-1,295
Compensation and pensions	56,742	...	56,742	10,441,926	...	10,441,926	9,572,817	...	9,572,817
Readjustment benefits	59,496	...	59,496	2,810,812	...	2,810,812	3,361,716	...	3,361,716
Medical care	408,243	...	408,243	5,159,544	...	5,159,544	4,809,318	...	4,809,318
Medical and prosthetic research	9,406	...	9,406	117,270	...	117,270	111,747	...	111,747
General operating expenses	37,953	...	37,953	603,295	...	603,295	558,082	...	558,082
Construction projects	20,053	...	20,053	236,497	...	236,497	243,262	...	243,262
Insurance funds:									
National service life	53,581	...	53,581	785,393	...	785,393	667,762	...	667,762
Government life	3,896	...	3,896	70,841	...	70,841	66,973	...	66,973
Veterans special life	3,455	3,275	180	55,547	93,595	-38,049	32,229	87,244	-55,015
Other	6,154	...	6,154	113,972	...	113,972	98,142	...	98,142
Proprietary receipts from the public:									
National service life	...	31,459	-31,459	...	451,877	-451,877	...	476,850	-476,850
Government life	...	-233	233	...	3,894	-3,894	...	4,382	-4,382
Other	...	8,252	-8,252	...	74,378	-74,378	...	34,866	-34,866
Intrabudgetary transactions	-169	...	-169	-2,369	...	-2,369	-2,472	...	-2,472
Total--Veterans Administration	724,116	126,933	597,183	21,256,861	1,369,689	19,887,171	20,476,537	1,514,384	18,962,152
Independent agencies:									
Action	15,597	14	15,583	211,336	11	211,325	203,329	166	203,164
Arms Control and Disarmament Agency	1,010	...	1,010	14,653	...	14,653	13,990	...	13,990
Board for International Broadcasting	2,615	...	2,615	82,692	...	82,692	65,616	164	65,452
Civil Aeronautics Board	9,688	2	9,686	99,446	110	99,336	101,471	111	101,360
Commission on Civil Rights	1,211	...	1,211	10,257	...	10,257	10,465	...	10,465
Community Services Administration	41,326	228	41,098	779,514	620	778,894	768,216	298	767,919
Consumer Product Safety Commission	2,892	1	2,891	39,284	14	39,270	40,063	5	40,059
Corporation for Public Broadcasting	...	...	...	120,200	...	120,200	119,200	...	119,200
District of Columbia:									
Federal payment	...	...	...	274,665	...	274,665	304,116	...	304,116
Loans and repayable advances	...	...	...	140,832	22,346	118,486	110,832	43,979	66,852
Equal Employment Opportunity Commission	7,991	3	7,988	92,490	37	92,453	74,214	54	74,161
Export-Import Bank of the United States	316,403	105,750	210,653	2,406,809	2,206,757	200,052	1,993,483	2,099,387	-105,904
Federal Communications Commission	7,011	1	7,010	69,561	19	69,542	64,084	19	64,065
Federal Deposit Insurance Corporation	74,086	90,823	-16,737	639,989	1,858,360	-1,218,370	2,135,878	2,702,489	-566,611
Federal Emergency Management Agency:[4]									
National flood insurance development fund	59,491	13,041	46,450	382,801	132,224	250,577	274,909	110,775	164,134
Emergency planning, preparedness, and mobilization	6,124	...	6,124	98,998	...	98,998	81,786	...	81,786
Hazard mitigation and disaster assistance	14,462	...	14,462	67,847	...	67,847	13,370	...	13,370
Federal Home Loan Bank Board:									
Public enterprise funds:									
Federal Home Loan Bank Board revolving fund	6,772	3,230	3,541	50,957	50,231	725	60,342	59,878	465
Federal Savings and Loan Insurance Corp. fund	-695	18,500	-19,195	147,849	636,985	-489,136	182,174	585,897	-403,723
Interest adjustment payments	...	...	...	54	...	54	213	...	213
Federal Trade Commission	3,952	4	3,947	62,048	-557	62,605	59,446	631	58,815
Intergovernmental Agencies:									
Washington Metropolitan Area Transit Authority	21,604	...	21,604	84,250	...	84,250	149,337	...	149,337
Other	798	210	588	6,506	1,845	4,661	5,610	1,700	3,910

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Independent agencies--Continued									
International Communications Agency	$31,343	$641	$30,702	$374,937	$1,474	$373,463	$353,410	$1,294	$352,117
Interstate Commerce Commission	5,449	1	5,448	67,014	12,217	54,797	65,080	180	64,900
Legal Services Corporation	1,897	....	1,897	254,307	....	254,307	157,429	....	157,429
Merit Systems Protection Board	1,876	(*)	1,876	6,476	(*)	6,476	....	....	....
National Foundation on the Arts and Humanities:									
National Endowment for the Arts	14,182	(*)	14,182	136,101	13	136,088	121,466	14	121,452
National Endowment for the Humanities	9,481	....	9,481	147,542	....	147,542	125,810	....	125,810
National Labor Relations Board	5,538	47	5,491	97,400	210	97,190	90,615	201	90,414
National Science Foundation	91,002	14	90,988	870,188	541	869,647	803,182	398	802,783
National Transportation Safety Board	842	-1	843	15,522	8	15,515	15,542	28	15,514
Nuclear Regulatory Commission	27,531	-7	27,538	309,494	18	309,475	270,876	14	270,862
Office of Personnel Management:[8]									
Salaries and expenses	5,199	....	5,199	115,330	....	115,330	119,610	....	119,610
Government payment for annuitants, employees health benefits	92,870	....	92,870	554,049	....	554,049	506,617	....	506,617
Payment to civil service retirement and disability fund	8,817,951	....	8,817,951	8,818,938	....	8,818,938	7,433,828	....	7,433,828
Civil service retirement and disability fund	1,071,354	....	1,071,354	12,418,103	....	12,418,103	10,907,627	....	10,907,627
Employees health benefits fund	248,731	328,765	-80,033	3,135,265	3,248,456	-113,191	2,958,770	3,043,748	-84,978
Employees life insurance fund	38,978	51,641	-12,663	488,350	797,762	-309,413	429,094	914,303	-485,209
Retired employees health benefits fund	952	737	215	12,907	8,405	4,502	14,405	8,806	5,599
Other	2,952	....	2,952	17,264	....	17,264	21,951	....	21,951
Proprietary receipts from the public	....	-182	182	....	1,172	-1,172	....	1,605	-1,605
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
Receipts transferred to Foreign Service retirement and disability fund	-589	....	-589	-8,581	....	-8,581	-8,544	....	-8,544
General fund contributions	-8,817,951	....	-8,817,951	-8,818,938	....	-8,818,938	-7,433,828	....	-7,433,828
Other	-1,639	....	-1,639	-22,330	....	-22,330	-18,409	....	-18,409
Total--Office of Personnel Management	1,458,808	380,961	1,077,847	16,710,357	4,055,794	12,654,562	14,931,120	3,968,461	10,962,658
Postal Service (payment to the Postal Service fund)	1,333	....	1,333	1,786,509	....	1,786,509	1,778,240	....	1,778,240
Railroad Retirement Board:									
Payments to Railroad Retirement Trust Fund	(*)	....	(*)	313,000	....	313,000	250,000	....	250,000
Regional rail transportation protective account	2,631	....	2,631	71,650	....	71,650	80,077	....	80,077
Railroad retirement accounts:									
Benefits payments and claims	376,376	....	376,376	4,240,906	....	4,240,906	3,952,463	....	3,952,463
Advances to the railroad retirement account from the FOASI trust fund	-2,065	....	-2,065	-235,972	....	-235,972	-195,818	....	-195,818
Advances to the railroad retirement account from the FDI trust fund	-487	....	-487	-29,095	....	-29,095	-27,933	....	-27,933
Disbursements for the payment of FOASI benefits	22,260	....	22,260	236,392	....	236,392	195,326	....	195,326
Disbursements for the payment of FDI benefits	3,893	....	3,893	35,016	....	35,016	27,672	....	27,672
Administrative expenses	2,751	....	2,751	31,661	....	31,661	30,918	....	30,918
Interest on refunds of taxes	4	....	4	26	....	26	121	....	121
Proprietary receipts from the public	....	-23	23	....	-21	21	....	1	-1
Intrabudgetary transactions:									
Railroad retirement account:									
Payment to railroad retirement trust funds	....	....	....	-313,000	....	-313,000	-250,000	....	-250,000
Interest transferred to federal hospital insurance trust fund	....	....	....	15,549	....	15,549	17,239	....	17,239
Interest on advances to railroad unemployment insurance account	....	....	....	-755	....	-755	-5,507	....	-5,507
Total--Railroad Retirement Board	405,362	-23	405,385	4,365,378	-21	4,365,399	4,074,557	1	4,074,556

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Independent agencies--Continued									
Securities and Exchange Commission	$4,976	$1	$4,975	$66,005	$26	$65,978	$61,328	$25	$61,303
Small Business Administration:									
Public enterprise funds:									
Business loan and investment fund	56,586	35,517	21,069	937,531	466,486	471,045	890,775	432,888	457,887
Disaster loan fund	79,058	31,604	47,455	1,453,940	496,602	957,338	2,342,138	237,629	2,104,509
Surety bond guarantees revolving fund	2,124	749	1,375	31,535	12,251	19,284	37,430	10,057	27,373
Other	86	309	-223	2,921	3,006	-85	4,092	1,099	2,993
Salaries and expenses	13,814	....	13,814	181,880	....	181,880	173,285	....	173,285
Proprietary receipts from the public	....	1	-1	....	22	-22	....	19	-19
Other	172	....	172	1,701	....	1,701	....	....	....
Total--Small Business Administration	151,840	68,179	83,660	2,609,508	978,367	1,631,142	3,447,720	681,692	2,766,028
Smithsonian Institution	13,164	5	13,159	132,243	61	132,182	125,298	58	125,240
Tennessee Valley Authority	402,888	200,976	201,913	4,798,298	2,914,157	1,884,141	3,726,106	2,313,878	1,412,228
United States Railway Association:									
Administrative expenses	2,150	....	2,150	28,850	....	28,850	19,025	....	19,025
Purchases of Conrail Securities	21,000	....	21,000	708,300	....	708,300	734,700	....	734,700
Other independent agencies	27,776	4,425	23,351	242,599	56,300	186,299	257,734	80,582	177,152
Total--Independent agencies	3,270,776	887,026	2,383,750	39,610,064	12,928,167	26,681,897	37,991,383	12,652,377	25,339,006
Undistributed offsetting receipts:									
Federal employer contributions to retirement and social insurance funds:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	....	....	....	-30	....	-30	-30	....	-30
The Judiciary:									
Judicial survivors annuity fund	-130	....	-130	-1,641	....	-1,641	-1,380	....	-1,380
Department of Health, Education, and Welfare:									
Federal old-age and survivors insurance trust fund	-83,000	....	-83,000	-948,000	....	-948,000	-906,000	....	-906,000
Federal disability insurance trust fund	-14,000	....	-14,000	-166,000	....	-166,000	-154,000	....	-154,000
Federal hospital insurance trust fund	-21,000	....	-21,000	-228,000	....	-228,000	-206,000	....	-206,000
Department of State:									
Foreign Service retirement and disability fund	-1,838	....	-1,838	-20,477	....	-20,477	-19,256	....	-19,256
Independent agencies:									
Office of Personnel Management:									
Civil Service retirement and disability fund	-124,602	....	-124,602	-2,511,477	....	-2,511,477	-2,547,468	....	-2,547,468
Receipts from off-budget Federal agencies:									
Independent agencies:									
Office of Personnel Management:									
Civil Service retirement and disability fund	-715,782	....	-715,782	-1,395,335	....	-1,395,335	-1,149,236	....	-1,149,236
Subtotal	-960,351	....	-960,351	-5,270,960	....	-5,270,960	-4,983,369	....	-4,983,369

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month Outlays	This Month Applicable Receipts	This Month Net Outlays	Current Fiscal Year to Date Outlays	Current Fiscal Year to Date Applicable Receipts	Current Fiscal Year to Date Net Outlays	Comparable Period Prior Fiscal Year Outlays	Comparable Period Prior Fiscal Year Applicable Receipts	Comparable Period Prior Fiscal Year Net Outlays
Undistributed offsetting receipts--Continued									
Interest credited to certain Government Accounts:									
The Judiciary:									
Judicial survivors annuity fund	....	....	....	-$3,810	....	-$3,810	-$3,411	....	-$3,411
Department of Defense:									
Civil:									
Soldiers' and Airmen's Home permanent fund	-$2,046	....	-$2,046	-7,965	....	-7,965	-6,233	....	-6,233
Department of Health, Education, and Welfare:									
Federal old-age and survivors insurance trust fund	-31,891	....	-31,891	-1,919,228	....	-1,919,228	-2,153,058	....	-2,153,058
Federal disability insurance trust fund	-3,284	....	-3,284	-303,126	....	-303,126	-249,190	....	-249,190
Federal hospital insurance trust fund	-3,598	....	-3,598	-868,493	....	-868,493	-780,058	....	-780,058
Federal supplementary medical insurance trust fund	-4,237	....	-4,237	-362,357	....	-362,357	-229,065	....	-229,065
Department of Labor:									
Unemployment trust fund	-14,907	....	-14,907	-503,104	....	-503,104	-266,286	....	-266,286
Black Lung Disability Trust Fund	....	....	....	-122	....	-122	-1,192	....	-1,192
Department of State:									
Foreign Service retirement and disability fund	-215	....	-215	-30,853	....	-30,853	-19,965	....	-19,965
Department of Transportation:									
Airport and airway trust fund	-3,978	....	-3,978	-282,265	....	-282,265	-219,207	....	-219,207
Highway trust fund	-14,558	....	-14,558	-852,902	....	-852,902	-662,155	....	-662,155
Veterans Administration:									
Government life insurance fund	-65	....	-65	-34,383	....	-34,383	-31,730	....	-31,730
National service life insurance fund	-135	....	-135	-528,560	....	-528,560	-460,453	....	-460,453
Independent Agencies:									
Office of Personnel Management:									
Civil Service retirement and disability fund	-12,794	....	-12,794	-4,052,880	....	-4,052,880	-3,236,136	....	-3,236,136
Railroad Retirement Board:									
Railroad retirement account	-1,999	....	-1,999	-192,014	....	-192,014	-208,555	....	-208,555
Other	-941	....	-941	-8,447	....	-8,447	-3,618	....	-3,618
Subtotal	-94,649	....	-94,649	-9,950,510	....	-9,950,510	-8,530,311	....	-8,530,311
Rents and royalties on the outer continental shelf land	....	$599,540	-599,540	....	$3,267,376	-3,267,376	....	$2,258,546	-2,258,546
Total--Undistributed offsetting receipts	-1,055,001	599,540	-1,654,540	-15,221,470	3,267,376	-18,488,845	-13,513,681	2,258,546	-15,772,226
Total outlays	35,609,936	5,984,638	29,625,298	557,580,395	64,359,377	493,221,018	508,291,450	57,353,950	450,937,500
TOTAL BUDGET			(Net Totals)			(Net Totals)			(Net Totals)
Receipts			47,295,460			465,940,168			401,997,377
Outlays (-)			-29,625,298			-493,221,018			-450,937,500
Budget surplus (+) or deficit (-)			+17,670,162			-27,280,850			-48,940,123

MEMORANDUM

Receipts offset against outlays (In thousands)

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts from the public	$18,698,804	$15,935,494
Receipts from off-budget Federal agencies	4,041,716	2,767,670
Intrabudgetary transactions	45,289,613	40,898,728
Total receipts offset against outlays	68,030,133	59,601,893

TABLE IV--MEANS OF FINANCING (In thousands)

Classification (Assets and Liabilities Directly Related to the Budget)	Net Transactions (-) denotes net reduction of either liability or assets accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
LIABILITY ACCOUNTS						
Borrowing from the public:						
Public debt securities, issued under general financial authorities:						
Obligations of the United States, issued by:						
United States Treasury	$13,378,881	$54,974,618	$72,704,561	$771,544,469	$813,140,207	$826,519,087
Federal Financing Bank	....	....	-10	10	10	10
Total public debt securities	13,378,881	54,974,618	72,704,551	771,544,479	813,140,217	826,519,097
Agency securities, issued under special financing authorities (See Schedule B. For other agency borrowing, see Schedule C.)	-13,492	-1,648,862	-1,417,194	8,880,631	7,245,262	7,231,770
Total federal securities	13,365,388	53,325,757	71,287,357	780,425,110	820,385,478	833,750,867
Deduct:						
Federal securities held as investments of government accounts (See Schedule D)	9,115,733	19,684,882	12,181,491	169,476,652	180,045,801	189,161,534
Total borrowing from the public	4,249,655	33,640,874	59,105,866	610,948,458	640,339,677	644,589,333
Accrued interest payable to the public	2,293,550	1,421,168	2,020,988	6,733,414	5,861,032	8,154,582
Deposit funds:						
Allocations of special drawing rights	55,289	1,236,016	269,623	2,938,754	4,119,482	4,174,771
Other	1,031,165	973,755	78,442	3,368,277	3,310,866	4,342,031
Miscellaneous liability accounts (Includes checks outstanding etc.)	-5,168,426	534,135	212,056	8,112,566	13,815,128	8,646,702
Total liability accounts	2,461,233	37,805,949	61,686,974	632,101,470	667,446,186	669,907,419
ASSET ACCOUNTS (Deduct)						
Cash and monetary assets:						
U.S. Treasury operating cash:[9]						
Federal Reserve account	2,946,716	-10,158,178	907,549	16,647,185	3,542,291	6,489,007
Tax and loan note accounts	14,278,944	17,686,990	....	....	3,408,046	17,686,990
Tax and loan accounts	....	-5,796,587	2,432,449	5,796,587	....	....
Balance	17,225,660	1,732,225	3,339,999	22,443,772	6,950,337	24,175,997
Special drawing rights:						
Total holdings	36,092	-216,457	452,409	2,941,684	2,689,136	2,725,228
SDR certificates issued to Federal Reserve Banks	....	-500,000	-100,000	-1,300,000	-1,800,000	-1,800,000
Balance	36,092	-716,457	352,409	1,641,684	889,136	925,228
Gold tranche drawing rights:						
U.S. subscription to International Monetary Fund:						
Direct quota payments	....	....	2,110,156	8,810,156	8,810,156	8,810,156
Maintenance of value adjustments	....	163,346	861,556	1,957,257	2,120,603	2,120,603
Other demand liabilities issued to IMF	-11,000	-2,500,984	-3,262,408	-6,922,259	-9,412,243	-9,423,243
Receivable/Payable (-) for U.S. currency valuation adjustment	....	100,510	-303,789	-308,688	-208,178	-208,178
Balance	-11,000	-2,237,128	-594,485	3,536,466	1,310,338	1,299,338
Loans to International Monetary Fund	....	-706,304	36,928	706,304	....	....
Other cash and monetary assets	-688,553	2,335,504	-112,405	3,354,769	6,378,826	5,690,273
Total cash and monetary assets	16,562,199	407,840	3,022,446	31,682,995	15,528,637	32,090,836
Miscellaneous asset accounts	1,746,073	1,220,054	335,594	4,890,151	4,364,132	6,110,205
Total asset accounts	18,308,272	1,627,895	3,358,040	36,573,147	19,892,769	38,201,041
Excess of liabilities (+) or assets (-)	-15,847,039	+36,178,055	+58,328,934	+595,528,323	+647,553,417	+631,706,378
Transactions not applied to current year's surplus or deficit (See Schedule A for details)	-1,823,124	-8,897,205	-9,388,811	....	-7,074,081	-8,897,205
Total budget financing [Financing of deficit (+) or disposition of surplus (-)]	-17,670,162	+27,280,850	+48,940,123	+595,528,323	+640,479,335	+622,809,173

See footnotes on page 3.

TABLE IV--SCHEDULE A--ANALYSIS OF CHANGE IN EXCESS OF LIABILITIES (In thousands)

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	$647,553,417	$595,528,323	$537,199,389
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Excess of liabilities beginning of period (current basis)	647,553,417	595,528,323	537,199,389
Budget surplus (-) or deficit:			
Based on composition of unified budget in prior fiscal year	-17,864,254	24,915,110	48,760,622
Changes in composition of unified budget:			
Profit on sale of gold reclassified from budgetary to off-budget account[10]	194,092	2,365,740	179,501
Budget surplus (-) or deficit (Table III)	-17,670,162	27,280,850	48,940,123
Transactions not applied to current year's surplus or deficit:			
Seigniorage	-95,492	-991,909	-367,156
Increment on gold	....	....	-702
Profit on sale of gold[10]	-194,092	-2,365,740	-179,501
Net gain (-)/loss for U.S. currency valuation adjustment	....	-94,872	-368,515
Net gain (-)/loss for IMF loan valuation adjustment	....	-78,532	-2,232
Off-budget Federal Agencies:			
Federal Financing Bank	1,382,840	13,260,895	10,660,478
Pension Benefit Guaranty Fund	1,855	-38,848	-31,760
Postal Service	928,281	-890,748	-496,433
Rural electrification and telephone revolving fund	-206,504	-3,760	61,924
Rural Telephone Bank	6,236	100,719	112,710
Total--transactions not applied to current year's surplus or deficit	1,823,124	8,897,205	9,388,811
Excess of liabilities close of period	631,706,378	631,706,378	595,528,323

See footnotes on page 3.

TABLE IV--SCHEDULE B--AGENCY SECURITIES, ISSUED UNDER SPECIAL FINANCING AUTHORITIES (In thousands)

Classification	Net Transactions (-) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank	-$2,024	-$1,207,149	-$717,569	$2,140,605	$935,481	$933,456
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family Housing Mortgages	-10,572	-129,316	-117,589	896,001	777,257	766,685
Department of Housing and Urban Development:						
Federal Housing Administration	-903	-49,453	21,508	600,638	552,087	551,184
Department of Transportation:						
Coast Guard:						
Family Housing Mortgages	-18	-215	-206	1,638	1,442	1,423
Obligations not guaranteed by the United States, issued by:						
Department of Defense:						
Homeowners' Assistance Mortgages	26	-728	-1,338	749	[11]-5	21
Department of Housing and Urban Development:						
Government National Mortgage Association	....	-162,000	-602,000	3,166,000	3,004,000	3,004,000
Independent Agencies:						
Postal Service	....	....	....	250,000	250,000	250,000
Tennessee Valley Authority	....	-100,000	....	1,825,000	1,725,000	1,725,000
Total agency securities	-13,492	-1,648,862	-1,417,194	8,880,631	7,245,262	7,231,770

See footnotes on page 3.

TABLE IV--SCHEDULE C (MEMORANDUM)--AGENCY BORROWING FINANCED THROUGH ISSUE OF PUBLIC DEBT SECURITIES (In thousands)

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Comparable Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Commodity Credit Corporation	$77,000	$2,665,209	$5,132,850	$11,261,307	$13,849,516	$13,926,516
D.C. Commissioners: Stadium sinking fund, Armory Board, D.C.	....	-831	832	1,663	832	832
Export-Import Bank of United States	50,000	50,000	-3,324	....	....	50,000
Federal Financing Bank	956,458	15,758,467	12,659,220	48,077,503	62,879,512	63,835,970
Federal Housing Administration:						
General insurance	....	....	245,000	2,156,655	2,156,655	2,156,655
Special risk insurance	....	....	195,000	1,812,166	1,812,166	1,812,166
General Services Administration:						
Pennsylvania Avenue Development Corporation	1,415	16,726	17,212	17,212	32,523	33,938
Government National Mortgage Association:						
Emergency home purchase assistance fund	70,250	275,293	359,793	1,076,107	1,281,150	1,351,400
Management and liquidating functions	....	-21,000	-15,000	35,000	14,000	14,000
Special assistance functions	4,200	84,820	-4,905	4,136,597	4,217,217	4,221,417
International Communication Agency	....	....	....	22,114	22,114	22,114
Rural Electrification Administration	-238,471	....	....	7,864,742	8,103,213	7,864,742
Rural Telephone Bank	7,897	75,596	85,648	319,272	386,971	394,868
Saint Lawrence Seaway Development Corporation	....	-2,500	-1,000	115,476	112,976	112,976
Secretary of Agriculture, Farmers Home Administration:						
Rural housing insurance fund	....	....	40,000	1,005,718	1,005,718	1,005,718
Agricultural credit insurance fund	....	1,074,000	100,000	776,000	1,850,000	1,850,000
Rural development insurance fund	....	75,000	160,000	440,000	515,000	515,000
Secretary of Energy:						
Bonneville Power Administration	110,000	110,000	175,000	300,000	300,000	410,000
Secretary of Housing and Urban Development Department:						
College housing loans	....	-123,675	....	2,811,000	2,687,325	2,687,325
Housing for the Elderly and Handicapped	65,000	475,000	45,170	45,170	455,170	520,170
National flood insurance fund	38,145	215,189	82,915	230,366	407,410	445,555
New communities guaranty:						
Title IV	....	275	129	3,487	3,762	3,762
Title VII	1,062	29,843	97,929	211,006	239,787	240,849
Urban renewal fund	....	-500,000	....	800,000	300,000	300,000
Secretary of the Interior:						
Bureau of Mines, helium fund	....	....	....	251,650	251,650	251,650
Secretary of Transportation:						
Rail Service Assistance	-2,727	-2,726	-49,653	2,826	2,826	100
Regional Rail Reorganization	....	....	302	2,704	2,704	2,704
Smithsonian Institution:						
John F. Kennedy Center parking facilities	....	....	....	20,400	20,400	20,400
Tennessee Valley Authority	....	....	....	150,000	150,000	150,000
Veterans Administration:						
Veterans direct loan program	....	....	....	1,730,078	1,730,078	1,730,078
Total Borrowing from the Treasury	*1,140,229*	*20,254,686*	*19,323,118*	*85,676,219*	*104,790,675*	*105,930,905*
Borrowing from the Federal Financing Bank:						
Export-Import Bank of the United States	106,600	1,384,600	644,800	6,568,287	7,846,287	7,952,887
Postal Service	-365,000	-527,000	-67,000	2,114,000	1,952,000	1,587,000
Tennessee Valley Authority	195,000	1,905,000	1,340,000	5,220,000	6,930,000	7,125,000
Total Borrowing from the Federal Financing Bank	*-63,400*	*2,762,600*	*1,917,800*	*13,902,287*	*16,728,287*	*16,664,887*
Total Agency Borrowing financed through issues of Public Debt Securities	1,076,829	23,017,286	21,240,918	99,578,508	121,518,962	122,595,792

Note: Includes only amounts loaned to Federal Agencies in lieu of Agency Debt issuance and excludes Federal Financing Bank purchase of loans made or guaranteed by Federal Agencies. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to Agencies in lieu of Agencies borrowing directly through Treasury or issuing their own securities.

TABLE IV--SCHEDULE D--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In thousands)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Federal Funds:						
Department of Agriculture:						
Agency securities	....	-$6,000	-$6,000	$23,215	$17,215	$17,215
Department of Commerce	$2,450	30,655	-65,344	73,366	101,571	104,021
Department of Housing and Urban Development:						
Federal Housing Administration:						
Federal housing administration fund:						
Public debt securities	50,502	149,434	100,452	1,842,868	1,941,800	1,992,302
Agency securities	-1	-3,728	-30	190,990	187,264	187,263
Government National Mortgage Association:						
Emergency mortgage purchase assistance:						
Agency securities	2,742	4,570	....	....	1,828	4,570
Special assistance function fund:						
Agency securities	-1,284	-10,268	-1,298	106,881	97,897	96,613
Management and liquidating functions fund:						
Agency securities	-226	-4,609	-2,598	33,201	28,818	28,592
Guarantees of Mortgage-Backed Securities:						
Public debt securities	4,355	52,437	11,874	69,452	117,534	121,889
Agency securities	....	2,727	29,106	35,482	38,208	38,208
Participation sales fund:						
Public debt securities	32,964	107,907	-238,468	1,271,266	1,346,209	1,379,173
Agency securities	....	....	-74,365	12,380	12,380	12,380
Housing Management:						
Community disposal operations fund:						
Agency securities	....	....	....	388	388	388
Federal Insurance Administration:						
National insurance development fund	....	10,000	-36,195	52,037	62,037	62,037
Department of Transportation	786	1,515	1,930	17,285	18,014	18,800
Department of the Treasury	888,936	2,503,107	-286,556	1,763,009	3,377,180	4,266,116
Veterans Administration:						
Veterans reopened insurance fund	-816	27,993	28,151	409,957	438,766	437,950
Independent Agencies:						
Emergency Loan Guarantee Board	....	....	-31,510	....	....	....
Export-Import Bank of the United States	-56,200	-7,700	-4,900	7,700	56,200	....
Federal Savings and Loan Insurance Corporation:						
Public debt securities	19,193	496,894	449,913	4,986,073	5,463,774	5,482,967
Agency securities	....	-7,760	-46,190	85,975	78,215	78,215
National Credit Union Administration	470	26,020	12,980	102,264	127,814	128,284
Other	8,600	72,665	58,950	371,465	435,530	444,130
Total public debt securities	951,239	3,470,927	1,277	10,966,742	13,486,430	14,437,669
Total agency securities	1,231	-25,068	-101,374	488,511	462,212	463,443
Total Federal funds	952,470	3,445,858	-100,098	11,455,253	13,948,641	14,901,112
Trust Funds:						
Legislative Branch:						
United States Tax Court	10	75	42	641	706	716
Library of Congress	....	80	175	1,515	1,595	1,595
The Judiciary:						
Judicial Survivors Annuity Fund	-718	6,733	2,943	44,412	51,863	51,145
Department of Agriculture	....	-1,345	-880	1,495	150	150
Department of Commerce	....	-25	15	60	35	35
Department of Defense	715	217	414	3,007	2,509	3,224
Department of Health, Education, and Welfare:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	533,604	-3,638,468	-4,443,012	30,411,815	26,239,743	26,773,347
Agency securities	....	....	....	555,000	555,000	555,000
Federal disability insurance trust fund	674,880	1,230,320	110,391	4,352,301	4,907,741	5,582,621
Federal hospital insurance trust fund:						
Public debt securities	407,766	1,406,233	783,566	11,707,306	12,705,773	13,113,539
Agency securities	....	....	....	50,000	50,000	50,000
Federal supplementary medical insurance trust fund	-36,193	953,330	1,788,614	4,020,692	5,010,215	4,974,022
Other	....	884	550	1,736	2,620	2,620

TABLE IV--SCHEDULE D--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In thousands)--Continued

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Trust Funds--Continued						
Department of the Interior	-$1,770	-$525	$5,531	$12,126	$13,371	$11,601
Department of Labor:						
Unemployment trust fund	-778,314	4,275,806	3,530,142	9,517,307	14,571,427	13,793,113
Other	-555	-555	-46	4,661	4,661	4,106
Department of State:						
Foreign service retirement and disability fund	77,779	120,764	103,916	371,864	414,849	492,628
Other	....	160	500	980	1,140	1,140
Department of Transportation:						
Airport and airway trust fund	-73,418	690,889	440,556	3,686,537	4,450,844	4,377,426
Highway trust fund	-251,233	890,575	1,499,395	11,578,082	12,719,890	12,468,657
Other	....	....	10	20	20	20
Department of the Treasury	-5,000	7,505	4,450	57,320	69,825	64,825
General Services Administration	-1,274	420	260	4,090	5,784	4,510
Veterans Administration:						
Government life insurance fund	-4,933	-33,085	-30,230	495,642	467,490	462,557
National service life insurance fund:						
Public debt securities	-17,858	206,911	367,752	7,618,041	7,842,810	7,824,952
Agency securities	....	....	-100,000	135,000	135,000	135,000
Veterans special life insurance fund	-593	37,735	55,011	583,400	621,728	621,135
General Post Fund National Homes	-470	....	890	2,365	2,835	2,365
Independent Agencies:						
Office of Personnel Management:						
Civil service retirement and disability fund:						
Public debt securities	8,914,028	7,849,386	6,663,472	55,884,840	54,820,198	63,734,226
Agency securities	....	....	-100,000	275,000	275,000	275,000
Employees health benefits fund	43,139	76,779	89,154	513,316	546,956	590,095
Employees life insurance fund	1,967	298,644	486,686	3,016,488	3,313,165	3,315,132
Retired employees health benefits fund	-155	-4,550	-5,600	7,629	3,234	3,079
Federal Deposit Insurance Corporation	17,004	1,220,238	569,310	8,031,768	9,235,002	9,252,006
Japan-United States Friendship Commission	653	-16	-454	18,671	18,002	18,655
Harry S. Truman Memorial Scholarship Trust Fund	-125	1,875	1,816	32,979	34,979	34,854
Railroad Retirement Board	-161,114	-23,392	-104,220	3,077,888	3,215,610	3,054,496
Total public debt securities	9,337,823	15,573,598	11,921,119	155,060,993	161,296,768	170,634,591
Total agency securities	....	....	-200,000	1,015,000	1,015,000	1,015,000
Total trust funds	9,337,823	15,573,598	11,721,119	156,075,993	162,311,768	171,649,591
Off-budget Federal agencies:						
Federal Financing Bank	9,765	109,405	78,690	116,895	216,535	226,300
Pension Benefit Guaranty Corporation	-2,225	38,525	31,935	103,400	144,150	141,925
Postal Service	-1,182,100	517,616	449,900	1,721,100	3,420,816	2,238,716
Rural electrification and telephone revolving fund	....	-120	-55	4,011	3,891	3,891
Total public debt securities	-1,174,560	665,426	560,470	1,945,406	3,785,392	2,610,832
Total Off-budget Federal agencies	-1,174,560	665,426	560,470	1,945,406	3,785,392	2,610,832
Grand Total	9,115,733	19,684,882	12,181,491	169,476,652	180,045,801	189,161,534

Note: Investments are in public debt securities unless otherwise noted.

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR (In millions)

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F. Y.
NET RECEIPTS														
Individual income taxes	$15,922	$16,609	$16,066	$23,667	$14,509	$8,255	$25,029	$14,575	$25,568	$17,086	$17,215	$23,341	$217,841	$180,988
Corporation income taxes	1,684	1,048	10,386	2,146	1,281	9,301	9,767	1,403	15,640	2,020	1,368	9,633	65,677	59,952
Social insurance taxes and contributions:														
Employment taxes and contributions	6,595	9,762	7,059	8,439	11,850	9,636	12,044	13,250	8,696	8,857	13,577	10,310	120,074	103,893
Unemployment insurance	722	1,662	174	478	1,286	198	1,608	4,864	188	1,204	2,847	154	15,387	13,850
Contributions for other insurance and retirement	488	499	483	512	478	540	513	538	491	504	740	344	6,130	5,668
Excise taxes	1,635	1,712	1,597	1,520	1,436	1,434	1,529	1,601	1,464	1,659	1,498	1,660	18,745	18,376
Estate and gift taxes	477	460	386	485	426	449	323	559	414	463	534	434	5,411	5,285
Customs duties	621	646	594	630	527	621	623	645	637	647	689	559	7,439	6,573
Miscellaneous receipts	602	829	732	486	846	712	794	852	811	828	886	859	9,237	7,413
Total--receipts this year	28,745	33,227	37,477	38,364	32,639	31,144	52,230	38,287	53,910	33,268	39,353	47,295	465,940	....
Total--receipts prior year	*24,130*	*27,598*	*32,796*	*33,201*	*26,922*	*25,233*	*42,545*	*35,091*	*47,657*	*29,194*	*35,040*	*42,591*	....	*401,997*
NET OUTLAYS														
Legislative Branch	104	78	86	92	79	89	87	90	95	96	97	84	1,077	1,049
The Judiciary	1	49	30	35	78	42	53	33	32	38	55	34	480	435
Executive Office of the President	6	6	4	8	4	6	12	5	6	8	8	5	80	75
Funds Appropriated to the President:														
International security assistance	-55	-292	-27	210	314	361	-24	488	-17	-647	311	212	839	2,004
International development assistance	121	89	281	155	20	130	144	91	121	114	125	84	1,476	1,523
Other	207	33	19	-11	-1	6	4	-23	-28	8	-40	52	222	932
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	969	1,150	1,515	1,528	329	236	117	-97	-336	-507	-267	-50	4,587	6,465
Other	727	1,504	1,344	1,824	1,383	1,487	1,882	1,275	886	1,599	1,179	955	16,046	13,904
Department of Commerce	487	475	418	354	315	299	288	323	301	276	258	278	4,072	5,239
Department of Defense:														
Military:														
Department of the Army	2,214	2,282	2,425	2,348	2,363	2,452	2,380	2,424	2,538	2,546	2,562	2,237	28,770	26,020
Department of the Navy	3,376	2,880	2,956	2,872	2,837	3,379	3,101	3,183	3,115	3,550	3,450	3,114	37,815	33,524
Department of Air Force	2,333	2,702	2,730	2,541	2,502	2,778	2,690	2,873	2,751	2,793	3,052	2,534	32,277	29,217
Defense agencies	1,237	1,353	1,269	1,443	1,218	1,370	1,159	1,351	1,434	1,365	1,483	1,468	16,150	14,281
Total Military	9,160	9,216	9,380	9,205	8,920	9,979	9,329	9,830	9,838	10,256	10,547	9,353	115,013	103,042
Civil	223	289	245	218	170	174	197	212	246	282	305	347	2,908	2,553
Department of Energy	529	631	670	562	676	710	582	707	750	645	740	685	7,889	6,264
Department of Health, Education, and Welfare:														
Human Development Services	484	465	505	540	445	479	441	477	435	410	535	502	5,719	5,252
Health Care Financing Administration:														
Grants to States for Medicaid	1,038	952	980	1,064	997	1,002	953	1,038	1,063	973	1,271	1,076	12,407	10,680
Federal Hospital Ins. Trust Fund	1,620	1,582	1,537	1,677	1,610	1,824	1,674	1,821	1,753	1,763	1,877	1,604	20,343	17,862
Federal Supp. Med. Ins. Trust Fund	712	742	628	739	677	752	744	778	718	744	852	728	8,813	7,358
Other	526	512	857	600	555	1,332	589	550	558	580	597	581	7,838	7,293
Social Security Adm.:														
Assis. Pmts. Program	605	555	580	451	559	572	506	602	533	471	622	556	6,610	6,639
Federal Old-Age and Survivors Insurance Trust Fund	7,052	7,061	7,134	7,174	7,206	7,250	7,422	7,246	8,691	7,964	15,783	146	90,130	81,206
Federal Disability Ins. Trust Fund	1,160	1,117	1,128	1,117	1,121	1,132	1,137	1,141	1,166	1,230	2,352	143	13,944	12,656
Other	159	562	1,810	67	589	1,087	78	597	1,104	85	1,160	60	7,358	7,721
Other	745	964	-141	987	824	331	1,184	1,135	-739	835	880	1,018	8,024	6,190

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR (In millions)--Continued

Classification	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Fiscal Year To Date	Comparable Period Prior F. Y.
OUTLAYS--Continued														
Department of Housing and Urban Development	$758	$487	$835	$801	$623	$798	$552	$818	$933	$779	$1,009	$826	$9,218	$7,597
Department of the Interior	204	317	273	255	472	325	306	491	212	269	506	458	4,087	3,795
Department of Justice	210	255	176	229	183	210	203	237	204	210	215	191	2,522	2,397
Department of Labor:														
Unemployment trust fund	642	632	743	1,058	1,049	1,195	958	1,112	922	886	1,000	977	11,173	11,169
Other	669	833	893	985	847	1,126	1,015	878	903	1,210	1,241	878	11,477	11,781
Department of State	153	136	30	107	139	116	116	96	82	102	348	122	1,548	1,252
Department of Transportation:														
Highway trust fund	764	634	529	487	416	442	389	494	537	747	713	796	6,949	5,903
Other	884	658	662	808	518	751	792	656	639	697	806	666	8,537	7,549
Department of the Treasury:														
Interest on the public debt	3,822	4,146	8,138	4,112	4,320	4,281	4,385	4,663	8,638	4,301	4,671	4,360	59,837	48,695
General revenue sharing	1,704	2	(**)	1,699	14	(**)	1,713	1	(**)	1,714	(**)	(**)	6,848	6,823
Other	188	-156	-659	-741	138	123	268	55	-430	-458	-89	-329	-2,089	939
Environmental Protection Agency	392	342	367	430	366	379	374	396	414	456	461	424	4,800	4,071
General Services Administration	-161	75	116	-192	37	128	-147	91	112	-56	81	90	173	117
National Aeronautics and Space Administration	300	350	333	354	365	389	198	366	389	341	413	387	4,187	3,980
Veterans Administration:														
Compensation and pensions	773	838	1,673	128	858	1,664	85	880	1,695	63	1,729	57	10,442	9,573
National service life	27	22	24	32	17	38	30	41	19	34	28	22	334	191
Government service life	6	5	5	6	4	6	6	8	4	8	5	4	67	63
Other	839	800	946	589	742	1,007	716	763	777	559	795	514	9,045	9,136
Independent agencies:														
Office of Personnel Management	1,048	973	1,109	1,026	984	1,002	1,119	1,016	1,152	1,106	1,041	1,078	12,655	10,963
Postal Service	1,785	......	......	......	......	......	......	......	......	......	......	1	1,787	1,778
Small Business Administration	448	131	40	90	91	109	60	170	80	87	243	84	1,631	2,766
Tennessee Valley Authority	134	182	130	169	98	71	169	159	168	203	201	202	1,884	1,412
Other ind. agencies	917	443	914	585	122	885	709	667	992	752	721	1,019	8,726	8,420
Undistributed offsetting receipts:														
Federal employer contributions to retirement fund	-199	-364	-508	-378	-362	-383	-427	-369	-384	-373	-565	-960	-5,271	-4,983
Interest credited to certain accounts	-103	-231	-4,219	9	-211	-104	-121	-232	-4,429	7	-222	-95	-9,951	-8,530
Rents and Royalties on Outer Continental Shelf Lands	-95	-117	-143	-147	-958	-116	-116	-154	-118	-387	-316	-600	-3,267	-2,259
Total outlays--this year	42,691	39,134	41,392	41,095	37,739	43,725	40,752	41,618	40,687	40,482	54,279	29,625	493,221	....
Total outlays–prior year	*38,792*	*36,866*	*37,648*	*36,918*	*33,914*	*40,206*	*36,080*	*36,800*	*38,643*	*36,470*	*39,615*	*38,987*	....	*450,938*
Surplus (+) or deficit (-) this year	-13,946	-5,907	-3,915	-2,731	-5,100	-12,581	+11,478	-3,331	+13,223	-7,214	-14,926	+17,670	-27,281	....
Surplus (+) or deficit (-) prior year	*-14,663*	*-9,269*	*-4,852*	*-3,717*	*-6,991*	*-14,973*	*+6,465*	*-1,709*	*+9,014*	*-7,276*	*-4,575*	*+3,604*	....	*-48,940*

See footnotes on page 3.

TABLE VI--TRUST FUND IMPACT ON BUDGET RESULTS AND INVESTMENT HOLDINGS (In millions)

Classification	Current Month			Fiscal Year to Date			Securities held as Investments Current Fiscal Year		
							Beginning of		Close of This Month
	Receipts	Outlays	Excess	Receipts	Outlays	Excess	This Year	This Month	
Trust receipts, outlays, and investments held:									
Airport and airway	$134	$206	-$72	$1,526	$832	$694	$3,687	$4,451	$4,377
Black lung disability trust fund	18	17	1	222	221	1	13	5	4
Federal Deposit Insurance Corp	....	-17	17	....	-1,218	1,218	8,032	9,235	9,252
Federal disability insurance	1,619	125	1,494	14,584	13,302	1,282	4,352	4,908	5,583
Federal employees life and health benefits	....	-92	92	....	-418	418	3,537	3,863	3,908
Federal employees retirement	310	-8,672	8,982	3,494	-4,485	7,979	56,532	55,510	64,502
Federal hospital insurance	2,202	1,579	623	19,891	18,324	1,567	11,757	12,756	13,164
Federal old-age and survivors insurance	6,266	31	6,235	83,410	85,198	-1,788	30,967	26,795	27,328
Federal supplementary medical insurance	34	157	-123	2,636	1,610	1,026	4,021	5,010	4,974
General Revenue Sharing	....	....	....	6,855	6,848	7	....	....	....
Highway	567	781	-214	7,189	6,201	988	11,578	12,720	12,469
Military assistance advances	....	-105	105	....	-1,434	1,434	....	....	....
Railroad retirement	223	400	-177	2,190	3,789	-1,599	3,078	3,216	3,054
Unemployment	154	962	-808	15,387	10,670	4,717	9,517	14,571	13,793
Veterans life insurance	....	17	-17	....	-287	287	8,832	9,067	9,044
All other trust	4	103	-99	43	-61	104	173	207	199
Trust fund receipts and outlays on the basis of Table III and investments held from Table IV-D	11,532	-4,508	16,039	157,426	139,090	18,335	156,076	162,312	171,650
Interfund receipts offset against trust fund outlays	11,292	11,292	-0-	34,343	34,343	-0-			
Total trust fund receipts and outlays	22,824	6,784	16,039	191,769	173,433	18,335			
Federal fund receipts and outlays on the basis of Table III	35,763	34,133	1,631	315,369	360,986	-45,616			
Interfund receipts offset against Federal fund outlays	10	10	-0-	174	174	-0-			
Total Federal fund receipts and outlays	35,774	34,143	1,631	315,544	361,160	-45,616			
Total interfund receipts and outlays	-11,302	-11,302	-0-	-41,372	-41,372	-0-			
Net budget receipts and outlays	47,295	29,625	+17,670	465,940	493,221	-27,281			

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds, such as, Federal payments and contributions, Federal employer contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipt side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds and Federal funds respectively. Included in total interfund receipts and outlays are $6,855 million in Federal funds transferred to trust funds for general revenue sharing.

TABLE VII--SUMMARY OF RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION (In thousands)

Classification	Budget Receipts and Outlays		
	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
NET RECEIPTS			
Individual income taxes	$23,341,470	$217,840,966	$180,987,774
Corporation income taxes	9,633,126	65,676,588	59,951,866
Social insurance taxes and contributions:			
Employment taxes and contributions	10,309,774	120,074,224	103,893,049
Unemployment insurance	154,394	15,386,733	13,849,598
Contributions for other insurance and retirement	344,412	6,130,369	5,667,720
Excise taxes	1,660,378	18,744,953	18,376,184
Estate and gift taxes	434,090	5,410,556	5,285,402
Customs	559,261	7,438,533	6,572,718
Miscellaneous receipts	858,557	9,237,246	7,413,068
Total	47,295,460	465,940,168	401,997,377
NET OUTLAYS			
National defense	9,199,853	116,491,219	105,191,764
International affairs	747,597	5,419,411	6,083,384
General science, space, and technology	964,602	5,620,055	4,721,239
Energy	458,919	7,855,482	5,900,896
Natural resources and environment	1,233,780	12,346,193	11,166,717
Agriculture	-28,394	6,410,382	7,617,820
Commerce and housing credit	-46,365	2,592,025	3,319,391
Transportation	1,589,024	17,013,324	15,462,417
Community and regional development	1,003,318	9,735,031	11,262,652
Education, training, employment and social services	2,340,821	28,523,718	25,890,294
Health	4,109,032	49,613,712	43,676,146
Income security	4,545,918	160,496,073	146,503,382
Veterans benefits and services	599,238	19,915,770	18,987,495
Administration of justice	280,710	4,137,657	3,786,230
General government	333,157	4,671,466	3,723,346
General purpose fiscal assistance	130,619	8,234,392	9,376,959
Interest	3,818,011	52,633,953	44,039,594
Undistributed offsetting receipts	-1,654,540	-18,488,845	-15,772,226
Total	29,625,298	493,221,018	450,937,500

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FOR IMMEDIATE RELEASE
October 24, 1979

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202/566-8381

TREASURY FINDS SPUN ACRYLIC YARN FROM JAPAN IS SOLD HERE AT LESS THAN FAIR VALUE

The Treasury Department today said it has determined that spun acrylic yarn imported from Japan 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 July 13, 1979. The weighted average margin of sales at less than fair value in this case was 23.2 percent, computed on all sales.

Interested persons were offered the opportunity to present oral and written views before 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 this merchandise during 1978 were valued at about $4.6 million.

Notice of this determination will appear in the Federal Register of October 25, 1979.

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FOR RELEASE UPON DELIVERY
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STATEMENT OF THE HONORABLE DONALD C. LUBICK,
ASSISTANT SECRETARY FOR TAX POLICY
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
THURSDAY, OCTOBER 25, 1979

I am pleased to have the opportunity today to discuss the Administration's views on the appropriate tax treatment of capital gains on the sale of U.S. real property by foreign persons. Congressional expressions of dissatisfaction with our present law were first made during Senate consideration of the Revenue Act of 1978. The Treasury asked for and received six months time to prepare a study and make appropriate recommendations to the Congress. Because the Report was submitted to the Congress in early May, and because my time this morning is limited, I would like to submit the Report for the record and summarize only its principal findings.

Under present law, the United States does tax capital gains of foreign taxpayers -- nonresident alien individuals and foreign corporations -- if such gains are effectively connected with a U.S. trade or business. Most foreign investment in U.S. real estate either constitutes a U.S. trade or business or, at the election of the taxpayer, is taxed as if it were a U.S. trade or business.

The problem with present law is that a well advised foreign taxpayer can avoid our capital gains tax upon the sale of his U.S. real property even though that real property has been used in a U.S. trade or business. The Report notes five ways of achieving that result; other ways may also be available. The Report indicates the sorts of changes in present law we believe would be appropriate to limit these opportunities for tax avoidance.

When I testified in June before the Subcommittee on Taxation and Debt Management of the Senate Finance Committee, I outlined a more detailed proposal for taxing capital gains of foreign persons. I noted at the time that the proposal was intended to help focus the discussion of this subject, and not as the Administration's final view. In fact, our thinking on the taxation of sales of U.S. real property by foreigners has continued to evolve since June.

Let me begin with the highlights of the Administration's proposal as set forth last June. In the Administration's view, present law should be changed insofar as all U.S. real property is concerned. Thus, we believe that the scope of proposals to change the taxation of sales of agricultural land is too narrow, while proposals to tax sales of all U.S. property are too broad.

Present law distinguishes between capital gains which are effectively connected with a U.S. trade or business, and capital gains which are not. I see no reason to question that basic distinction. The problem highlighted in our Report is the manipulation of that distinction to avoid capital gains tax on sales of real property which has been used in a trade or business. This manipulation appears to be a problem with respect to real property generally, and not just with respect to agricultural land. On the other hand, such manipulation does not appear to be a significant factor in the case of foreign investment in manufacturing or other non-real-estate investments. Accordingly, our proposal is structured to limit the manipulation, rather than to make more fundamental changes in the way we tax foreigners investing in the United States.

As for the way in which present law would be changed, we favor the approach of treating capital gains on sales of U.S. real property as being effectively connected with a U.S. trade or business and thus subject to tax on a net basis. This position places us in accord with most of the suggestions that have been made both in the House of Representatives and the Senate. The more difficult question, however, is the extent to which this basic tax on direct sales of U.S. real property should be "backstopped" by a tax upon the sale of shares and other interests in entities holding U.S. real property.

The bills introduced to date in both houses of Congress provide that foreign persons would be subject to taxation on the sale of shares in any corporation, or the sale of an interest in any partnership, trust, or estate, to the extent the gain is attributable to unrealized appreciation of underlying real property, or to gain not recognized to the corporation pursuant to the special provisions of section 337 of the Internal Revenue Code. The Secretary of the Treasury would determine what part of the total gain is attributable to the corporation's real property holdings.

This approach reaches a number of transactions which do not raise the kinds of issues which this legislation should, in our view, address, and which we believe are not of primary concern to the sponsors of the legislation. For instance, a foreign person who holds shares of a public corporation -- even a U.S. public corporation -- would be liable for tax on the sale of its shares, if the corporation held U.S. real property which had appreciated in value. This would embroil the Treasury in a highly complex administrative task. It would also create a very complicated, perhaps impossible, enforcement task of trying to find all transactions by foreign persons in shares of U.S. companies which held U.S. real property. Equitable enforcement would probably be impossible to achieve, and any attempt at it would in all likelihood have the effect of disrupting investment by foreign persons in U.S. equity securities generally, to the detriment of our efforts to stabilize our balance of payments position.

The basic objective of a tax on the sale of shares, in our view, is to ensure that foreign persons are not able to avoid capital gains taxes on direct sales of U.S. real property by the simple expedient of placing the realty in a corporation and selling shares. The central concern, in our understanding, is with the "real property holding company" -- the closely held company whose principal assets constitute realty which the foreign person or persons might hold directly, but for the capital gains tax on direct sales of real property.

Accordingly, we believe that the tax on share sales should be limited to real property holding companies, and, moreover, that the tax should apply to <u>all</u> gain on such shares, not simply that attributable to unrealized appreciation of real property. Such a tax would be at once simpler to administer and enforce, and more carefully tailored to meet the essential objectives of the policy of taxing share sales.

We also have some difficulties with the proposals, embodied in the bills now pending, to enforce the taxes on real property and share sales though the ordinary "withholding" method usually applied to enforce taxes on foreign persons. There are three problems with this approach.

1. A purchaser of real property, or of shares in a company, may not know whether the seller is a foreign person. In the real estate industry, it is commonplace for transactions to be effected through nominees; shares of closely held companies may be so traded as well; and in trades of shares of public companies, a purchaser only very rarely knows the party from whom he makes his purchase. Therefore, the purchaser, who has a withholding liability, may not be in a position to know whether to withhold or not.

2. There is no way for a purchaser to know how much gain a seller derives on a sale. The ordinary statutory withholding obligation is 30 percent of a gross payment, which ordinarily constitutes income in the full amount of the payment. This is true, for instance, where the payment is interest, dividends, or royalties. But where the payment is a purchase price for real property, a large part of it, and in some cases all of it, may not be capital gain, but simply a return of capital.

3. Many purchasers, "withholding agents" under the legislation, may themselves be foreign persons. Withholding taxes are imposed because collecting tax from foreign persons is very difficult once the income to which the tax attaches is out of the country. Withholding taxes contemplate that in the ordinary case the income will be paid by a U.S. person with U.S. assets subject to lien, attachment, or the like, in the event of nonpayment. But in the situation addressed by this legislation, the purchaser will often himself be a foreign person.

In order to meet these difficulties, we believe that legislation to impose tax on capital gains derived by foreign persons should provide special mechanisms for withholding by purchasers of real property interests. We believe that someone purchasing a real property interest, whether real property itself or shares in a real property holding company, and any other party having custody of funds going to the purchase price of the property should be required to withhold 28% of the full purchase price. The 28% figure represents the maximum possible liability for capital gains tax upon a sale of real property. We think that amount should be withheld unless there are other satisfactory arrangements made for payment of the tax.

In order to avoid withholding of 28% of the proceeds, the seller should be permitted to provide a certificate to the purchaser either to the effect that the seller was not a foreign person or that he had made arrangements satisfactory to the Internal Revenue Service for payment of the tax due. Thus, a seller would be able to go to the IRS before the sale, identify himself to the Service, demonstrate his cost basis in the property to be sold, the proceeds he expected to derive from the sale, and other relevant information, and to make satisfactory arrangement for payment of any tax which would be due. In addition, the seller would have to establish to the Service that he had satisfied any withholding obligation he might have had upon acquisition of the property. This would protect against avoidance of tax by successive transfers of property among different foreign persons.

We believe that enforcement measures of this kind -- a special withholding obligation, coupled with a "tax clearance" process -- would be adequate to enforce a tax on real property gains derived by foreigners, without unduly burdening other real property transactions.

Finally, I would like to comment on the relationship of present statutes and proposed changes to our bilateral tax treaties. The United States presently has in force bilateral tax treaties with 38 foreign countries and 8 overseas territories. Two of those treaties would preclude taxation of capital gains from the sale of U.S. real property when such gains were not attributable to a "permanent establishment" in the United States. Approximately one half of the treaties contain articles exempting residents of the treaty country from U.S. taxation on capital gains on the sale of corporate shares. All the treaties contain non-discrimination articles which would, for example, prevent the United States from imposing a tax applicable to corporations owned by residents of the treaty country but not to corporations owned by U.S. taxpayers. In the absence of specific statutory provisions overriding these treaty provisions, the treaties take precedence over present and future tax statutes.

The process of negotiating and ratifying a tax treaty is long and arduous. This process would be rendered all the more difficult, if not altogether impossible, if the United States were to begin overriding specific treaty provisions that a foreign country had negotiated in good faith. However, most of our treaty partners are sympathetic to considering treaty changes necessary to prevent tax evasion and unintended tax avoidance. Accordingly, we are opposed to any statutory changes which would immediately override our tax treaty obligations, but are willing to contemplate provisions which would allow the Treasury sufficient time to implement appropriate modifications in those treaties before statutory changes become effective.

In summary, the Administration endorses the basic objective of the pending proposals to ensure taxation of capital gains derived by foreign persons from sales of U.S. real property. We believe those proposals can be strengthened by making them apply to all U.S. real property interests, by targeting their application to sales of corporate shares, by ensuring that they contain a workable enforcement mechanism, and by delaying their effect on existing treaty provisions.

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Contact: Robert Nipp
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TREASURY ANNOUNCES DM SECURITY SALE

The U.S. Department of the Treasury, the Ministry of Finance of the Federal Republic of Germany and the Deutsche Bundesbank (German Central Bank) announced today that the Treasury will offer securities denominated in Deutsche Marks in two issues of up to 2 billion DM each. The first offering will be made in early November and the second one is planned for January, 1980.

The securities will be offered exclusively to residents of the Federal Republic of Germany. The offerings will be made through the Deutsche Bundesbank acting as agent on behalf of the U.S. Treasury.

Further details on these offerings will be announced at a later date.

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STATEMENT BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON AFRICA
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

U.S. ECONOMIC INTERESTS AND POLICIES IN AFRICA

Africa plays an increasingly important role in the global economic relations of the United States. Today I will outline briefly the growing economic interdependence between Africa and the United States, and discuss a number of ways the United States is assisting African countries to pursue their economic and social development objectives.

Africa is an extremely diverse region. There are, however, certain characteristics that most of its countries share: severe poverty, endemic hunger, curtailed lifespans marked by rampant disease, and massive illiteracy are the most prevalent.

Most of Africa belongs clearly within the "Fourth World" of least developed countries. It does not include any advanced developing countries, such as Brazil or Korea, whose rapid progress has thrust them into the forefront of the "Third World" and enables them to play an increasingly important role in the global economy. Growth in real per capita GNP for sub-Saharan Africa has been consistently the lowest of any region, at less than 1 percent per year from 1975 thru 1977. Now the painstaking advances of many African countries during the last few years may well be partially or entirely erased by the escalating cost of their oil imports.

In addition, the economies of many African countries are characterized by serious structural problems:

-- Near absence of basic infrastructure.

-- Lack of economic diversification, which often perpetuates dependence on exports of a few primary commodities.

-- Shortages of economic institutions and expertise.

-- A bias against agriculture.

-- Lingering suspicion and restriction of the private sector and foreign investment, often combined with an inordinate amount of bureaucratic red tape.

Combined with frequent political instability, these factors result in a shortage of investment capital, which in turn tends to perpetuate the vicious circle of slow growth and continued structural deficiencies.

The best way for the richer countries, including the United States, to help the African countries break this circle is through concessional assistance, including technical assistance. Such help can be extended both bilaterally and through such multilateral development institutions as the International Development Association (IDA), the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the African Development Fund and soon, we hope, the African Development Bank. In the charged atmosphere of African politics, the neutrality of institutions such as the World Bank Group enables them to assist not only the development of each country but regional cooperative efforts as well.

The United States has direct economic, humanitarian, and political interests in assuring a strong and viable Africa where poverty is reduced, the pace of economic growth improved, and serious financial problems avoided. A wide range of U.S. economic policies contributes to these objectives and enhances the positive effects of global concessional assistance to the nations of Africa. I would like to take this opportunity to comment specifically on U.S. economic interests in Africa, and the policies we have pursued to benefit the African nations. I will stress the areas where Congress itself needs to act, either now or within the next year or so, to play its full role in these efforts to enhance U.S. economic relations with Africa.

U.S. Economic Interests in Africa

U.S. policy toward Africa must be seen in the context of U.S. policy toward all developing countries, which seeks to promote U.S. interests toward that overall group of nations. The developing countries as a whole, including OPEC, are becoming increasingly important to U.S. economic interests because:

-- The United States sells more than one-third of its total exports to developing countries, equivalent to $53 billion in 1978.

-- More U.S. manufactured exports go to the developing countries than to Western Europe, Japan, and the nonmarket economies combined.

-- Nearly half of U.S. industrial machinery, electrical machinery and aircraft exports go to LDCs.

-- Developing nations account for 85 percent of U.S. imports of fuel and 30 percent of U.S. imports of other raw materials.

-- Approximately one-fourth of U.S. direct investment abroad is absorbed by LDCs.

U.S. economic policies toward Africa reflect the importance of these interests, as well as our more specific interests in Africa:

-- The African nations purchased nearly $6 billion in U.S. exports and supplied almost $17 billion in U.S. imports during 1978.

-- The bulk of this trade is in energy: U.S. imports of fuels and lubricants from Africa amounted to $12.5 billion last year, nearly 30 percent of our total energy imports.

- Libya, Algeria and Nigeria are important U.S. sources of energy. Since the Iranian unrest, Nigeria alone has accounted for 17 percent of total U.S. crude oil imports. Nigerian high quality low sulphur crude is particularly in demand by U.S. refiners because of its high gasoline component. Four other countries are minor energy producers: Angola, the Congo, Gabon, and Zaire. Much exploration is also taking place off the west coast of Africa between the Ivory Coast and Angola, with American companies actively involved.
- Other major imports from Africa include unfinished metals ($1.8 billion) and agricultural commodities, mainly coffee and cocoa ($1.5 billion).
- Africa supplies substantial shares of U.S. imports of a number of key commodities: almost one-fourth of U.S. coffee imports, more than half of our cocoa imports, one-fifth of U.S. tea supplies, one-fifth of our copper imports, more than one-third of our imports of precious metals (mainly gold), and 60 percent of our imports of industrial diamonds. Sub-Saharan Africa provides 80 percent of U.S. imports of cobalt and one-third of our processed manganese imports. South Africa alone supplies one-third of U.S. chromite imports, 75 percent of U.S. imports of processed chrome, and 40 percent of U.S. platinum imports. Guinea accounts for about 20 percent of U.S. imports of bauxite, and possesses the world's largest known reserves.

-- On the export side, Africa takes one-eighth of U.S. wheat exports, one-fourth of our rice exports, one-fifth of our tallow exports, and a substantial amount of machinery and transport equipment ($2.6 billion in 1978).

-- Our major African markets are South Africa, Nigeria, and Egypt (about $1 billion in U.S. exports to each country) which together account for half of our total exports to Africa. Major suppliers of goods to the U.S. market are Nigeria, Libya, and Algeria ($3 to 6 billion each) for a combined share of nearly three-fourths of total U.S. imports from Africa.

-- At year end 1978, U.S. direct investment in Africa (excluding South Africa) totaled $3.4 billion, almost double the level of a decade earlier. This investment was concentrated in a few industries and a few countries. Direct investment in petroleum accounted for about 60 percent of the 1978 total, with mining and smelting accounting for another 15 percent and manufacturing investments 8 percent. About 60 percent of all direct investment in Africa (excluding South Africa) was located in four countries -- Egypt, Liberia, Libya and Nigeria.

-- African countries also play a significant and expanding role in many economic and political multilateral forums. The United States has encountered both cooperation and opposition from various African countries at the World

Bank, IMF, MTN, commodity negotiations, and North/South conferences. Whether opposing or supporting our views, it is clear that African countries are now players. African countries control one-third of the votes in the United Nations General Assembly and have been making their influence felt.

All of these factors argue strongly for U.S. policies which take full account of African concerns and provide a sound basis for future economic and political cooperation. The United States has already undertaken a number of initiatives which directly benefit the African nations. I would like to summarize these efforts in five major areas: concessional aid, commodities, general trade policy, monetary affairs and energy policy.

Concessional Aid

The amount of U.S. assistance now going to Africa is substantial. It is also increasing, particularly that part which is channeled through the multilateral development banks.

In its most recent fiscal year, the World Bank Group approved 70 loans for sub-Saharan countries totalling more than $1.2 billion -- up by $130 million from the previous year and by more than $300 million since 1976. Of the total amount approved last year, $619 million (slightly more than half) was lent on highly concessional terms from IDA, the Bank's soft loan window.

IDA is by far the largest single source of concessional financing in the world for Africa. The United States is of course a major contributor to IDA, and I hope that Congress will in the near future finalize approval of the Administration's request for just under $1.1 billion to complete our contributions to the fourth and fifth replenishments of that extremely important institution.

U.S. policy initiatives within the World Bank have pointed toward the most effective use of these resources, by shifting sectoral concentrations so as to place greater emphasis on lending which directly reaches the poor and helps meet basic human needs. Lending in support of agriculture and rural development now accounts for 31 percent of total lending in West Africa and 41 percent in East Africa. More attention is also being given to lending for water supply and sewage and for innovative projects to assist small-scale African enterprises. Africa also provides an example of the Bank's new energy program -- $9 million to help develop the geothermal potential of the Rift Valley of Kenya.

In addition, we feel that the continued use of World Bank resources to support the development of economic infrastructure is particularly critical in the poorest developing countries, such as sub-Saharan Africa. These countries still need basic road and power projects. In view of the total focus of our bilateral assistance program on basic human needs, the development banks are the only mechanism through which we can contribute to these priority areas of African development.

Increasing amounts of U.S. assistance to Africa are also being channeled through the African Development Fund. This concessional lending facility was established in 1973 under the aegis of the African Development Bank, with financial support from non-regional developed countries. Last year, the Fund approved loans totalling $186 million, up from $142 million in 1977 and $80 million in 1976.

During the recently negotiated replenishment agreement, the United States -- after extensive consultations with the Congress -- pledged $125 million to the Fund's resources over the next three years. This was the first time for the United States to participate in a negotiated expansion of African Fund resources, as the previous Administration had elected not to contribute to the original funding of the ADF or its first replenishment in 1975. The African countries were extremely pleased with this pathbreaking U.S. contribution, which was announced personally by President Carter during his visit to Africa in early 1978 and which I had the personal pleasure to deliver to the Annual Meeting of the African Development Bank in Libreville later that year. I believe that U.S. economic and political interests in Africa will be significantly advanced by our participation in this uniquely African institution. The first year's installment of $41.7 million has been included by both the House and Senate in the FY 1980 appropriation for Foreign Assistance and Related Programs, now in Conference.

In addition, the United States participated very actively during 1979 in international negotiations leading to the proposed expansion of membership of the African Development Bank. Under Charter provisions adopted when the Bank was established in 1964, membership has been limited to African countries. These charter provisions are now being amended to provide for membership by countries outside the region, including those from Western Europe, Canada, Japan, and the United States. When this process is completed, probably by January 1980, we expect to submit legislation to authorize (and subsequently appropriate) U.S. capital subscriptions of $360 million.

This would give the United States a capital share of 5.68 percent of the Bank's total capital ($6.3 billion) and 17.04 percent of the $2.1 billion non-regional capital subscription. It would make the United States the largest single non-African member of the Bank, giving African countries a further tangible and highly visible signal of our commitment to promoting their growth and development -- through an institution which is thoroughly African, and which therefore is a major source of pride and interest throughout the Continent.

Commodity Policy

Price instability has long been a problem for both consumers and producers of key commodities. Recurring boom and bust cycles are detrimental to all nations:

-- During periods of rapidly rising prices, they fuel inflationary tendencies in consuming countries. To the extent these price increases become embedded in wages, they can help perpetuate inflationary spirals.

-- For producing countries heavily dependent upon commodity production and exports, excessive price volatility can lead to erratic investment and development in both the agricultural and raw materials sectors. It can also disrupt economies through large shifts in domestic employment, savings, tax revenues and foreign exchange earnings.

The fragile economic and social structures of African countries are probably the most susceptible to these disruptions; at the same time, they are least able to cope with the consequences thereof. More than most areas, therefore, Africa stands to benefit significantly from cooperative commodity policies between producing and consuming nations.

To help remedy this price volatility, the United States has supported, wherever feasible, the negotiation of stabilization agreements to dampen commodity price fluctuations. To ensure that such agreements balance the costs and benefits to all parties, we prefer stabilization arrangements which rely on buffer stocks, buying when prices are low and selling when prices are high. The United States belongs to the International Tin Agreement, and is seeking early ratification of the newly negotiated Rubber Agreement, both of which rely on buffer stocks. The International Cocoa Agreement is now being re-negotiated and, if negotiations are successful, will rely on buffer stocks to stabilize prices. The United States has also suggested a similar mechanism to stabilize copper prices.

Where buffer stocks are not feasible, agreements relying on national stocking and export quotas, while less desirable than buffer stock arrangements, can also be effective. Examples of this second type of stabilization agreement are the Sugar Agreement, the Coffee Agreement and the proposed Wheat Agreement. The United States either currently is a member, or plans to join, all three of these agreements.

Several African countries -- notably Cameroon, Ghana, Ivory Coast, and Nigeria -- have a vital interest in the Cocoa Agreement. Liberia has participated in the recent rubber negotiations and Nigeria is a member of the Tin Agreement. Membership in the Coffee Agreement, the largest of the existing agreements, includes a long list of African countries headed by Ivory Coast, Angola, Uganda, Ethiopia, and Zaire.

The Sugar Agreement, which is still in the process of ratification by the United States, has been joined by South Africa, Mauritius, Mozambique, and Swaziland, together with a number of smaller producers who are nevertheless heavily dependent on sugar exports.

Only two countries in Africa are major copper producers, but both Zaire and Zambia are leading exporters to Europe, Japan and the United States.

Of particular importance to Africa is the strong U.S. support for separate implementation of the Food Aid Convention, presently part of the International Wheat Agreement, under which donor countries commit to an increase in food aid. The United States has said it will unilaterally meet a new annual commitment of 4.5 million tons of grain, up from 1.9 million tons under the present agreement.

A number of other commodity arrangements are also under consideration to expand market opportunties through production and utilization research, market promotion, and the exchange of market information. Products for which such agreements may emerge are jute, tropical timber, hard fibers and tea. The last three commodities are of particular interest to Gabon, Kenya, and Tanzania.

The other major commodity initiative is the Common Fund. The United States believes that consolidating the assets of individual commodity agreements can make the individual agreements more efficient financially and save money for participating countries. The United States has supported a Common Fund which would pool the financial resources of agreements but which would not interfere with the operation of the agreements themselves, nor duplicate activities of the development banks.

The Common Fund Negotiations are entering the final stages and should be completed late this year or early in 1980. The United States would seek ratification in 1980 and entry into force would probably occur late next year or in 1981. We would expect to request an authorization for appropriation in FY 1981, accompanied by a request for an initial appropriation of $1 million. A later appropriation of at least $60 million would be sought, at a time and under terms yet to be negotiated.

Trade

Trade is one of the most important areas of U.S. economic interaction with developing countries. As members of the Fourth World, the majority of African nations remain largely dependent upon exports of agricultural and other raw materials, including energy, to earn the essential foreign exchange to pay for food and industrial imports crucial to their domestic needs and the development process. Access to foreign markets for their exports is therefore an important objective of the African nations. It will become even more important as their economies develop and trade expands.

The United States remains a strong proponent of open markets for the benefit of all nations. Our focus has been essentially three-fold:

-- rejection of proposals to restrict U.S. imports from developing countries;

-- continued preferential trading treatment in our market for developing countries; and

-- active participation in the recently concluded Multilateral Trade Negotiations, which will significantly reduce tariff and non-tariff barriers to international trade for all 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 about $24 billion in 1978. Developing countries now supply half of our imports of consumer goods and one-fourth of all our manufactured imports. The majority of African nations are not yet in a position to take advantage of these markets in the area of manufactured goods, although they will be over the longer term.

African access to the U.S. market through our system of generalized market preferences (GSP) is also in a nascent stage. Approximately $125 million in African goods entered the United States under GSP in 1978. Ivory Coast, Ghana, and Mauritius were principal beneficiaries.

The U.S. system offers preferential duty-free access to products from developing countries on a competitive need basis. When a specific 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 continuation would unfairly hamper less competitive countries from getting an opportunity to enter the market. This policy is designed to especially benefit the developing nations which most need special access. It will directly benefit the African nations as they begin to produce and export manufactured and semi-manufactured goods, and as developing countries elsewhere "graduate" to MFN status.

At present, however, the vast majority of Africa's non-oil exports to the United States are primary commodities which already enter our markets duty free. Access for these products should remain unrestricted in the future. In addition, as a result of the MTN, industrial nations will make tariff cuts averaging more than 30 percent on over $140 billion of our imports in coming years.

Finally, on the export side, the United States Export Import Bank and U.S. Public Law 480 and other bilateral concessional aid programs have given substantial assistance to U.S. exports destined for Africa. Eximbank exposure in Africa as of August 31, 1979, totalled $3.1 billion. Bilateral U.S. concessional aid to Africa in fiscal year 1978 also totalled nearly $600 million.

International Monetary Policy

The International Monetary Fund (IMF) is the central monetary institution for the world economy and the principal source of official balance of payments financing for its members. The Fund is not an aid institution, and its resources do not finance development projects. However, by promoting a sound, stable world economy and helping members implement corrective macroeconomic programs to deal with temporary payments problems, the IMF fosters the healthy world economic environment and the domestic economic stability essential for development. This is an important function for all member countries, including the African developing nations.

The IMF has recently strengthened its capacity to meet official balance of payments financing needs through increases in the amounts of Fund resources and members' access to these resources:

-- The Supplementary Financing (Witteveen) Facility, of $10 billion, for which the Congress voted last year a U.S. contribution of $1.8 billion, is now in operation and will provide additional funds to countries experiencing severe payments problems. The first drawing under the SFF was made by an African country, Sudan, and Kenya has joined other countries making use of the facility.

-- A fifty percent increase in IMF quotas scheduled for next year will be a timely addition to Fund resources. The quotas of African members will increase by nearly $2 billion as a result.

-- SDR allocations have also been resumed in an effort to promote the use of the SDR as an international reserve asset and to supplement other reserves. The African nations are scheduled to receive allocations of SDR 929 million (about $1.2 billion) over the period 1979-1981.

-- The Compensatory Financing Facility, a valuable source of balance of payments financing to many countries during the cyclical downturn of the mid-70's, has recently been liberalized substantially and accounts for a large proportion of current IMF financing for Africa, equivalent to approximately $1.1 billion in outstanding drawings.

-- A Trust Fund administered by the IMF, which provides concessional balance of payments loans to eligible countries, has extended $797 million of financing to the poorest African countries.

-- Further modification of the existing IMF facilities is under consideration. Over the coming months, the IMF Executive Board will consider extending the repayment period under the Extended Fund Facility from 8 to 10 years, and will study ways of lowering interest costs of the Supplementary Financing Facility.

Large shifts in current account balances will occur over the next two years, including a deterioration on the order of $20 billion in the current account deficit of the developing countries as a group. While we do not expect a general financing problem to arise for the developing countries as a group, some countries, including some in Africa, may experience balance of payments difficulty. The availability of IMF resources and programs in such instances will be an important source of stability and strength.

Energy Policy

Increased costs of energy have a particularly serious impact on the developing nations of Africa, which can least afford it. U.S. energy policy is two-fold in nature:

(1) to improve domestic conservation, reduce oil imports, and increase alternative energy production; and

(2) to improve international cooperation in energy and assist nations especially hurt by the increased cost of oil.

The United States has sought to alleviate the problems of the African nations and other LDCs through support of IMF credits to assist in meeting their short-term payment imbalances and World Bank loans to meet their development needs. More specifically to meet their energy problems in the longer run, the United States has supported the World Bank's expanded energy program.

In July 1977, the Bank Board approved a lending program which for the first time included oil and gas development projects. In January 1979, it expanded this program further to include exploration. While the World Bank has not as yet made any loans to African nations under this program, an IFC loan for $4 billion was extended to assist in further exploration and development of existing offshore oil fields in Zaire. Over the next two years, however, applications for petroleum projects totalling $206 million are expected from 13 African countries, out of a total of 24 expected applications amounting to $814 million worldwide.

Over the next five years, World Bank lending for oil, gas, coal and hydroelectric development is projected to total $7.7 billion, or at least 15 percent of total Bank lending in five years. When these projects reach fruition, energy production equivalent to between 2 and 2.25 million barrels of oil a day should result, thus reducing the potential demand for OPEC oil. World Bank activities in the energy sector will thus help to improve materially the world energy supply and demand picture. Energy deficient countries in Africa can be expected to benefit significantly from this important new program.

Under its new energy program, our own Overseas Private Investment Corporation (OPIC) has also provided political risk coverage for an offshore oil exploration, development, and production project in Ghana. The first oil ever produced in Ghana is now flowing from this project's platform and is providing a significant share of the country's total needs. All these programs, of course, help our own energy situation by improving the world's supply/demand balance as well as addressing directly a critical development bottleneck of most poor countries.

Conclusion

The United States thus has a wide array of major economic interests in Africa, and is pursuing a wide array of policies in pursuit of those interests. Our basic strategy is to work cooperatively with the African countries themselves to provide concessional assistance, through both bilateral and multilateral channels; to offer them access to our markets for goods, capital and technology wherever possible; and to maintain a general world economic environment conducive to economic growth and development.

The Congress has many opportunities to participate actively in this effort. It has already voted for trade liberalization which helps the African countries, and has supported maintenance of a strong IMF. Within the next few days, it needs to take its final vote on the Foreign Assistance Appropriations for FY 1980 -- including U.S. funding (without restrictive amendments) for the World Bank Group, the world's largest assistance channel for Africa, and the African Development Fund. The Administration will soon submit legislation for an increase in the U.S. quota in the IMF. Several commodity agreements of importance to African countries are pending in the Congress, or will be submitted next year. Also next year, the Administration will seek initial support for U.S. participation in the African Development Bank and probably the Common Fund. I look forward to continuing to work closely with the Congress, and particularly with this Committee, on all these issues.

OUTSTANDING IMF CREDITS TO AFRICA
AS OF AUGUST 31, 1979
(millions of SDRs)

	GENERAL ACCOUNT								IMF TRUST FUND
	TOTAL	CREDIT TRANCHES ORDINARY	CREDIT TRANCHES SFF	CFF	OIL FACILITY	BUFFER STOCK	EXTENDED FUND ORDINARY	EXTENDED FUND SFF	
TOTAL AFRICA	1,766.9	475.8	-	869.9	325.9	-	87.8	7.5	618.0
OIL EXPORTING									
Algeria	-	-	-	-	-	-	-	-	-
Libya	-	-	-	-	-	-	-	-	-
Nigeria	-	-	-	-	-	-	-	-	-
Egypt	245.7	58.0	-	83.0	29.7	-	75.0	-	122.5
South Africa	232.0	72.0	-	160.0	-	-	-	-	-
OTHER AFRICA	1,289.2	345.8	-	626.9	296.2	-	12.8	7.5	495.5
Benin	-	-	-	-	-	-	-	-	5.4
Botswana	-	-	-	-	-	-	-	-	-
Burundi	-	-	-	-	-	-	-	-	7.9
Cameroon	26.3	-	-	13.1	13.2	-	-	-	14.5
Cape Verde	-	-	-	-	-	-	-	-	-
Central African Empire	8.6	-	-	4.3	4.3	-	-	-	5.4
Chad	7.8	-	-	6.5	1.3	-	-	-	5.4
Comoros	-	-	-	-	-	-	-	-	-
Congo	11.1	4.6	-	6.5	-	-	-	-	8.5
Djibouti	-	-	-	-	-	-	-	-	-
Equatorial Guinea	-	-	-	-	-	-	-	-	-
Ethiopia	18.0	-	-	18.0	-	-	-	-	17.6
Gabon	15.0	15.0	-	-	-	-	-	-	-
Gambia	5.3	0.8	-	4.5	-	-	-	-	2.9
Ghana	55.1	26.1	-	-	29.0	-	-	-	20.6
Guinea-Bissau	1.1	-	-	1.1	-	-	-	-	-
Guinea	9.7	7.5	-	-	2.2	-	-	-	15.6
Ivory Coast	-	-	-	-	-	-	-	-	21.6
Kenya	109.4	12.0	-	69.0	23.1	-	5.3	-	31.3
Lesotho	-	-	-	-	-	-	-	-	3.3
Liberia	9.2	9.2	-	-	-	-	-	-	18.9
Madagascar	11.1	6.0	-	-	5.1	-	-	-	10.8
Malawi	14.5	1.7	-	9.5	3.3	-	-	-	6.2
Mali	6.6	-	-	-	6.6	-	-	-	14.3
Mauritania	16.0	4.7	-	6.5	4.8	-	-	-	7.1
Mauritius	19.0	8.0	-	11.0	-	-	-	-	10.5
Morocco	170.3	40.9	-	112.5	16.9	-	-	-	73.6
Niger	-	-	-	-	-	-	-	-	5.4
Rwanda	-	-	-	-	-	-	-	-	-
Sao Tome & Principe	-	-	-	-	-	-	-	-	-
Senegal	38.8	-	-	21.0	17.8	-	-	-	22.2
Seychelles	-	-	-	-	-	-	-	-	-
Sierra Leone	22.5	2.6	-	12.5	7.4	-	-	-	10.4
Somalia	-	-	-	-	-	-	-	-	-
Sudan	110.8	8.5	-	54.0	33.3	-	7.5	7.5	46.9
Swaziland	-	-	-	-	-	-	-	-	1.9
Tanzania	89.6	13.7	-	41.3	34.6	-	-	-	27.4
Togo	-	-	-	-	-	-	-	-	9.8
Tunisia	24.0	-	-	24.0	-	-	-	-	-
Uganda	30.2	-	-	25.0	5.2	-	-	-	-
Upper Volta	-	-	-	-	-	-	-	-	5.4
Zaire	175.9	29.8	-	84.7	61.4	-	-	-	46.8
Zambia	283.3	154.7	-	101.9	26.7	-	-	-	18.0

Source: IMF, International Financial Statistics

AFRICAN COUNTRIES INCLUDED IN

PROVISIONAL PROGRAM OF PETROLEUM PROJECTS

TO BE PRESENTED TO THE BOARD IN THE NEXT TWO YEARS

Country	Project	Amount (millions of $)
Pre-Development		
Madagascar*	Exploration	5
Congo*	Technical Assistance	4
Yemen, PDR	Technical Assistance	5
Morocco	Oil Exploration	35
Liberia*	Pre-Development	3
Tanzania*	Oil/Gas Exploration	5
Yemen, A.R.	Oil Exploration	5
Development		
Chad 1/*	Oil Production	14
Egypt	Gas Distribution	30
Tunisia	Onshore Gas	10
Ivory Coast*	Oil Distribution	35
Benin*	Oil Development	10
Nigeria 1/*	Gas Pipeline	45
	Total for Africa:	206
	*Subtotal for Sub-Saharan Africa:	121

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* Sub-Saharan countries

1/ Subject to changes in the political situation or decisions of government

Source: World Bank

September 11, 1979

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

FOR RELEASE WHEN AUTHORIZED AT PRESS CONFERENCE October 24, 1979

TREASURY NOVEMBER QUARTERLY FINANCING

The Treasury will raise about $1,400 million of new cash and refund $5,390 million of securities maturing November 15, 1979, by issuing $2,750 million of 3-1/2-year notes, $2,000 million of 10-year notes and $2,000 million of 30-year bonds.

The $5,390 million of maturing securities are those held by the public, including $ 759 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 $1,831 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 to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that the aggregate amount of tenders for such accounts exceeds the aggregate amount of maturing securities held by them.

Details about each of the new securities are given in the attached "highlights" of the offering and in the official offering circulars.

oOo

Attachment

M-144

(over)

HIGHLIGHTS OF TREASURY
OFFERINGS TO THE PUBLIC
NOVEMBER 1979 FINANCING
TO BE ISSUED NOVEMBER 15, 1979

October 24, 1979

Amount Offered:			
To the public	$2,750 million	$2,000 million	$2,000 million
Description of Security:			
Term and type of security	3-1/2-year notes	10-year notes	30-year bonds
Series and CUSIP designation	Series G-1983 (CUSIP No. 912827 KB 7)	Series B-1989 (CUSIP No. 912827 KC 5)	Bonds of 2004-2009 (CUSIP No. 912810 CK 2)
Maturity date	May 15, 1983	November 15, 1989	November 15, 2009
Call date	No provision	No provision	November 15, 2004
Interest coupon rate	To be determined based on the average of accepted bids	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	To be determined at auction
Premium or discount	To be determined after auction	To be determined after auction	To be determined after auction
Interest payment dates	May 15 and November 15	May 15 and November 15	May 15 and November 15
Minimum denomination available	$5,000	$1,000	$1,000
Terms of Sale:			
Method of sale	Yield Auction	Yield Auction	Yield Auction
Accrued interest payable by investor	None	None	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less	Noncompetitive bid for $1,000,000 or less	Noncompetitive bid for $1,000,000 or less
Deposit requirement	5% of face amount	5% of face amount	5% of face amount
Deposit guarantee by designated institutions	Acceptable	Acceptable	Acceptable
Key Dates:			
Deadline for receipt of tenders	Tuesday, October 30, 1979, by 1:30 p.m., EST	Wednesday, October 31, 1979, by 1:30 p.m., EST	Thursday, November 1, 1979, by 1:30 p.m., EST
Settlement date (final payment due)			
a) cash or Federal funds	Thursday, November 15, 1979	Thursday, November 15, 1979	Thursday, November 15, 1979
b) check drawn on bank within FRB district where submitted	Friday, November 9, 1979	Friday, November 9, 1979	Friday, November 9, 1979
c) check drawn on bank outside FRB district where submitted	Thursday, November 8, 1979	Thursday, November 8, 1979	Thursday, November 8, 1979
Delivery date for coupon securities	Thursday, November 15, 1979	Thursday, November 15, 1979	Tuesday, November 20, 1979

TALKING POINTS
FOR THE
FINANCING PRESS CONFERENCE
October 24, 1979

1. This afternoon we are announcing the terms of our regular November quarterly refunding. I will also discuss the Treasury's financing requirements for the balance of the calendar year and our estimated cash needs for the January - March quarter.
2. Our refunding will consist of a short-term note, an intermediate-term note and a long-term bond.
3. We are offering $6-3/4 billion of new securities to refund $5.4 billion of publicly-held securities maturing on November 15 and to raise approximately $1.4 billion of new cash.
4. The three new securities are:
   - -- First, a 3-year, 6-month note in the amount of $2-3/4 billion maturing on May 15, 1983. This security will be auctioned on a yield basis on Tuesday, October 30. The minimum denomination will be $5,000.
   - -- Second, a 10-year note in the amount of $2 billion maturing November 15, 1989.

The note will be auctioned on a yield basis on Wednesday, October 31. The minimum denomination will be $1,000.

-- Third, a 30-year bond in the amount of $2 billion maturing on November 15, 2009 and callable beginning November 15, 2004. This bond will be auctioned on a yield basis on Thursday, November 1. The minimum denomination will be $1,000.

On each of the three issues, we will accept noncompetitive tenders of up to $1,000,000.

5. For the current October - December quarter, we estimate our net market financing will total about $13-1/2 billion, assuming a $12 billion cash balance at the end of December.

6. Thus far, not including this refunding, we have raised about $2-1/4 billion in new cash in marketable borrowing during this quarter. This was accomplished as follows:

-- $1/2 billion in connection with the 2- and 4-year note cycles which settled on October 9 and 10, respectively.

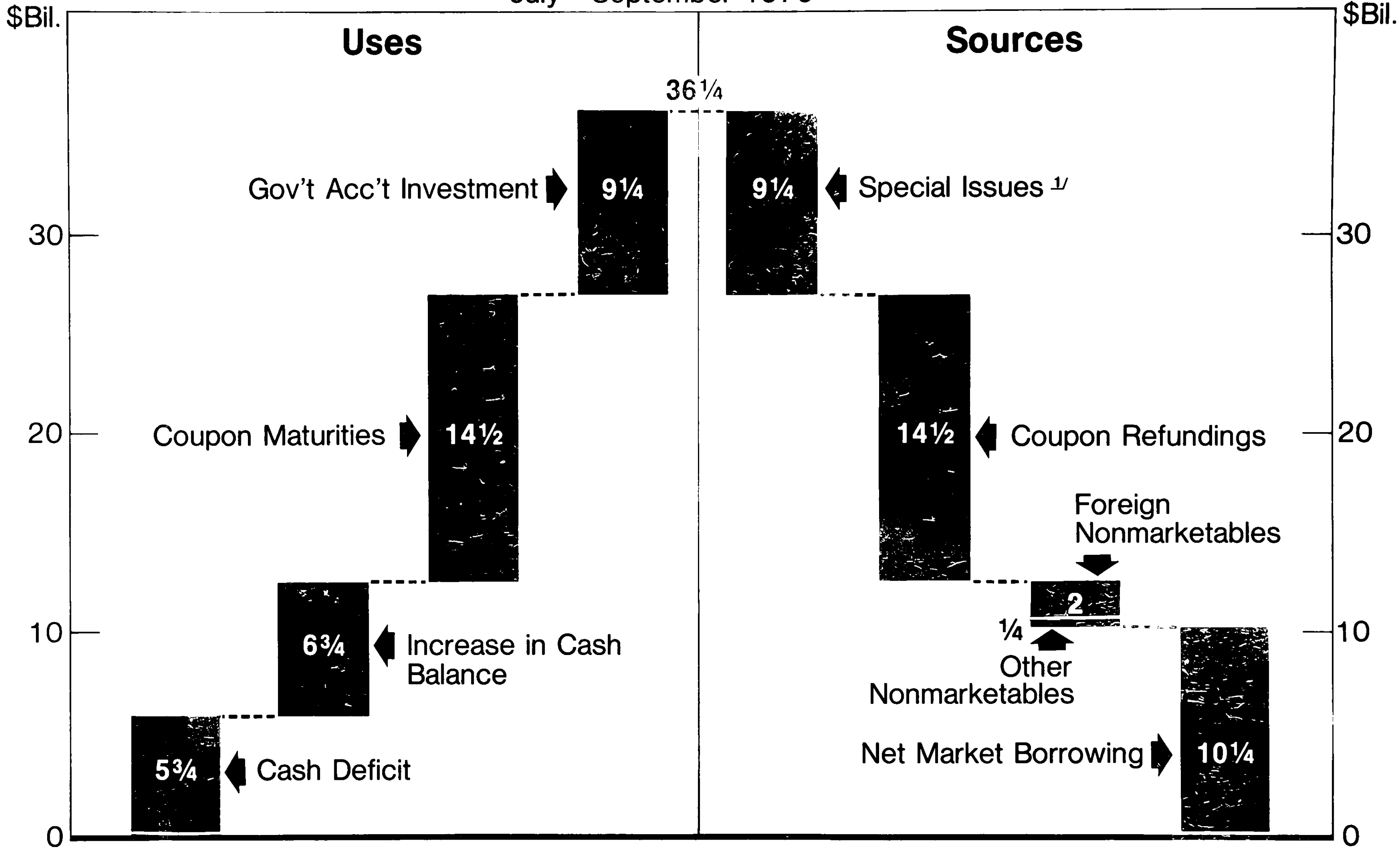
-- $1-1/2 billion in the 15-year, 1-month bond which settled on October 18.

-- $1/4 billion of new cash in the additions to weekly bills.

7. The $1.4 billion new cash raised in this refunding will bring the total new cash raised for the quarter to date to approximately $3-1/2 billion, leaving a balance of about $10 billion still to be done. This remaining cash need could be met by continued additions to the regular weekly bills, longer-dated cash management bills, a possible intermediate note in early December in the 5 - 6 year range, possible additions to the 2- and 4-year notes in December and the proceeds of the first DM security. Shorter-dated cash management bills, maturing within the quarter, to accommodate temporary cash needs may also be utilized.

8. Our net market borrowing need in the first quarter of calendar year 1980 is currently estimated in the range of $19 - 22 billion, assuming an $8 billion cash balance at the end of March.

TREASURY FINANCING REQUIREMENTS
July—September 1979



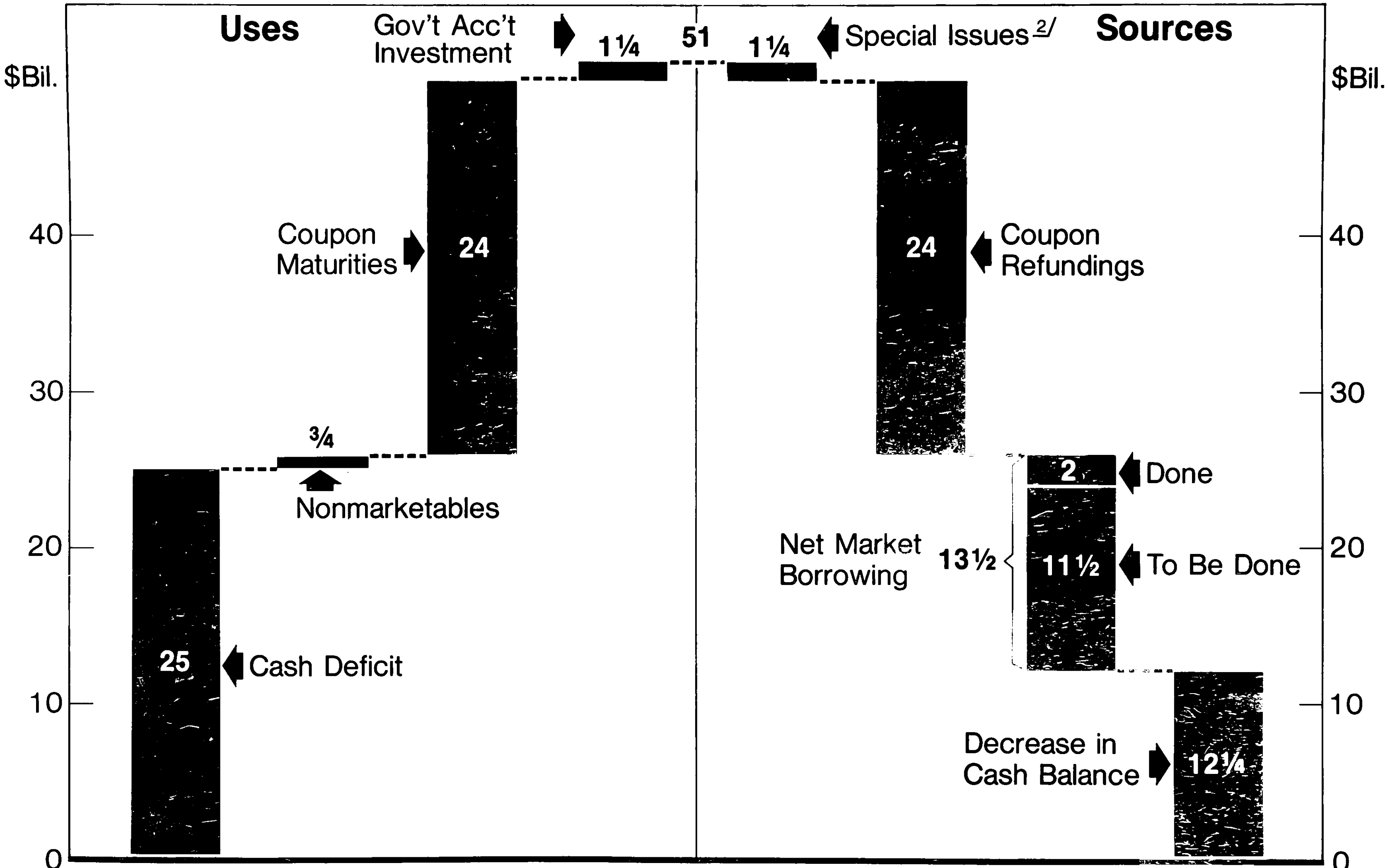
1/ Net of exchanges for maturing marketable securities of $¾ billion.

Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-18

TREASURY FINANCING REQUIREMENTS

October-December 1979[1/]



1/ Assumes $12 billion December 31, 1979 cash balance.

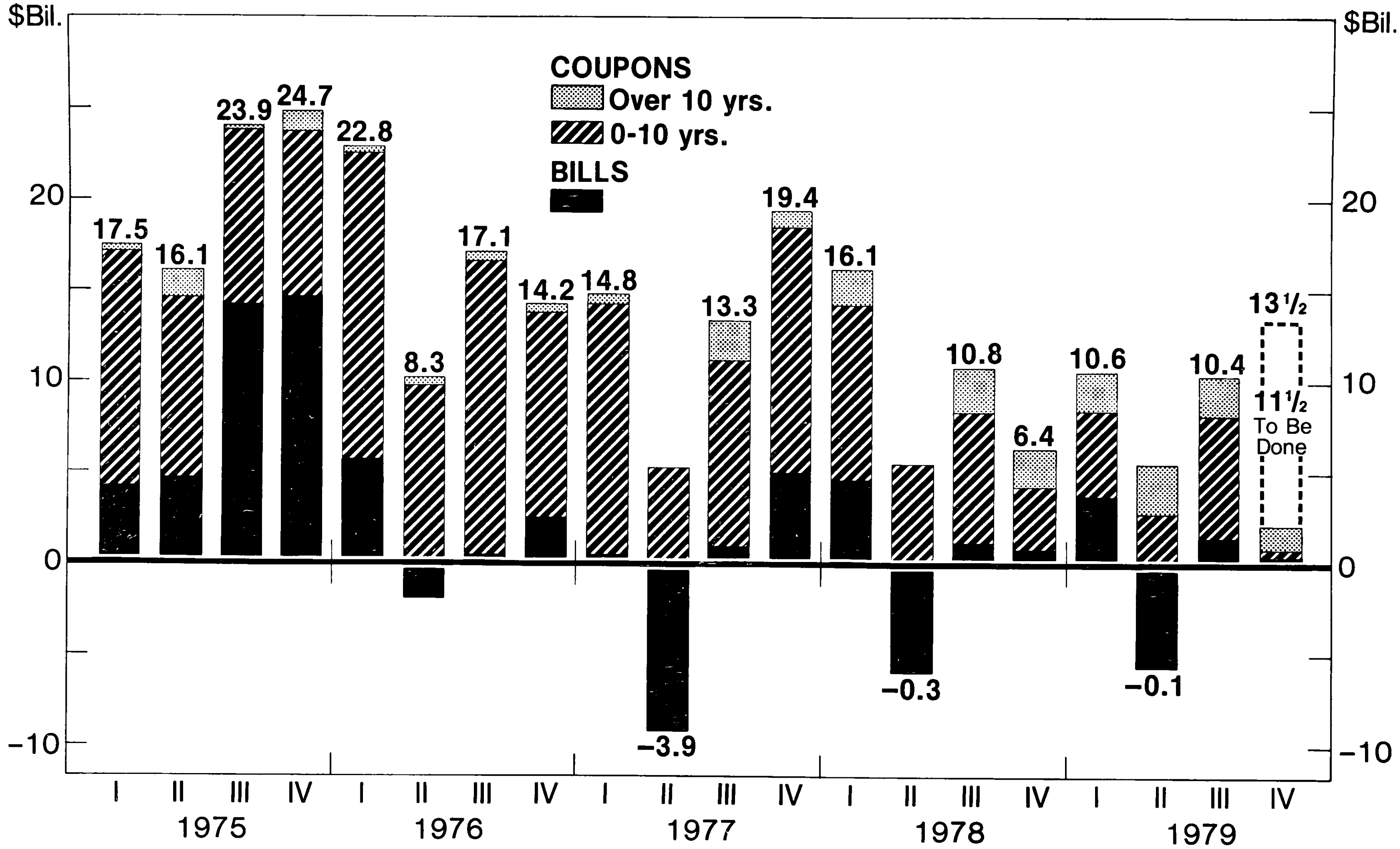
2/ Net of exchanges for maturing marketable securities of $¼ billion.

Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-19

TREASURY NET MARKET BORROWING[1/]

Calendar Year Quarters



1/ Excludes Federal Reserve and Government Account Transactions.

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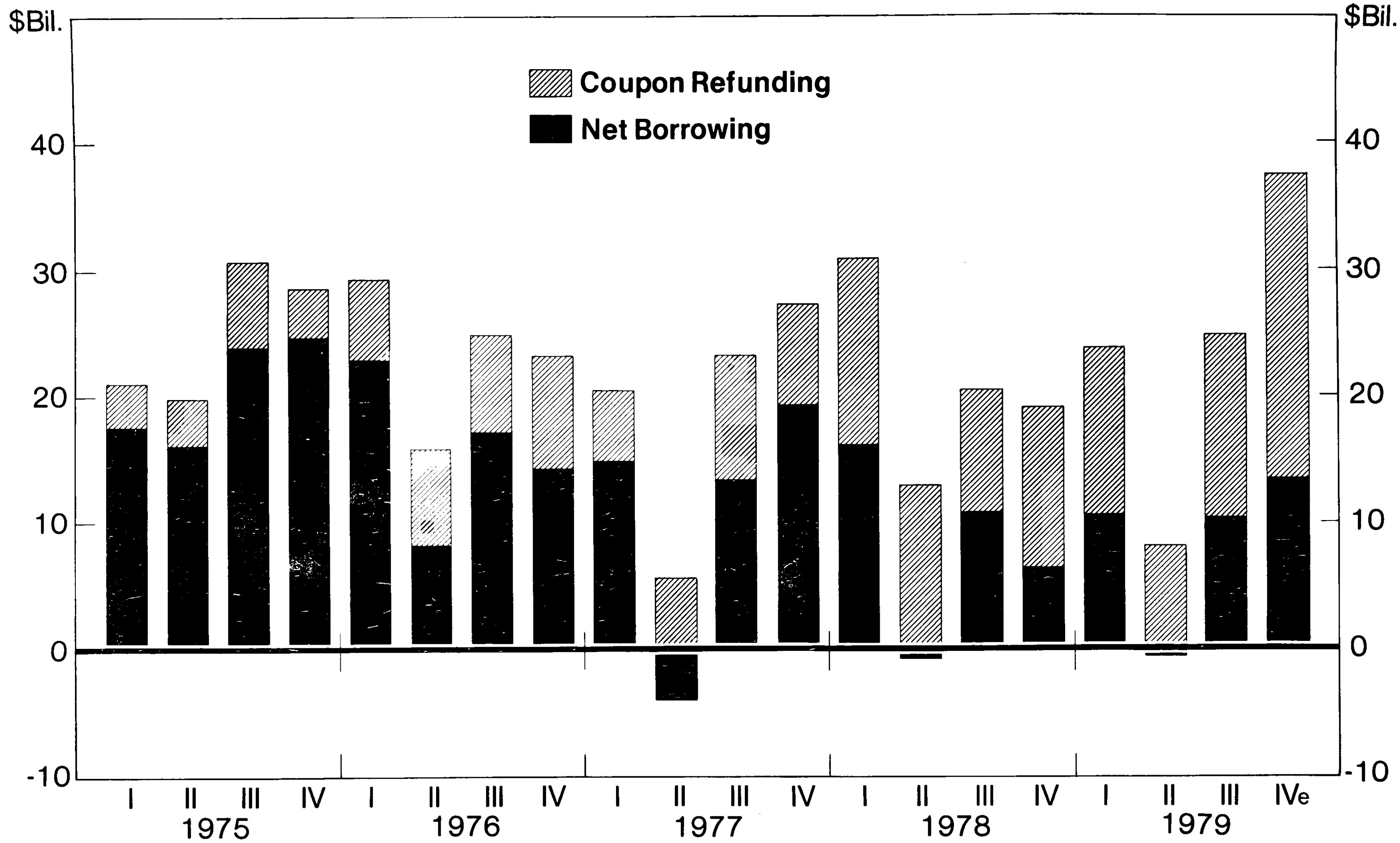
Office of Government Financing

October 23, 1979-2

TREASURY MARKET BORROWING 1/

Calendar Year Quarters

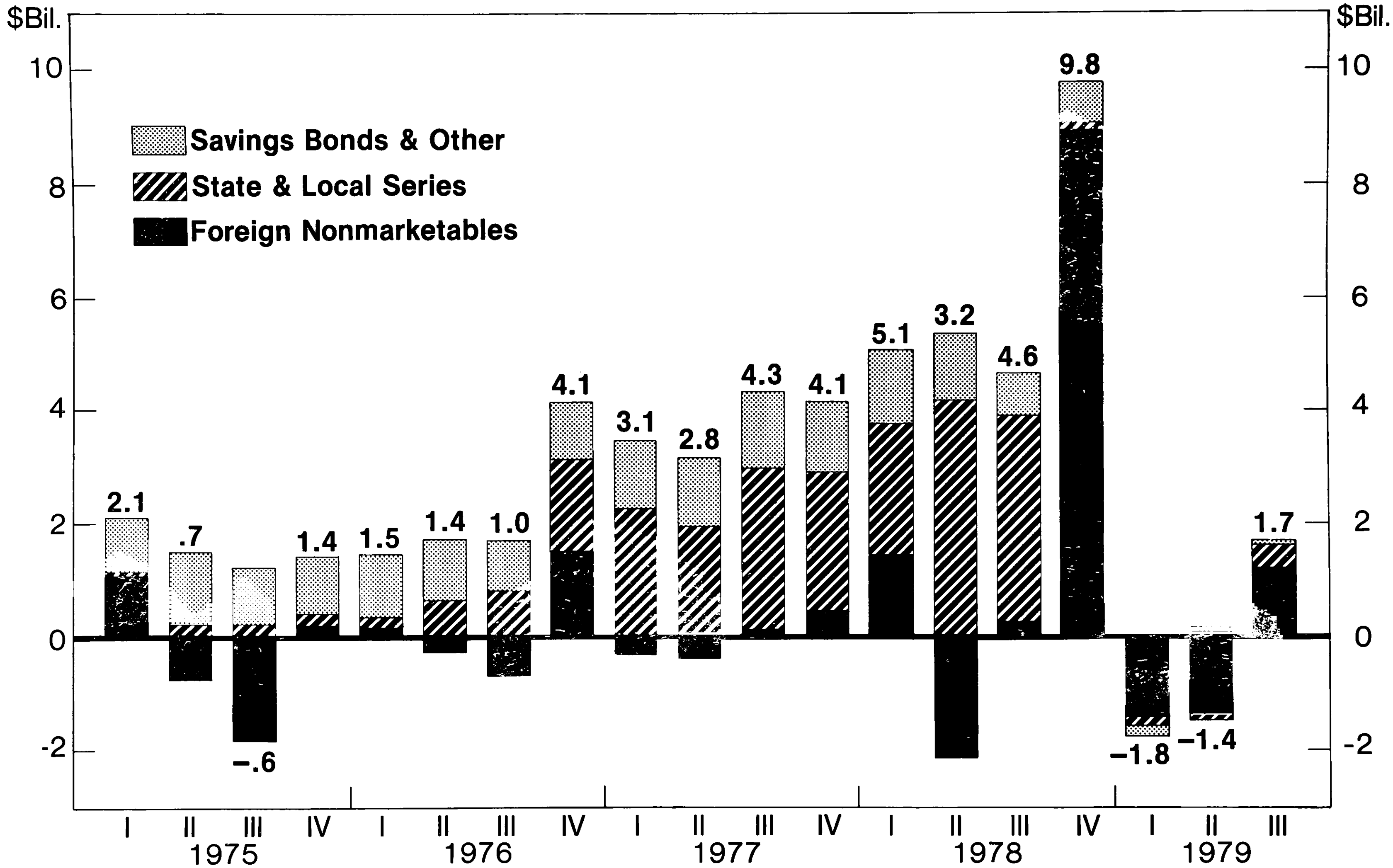


1/Excludes Federal Reserve and Government Account Transactions.
e estimate.

Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-25

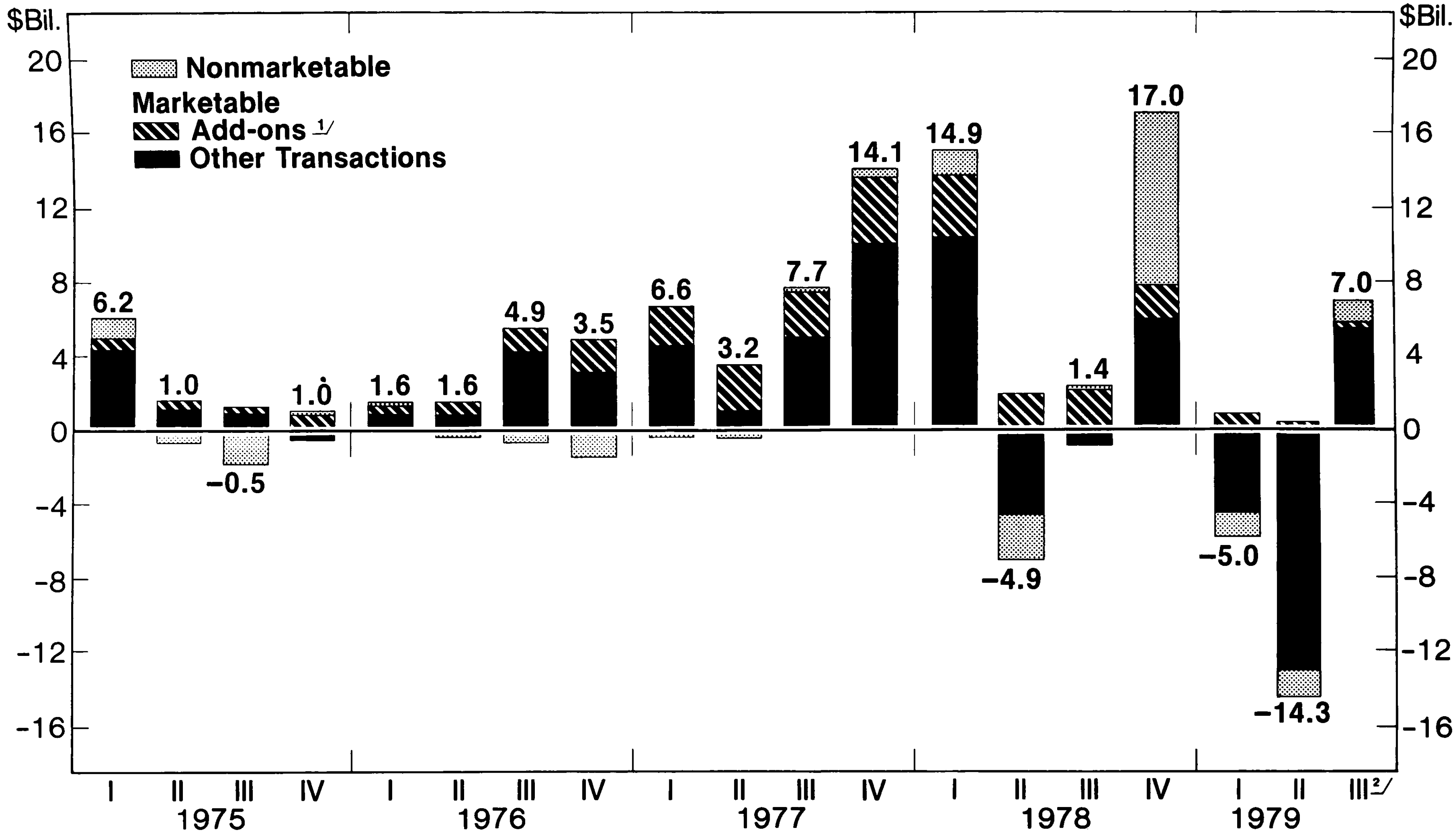
TREASURY NET BORROWING FROM NONMARKETABLE ISSUES



Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-3

QUARTERLY CHANGES IN FOREIGN AND INTERNATIONAL HOLDINGS OF PUBLIC DEBT SECURITIES

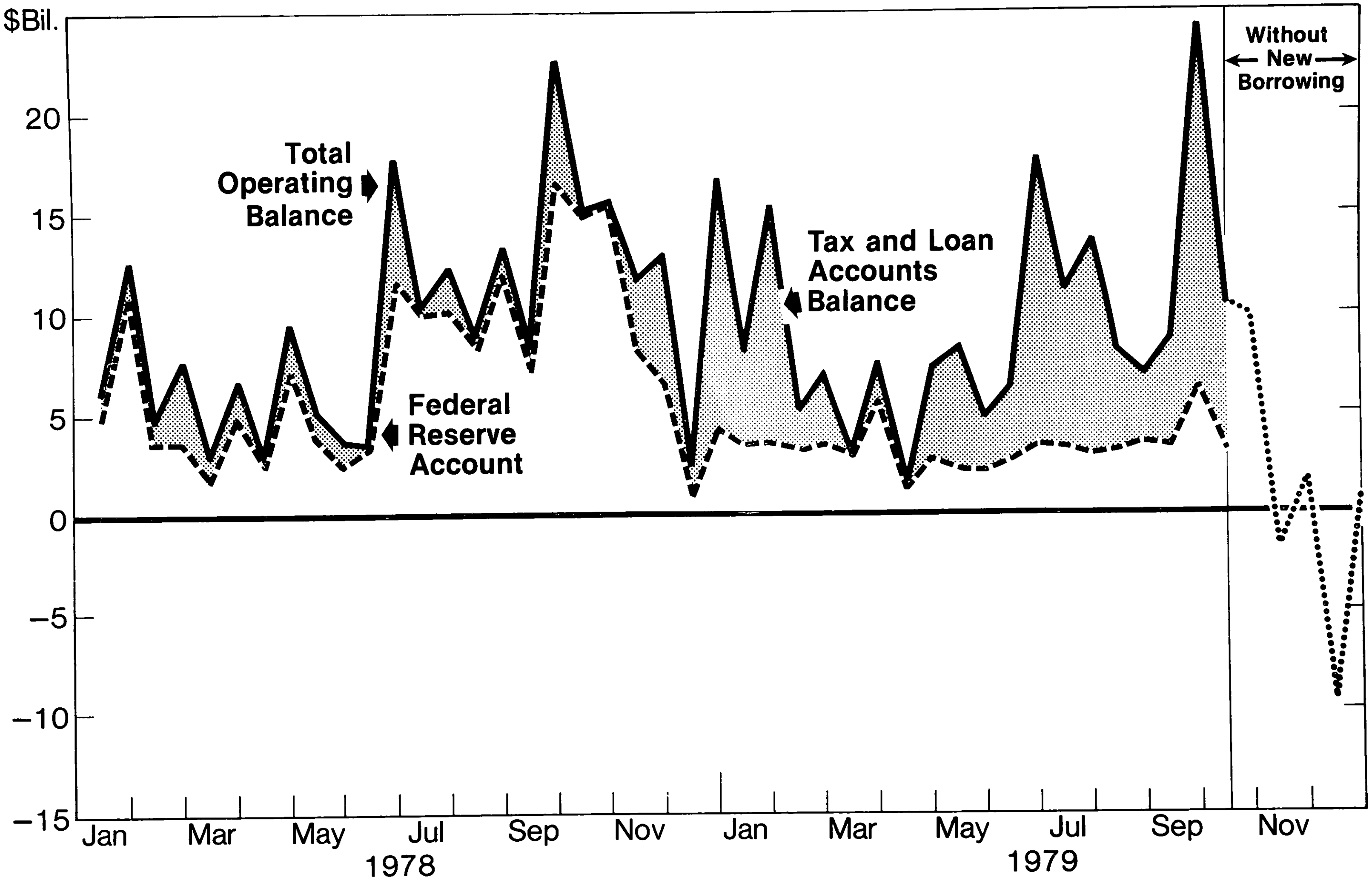


1/ F.R.B. Purchases of marketable issues as agents for foreign and international monetary authorities for new cash.

2/ Partly estimated.

TREASURY OPERATING CASH BALANCE

Semi-Monthly

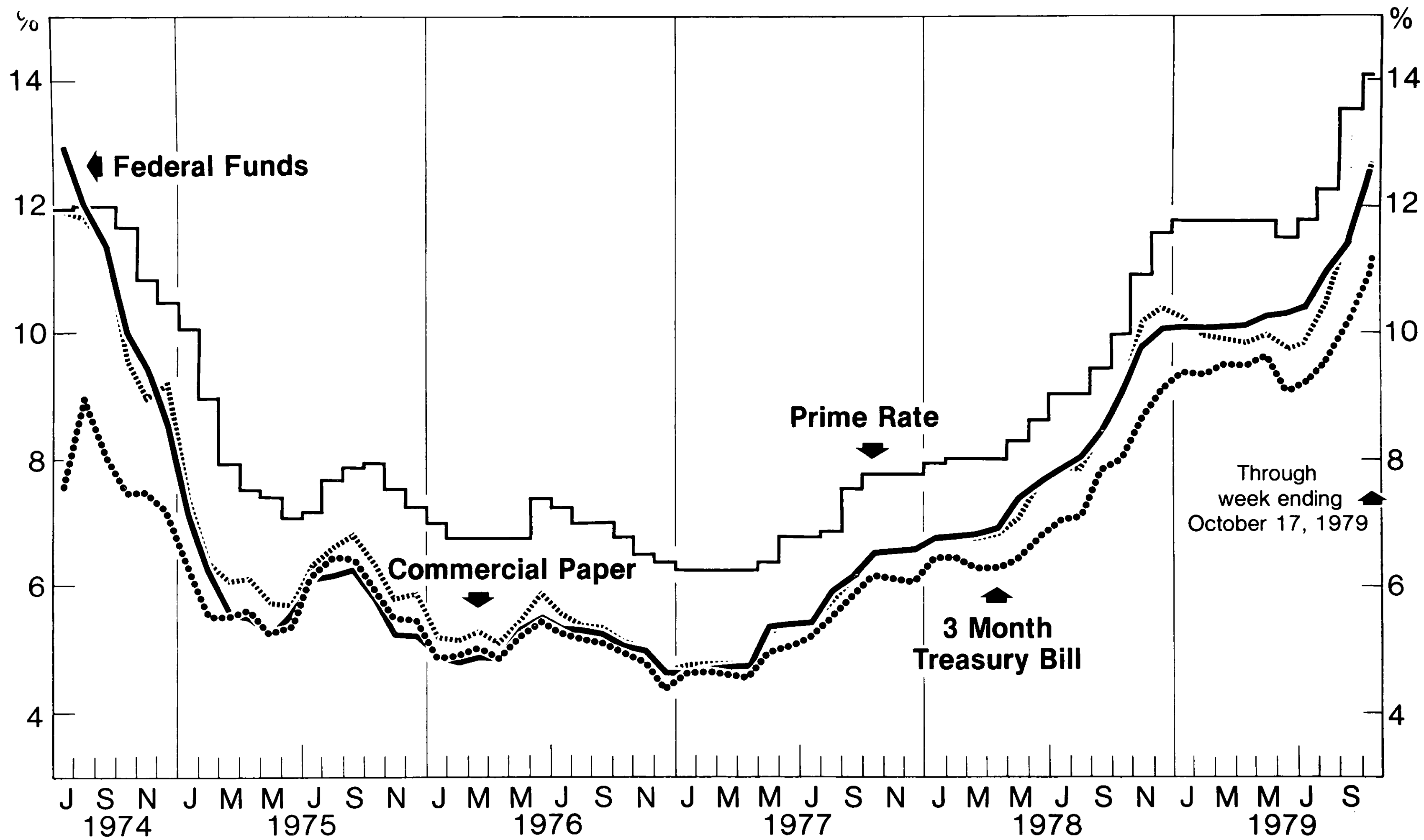


Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-15

SHORT TERM INTEREST RATES

Monthly Averages

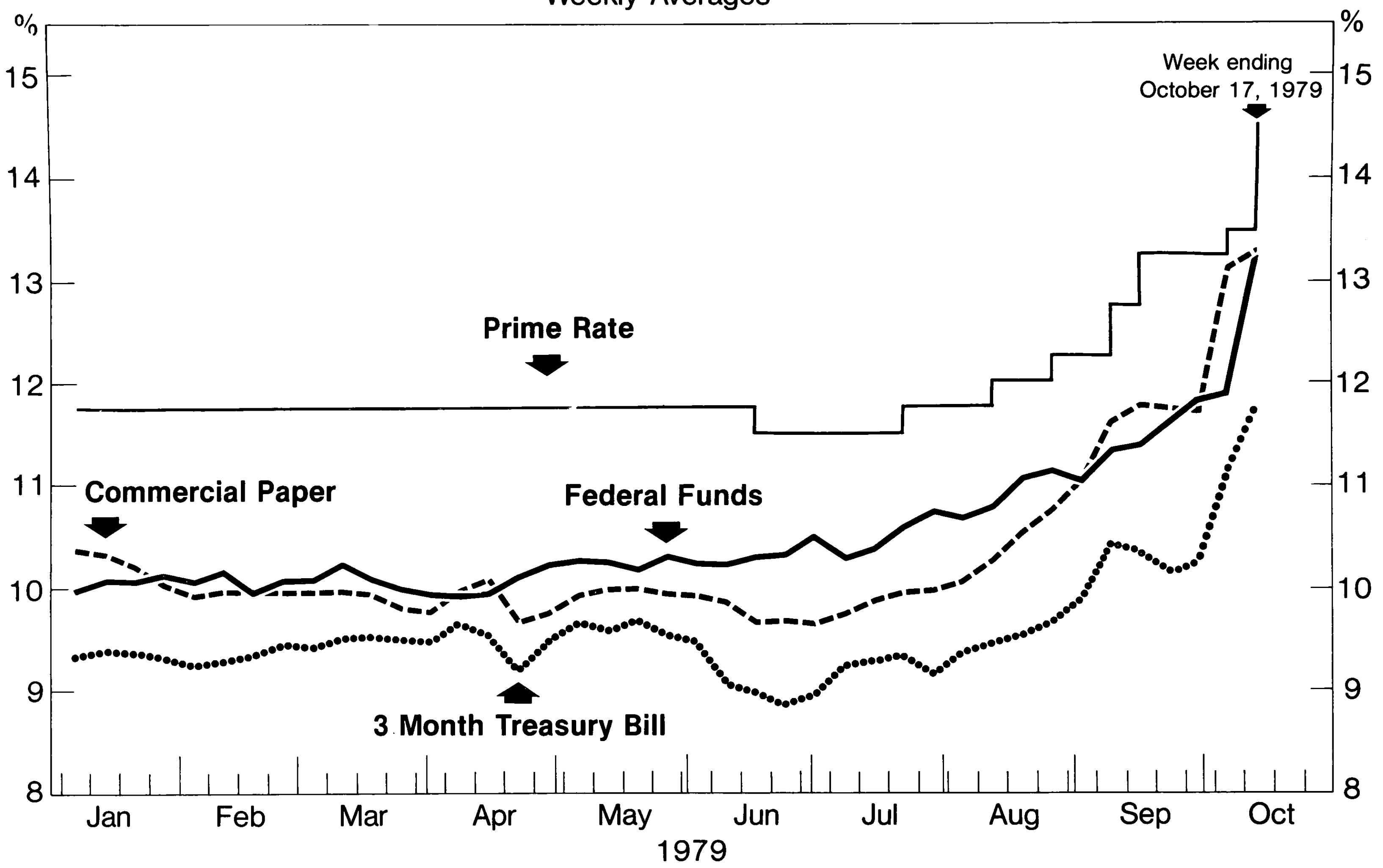


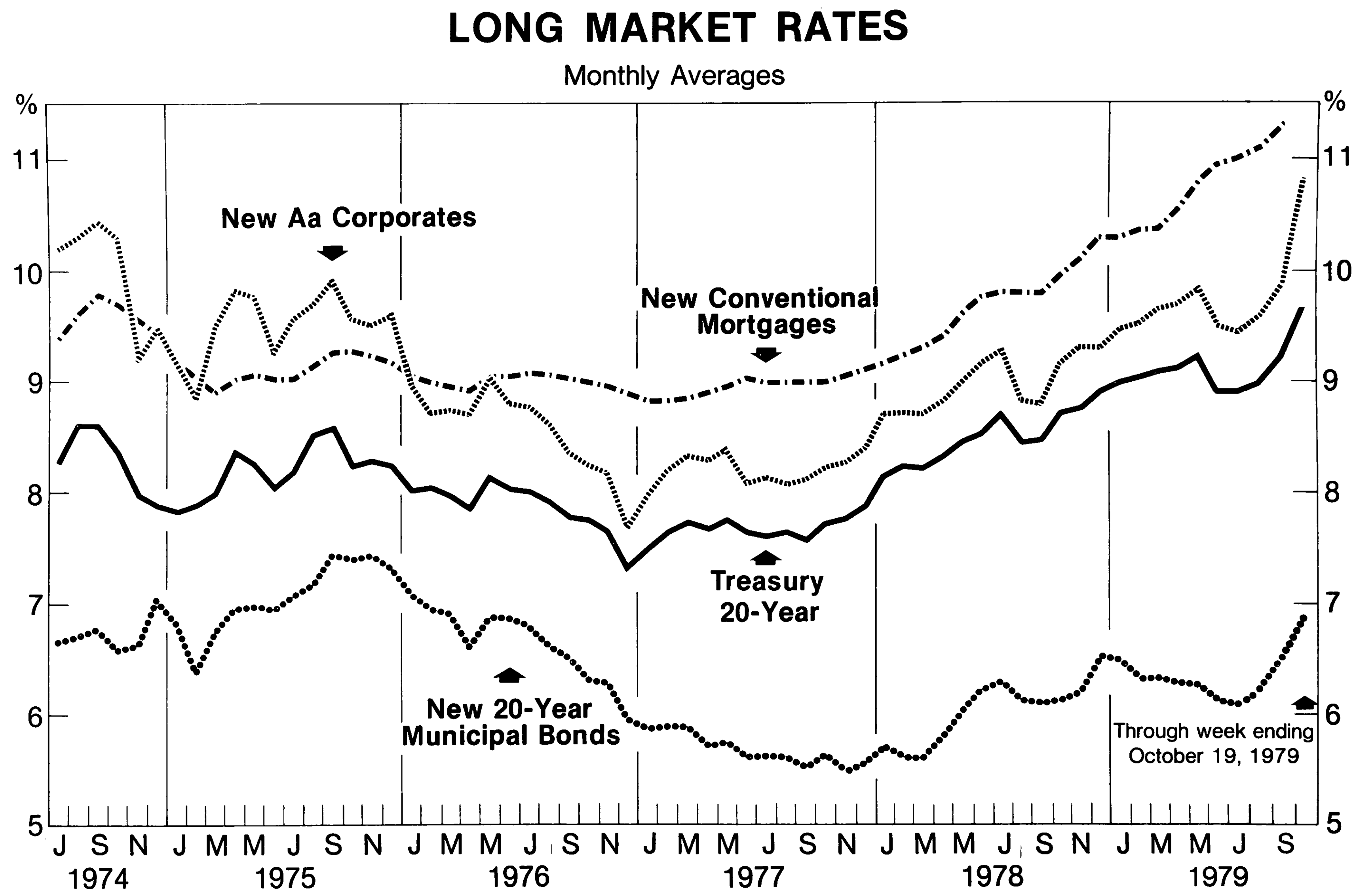
Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-4

SHORT TERM INTEREST RATES

Weekly Averages



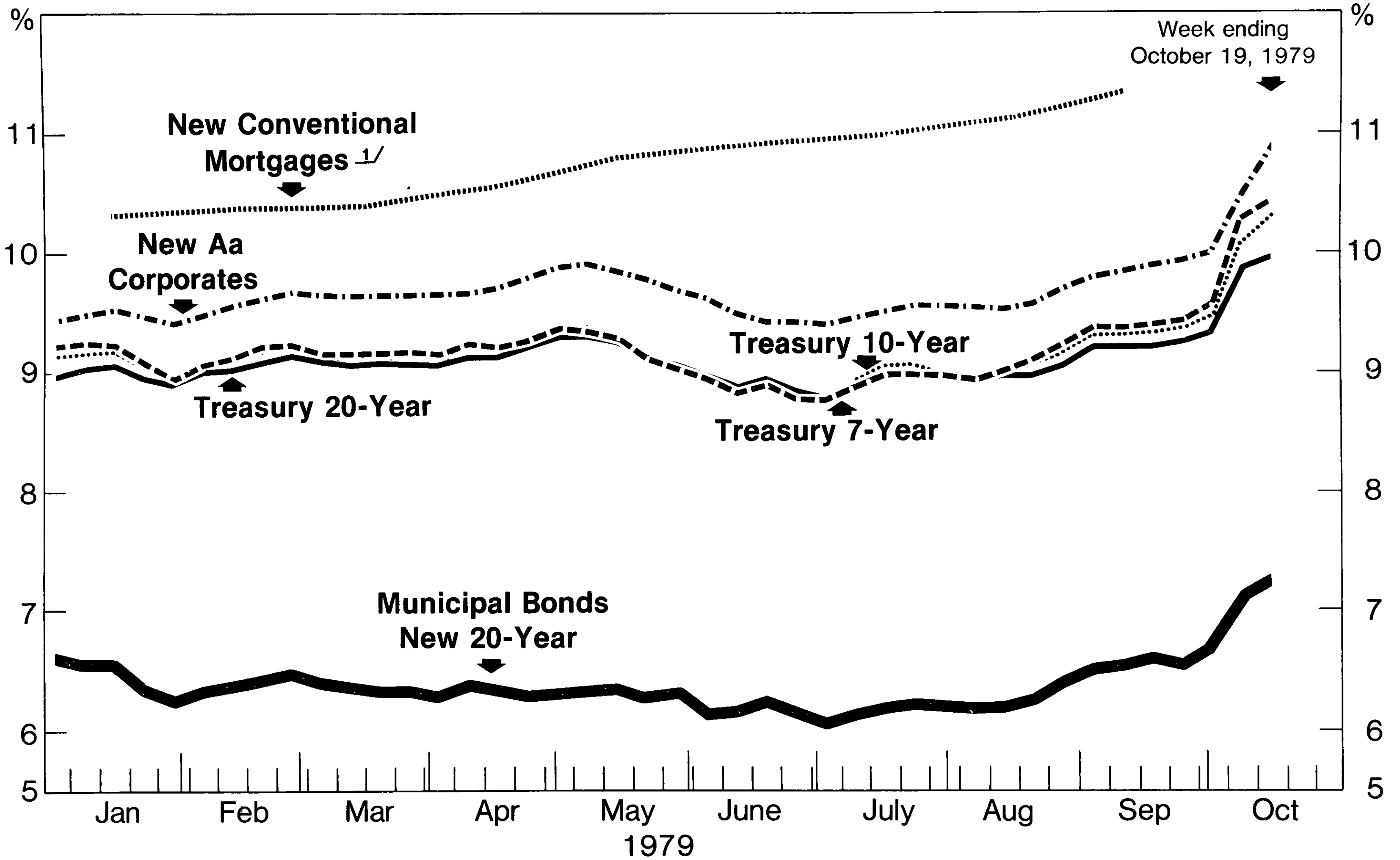


Office of the Secretary of the Treasury
Office of Government Financing

October 23,1979-7

INTERMEDIATE AND LONG MARKET RATES

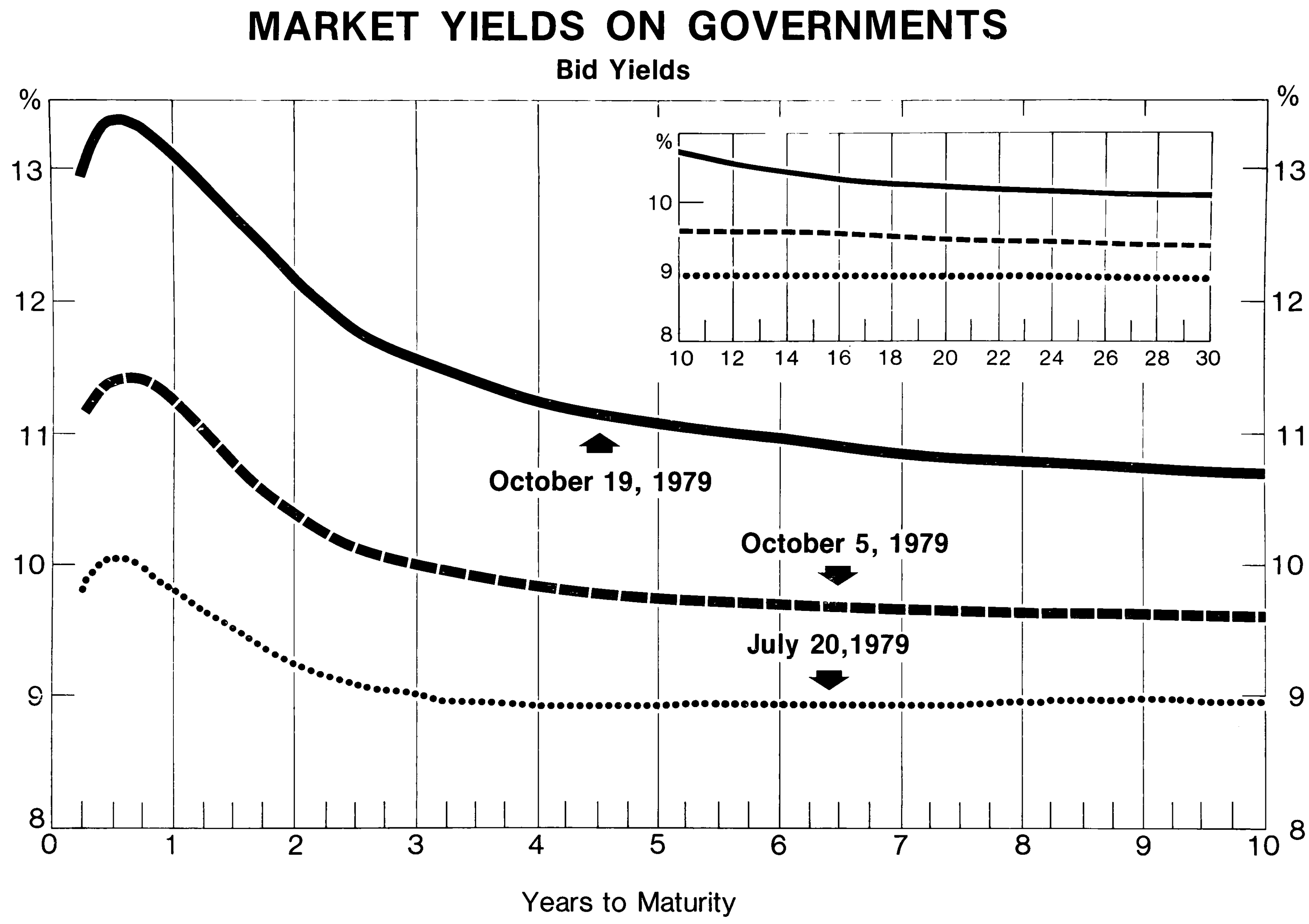
Weekly Averages



1/ Monthly, weekly data not available.

Office of the Secretary of the Treasury
Office of Government Financing

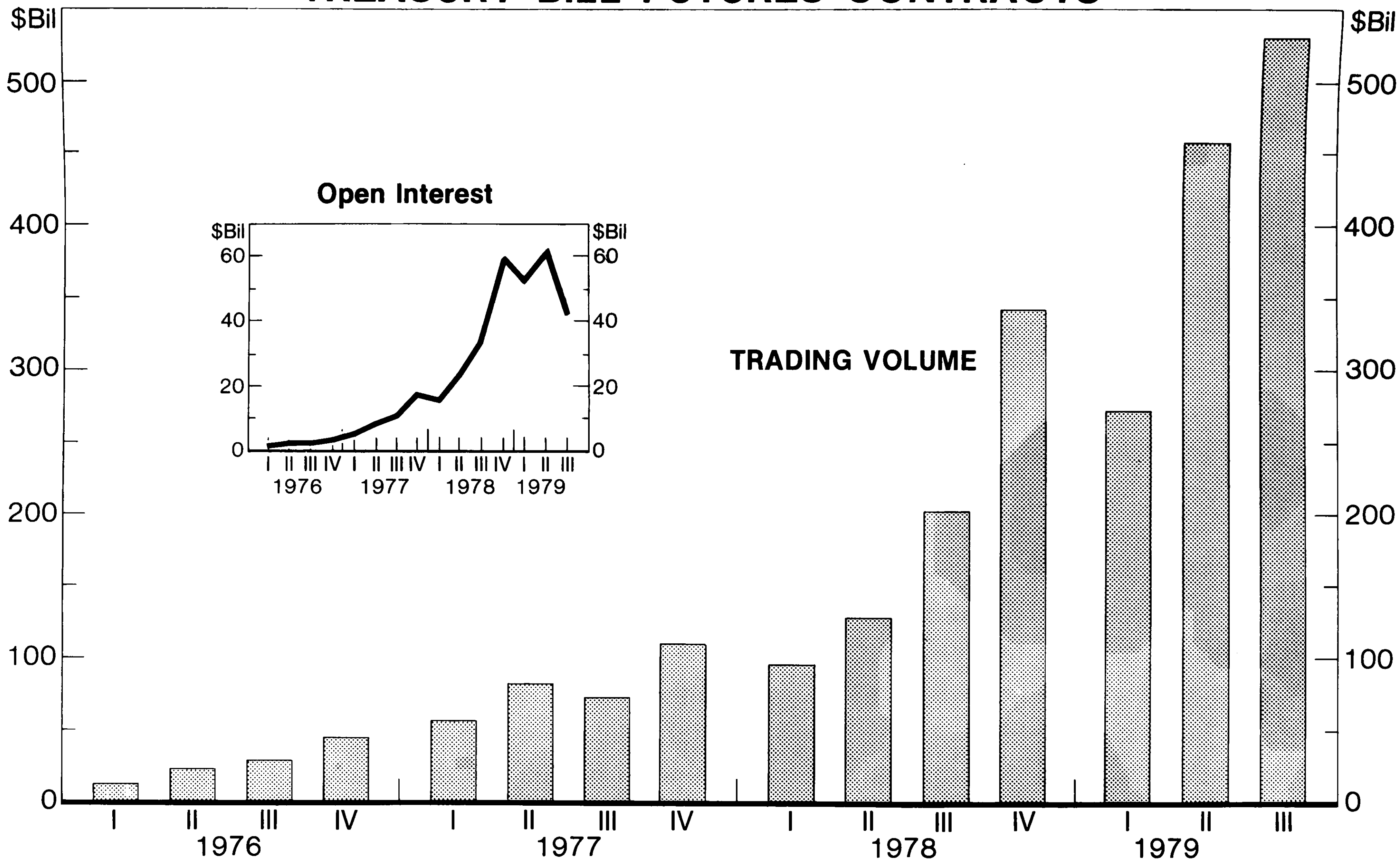
October 23, 1979-6



Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-22

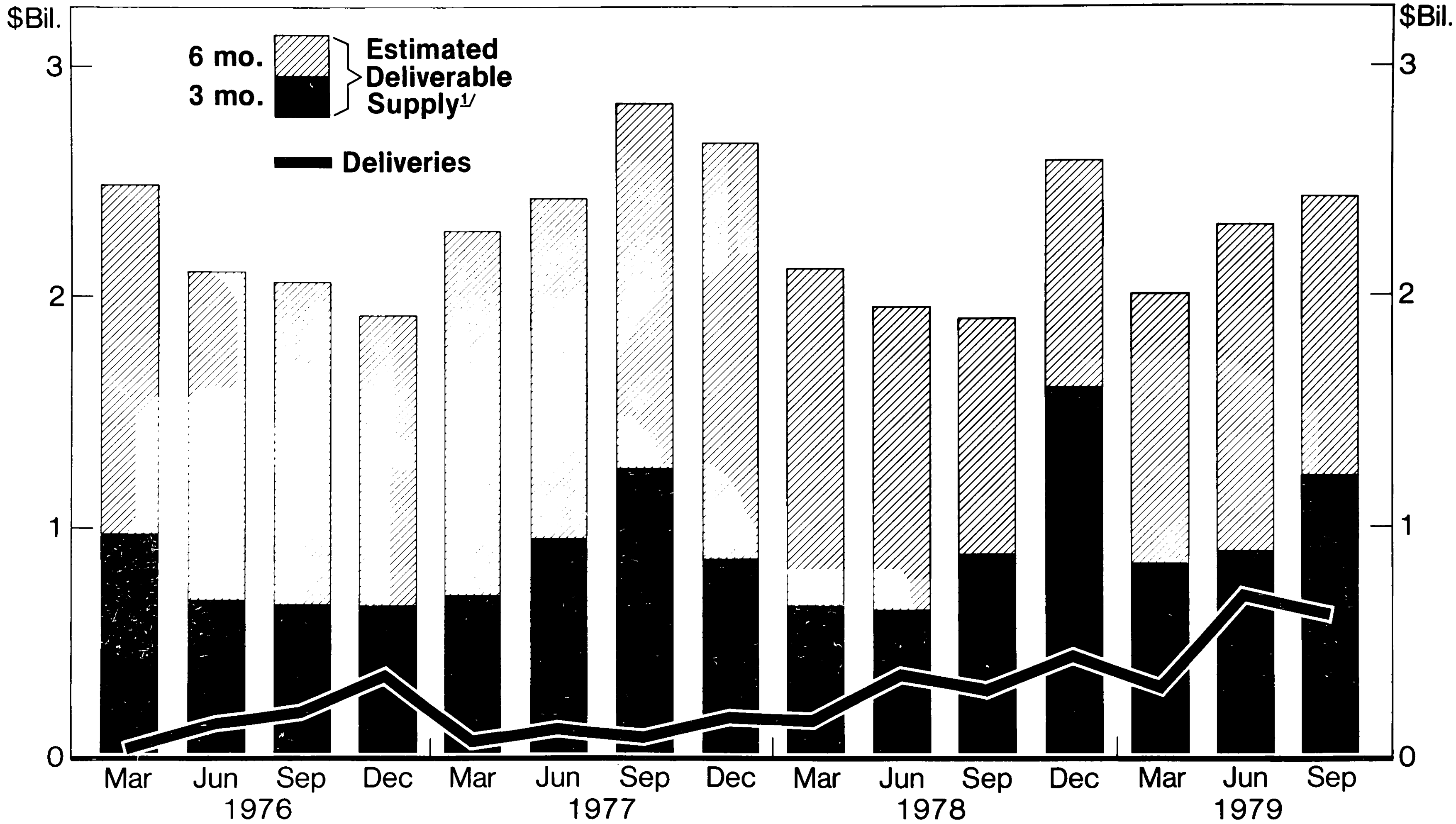
TRADING VOLUME AND OPEN INTEREST IN 90 DAY TREASURY BILL FUTURES CONTRACTS



Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-14

DELIVERABLE BILLS AND DELIVERIES ON 90 DAY TREASURY BILL FUTURES CONTRACTS



1/ Consists of the amount of accepted competitive tenders for the new 3 month bill and the 6 month bill issued 3 months earlier.

Office of the Secretary of the Treasury
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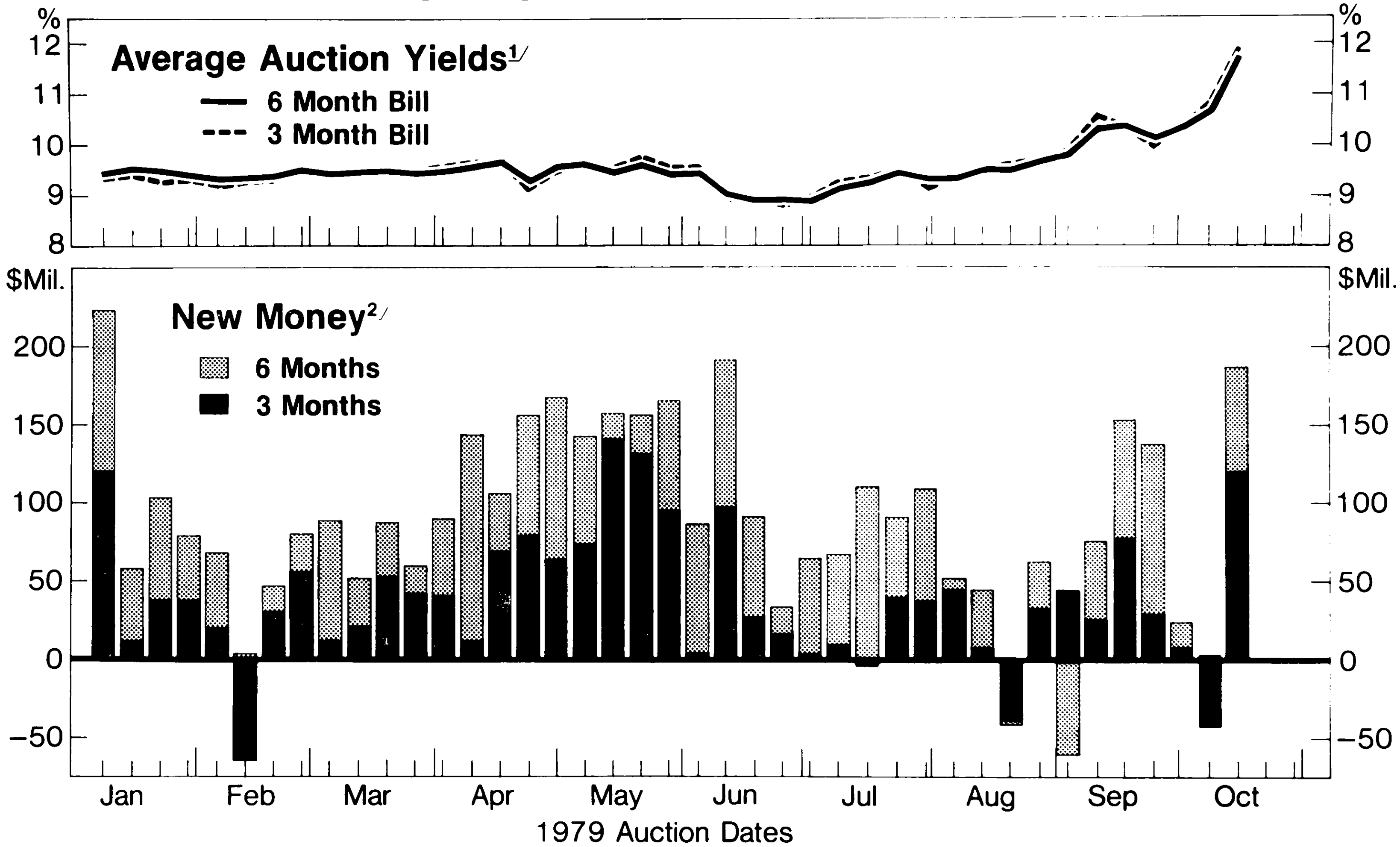
October 23, 1979-13

NEW MONEY FROM NONCOMPETITIVE BIDS IN TREASURY BILL AUCTIONS AND AVERAGE AUCTION YIELDS



1/ Discount basis.

2/ New money is the difference between noncompetitive bids on the new issues and maturing bills previously bid noncompetitively.

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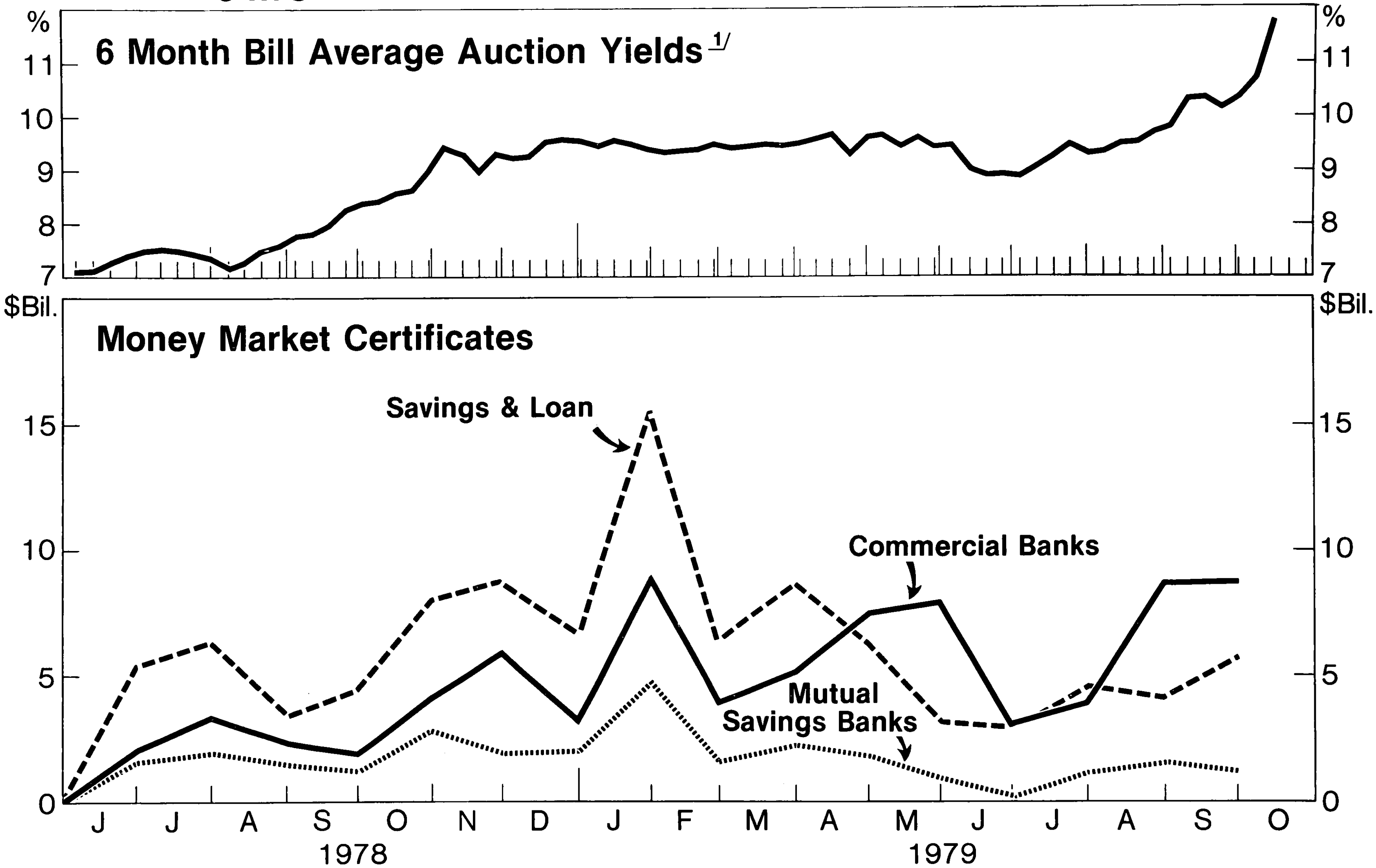
October 23, 1979 24

GROWTH IN MONEY MARKET CERTIFICATES & 6 MONTH BILL AVERAGE AUCTION YIELDS



1/ Discount Basis

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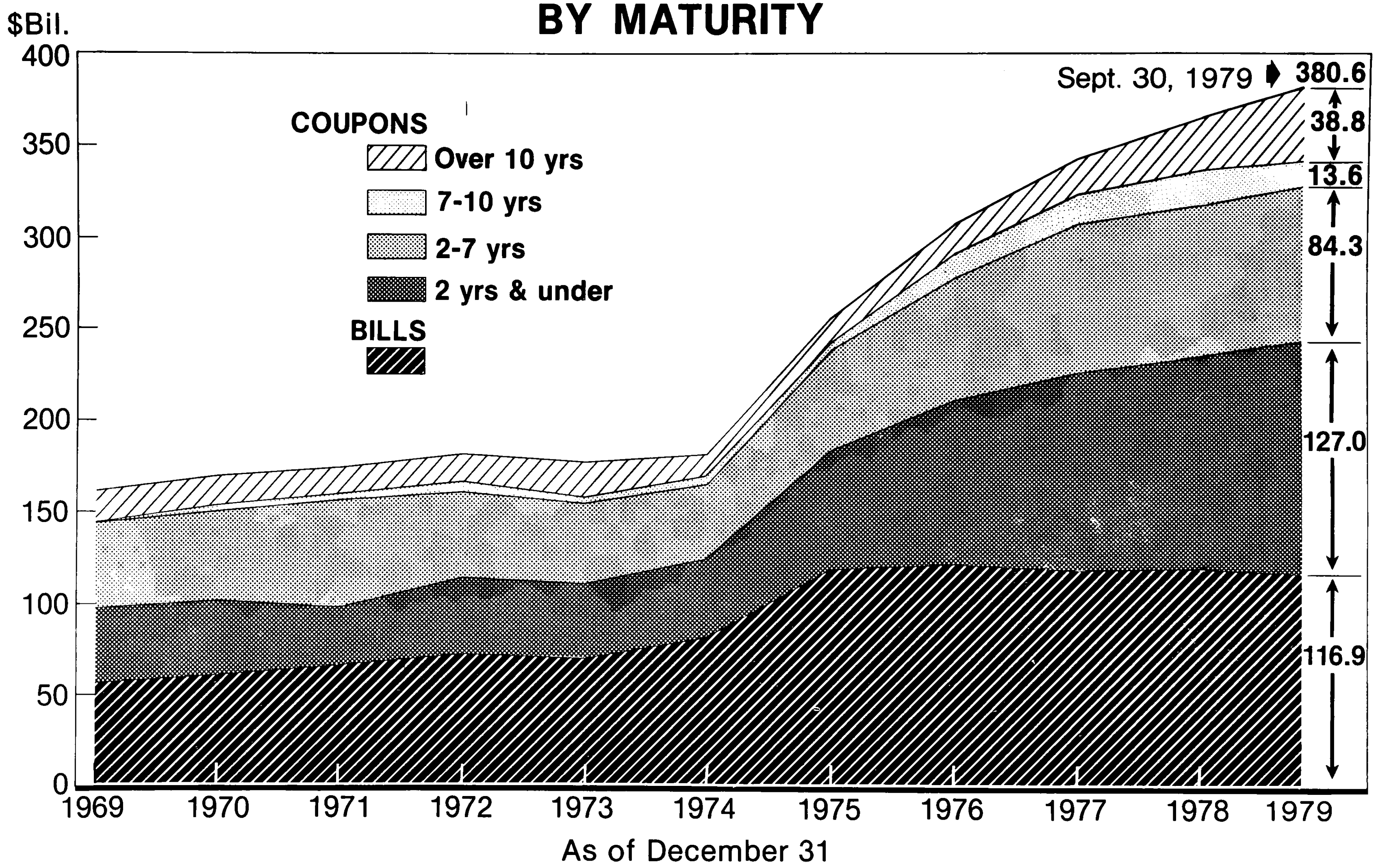
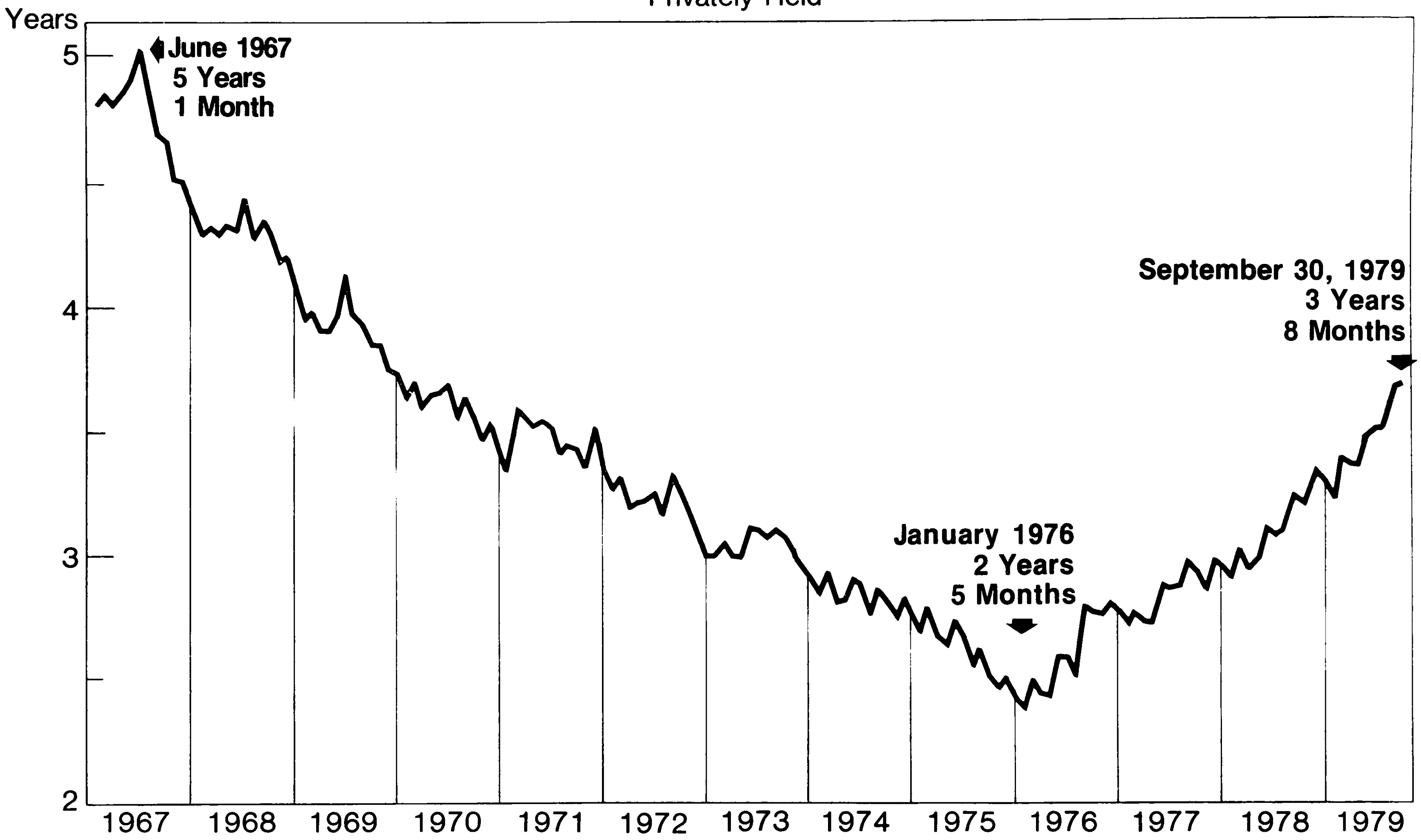
October 23, 1979-23

PRIVATE HOLDINGS OF TREASURY MARKETABLE DEBT BY MATURITY



AVERAGE LENGTH OF THE MARKETABLE DEBT

Privately Held



OWNERSHIP OF MATURING COUPON ISSUES

October 1979-March 1980 1/

(In Millions of Dollars)

Maturing Issues	Total Privately Held	Commercial Banks	Savings Institutions: Long-term 2/ Investors	Savings Institutions: Intermediate-term 3/ Investors	State & Local General Funds	Corporations	Other Private Domestic Holders	Foreign
6 1/4% Nt. 11/15/79	3,095	879	61	422	263	340	515	615
6 5/8% Nt. 11/15/79	460	140	1	61	32	10	216	—
7% Nt. 11/15/79	1,804	604	52	181	63	212	674	18
7 1/8% Nt. 11/30/79	4,285	1,114	38	281	340	288	858	1,366
7 1/2% Nt. 12/31/79	1,850	736	6	248	163	*	502	195
7 1/8% Nt. 12/31/79	3,349	1,000	66	258	460	170	602	793
7 1/2% Nt. 1/31/80	3,544	1,229	51	327	343	32	1,025	537
4% Bd. 2/15/80	1,559	158	219	263	197	222	500	—
6 1/2% Nt. 2/15/80	3,107	1,238	50	312	230	400	253	444
7 5/8% Nt. 2/29/80	3,507	1,229	25	367	295	98	694	799
7 1/2% Nt. 3/31/80	5,343	2,114	53	541	230	144	1,069	1,192
Total	31,903	10,441	622	3,261	2,616	1,916	6,908	5,959

1/ Amounts for investor classes are based on the August 1979 Treasury Ownership Survey.

2/ Includes State and local pension funds and life insurance companies.

3/ Includes casualty and liability insurance companies, mutual savings banks, savings and loan associations, and corporate pension trust funds.

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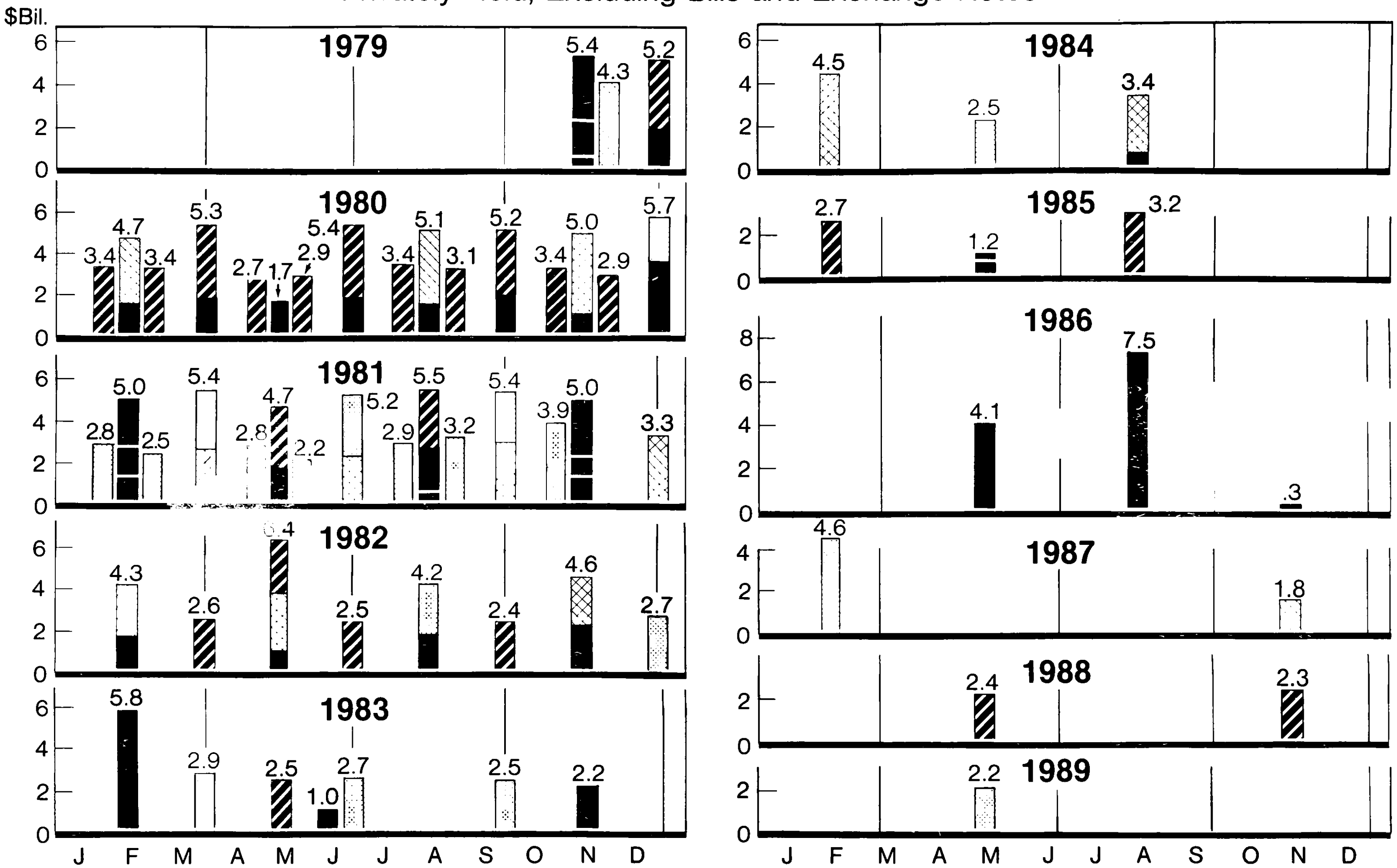
TREASURY MARKETABLE MATURITIES

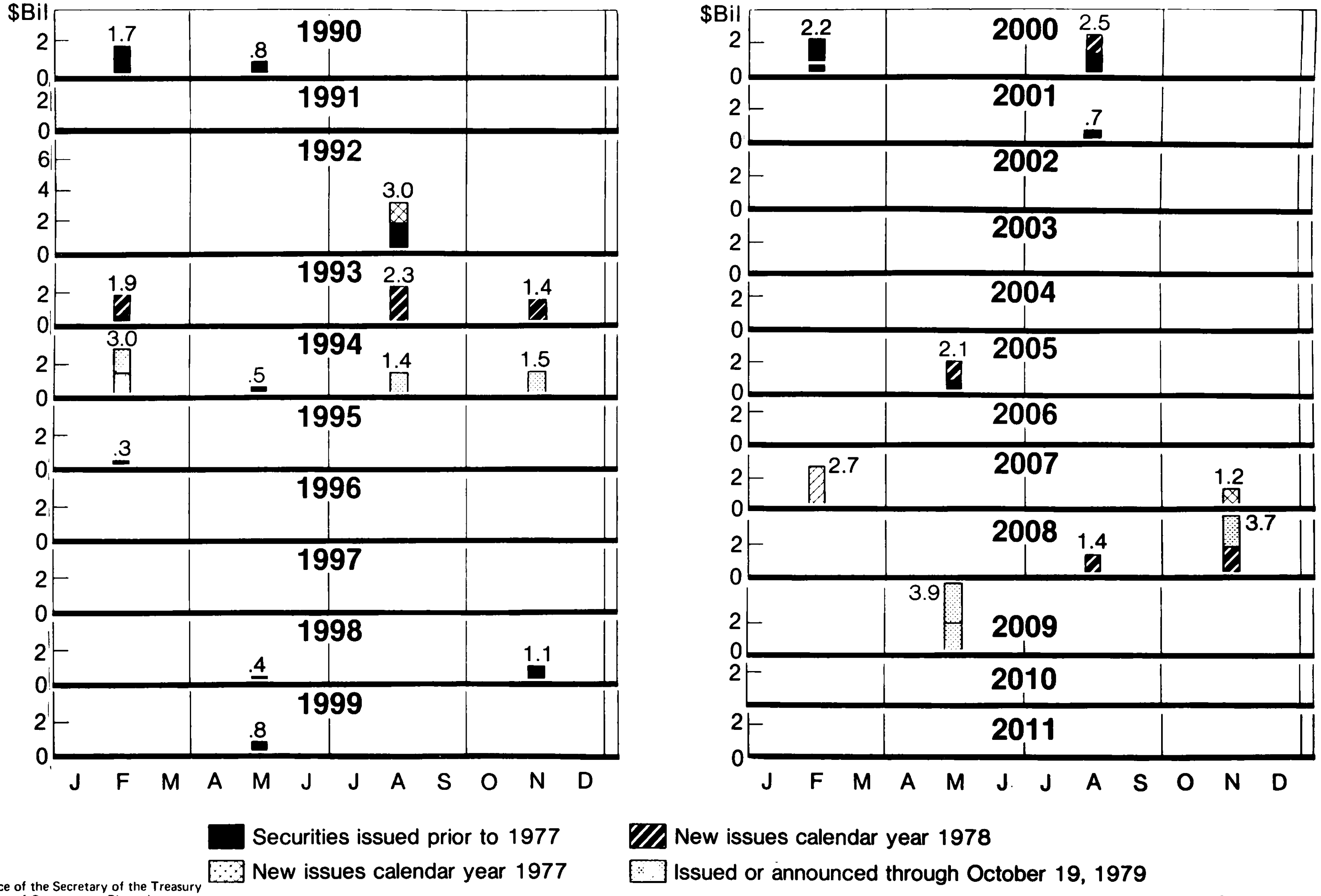
Privately Held, Excluding Bills and Exchange Notes



Securities issued prior to 1977
New issues calendar year 1977
New issues calendar year 1978
Issued or announced through October 19, 1979

TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes



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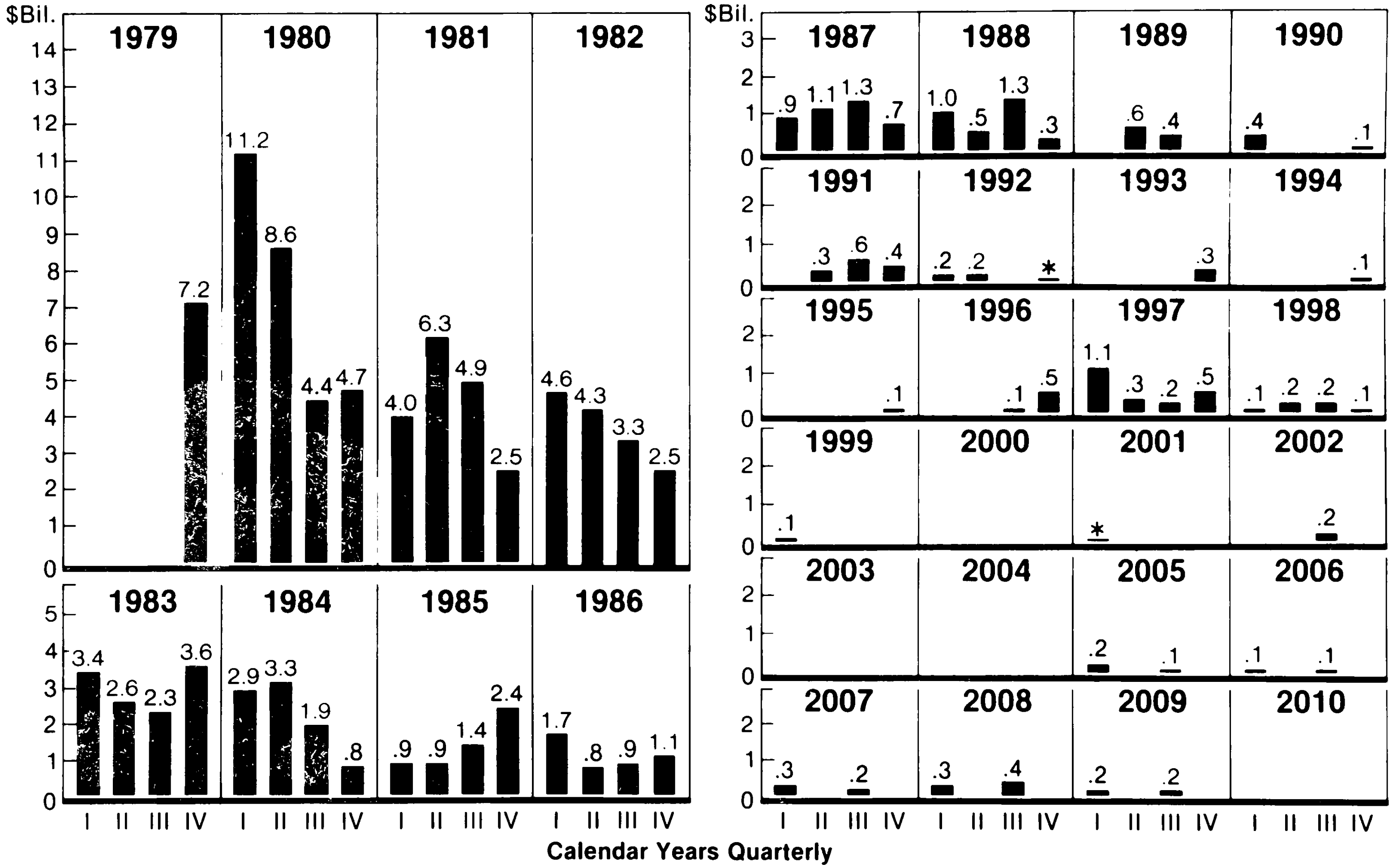
October 23, 1979-9

AGENCY MATURITIES 1/

Privately Held

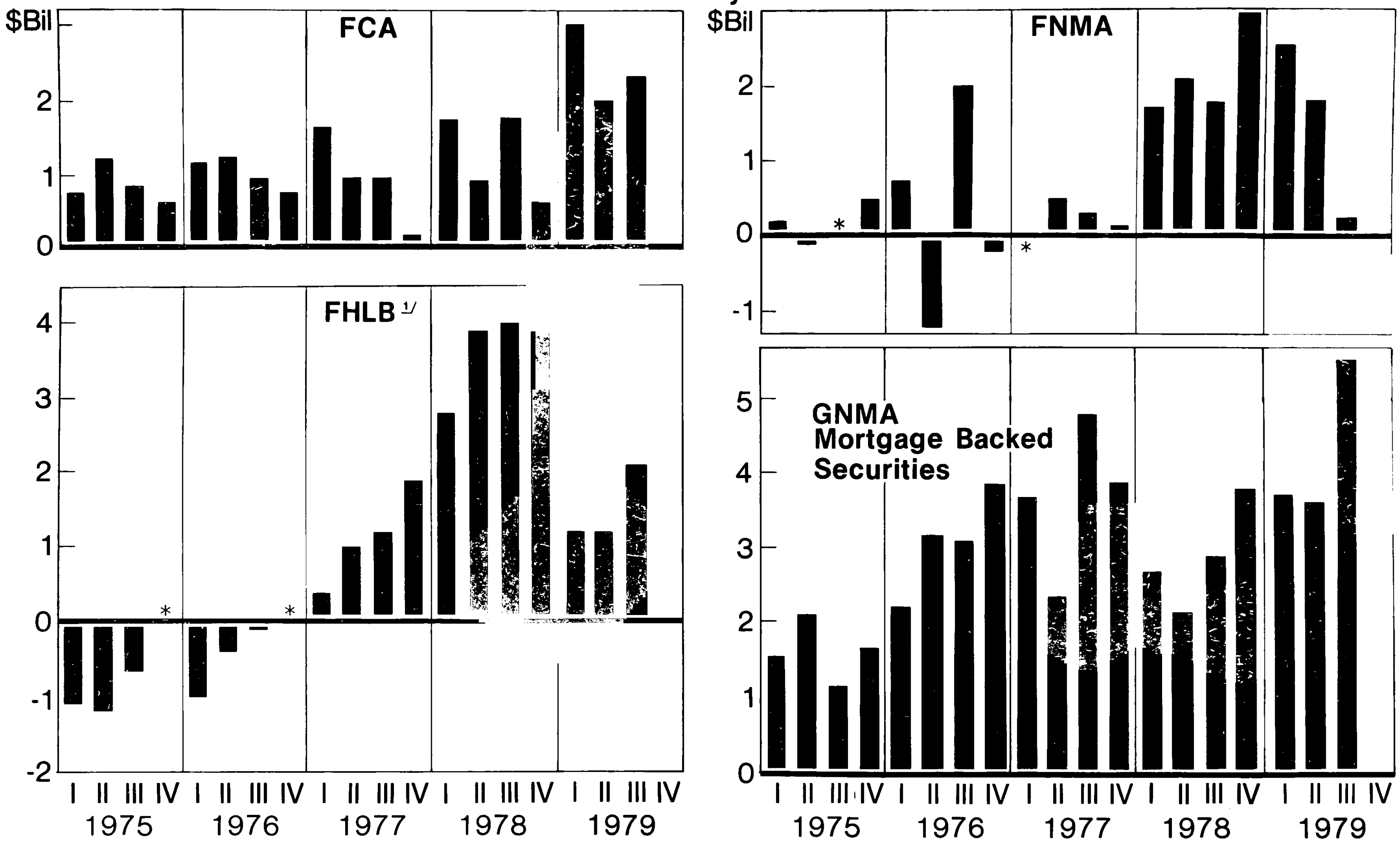


1/ Issued or announced through October 19, 1979.

∗ Less than $50 million.

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.

Office of the Secretary of the Treasury
Office of Government Financing

October 23, 1979-12

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FOR IMMEDIATE RELEASE
October 25, 1979

Contact: George G. Ross
202/566-2356

AMENDMENTS TO TECHNICAL EXPLANATION OF THE UNITED STATES AND UNITED KINGDOM INCOME TAX TREATY

The United States Treasury Department today released amendments to the Technical Explanation of the proposed Income Tax Convention between the United States and the United Kingdom. The text of the Technical Explanation was released on March 9, 1977 and revised on July 25, 1977.

At the time of the discussions concerning the Third Protocol to the proposed Convention the United Kingdom delegation pointed out to the United States delegation that a statement in the United States Technical Explanation concerning Article 2 (Taxes Covered) was in error. That statement provided that social security taxes are taxes covered for the purposes of the Convention. The Department of the Treasury pointed out this error on June 6, 1979 when it testified before the Senate Committee on Foreign Relations with respect to the Third Protocol. Accordingly, the fourth sentence in the second paragraph of the discussion of Article 2 in the Technical Explanation is deleted.

The Technical Explanation also contains technical errors in certain computations concerning the United States indirect foreign tax credit under Article 23 (Elimination of Double Taxation) of the proposed Convention. These errors are contained in the sixth and seventh paragraphs of Example 5 in the discussion of Article 23 in the Technical Explanation. Those paragraphs are revised to read as follows:

"Thus, of the $12.75, $8.75 is deemed distributed as offset refunded ACT; $0.85 is non-offset unrefunded ACT; $0.85 is non-offset refunded ACT deemed distributed; and $2.30 is the remaining actual distribution considered to have been made from year 3.

"In year 2, the accumulated profits available for distribution before adjustment for year three non-offset ACT are $49.75 (from line thirteen of Example 4 calculation of year 3 taxes). Of that amount, \$1.75 is deemed distributed as offset refunded ACT. The non-offset unrefunded ACT attributable to the remaining \$48.00 is \$10.18 (\$48.00 x $\frac{17.5}{82.5}$). Thus, the accumulated profits available for actual distribution in year 2 are \$27.64 (\$49.75 less \$1.75 (deemed distribution) less \$10.18 (non-offset refunded ACT deemed distributed) less \$10.18 (non-offset unrefunded ACT)); and the U.K. corporate tax is \$27.43 (\$17.25 + \$10.18)."

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ANTHONY M. SOLOMON OCTOBER 27, 1979

EBERT FOUNDATION
TALKING POINTS
PORT CHESTER, NEW YORK

1. THIS SESSION IS DEVOTED TO EUROPEAN AND AMERICAN PERSPECTIVES ON ECONOMIC POLICY ISSUES FOR THE 1980'S. LET ME FIRST MENTION A FEW SPECIFIC POINTS ON U.S. DOMESTIC AND INTERNATIONAL ECONOMIC POLICY, AND THEN MOVE TO A SOMEWHAT BROADER SUBJECT IN THE CONTEXT OF U.S./EUROPEAN RELATIONS.

2. DOMESTICALLY, THE NEED TO GET INFLATION UNDER CONTROL HAS BECOME THE DOMINANT U.S. ECONOMIC OBJECTIVE. THE ADMINISTRATION RECOGNIZES THAT CONTAINMENT OF INFLATION IS FUNDAMENTAL TO RESTORATION OF SOUND ECONOMIC GROWTH. A SIGNIFICANT PART OF THE UNFAVORABLE PRICE FIGURES IN RECENT MONTHS IS DIRECTLY ATTRIBUTABLE TO ENERGY AND FOOD. THESE SOURCES OF INFLATION WILL DISSIPATE IN COMING MONTHS, AS THE RECENT OIL PRICE INCREASES WORK THROUGH THE ECONOMY AND WITH THE PROSPECT OF GOOD HARVESTS. BUT AFTER TAKING ACCOUNT OF ALL THE SPECIAL FACTORS, THE UNDERLYING RATE OF INFLATION IS INTOLERABLE.

3. ALL PRINCIPAL ELEMENTS OF U.S. ECONOMIC POLICY ARE DIRECTED AT CONTAINING INFLATION. THE ADMINISTRATION HAS SUCCEEDED IN REVERSING THE TREND OF EXPANDING FEDERAL DEFICITS AND EXPANDING FEDERAL CLAIMS ON THE NATIONAL ECONOMY. THE DEFICIT HAS DROPPED FROM 3 PERCENT OF GNP IN 1976 TO 1 PERCENT

THIS YEAR. OVER THE SAME PERIOD, FEDERAL SPENDING HAS BEEN REDUCED FROM 22.6 PERCENT OF GNP TO 21.5 PERCENT. WE INTEND TO MAKE FURTHER PROGRESS, WITH THE OBJECTIVE OF REDUCING, OVER TIME, THE DEMANDS OF THE FEDERAL GOVERNMENT ON THE ECONOMY AND RELEASING SUBSTANTIAL RESOURCES TO THE PRIVATE SECTOR.

4. THE FEDERAL RESERVE IS MOVING AGGRESSIVELY TO REDUCE THE RATE OF GROWTH IN MONEY AND CREDIT. THE STEPS ANNOUNCED BY THE FED EARLIER THIS MONTH ARE STRONG AND WILL BE EFFECTIVE. THEY HAVE ALREADY HAD A VERY NOTICEABLE EFFECT ON PUBLIC ATTITUDES AND EXPECTATIONS. THEY WERE NEEDED AND APPROPRIATE.

5. OUR VOLUNTARY PAY/PRICE PROGRAM HAS BEEN MUCH MORE EFFECTIVE THAN IS WIDELY RECOGNIZED IN MODERATING PRICE DECISIONS AND WAGE SETTLEMENTS IN THE AREAS COVERED BY THE PROGRAM. WE ARE PROVIDING FOR GREATER PARTICIPATION BY MANAGEMENT AND LABOR IN ESTABLISHING AND APPLYING PAY STANDARDS DURING THE SECOND YEAR, WHICH WILL HELP AVOID INEQUITIES THAT COULD OTHERWISE DEVELOP OVER TIME. A TRIPARTITE PAY COMMITTEE (TO BE CHAIRED BY JOHN DUNLOP) IS BEING ESTABLISHED, WITH A FIRST TASK OF RECOMMENDING PAY STANDARDS FOR THE PERIOD AHEAD. IN THIS CONNECTION, THE ADMINISTRATION HAS WORKED OUT A NATIONAL ACCORD WITH AMERICAN LABOR LEADERSHIP, IN SUPPORT OF THE FIGHT AGAINST INFLATION AND PROVIDING FOR LABOR INVOLVEMENT IN THE PAY-PRICE PROGRAM. I AM PERSONALLY MORE CONFIDENT NOW THAN IN THE PAST THAT THE VOLUNTARY

GUIDELINES CAN BE AN EFFECTIVE COMPLEMENT TO DEMAND RESTRAINT. THE PERVASIVE AND DESTRUCTIVE EFFECTS OF INFLATION THROUGHOUT THE ECONOMY ARE BEING ACUTELY FELT BY THE AMERICAN PEOPLE. PUBLIC FEELINGS ABOUT THE OVERRIDING NEED TO CONTROL INFLATION HAVE BECOME GENERAL AND DEEPLY HELD. PARTICULARLY WITH THE GREATER SENSE THAT NOW EXISTS THAT THE ADMINISTRATION IS DETERMINED TO DEAL WITH INFLATION -- AND WITH A CONSEQUENT MODERATION OF INFLATION EXPECTATIONS -- THE VOLUNTARY PROGRAM CAN HAVE TANGIBLE AND POWERFUL EFFECTS.

6. THE TEN-FOLD INCREASE IN WORLD OIL PRICES HAS BEEN A PRINCIPAL CONTRIBUTOR TO ACCELERATION OF INFLATION IN THIS DECADE, IN THE UNITED STATES AS ELSEWHERE. THE U.S. OBJECTIVE OF SECURING ENERGY INDEPENDENCE HAS OBVIOUS NATIONAL SECURITY MOTIVATIONS. BUT IT IS ALSO AN IMPORTANT ELEMENT OF OUR EFFORT TO CONTAIN INFLATION AND STRENGTHEN THE U.S. EXTERNAL POSITION. PRESIDENT CARTER HAS SOUGHT SUPPORT FOR A BROAD AND COMPREHENSIVE ENERGY PROGRAM FOR 2 ½ YEARS. THE DIVERSITY OF CIRCUMSTANCES AND INTERESTS IN A COUNTRY AS VAST AS THE UNITED STATES HAS MADE IT EXCRUTIATINGLY DIFFICULT TO HAMMER OUT A NATIONAL ENERGY PROGRAM. SOME IMPORTANT PARTS OF THE PROGRAM HAVE ALREADY BEEN PUT INTO PLACE. THE PRESIDENT HAS RECENTLY TAKEN TWO MAJOR STEPS -- ON DECONTROL OF DOMESTIC CRUDE OIL PRICES AND ON LIMITING OIL IMPORTS -- UNDER HIS OWN POWERS. REMAINING CRITICAL ELEMENTS OF THE PROGRAM ARE UNDER ACTIVE CONSIDERATION IN THE CONGRESS.

7. FULLY IN PLACE, OUR PROGRAM IS EXPECTED TO CUT OIL IMPORTS BY ABOUT 50 PERCENT -- 4-5 MILLION BARRELS PER DAY -- FROM PRESENT LEVELS, AND BY ABOUT 8-9 MILLION BARRELS PER DAY FROM LEVELS THAT WOULD HAVE BEEN REACHED IN THE ABSENCE OF A COMPREHENSIVE ENERGY PROGRAM.

8. MAINTENANCE OF STABILITY IN THE EXCHANGE MARKETS IS AN IMPORTANT COMPLEMENT TO OUR EFFORTS TO REDUCE INFLATION AND MAINTAIN SOUND GROWTH AND INVESTMENT. THE DOMESTIC POLICIES WE ARE FOLLOWING ARE ALSO THE POLICIES NEEDED TO ASSURE A STRONG U.S. EXTERNAL POSITION AND A SOUND AND STABLE DOLLAR. THE U.S. CURRENT ACCOUNT POSITION IS STRENGTHENING RAPIDLY. DESPITE A $16 BILLION INCREASE IN OUR OIL IMPORTS, WE WILL HAVE A DEFICIT OF ONLY A FEW BILLION DOLLARS THIS YEAR, AND EXPECT TO MOVE INTO SUBSTANTIAL SURPLUS IN 1980.

9. IN COOPERATION WITH THE MONETARY AUTHORITIES OF SEVERAL KEY COUNTRIES -- GERMANY, SWITZERLAND, AND JAPAN -- WE ARE OPERATING FORCEFULLY IN THE EXCHANGE MARKETS TO SUPPLEMENT ACTION ON THE FUNDAMENTALS.

10. THE MAJOR POSITIVE SHIFT IN THE U.S. BALANCE OF PAYMENTS; WELCOME SHIFTS IN THE BALANCE OF PAYMENTS POSITIONS OF GERMANY AND JAPAN; OUR CONCERTED ATTACK ON INFLATION; AND EFFECTIVE INTERNATIONAL MONETARY COOPERATION; ALL COMBINE TO PROVIDE A FIRM BASIS FOR EXCHANGE MARKET STABILITY AND DOLLAR STRENGTH IN THE PERIOD AHEAD. WE INTEND TO PERSEVERE.

11. WITH RESPECT TO THE INTERNATIONAL ECONOMIC SITUATION, THE PICTURE IS ONCE AGAIN DOMINATED BY THE IMPACT OF OPEC OIL PRICE INCREASES. THE OECD POSITION IS LIKELY TO DETERIORATE BY ABOUT $38 BILLION THIS YEAR, FROM A SURPLUS OF $8 BILLION TO A DEFICIT OF ABOUT $30 BILLION. THIS AGGREGATE SHIFT, OF COURSE, OBSCURES THE VERY MAJOR IMPROVEMENT THAT IS TAKING PLACE IN THE PATTERN OF IMBALANCES AMONG THE MAJOR COUNTRIES.

12. THE NON-OIL LDC CURRENT ACCOUNT POSITION IS LIKELY TO DETERIORATE BY $10 BILLION THIS YEAR AND ANOTHER $10 BILLION IN 1980, TO DEFICITS OF $30 BILLION IN 1979 AND $40 BILLION IN 1980. OUR ESTIMATES INDICATE THAT THIS DETERIORATION WILL BE HIGHLY CONCENTRATED -- FORTUNATELY, IN THE POSITIONS OF A FEW RELATIVELY ADVANCED COUNTRIES WITH COMFORTABLE RESERVES AND ACCESS TO THE PRIVATE MARKETS. FOR MOST LDC'S, THE DETERIORATION IS LIKELY TO BE WITHIN THE RANGE OF EXPECTED INCREASES IN OFFICIAL DEVELOPMENT ASSISTANCE.

13. IN SHORT, WE DO NOT EXPECT A GENERALIZED FINANCING PROBLEM. THERE PROBABLY WILL BE SOME INDIVIDUAL PROBLEM CASES, AND WE NEED TO ANTICIPATE INCREASED DEMANDS ON THE IMF FOR BALANCE OF PAYMENTS FINANCING. THE FUND IS IN A VERY STRONG POSITION TO MEET LARGER DEMANDS, AND ITS RESOURCES WILL BE EXPANDED SIGNIFICANTLY THROUGH A 50 PERCENT QUOTA INCREASE LATE NEXT YEAR. THE U.S. WILL BE SUBMITTING LEGISLATION FOR THE INCREASE IN ITS QUOTA VERY SHORTLY.

14. THOUGH WE BELIEVE THE INTERNATIONAL FINANCIAL EFFECTS OF THE RECENT OIL PRICE INCREASES ARE LIKELY TO BE MANAGEABLE WITHOUT SERIOUS DIFFICULTY, THE REAL EFFECTS -- DEPRESSED GROWTH AND ACCELERATED INFLATION -- REMAIN. U.S. EMPHASIS ON CONTROLLING INFLATION AND STABILIZING ITS ECONOMY IS THE SINGLE MOST IMPORTANT CONTRIBUTION WE CAN MAKE TO RESTORATION OF A SOUND WORLD ECONOMY. BUT, PARTICULARLY GIVEN THE PROSPECT OF A U.S. SLOWDOWN, IT IS ALL THE MORE ESSENTIAL THAT OTHER MAJOR COUNTRIES DIRECT THEIR POLICIES TO SUSTAINED ECONOMIC EXPANSION, WITHIN THE CONSTRAINTS OF CONTAINING INFLATION. IT IS EQUALLY IMPORTANT THAT WE ALL MAINTAIN THE THRUST OF THE RECENT MTN AGREEMENT AND RESIST PROTECTIONIST MOVES, AND THAT WE PERMIT ACCESS TO OUR CAPITAL MARKETS BY OTHER COUNTRIES WITH FINANCING NEEDS.

15. WE NEED ALSO TO CONTINUE TO PRESS FOR LONGER TERM IMPROVEMENT IN THE INTERNATIONAL ECONOMIC AND MONETARY SYSTEM. THREE MAIN LINES OF EFFORT ARE UNDER WAY.

- -- IMF SURVEILLANCE OVER THE BALANCE OF PAYMENTS ADJUSTMENT PROCESS.
- -- DISCUSSIONS OF A POSSIBLE SUBSTITUTION ACCOUNT, TO PROMOTE THE ROLE OF THE SDRS IN THE INTERNATIONAL MONETARY SYSTEM.

-- DISCUSSIONS ON SURVEILLANCE OVER, AND POSSIBLE STEPS FOR BETTER MANAGEMENT OF, THE EUROCURRENCY MARKET.

16. THE U.S. IS PARTICIPATING ACTIVELY IN EACH OF THESE AREAS, AND WILL CONTINUE TO PRESS FOR PROGRESS.

17. THIS BRING ME TO WHAT I REGARD AS THE CENTRAL POLICY ISSUE FOR THE 1980'S. THAT IS WHETHER THE WORLD WILL LEARN TO STRENGTHEN ITS PROCESSES OF INTERNATIONAL ECONOMIC POLICY COORDINATION -- MANAGING INTERDEPENDENCE -- OR SLIP BACK TOWARD A NATIONALISTIC APPROACH TO DEALING WITH SPECIFIC PROBLEMS.

I BELIEVE THE WORLD IS BEING FORCED BY EVENTS TOWARD A CHOICE OF THAT IMPORTANCE AND MAGNITUDE, AND IT IS CRITICAL THAT WE RECOGNIZE THE EXISTENCE OF THE LARGER QUESTION AS WE APPROACH INDIVIDUAL ISSUES.

18. THE U.S.-EUROPEAN RELATIONSHIP, AND OUR JOINT RELATIONSHIPS WITH OTHER MAJOR COUNTRIES, ARE CENTRAL TO HOW THIS QUESTION IS TO BE ANSWERED. IF WE CAN'T LEAD THE WAY, THROUGH MEANINGFUL POLICY COORDINATION BETWEEN THE U.S. AND WESTERN EUROPE, THERE IS LITTLE REASON TO EXPECT BROADER SUCCESS.

19. UNDERSTANDING OF EACH OTHERS' PERSPECTIVES IS PREREQUISITE TO BUILDING A STRONGER RELATIONSHIP. WE SHOULD ACKNOWLEDGE AND BUILD ON OUR MUTUAL SUCCESSES. CLOSE U.S.-EUROPEAN COOPERATION DOMINATES THE POST-WAR RECORD. BUT THERE ARE ALSO IRRITANTS AND SOURCES OF TENSION -- SOME SMALL, BUT OTHER LARGER AND POTENTIALLY IMPORTANT -- THAT NEED TO BE AIRED AND UNDERSTOOD. I WILL MENTION A FEW OF THESE FROM A FRANKLY AMERICAN PERSPECTIVE. MY INTENTION IS <u>NOT</u> TO MAKE A BALANCED PRESENTATION, BUT TO VOICE A PARTICULAR PERSPECTIVE IN HOPES THAT THIS WILL CONTRIBUTE TO UNDERSTANDING AND ULTIMATELY SOLUTIONS. I EXPECT AN EQUALLY FRANK EUROPEAN PRESENTATION OF PROBLEMS IN DEALING WITH THE AMERICANS.

20. FIRST, I SEE A PROBLEM OF TONE AND ATTITUDE IN THE OVERALL U.S.-EUROPEAN ECONOMIC RELATIONSHIP, AN AMBIGUITY IN EUROPEAN VIEWS ABOUT THE NATURE OF THAT RELATIONSHIP. THAT AMBIGUITY IS ILLUSTRATED BY A QUOTE FROM ANOTHER AREA. RAYMOND ARON, IN A RECENT ARTICLE, SAID "EUROPEANS NO LONGER PUT THEIR TRUST IN NATO OR IN THE AMERICAN NUCLEAR UMBRELLA. WHAT THEY TRUST NOW-A-DAYS IS THE CAUTION OF THE BOLSHEVIKS, AWARE AS THEY MUST BE OF THE INCALCULABLE DANGER OF AN ATTACK ON WESTERN EUROPE." THE POINT, OF COURSE, IS THAT THE CAUTION IS DICTATED BY THE EXISTENCE OF NATO AND THE NUCLEAR UMBRELLA, BUT THE POINT IS LOST IN THIS PARTICULAR EUROPEAN PERSPECTIVE OF THE U.S.-EUROPEAN RELATIONSHIP.

21. THERE IS A SIMILAR AMBIGUITY OVER QUESTIONS OF INITIATIVE AND LEADERSHIP IN THE ECONOMIC AREA. THE UNITED STATES CONTINUALLY HEARS EUROPEAN CALLS FOR STRONGER U.S. LEADERSHIP IN THE ECONOMIC AREA, AND SPECIFICALLY IN THE MONETARY AREA. AND WE HEAR REPEATED EUROPEAN CRITICISM OF U.S. FAILURE TO EXERCISE LEADERSHIP, U.S. FAILURE TO PROPERLY MEET ITS WORLD RESPONSIBILITIES. YET WHEN THE UNITED STATES DOES ATTEMPT TO EXERCISE LEADERSHIP, THERE IS FREQUENTLY A NOTABLE ABSENCE OF EUROPEAN WILLINGNESS TO FOLLOW.

22. THIS IS NOT A RECENT PHENOMENON. IT CHARACTERIZED THE DISCUSSIONS IN THE LATE 1960'S ON THE EXCHANGE RATE SYSTEM, COMPELLING THE U.S., VERY RELUCTANTLY, TO RESORT TO UNILATERAL ACTION TO BRING ABOUT A CHANGE WHICH ULTIMATELY BECAME UNAVOIDABLE. AND IT DOMINATED THE NEGOTIATIONS ON MONETARY REFORM EARLIER IN THIS DECADE.

23. IT IS UNDERSTANDABLE IF THERE ARE DIFFERENCES OF VIEW OVER THE SUBSTANCE OF SUCH QUESTIONS. THERE INEVITABLY WILL BE. THE SUBSTANCE CAN BE DEBATED. BUT EUROPE ITSELF HAS AND SHOULD ACKNOWLEDGE A GROWING RESPONSIBILITY TO EXERCISE LEADERSHIP, NOT ONLY IN THE EXPRESSION OF ITS VIEWS, BUT IN CONTRIBUTING TO THE SOLUTION OF COMMON PROBLEMS. THE RESPONSBILITY CANNOT BE ONE-SIDED, AND EUROPE COLLECTIVELY HAS MAJOR POTENTIAL FOR LEADERSHIP OF ITS OWN. WHAT IS NOT CONSTRUCTIVE -- AND CAN

EVEN BE POISONOUS TO THE RELATIONSHIP AND EXACERBATE SPECIFIC PROBLEMS -- IS FOR EUROPE TO CLOAK ITS SUBSTANTIVE DISAGREEMENTS, AND AVOID ACCEPTING ITS OWN RESPONSIBILITIES, BY RESTING ON ACCUSATIONS OF FAILURE OF U.S. WILL AND LEADERSHIP.

24. MUCH OF THE PROBLEM MAY WELL RELATE TO THE PARTICULAR PHASE OF EUROPEAN EFFORTS TO UNIFY THROUGH THE COMMUNITY. IT IS IN A UNIFIED EUROPE THAT REAL AND CONSTRUCTIVE LEADERSHIP BECOMES POSSIBLE. BUT THE PRESENT DECISION-MAKING PROCESSES MAKE THAT POSSIBILITY DIFFICULT TO REALIZE.

25. THERE IS A WIDE VARIETY OF MULTILATERAL ISSUES ON WHICH WE ATTEMPT TO COORDINATE WITH THE EC -- FOR EXAMPLE, ISSUES ARISING IN UNCTAD OR OTHER UN FORUMS, ISSUES ARISING IN THE IMF OR WORLD BANK, AND SO FORTH. WHAT WE FREQUENTLY SEEM TO FIND IS ONE OF THREE THINGS. IN SOME CASES, THE EC COUNTRIES HAVE ALREADY TAKEN AN INTERNAL DECISION, AND THERE IS NO SCOPE FOR NEGOTIATION OF A POSITION THAT IS MORE BROADLY ACCEPTABLE TO THE U.S. AND OTHER INDUSTRIAL COUNTRIES. IN SOME CASES, THE EC COUNTRIES ARE UNABLE TO AGREE AMONG THEMSELVES, AND THERE IS BASICALLY NO EC VIEW TO TRY TO WORK WITH. IN STILL OTHER CASES, EC EFFORTS TO REACH AN INTERNAL VIEW TEND TOWARD THE LEAST COMMON DENOMINATOR -- OR IN SOME CASES A VIEW THAT MOVES TOO FAR -- AND PRODUCE RESULTS THAT ARE ONLY MARGINALLY ACCEPTABLE TO THE MAJORITY OF EC COUNTRIES THEMSELVES AND UNACCEPTABLE TO THE U.S. AND OTHERS.

26. IN ESSENCE, THERE IS AT TIMES AN INFLEXIBILITY IN EUROPEAN DECISION-MAKING THAT IS NOT ONLY DIFFICULT TO WORK WITH, BUT MAKES IT DIFFICULT FOR EUROPE TO EXERCISE THE RESPONSIBILITY AND LEADERSHIP THAT ITS OWN COLLECTIVE ECONOMIC POSITION WARRANTS. HOPEFULLY, THIS PROBLEM WILL EVAPORATE AS THE UNIFICATION PROCESS EVOLVES -- IT IS GENERALLY LEAST EVIDENT IN THE TRADE AREA, WHERE THE EC HAS FORMAL COMPETENCE -- BUT IT DOES REPRESENT A REAL IMPEDIMENT TO MEANINGFUL POLICY COORDINATION ON A GLOBAL SCALE.

27. ON SOME MORE SPECIFIC POINTS, THOUGH THEY OBVIOUSLY RELATE TO THE MORE GENERAL PROBLEM:

28. THE DOLLAR CONTINUES TO PLAY AN EXTREMELY LARGE ROLE IN OFFICIAL RESERVES AND PRIVATE INTERNATIONAL TRANSACTIONS. TO AN EXTENT, THIS ROLE FOR THE DOLLAR MAY BE A CONTRIBUTING FACTOR IN EXCHANGE MARKET PROBLEMS, AND IT IS CERTAINLY A TARGET OF EUROPEAN CRITICISM AT TIMES. AT THE SAME TIME, THERE IS A GREAT EUROPEAN RELUCTANCE TO SEE OR FACILITATE A CHANGE IN THAT ROLE FOR THE DOLLAR THROUGH GREATER WILLINGNESS TO PROVIDE INTERNATIONAL CREDIT THEMSELVES; TO PERMIT GREATER USE OF THEIR OWN CURRENCIES IN RESERVES; TO SERIOUSLY CONSIDER STEPS TOWARD EVOLUTION OF A LARGER ROLE FOR THE SDR. I READILY ACKNOWLEDGE THE RESPONSIBILITY FOR THE UNITED STATES TO MAINTAIN REASONABLE BALANCE IN ITS ACCOUNTS. BUT I CANNOT ACCEPT THE

IDEA, WHICH I THINK IS IMPLICIT IN MUCH OF THE CRITICISM OF THE INTERNATIONAL ROLE OF THE DOLLAR, THAT THE PROVISION OF INTERNATIONAL CREDIT SHOULD BE SHARPLY CURTAILED AND THAT IT IS UP TO THE UNITED STATES TO DO IT. THERE IS A REAL NEED FOR CREDIT TO MAINTAIN A FUNCTIONING WORLD ECONOMY. IT IS REASONABLE TO EXPECT A LARGER EUROPEAN ROLE IN SUPPLYING THAT CREDIT.

29. SECOND, THE UNITED STATES CONTINUES TO BEAR LARGE FOREIGN EXCHANGE COSTS -- ON THE ORDER OF $2 1/2 BILLION NET ANNUALLY -- IN THE AREA OF EUROPEAN DEFENSE. I DON'T FOR A MOMENT DENY THAT THIS IS IN OUR COMMON INTEREST, AND I AM NOT SUGGESTING A RENEWAL OF OFFSET NEGOTIATIONS. BUT I AM SUGGESTING THAT THIS SHOULD BE BORNE IN MIND IN FORMULATING EUROPEAN ASSESSMENTS OF, AND ADVICE ON, THE U.S. EXTERNAL POSITION.

30. THIRD, IN THE ENERGY AREA, I AGAIN ACKNOWLEDGE THE LARGE RESPONSIBILITY OF THE UNITED STATES FOR GETTING ITS OWN ENERGY SITUATION UNDER CONTROL AND REDUCING ITS CLAIMS ON WORLD OIL SUPPLIES. WE INTEND TO MEET THIS RESPONSIBILITY. AT THE SAME TIME, THE U.S. HAS EXPENDED A GREAT DEAL OF EFFORT TO ENCOURAGE OPEC PRICE MODERATION -- AND MAINTENANCE AND EXPANSION OF PRODUCTION LEVELS. THIS IS VITAL TO ALL OIL IMPORTING COUNTRIES - CERTAINLY IN EUROPE'S INTEREST AS MUCH AS OUR OWN. BUT IN SIGNIFICANT RESPECTS, THE U.S. HAS BEEN ALONE IN THIS EFFORT.

WE HOPE THAT EUROPE WILL SOON AGREE TO COUNTRY-SPECIFIC TARGETS WHICH LIMIT OIL IMPORTS IN 1980, BY ADOPTING POSITIVE MECHANISMS TO THIS END AND BY RESISTING THE TEMPTATION TO DILUTE THIS EFFORT. AND WE ARE CONCERNED OVER REPORTS THAT SOME EUROPEAN GOVERNMENTS HAVE SOUGHT SPECIAL PREFERENCE AMONG PRODUCING COUNTRIES FOR ASSURANCE OF THEIR OWN OIL SUPPLIES, WITH LITTLE APPARENT CONCERN FOR THE GLOBAL PROBLEM. FROM OPEC'S PERSPECTIVE, THEY ARE DEALING WITH AN UNCOORDINATED AND THEREFORE WEAK GROUP OF CUSTOMERS. A CLEARER PICTURE OF SOLIDARITY ON THE PART OF THE MAJOR INDUSTRIAL COUNTRIES COULD BE ENORMOUSLY HELPFUL IN PERSUADING KEY OPEC MEMBERS TO TAKE A MODERATE AND CONSTRUCTIVE LINE.

31. FOURTH, EUROPE HAS BEEN UNWILLING TO DO IN THE AREAS OF TRADE FINANCE AND INVESTMENT WHAT IT WAS WILLING TO DO IN THE AREA OF TRADE -- LIMIT SUBSIDIES. I THINK THERE IS LITTLE INTELLECTUAL DISAGREEMENT WITH THE U.S. VIEW THAT SUBSIDIZED EXPORT CREDIT COMPETITION IS WASTEFUL AND COSTLY TO ALL OF US, AND BENEFITS NONE OF US IN THE END. BUT THE CONSENSUS RULE IN THE EC HAS FRUSTRATED PROGRESS IN AGREEING ON LIMITATIONS ON COMPETITION ON EXPORT CREDITS, DESPITE YEARS OF EFFORT. AND IN THE CASE OF INCENTIVES FOR INTERNATIONAL INVESTMENT, EUROPE HAS NOT EVEN ACCEPTED THE BASIC PROPOSITION -- WHICH IS UNEXCEPTIONAL IN OUR VIEW -- THAT THIS KIND OF COMPETITION CAN BE JUST AS HARMFUL AS IN THE TRADE AREA.

32. I DON'T INTEND TO EXTEND THE LIST ENDLESSLY. THESE POINTS ILLUSTRATE A U.S. PERSPECTIVE OF A NEED FOR GREATER ASSUMPTION OF RESPONSIBILITY BY EUROPE; GREATER RECOGNITION THAT EUROPE'S OWN ACTIONS CAN NOT ONLY AFFECT BUT HELP SHAPE

THE GLOBAL ENVIRONMENT; AND GREATER BALANCE IN THE U.S.-EUROPEAN RELATIONSHIP. IN CONSIDERING THIS PERSPECTIVE OF PROBLEMS FROM THE U.S. POINT OF VIEW, I CAN EASILY ANTICIPATE SOME POINTS THAT WOULD BE INCLUDED IN A EUROPEAN PERSPECTIVE; AND THERE IS NO DENIAL THAT THE U.S. ITSELF MUST MAKE A MAJOR CONTRIBUTION TO STRENGTHENING THE RELATIONSHIP.

33. THE U.S. AND EUROPE HAVE THE CENTRAL RESPONSIBILITY FOR MAINTAINING A COOPERATIVE AND SMOOTHLY FUNCTIONING GLOBAL ECONOMIC SYSTEM. WE WILL MEET THAT RESPONSIBILITY EFFECTIVELY IF WE DEEPEND OUR OWN COOPERATIVE RELATIONSHIP -- WHICH FIRST REQUIRES THAT WE UNDERSTAND EACH OTHERS' PROBLEMS AND PERSPECTIVES. CONFERENCES SUCH AS THIS CAN BE A HELPFUL STEP IN THAT PROCESS.

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

FOR IMMEDIATE RELEASE October 25, 1979

Sale of Gold by the U.S. Treasury

The Department of the Treasury announced that it will offer up to 1.25 million ounces of gold for sale on Thursday, November 1, 1979. The sale will be conducted by the General Services Administration and bid forms must be submitted by 11:00 A.M., Eastern Standard Time, November 1 to the GSA Office at 7th and "D" Streets, S.W., Washington, D.C. Bids may be submitted by telegraph or teletype by 11:00 A.M.

The gold will be offered in bars whose fine gold content is 89.9 to 91.7 percent containing approximately 300 fine troy ounces each. The minimum bid is 300 fine troy ounces. A bid deposit of $30 an ounce is required.

Formal invitations for Bid, including bid forms for use in this and future sales, are being mailed today to firms and persons on the GSA precious metals list. Copies may be obtained from:

General Services Administration
Metals Branch, Office of Stockpile Disposal
18th and "F" Streets, N.W.
Washington, D.C. 20405
Telephone: Area Code 202 - 566-1986

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

FOR IMMEDIATE RELEASE
Monday, October 29, 1979

Contact: John P. Plum
202/566-2615

INTEREST RATE BASE FOR NEW SMALL SAVER CERTIFICATE

Secretary of the Treasury, G. William Miller, today advised the supervisory agencies for Federally insured depository institutions that the average 4-year Treasury yield curve rate during the five business days ending October 26 was 11.55%, rounded to the nearest 5 basis points.

(This rate will be used by the agencies in determining the maximum interest payable in November on time certificates issued in denominations of less than $100,000 and maturities of four years or more.

The report of the Treasury yield curve average is announced three business days prior to the first day of each month for determination of ceilings for new variable rate savings certificates which are adjusted on the first calendar day of each month.

The commercial bank ceiling for the certificate is one and one-quarter percentage points below the yield on the four-year Treasury securities. The ceiling for thrift institutions is one percentage point below the yield on four-year Treasury securities.)

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

FOR IMMEDIATE RELEASE
October 29, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES TENTATIVELY
THAT CERTAIN STEEL WIRE NAILS
FROM KOREA ARE NOT BEING "DUMPED"

The Treasury Department today announced its preliminary determination that, with the exception of the products of one firm, steel wire nails from Korea are not being sold in the United States at less than fair value. With respect to that one firm, the Treasury has tentatively discontinued its antidumping investigation because the margins of sales below fair value were minimal and the company has provided assurances of no further sales at less than fair value.

("Sales at less than fair value" generally occur when imported merchandise is sold here for less than in the home market or to third countries.)

A final Treasury decision in this case will be made by March 17, 1980. If Treasury determines that sales at less than fair value are occurring, the case will be referred to the U. S. International Trade Commission (ITC) to determine whether such imports have injured or are likely to injure an American industry. An affirmative ITC decision would require the imposition of dumping duties on future imports.

The company tentatively found to have minimal dumping margins is Murakami Kogyo Co.

Notice of this action appeared in the Federal Register of October 26, 1979.

Imports of this merchandise amounted to $42-million in 1978.

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

FOR IMMEDIATE RELEASE
OCTOBER 29, 1979

Contact: Al Hattal
202-566-8381

The Advisory Committee for Presidential and Vice Presidential candidate protection today released a formal set of guidelines for determining the "major" candidates who should be recommended to the Secretary of the Treasury for Secret Service protection.

A copy of the guidelines is attached.

The Committee, which was established under Public Law 90-331, consists of five members:

Speaker Thomas P. O'Neill, Jr.
House Minority Leader John Rhodes
Senate Majority Leader Robert Byrd
Senate Minority Leader Howard Baker
Former Congressman Wilbur Mills

The fifth member, who is designated by the four Congressional members, was selected by the Committee at its first meeting on October 24.

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

FOR IMMEDIATE RELEASE October 29, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,100 million of 13-week bills and for $3,102 million of 26-week bills, both to be issued on November 1, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 31, 1980			26-week bills maturing May 1, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	96.920 a/	12.185%	12.78%	93.847	12.171%	13.18%
Low	96.892	12.295%	12.90%	93.828	12.208%	13.23%
Average	96.902	12.256%	12.86%	93.836	12.193%	13.21%

a/ Excepting 1 tender of $85,000

Tenders at the low price for the 13-week bills were allotted 93%.
Tenders at the low price for the 26-week bills were allotted 39%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 51,385	$ 51,385	$ 91,185	$ 54,185
New York	3,698,400	2,384,520	4,673,365	2,495,825
Philadelphia	46,725	45,025	98,115	67,790
Cleveland	61,320	61,320	42,820	27,820
Richmond	42,880	42,880	40,015	39,015
Atlanta	59,185	59,185	49,005	37,285
Chicago	423,020	158,020	348,270	106,570
St. Louis	55,935	25,665	66,625	30,600
Minneapolis	23,995	23,995	22,765	7,765
Kansas City	46,590	40,790	31,985	31,670
Dallas	26,200	26,200	14,525	14,095
San Francisco	287,760	142,410	344,835	144,835
Treasury	38,645	38,645	44,375	44,375
TOTALS	$4,862,040	$3,100,040	$5,867,885	$3,101,830
Type				
Competitive	$2,801,215	$1,139,215	$3,776,685	$1,210,630
Noncompetitive	761,595	761,595	525,300	525,300
Subtotal, Public	$3,562,810	$1,900,810	$4,301,985	$1,735,930
Federal Reserve and Foreign Official Institutions	$1,299,230	$1,199,230	$1,565,900	$1,365,900
TOTALS	$4,862,040	$3,100,040	$5,867,885	$3,101,830

1/Equivalent coupon-issue yield.

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ADVISORY COMMITTEE GUIDELINES FOR
ASSIGNMENT OF SECRET SERVICE PROTECTION TO
PRESIDENTIAL CANDIDATES PURSUANT TO P.L. 90-331
(1980 PRESIDENTIAL CAMPAIGN)

I. Introduction

P.L. 90-331 places upon the Secretary of the Treasury (the Secretary) responsibility for determining, from time to time after consultation with an Advisory Committee (the "Committee"), those persons who qualify as a major Presidential and Vice Presidential candidate (major candidate) and thus should be furnished with Secret Service protection, unless declined. The Committee consists of the Majority Leader of the Senate, the Minority Leader of the Senate, the Speaker of the House of Representatives, the Minority Leader of the House of Representatives, and one additional member to be selected by the members of such Committee. These guidelines will assist the Committee in advising and the Secretary in determining who are the "major Presidential or Vice Presidential candidates who should receive . . . protection . . ."

II. Persons Defined as Major Candidates

A. Nominees for Offices of President and Vice President

The nominees for the Office of President and Vice President of any party shall be deemed to be major candidates when the candidate for the Office of the President of that party in the preceding Presidential election received ten percent or more of the total number of popular votes received by all candidates for the Office of the President of the United States.

B. Candidates in Primary Elections

Prior to the national conventions of the candidate's party, a candidate seeking the nomination for President of a party shall be deemed to be a major candidate when:

1) the candidate has publicly announced his or her candidacy;

2) the candidate is seriously interested in, and actively campaigning on a national basis for the office for which his or her candidacy has been announced; and

3) a. the candidate has (i) qualified for and remains qualified for matching payments under Sections 9031 through 9042 of Title 26, U.S. Code in an amount of at least $100,000 for the Presidential campaign for which nomination is sought (whether or not the candidate declines matching funds) and (ii) has received additional contributions totaling $900,000 or more in compliance with the Federal Election Campaign laws; or

b. the candidate, in two consecutive primary elections, has received at least ten percent of the total number of votes cast for all candidates of the same party for the same office in such primary election.

4) the candidate is seeking the nomination of a party whose nominee is eligible for protection under IIA.

III. Commencement and Duration of Protection of Major Candidates

A. Commencement of Protection. No protection shall be furnished pursuant to P.L. 90-331 earlier than January 11, 1980. On or after such date, protection shall be commenced forthwith upon a determination by the Secretary that a person is a major candidate.

B. Duration of Protection. Protection shall not be withdrawn so long as a major candidate continues to qualify under the terms of Section II.

IV. General

Nothing contained herein shall preclude the Secretary, after consultation with the Committee, from providing protection to a major candidate although the requirements and conditions contained in parts II and/or III of these guidelines have not been met.

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 November 8, 1979, in cash or other immediately available funds or in Treasury bills maturing November 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.

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

FOR IMMEDIATE RELEASE
October 29, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES FINAL DETERMINATION
IN COUNTERVAILING DUTY INVESTIGATION
ON CERTAIN FOOTWEAR FROM INDIA

The Treasury Department today announced a final determination that the Government of India is subsidizing exports of leather shoes and uppers to the United States. All other footwear products subject to Treasury Department investigation were found not to be subsidized.

The Countervailing Duty Law requires the Secretary of the Treasury to collect an additional duty equal to the subsidy paid on merchandise exported to the United States.

Certain leather uppers covered by this investigation enter the United States duty-free. Countervailing duties may be imposed on duty-free merchandise only if the U. S. International Trade Commission (ITC) determines that a domestic industry is being injured by reason of the subsidized imports. Therefore, the case as it applies to leather uppers entering duty-free is being referred to the ITC for a determination of the injury question.

The remaining items found to be subsidized will not be referred to the ITC now. However, if, after January 1, 1980, India is determined to have accepted the obligations of the recently negotiated International Subsidies/Countervailing Duty Code, such other products may also be referred at that time for an injury determination under the new Trade Agreements Act of 1979.

As a result of its own investigation, Treasury found that manufacturers of leather shoes and leather uppers, which constitute 15 percent of Indian footwear exports to the United States, received subsidies consisting primarily of a cash rebate exceeding the indirect taxes which Indian footwear firms paid on the components of the product. Rebates equal to such taxes are not regarded as subsidies. The Government of India

(MORE)

has indicated that there are additional taxes for which no credit has been given and which, if considered, would effectively eliminate the excess rebate found to have been paid on these two products. When submitted, such data will be reviewed.

The amount of the subsidy has been determined to be 4.24 percent on leather shoes and 1.01 percent on leather uppers.

Notice of this action appeared in the Federal Register of October 26, 1979.

Imports of this merchandise amounted to about $10-million in 1977.

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

Statement by Emil M. Sunley, Deputy Assistant Secretary of the Treasury for Tax Policy, on the United States Department of Agriculture, Food and Nutrition Service Report, "Recoupment in the Food Stamp Program," before the House of Representatives Committee on Agriculture, Subcommittee on Domestic Marketing, Consumer Relations and Nutrition
October 30, 1979

Recoupment may be regarded as one possible, although partial, approach to rationalizing the United States system for transferring income from some families to other families. These income transfers are effected through a vast number of tax and grant programs whose combined operating characteristics are exceedingly complex. Measurements which we have of the combined calendar year distributional impacts of all programs taken together show that certain families fare rather well and others rather badly. In part the differences in the treatments of families with similar incomes are intentional and in part are unintentional.

One source of possibly unintended differential treatments is very short accounting periods for income on which program grants are reckoned. In the food stamp program the accounting period is one month. Under the plan proposed in the Jeffords amendment to the Food Stamp Act the monthly accounting of income for eligibility would be continued but, if the income of a unit over a completed calendar year exceeded twice the poverty line income for that unit, a part of the Food Stamp grant equal to the excess of actual calendar year income over twice the poverty line income would

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be reclaimed, or subjected to a 100 percent clawback, as the British would say. Recoupment, thus, is a way for making a family's grant depend not just upon its income in any month but also upon its calendar year income. The mechanism proposed for effecting an annual review of income and program grants is the Federal personal income tax. We oppose the use of the tax system for this purpose.

The Treasury generally has been supportive of attempts to rationalize the transfer system. The Treasury originated, the President accepted and the Congress adopted in the Revenue Act of 1978 an admittedly quite limited inclusion of unemployment compensation grants in income subject to the personal income tax. There is in unemployment compensation rograms, as you are aware, an accounting period problem similar to that in the food stamp program. Many public finance scholars have supported inclusion in taxable income of wage replacement income, such as social security grants, sick pay, disability pensions, and employer premiums for group term life and health insurance. For these other programs, the problem is not one of very short accounting periods but the effects on equity of permitting fortunate families to pile tax-exempt income upon substantial amounts of taxable income.

In the Treasury, we have had trouble determining whether there is a proper and administratively feasible way to coordinate with the personal income tax means-tested transfer programs, such as aid to families with dependent children and food stamps. In theory programs may be integrated by either (a) offsetting taxes and at least a part of grants dollar for dollar, as is proposed in Representative Jeffords' amendment to the Food Stamp Act, or (b) including program grants in personal income tax taxable income to be taxed at personal income tax rates. If food stamps are viewed as <u>negative taxes</u>, equity would seem to suggest recoupment. Negative taxes properly should be offset dollar for dollar against positive taxes. But if food stamps are viewed as <u>income</u> then the proper tax treatment would be to include them in taxable income. Compared to recoupment, inclusion does not subject additional earnings to as high explicit and implicit rates of tax. Under recoupment, additional earnings may be taxed at rates in excess of 100 percent. Nevertheless, given the high rates at which grants under existing means-tested programs are reduced for other income, inclusion of grants in taxable income would subject the labor and property income of the poor to rates of taxation which, for the nonpoor, we regard as excessive.

We think that recoupment, as proposed with taxation of earnings at a 100 percent rate, is a mistake and the Treasury is extremely reluctant to undertake administration of such a program. We have two problems with it. First, we cannot justify taxing the earnings of families who are not rich at a rates way above the rates at which we tax the incomes of the really rich. Collection of amounts due to be recouped would put the Internal Revenue Service in the position of pursuing poor people usually for small amounts or deferring collection perhaps for several years. The high rates of tax would also induce households to arrange their affairs for avoidance.

- o A household member might avoid taking a job toward the end of a year if, as is possible, his doing so would reduce the household's total disposable income for the year.

- o Household members might manipulate tax filing status so as to minimize recoupment of food stamp grants. Certain households would be more free than others to manipulate filing status. Inequities in the treatments of households with varying potential tax filing composition could be prevented only by changing either the food stamp or personal income tax filing units or both. Changing either would have major impacts on the respective programs.

The first of these responses has an undesirable effect on work incentives; the second has an undesirable effect on tax equity.

Second, there are serious administrative problems, which we have thus far been unable to solve. The most significant unsolved problem is the differing definitions of the reporting unit for food stamp purposes and tax purposes. If this problem cannot be solved, it would be virtually impossible for IRS to administer any food stamp recoupment program. This issue is important if we are to recoup, on an annual tax filing basis, benefits awarded on a monthly food stamp household basis. To do so, there must be a means of attributing benefits to tax filing units. To date, we are unaware of any acceptable means of accomplishing this. Other serious problems, such as the availability of timely and useable data from grant management agencies, are described in the Report. These administrative problems are also present if food stamps were to be included in taxable income.

So, primarily because of design defects and difficulties in IRS administration of the program, Treasury opposes adoption of the Jeffords amendment.

While I am before this Committee, I would like to mention another matter unrelated to recoupment but of concern to the Treasury. Section 6 of H.R. 4318 would amend the Food Stamp Act of 1977 to permit disclosure of employment tax information to the Department of Agriculture and to State welfare agencies to determine household eligibility for food stamp benefits and the amount of such benefits. As now drafted, the bill would direct the Department of Health, Education and Welfare to establish by regulation safeguards against unauthorized redisclosure of this information.

We do not object to disclosure of employment tax information by HEW for use in administering the food stamp program so long as such disclosure is consistent with the Privacy Act and the Department of Justice has had an opportunity to comment. However, we believe that the amendment should be placed in Section 6103 of the Internal Revenue Code. In 1976, Congress sought to consolidate in the tax code all of the rules relating to disclosure of tax information. One of the principal reasons for consolidation was to ensure a degree of uniformity in applying confidentiality standards to, and safeguards on, the use of tax data for nontax related purposes. The current version of H.R. 4318 would abandon this policy and revert to the piecemeal approach to tax disclosure that existed prior to 1976.

Other pending legislation may be a useful model in this regard. H.R. 4904, the Social Welfare Reform Amendments bill, would amend Section 6103 of the Internal Revenue Code to permit disclosures of certain employment tax information for purposes of monitoring the aid to families with dependent children (AFDC) and supplemental security income (SSI) programs. We would be happy to assist in drafting similar Code language to permit disclosure for food stamp monitoring purposes. There is also some technical ambiguity in Section 6 of H.R. 4318 that we would be happy to assist in clarifying.

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

FOR IMMEDIATE RELEASE
October 29, 1979

Contact: George G. Ross
202/566-2356

TREASURY ISSUES REPORT ON THE
TERRITORIAL INCOME TAX SYSTEMS

The Treasury Department today released its report on the Territorial Income Tax Systems: Income Taxation in the Virgin Islands, Guam, the Northern Mariana Islands and American Samoa. Each of these territories applies the U. S. Internal Revenue Code as a local territorial tax code according to one form or another of the "mirror" system. The mirror system means that the words "Virgin Islands," "Guam," the Northern Mariana Islands" or "American Samoa" are substituted for the words "United States" wherever they appear in the U. S. Code. In general, U. S. citizens who are residents of a territory are relieved of the obligation of filing a Federal return and paying Federal taxes by doing so in the territory. No other tax jurisdictions in the world are accorded this status.

The Report examines the problems of coordination between the Federal and territorial income tax systems which are created by the special status of the territories. The Report evaluates the operation of the territorial income tax systems in terms of their ability to raise revenues, to ensure equitable treatment of territorial versus stateside residents, and to provide for simplicity of administration and compliance.

The Report concludes that the present income tax systems are functioning poorly. Specific proposals for reform are being considered by the Administration in light of overall Federal policy toward the territories and will be advanced shortly.

Copies of the Report are available for purchase from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20401. When ordering, use Stock No. 048-000-00332-0.

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

IMMEDIATE RELEASE
Tuesday, October 30, 1979

CONTACT: Everard Munsey
202/566-8191

TREASURY DEPARTMENT ANNOUNCES TENTATIVE
DECISION OF NO DUMPING OF FRESH WINTER VEGETABLES
FROM MEXICO

The Treasury Department announced today its tentative determination that five types of fresh winter vegetables from Mexico are not being sold at "less than fair value" within the meaning of the Antidumping Act of 1921.

Sales at less than fair value generally occur when the price of imported products is less than the price of the same or similar goods sold in the home market or to third countries. In this case, since the vegetables are not sold in Mexico, sales prices to Canada were considered in determining whether U.S. sales were below "fair value."

The vegetables that are the subject of this proceeding are cucumbers, eggplant, peppers, squash and tomatoes (except cherry tomatoes) imported into the United States between November and the following April.

In September 1978, counsel on behalf of the Southwest Florida Winter Vegetable Growers Association, the Palm Beach-Broward Farmers Committee for Legislative Action and the South Florida Tomato and Vegetable Growers, Inc., filed a petition alleging that these fresh winter vegetables from Mexico were being sold at less than fair value. The petition was withdrawn in July 1979 to permit negotiations between the Governments of Mexico and the United States concerning trade in these products. The withdrawal expressly permitted the petitioners to refile their petition if no agreement had been reached within 90 days. As no agreement was reached, the petitioners refiled their petition and the Treasury's tentative determination was made on the basis of the information collected during the initial investigation that was terminated in July.

In view of the great number of individual growers involved in this trade, data was collected by the Customs Service from 31 growers representing the largest producers of the affected products. Sales of identical products shipped by the same grower on the same day to customers in both Canada and the United States were compared on days randomly selected from the entire growing season. The "matched pairs" of transactions were considered an adequate statistical sample of the total sales in the markets being compared.

From this statistical study it was evident that prices for the same merchandise shipped on the same day to destinations at comparable distances from Nogales, Arizona (the point of entry into the United States) were not significantly different. The price analysis showed that in effect a unitary market exists in which there is no discrimination in price between sales to Canada and the United States by Mexican growers. Under these conditions, price-to-price comparisons yield no dumping margins.

In administering the Anti-dumping Act, price comparisons are the preferred means of determining whether there is dumping. Since meaningful price comparisons could be made in this case, the possibility of sales at less than the cost of production could not be decisive.

An appendix to the tentative determination reflects the following sales volumes of the affected merchandise during the 1977-78 crop year which were considered in making this decision:

Tomatoes	118,369,965
Squash	15,352,095
Eggplant	4,946,220
Peppers	26,389,496
Cucumbers	33,145,361

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

FOR RELEASE AT 4:00 P.M. October 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 $6,200 million, to be issued November 8, 1979. This offering will provide $200 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $6,030 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,100 million, representing an additional amount of bills dated August 9, 1979, and to mature February 7, 1980 (CUSIP No. 912793 3Q 7), originally issued in the amount of $3,022 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,100 million to be dated November 8, 1979, and to mature May 8, 1980 (CUSIP No. 912793 4D 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 8, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,956 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, November 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.

M-155

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. Each tender must state the amount of any net long position in the bills being offered if such position is in excess of $200 million. This information should reflect positions held at the close of business on the day prior to the auction. Such positions would include bills acquired through "when issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering; e.g., bills with three months to maturity previously offered as six month bills. 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, when submitting tenders for customers, must submit a separate tender for each customer whose net long position in the bill being offered exceeds $200 million.

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.

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

FOR IMMEDIATE RELEASE October 30, 1979

RESULTS OF AUCTION OF 3-1/2 YEAR NOTES

The Department of the Treasury has accepted $2,751 million of $6,851 million of tenders received from the public for the 3-1/2 year notes, Series G-1983, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	11.62% 1/
Highest yield	11.64%
Average yield	11.64%

The interest rate on the notes will be 11-5/8%. At the 11-5/8% rate, the above yields result in the following prices:

Low-yield price	100.014
High-yield price	99.958
Average-yield price	99.958

The $2,751 million of accepted tenders includes $929 million of noncompetitive tenders and $1,432 million of competitive tenders from private investors, including 83% of the amount of notes bid for at the high yield. It also includes $390 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 $2,751 million of tenders accepted in the auction process, $800 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, 1979.

1/ Excepting 2 tenders totaling $20,000.

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

For Release Upon Delivery
October 31, 1979 2:30 PM EST

STATEMENT OF
HARVEY GALPER
ASSOCIATE DIRECTOR, OFFICE OF TAX ANALYSIS
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE
OCTOBER 31, 1979

Mr. Chairman and members of the Subcommittee:

I welcome the opportunity to present the Treasury's views on four bills now before you: S.246, S.1846, S.1488, and S.1543. These four bills would attempt to encourage savings by making interest or dividends tax exempt under certain specified conditions. The first and simplest is S. 246. It would exempt up to $500 of interest on savings accounts ($1,000 for joint returns).

The second bill, S. 1846, would enlarge the existing exemption for dividends received. Under present law, the first $100 of dividends received by an individual each year is generally tax exempt (up to $200 on a joint return). Under S. 1846, the exemption would be increased to $250 ($500 for a joint return), and would be allowed for interest on savings accounts as well as dividends.

The third bill, S. 1488, would exempt up to $500 of interest on savings accounts ($1,000 on a joint return). However, the exemption would be available only to the extent that interest earned in one year exceeded the amount earned in the immediately preceding year.

Finally, S. 1543 would exempt up to $1,500 of dividends reinvested each year under a qualified dividend reinvestment plan. The exemption would be $3,000 for joint returns.

We have given these bills careful consideration because of our interest in legislation that might promote savings or assist small savers. However, we have concluded that none of the bills would effectively further these goals and, in fact, these bills would distort the allocation of saving among financial assets. Therefore, the Treasury is opposed to all four of these bills.

To the extent possible, any tax incentives for savers should be neutral as between different kinds of savings, should not permit tax-deductible borrowing for the purpose of securing a tax-free return, should not encourage complicated transactions to realize tax benefits, and should reward most additional saving with a higher after-tax return. In addition, any incentive program must be consistent with our fiscal objectives of moving towards budgetary balance.

We will now focus attention on each proposal separately.

S. 246

The Treasury opposes S. 246 for three reasons. It is very expensive, it does not stimulate savings effectively, and it may hinder the enactment of legislation now before the full Senate to phase out Regulation Q. Regulation Q currently limits to 5.5 percent the return that thrift institutions can pay to savers holding passbook accounts. The Administration supports legislation to phase out Regulation Q as a more effective means to aid small savers.

The revenue loss from S. 246 would be quite large. It would amount to $3.4 billion in its first year of operation and would increase to over $4.6 billion a year in 1984.

S. 246 does not stimulate savings effectively because, for the most part, it does not operate on the margin of decision-making. No incentive effect whatever is provided to savers who earn more than $500 of interest. Currently, such savers earn 92 percent of all taxable interest. While S. 246 provides no incentive effect to these large savers, they, nonetheless, are eligible for the full $500 exclusion and would receive almost three-fourths of the tax break resulting from S.246. Thus, almost three-quarters of the revenue loss (or over $3.3 billion a year at 1984 levels) would go to the largest savers and would do absolutely nothing to encourage savings.

Some marginal incentive to increase saving would be provided to the small savers with less than $500 of interest income, a group which now contributes a small share of aggregate savings. Even in the unlikely event of a substantial increase in the savings of this group, aggregate savings would be very little affected. 1/

We agree that small savers are now treated unfairly; they generally receive a very low return on savings accounts, a return that is less than the current rate of inflation. Moreover, small savers are ordinarily unable to take advantage of higher-yielding alternatives (such as money-market certificates) because of minimum deposit requirements. While S. 246 would provide some relief to small savers the simplest and most effective way to provide assistance is to phase out Regulation Q, which is what forces small savers to accept an unfairly low return.

This can be illustrated by a hypothetical example. Consider a saver in the 21 percent bracket (e.g., a family of four making $18,000 a year) who for the purpose of this example we will assume might earn 9 percent before taxes and 7.2 percent after taxes on passbook savings once Regulation Q is phased out. However, the maximum amount now allowed on passbook accounts under Regulation Q is 5.5 percent. Even if the entire 5.5 percent is tax-free, the small saver in our example is 1.7 percentage points better off if Regulation Q is phased out than if S. 246 is passed.

S.1347 which would phase out Regulation Q over 10 years, was reported out by the Banking Committee and is now before the full Senate. Because it is the most effective way to provide relief for small savers, the Administration supports S.1347.

1/ S.246 would raise the average after-tax return of savers with less than $500 of interest income by no more than one-third. Even under the assumption of an extremely high savings response to this increase in after-tax return (assume an interest elasticity of 0.4) such small savers would increase their holdings of interest-earning assets by no more than 12 to 13 percent. This, in turn, would represent an increase of only 1 percent in holdings of all interest-earning assets or less than one-quarter of one percent in holdings of all assets yielding capital income. Thus, the increase in aggregate savings would be imperceptible.

Finally, S. 246 encourages savers to switch from one kind of savings to another, e.g., from stocks and bonds to savings accounts. Activity of this kind merely rearranges savings, and does nothing to increase savings. 2/

S. 1846

S. 1846 would exempt a combined total of up to $250 of interest and dividends. (Up to $500 of interest and dividends would be exempt on joint returns.) Thus, compared to present law, S. 1846 expands the exemption to cover interest on savings accounts as well as dividends and increases the total exemption from $100 to $250.

S. 1846 has many of the same weaknesses as S. 246. Over 60 percent of the revenue loss is wasted on taxpayers who are over the $250 limit and who therefore are not given any incentive to save. Only about 7.5 percent of interest and dividends is affected at the margin.

Because S. 1846 sets a lower limit than S. 246 ($250 rather than $500), it results in a smaller revenue loss. The revenue loss from S. 1846 -- which would grow from $2.0 billion in 1980 and $2.6 billion in 1984 -- would be about three-fifths of the revenue loss from S. 246. Also, S. 1846 treats dividends and savings account interest equally, thereby reducing the incentive to switch from one form of savings to another. Switches between non-eligible assets--such as corporate and government securities--to savings accounts would still be likely, however.

2/ S. 246 also suffers from the defect that it may encourage taxpayers to borrow from one bank in order to make tax-exempt deposits at another bank. For example, a taxpayer in the 50 percent bracket (e.g., a family of four making $80,000 a year) might borrow $10,000 at 15 percent from one bank and use the money for a 9 percent certificate of deposit at another bank. Interest paid on the money borrowed would be deductible, but interest earned on the certificate of deposit would be tax exempt. Therefore, the taxpayer would make an after-tax profit of $150 a year, without doing any real saving at all. A remedy would be to allow the exemption only for interest income in excess of interest expense. For example, if a taxpayer received interest of $500 and paid interest of $300, only the net amount of $200 would be exempt from tax.

In conclusion, the Treasury is opposed to S. 1846 because it would result in a substantial revenue loss, would do little to promote savings, and would provide less relief for small savers than phasing out Regulation Q--the same reasons we are opposed to S. 246.

S. 1488

S. 1488 exempts up to $500 of interest on savings accounts each year (up to $1,000 on a joint return). However, a taxpayer is eligible for the exemption only if he earns more interest this year than he did last year. For example, if a taxpayer earned $200 of interest last year and earns $500 this year, only the increase of $300 is exempt.

The revenue loss from S.1488 would be $1.1 billion in 1980 rising to $1.5 billion in 1984.

S.1488 is an intriguing attempt to overcome a major weakness in S.246. As noted earlier, S.246 has no incentive effect on large savers, but nonetheless gives them more than $3 billion a year. The incremental approach of S.1488, combined with quite high dollar limits on these increments, means that some incentive effect is likely to be provided to all but the very largest savers. However, one must be careful not to overstate the magnitude of the incentive effects provided by an incremental approach. While both S.1488 and S.246 exempt interest income from taxation, S.1488 has a much smaller effect on any particular saving decision than S.246.

To see why this is so, consider a taxpayer in the 21 percent bracket (e.g., a family of four with an income of $18,000 a year) trying to decide whether to add $100 to a pass book savings account. If the passbook interest rate is 5.5 percent, S.246 would permanently increase the after-tax interest return from $4.35 a year to $5.50 a year. On the other hand, S.1488 would increase the after-tax interest return by the same amount, but for only a single year. In other words, if the taxpayer in our example is truly a marginal saver (i.e., the increase in after-tax return is necessary to induce him to maintain a $100 higher balance in his passbook savings account) then he will withdraw the $100 after the temporary effect of S.1488 has worn off at the end of the year. While S. 1488 does reduce the waste of non-incremental approaches, this example illustrates that much of the cost savings under the incremental approach is achieved by providing a smaller incentive to save.

Under an incremental approach, a taxpayer may also reduce savings for a year (or even better transfer his funds into other assets for a year) to establish a lower savings account interest base for the following year. In this fashion, his holdings of eligible assets may go up and down to take maximum advantage of the tax benefit. While his average asset holdings over every two-year period may indeed rise--at least perhaps his holdings of savings accounts--, it does not appear desirable policy to encourage such transactions in order to qualify for tax benefits.

Furthermore, an incremental approach is bound to have some arbitrary impacts on taxpayers in particular situations since there is no operational way to determine exactly the normal or baseline savings level for each taxpayer. Taxpayers who would have added to savings in the absence of the tax incentive are rewarded even if they do not change their behavior; whereas those who are forced to draw down savings are completely denied the opportunity to respond to the incentive.

Thus, while a non-incremental approach would affect all persons equally regardless of what is happening to their savings from year to year, the incremental approach of S.1488 would not: It would discriminate against older persons who are at a stage in life when they ordinarily draw down their savings, and would favor younger persons who are at a stage of life when they ordinarily would add to savings. Other arbitrary events triggering eligibility may be changes in interest rates or increases or decreases in interest income because a taxpayer sells or buys a house in a particular year. Also, since no netting of interest expense against interest income is provided in S.1488, it is possible to make money by borrowing for the purpose of generating tax-exempt interest income.

We recognize that S.1488 attempts to achieve greater efficiency as a savings incentive but it can only do so at the expense of injecting arbitrary elements into the tax code. Accordingly, Treasury is opposed to S. 1488.

S.1543

S. 1543 differs from the other three bills by providing a relatively narrow incentive for reinvesting dividends, rather than broader incentives for all dividends or all interest on savings accounts. Under the bill, up to $1,500 ($3,000 on a joint return) of dividends would be tax exempt if reinvested in a qualified dividend reinvestment plan. Under such a qualified plan, a corporation would issue new shares of common stock to shareholders who elect to participate. The new stock would be issued at fair market value or at a discount not to exceed 5 percent. Shareholders who elect not to participate would continue to pay tax on cash dividends received.

Special tax rules would apply to stock purchased under a qualified dividend reinvestment plan. If such stock is sold within a year after issue, the entire amount received would be treated as ordinary income. If the stock is held for more than a year, this amount would be taxed as a long-term capital gain.

The effect of S. 1543 is to give shareholders an option to convert cash dividends into earnings retained on their behalf. These optional retained earnings would generally be taxed in a manner similar to actual retained earnings; they would not be included in the shareholders' income but would be taxed as capital gains if the shareholder sells his stock.

Under current law, investors can seek the optimal mix of cash flow and retained earnings from stocks by choosing the type of stock that suits their needs. Investors in high tax brackets who seek to defer tax on retained earnings can buy stocks with low dividend/earnings ratios; investors in low tax brackets who are interested in cash flow can buy stocks with high dividend/earnings ratios.

This bill enables shareholders to realize the tax benefits of retained earnings without purchasing growth stocks. Consequently, the effect of this bill would be highly regressive. The major beneficiaries would be high-bracket investors who could obtain the benefits of deferral without assuming the risks generally associated with growth stocks. Low-bracket investors and retired people would not benefit because they would generally choose to receive cash dividends.

In addition, tax-motivated borrowing would be encouraged to the extent it is easier and less risky to borrow against stock in a secure, high yield company. For example, a wealthy investor who borrows on margin to purchase shares of a public utility would be able to receive tax-free accumulation while deducting interest paid on the margin account.

S. 1543 resembles past proposals to relieve double taxation of dividends only to the extent it provides a tax break for shareholders. However, its other effects are exactly the opposite of double tax relief as ordinarily understood. Rather than encouraging a more flexible capital market, as do other proposals for double tax relief, it encourages retention of earnings within each corporation. Rather than providing that dividends are taxed once at the marginal rate appropriate to each shareholder, it taxes them at corporate rates.

The expected revenue loss from S. 1543 will be $640 million in calendar year 1980 and slightly over $1 billion in calendar year 1984.

For the foregoing reasons, the Treasury opposes S. 1543.

Our testimony has stressed the weaknesses of four bills now before the Committee that attempt to encourage savings. However, we recognize that the tax system, especially in an inflationary period, does discourage savings and investment and that it remains an important economic objective to stimulate greater capital formation. Budgetary considerations simply do not permit new tax initiatives at this time. But when appropriate, we would expect to evaluate a whole range of alternative approaches for promoting savings and investment. These would include not only possible savings incentives that would not have the deficiencies of the proposals before you today, but would also extend to measures to accelerate depreciation allowances and to provide for a general restructuring of tax burdens. Choices among these approaches would then be based on considerations of equity and relative effectiveness in promoting savings and investment.

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

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STATEMENT OF
H. DAVID ROSENBLOOM
INTERNATIONAL TAX COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE
SENATE FINANCE COMMITTEE
OCTOBER 31, 1979

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to appear today to present the views of the Treasury Department on S. 1703. S. 1703 would grant to employees of organizations exempt from Federal taxation under section 501(c)(3) the $20,000 exclusion of foreign earned income that was generally available to United States citizens employed abroad prior to the Tax Reform Act of 1976.

During consideration of the Foreign Earned Income Act of 1978, both Congress and the Administration took the position that the United States tax treatment of United States citizens employed abroad in the private sector should take into account the excess costs of living abroad. As a result, United States taxpayers living abroad are entitled under section 913 of the Code to a deduction for certain excess housing, education, home-leave travel, and general living costs. In addition, it was generally believed that some tax preference for overseas employment could be justified in cases in which the employee abroad had to accept hardship conditions. Accordingly, United States taxpayers living in hardship areas are entitled under section 913 to a $5,000 deduction in addition to the deduction for excess foreign living costs.

The $20,000 exclusion of foreign earned income allowed to taxpayers generally under prior law was retained in section 911 only for employees living in substandard lodging in certain camps located in hardship areas. Section 911 was tightly drawn to compensate certain taxpayers who effectively must incur a cost in the form of a substantially lower standard of living than they would normally have in the United States; section 913 generally compensates those who incur the added costs necessary to maintain a reasonable living standard. Section 911 was also intended by some persons to give an incentive to multinational companies, particularly in the labor-intensive construction industry, to hire American citizens instead of citizens of other countries. Congress anticipated that this incentive would produce benefits for the United States economy through the purchase by Americans employed abroad of American machinery, equipment, and technical services.

Regardless of the merits of section 911, the reasons for its enactment in its present form do not justify extending the exclusion on a general basis to employees of exempt organizations. To the extent that the employees of exempt organizations experience adverse living conditions in camp facilities, they may qualify for section 911 on the same basis as employees in other industries. Employees of exempt organizations who do not qualify for section 911 may be compensated for hardship conditions by the $5,000 deduction provided in section 913.

Although S. 1703 has been described as a measure that would compensate employees of charities experiencing hardship conditions while they carry out activities favored by the United States, there is no requirement under the bill that hardship conditions be experienced. Nor is the bill limited to employees of organizations engaged in relief activities or, for that matter, to employees of United States organizations.

Even if the bill were narrowly framed, it would provide benefits to activities carried on outside the United States that are not available with respect to similar activities in the United States. There may be specific situations of the type covered that merit Federal assistance. Organizations providing aid to the poor and to agriculture, which are of the greatest concern to the sponsors of the bill, may be examples. If an incentive to certain groups or activities is desired, we recommend that direct grants be provided. It does not appear logical or efficient to employ the tax system for this purpose. With direct grants, the activities to be benefited could be defined more precisely, the cost would be subject to periodic review, and the program would be administered by persons expert in the area.

For the foregoing reasons, we oppose S. 1703.

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STATEMENT OF
HARRY L. GUTMAN
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DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE
SENATE FINANCE COMMITTEE
OCTOBER 31, 1979

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear today to present the views of the Treasury Department on four bills: S. 541, S. 555, S. 999, and S. 1638. A summary of the Department's position on each bill is attached as Appendix A.

S. 541 - ELECTION OF ESTATE TAX ALTERNATE VALUATION

The value of assets included in a decedent's estate is determined, in general, either at the time of the decedent's death or six months after the decedent's death. The latter date is called the alternate valuation date. Under present law an alternate valuation date election must be made on a timely filed estate tax return. S. 541 would permit an executor to elect alternate valuation on the first late return filed.

As the proponents of S. 541 have stated, the estate tax consequences of an alternate valuation election will not change if an election is permitted on a late return. It is also true, however, that an alternate valuation date election will usually have income tax consequences under either step-up in basis at death (i.e., an heir's basis is, in general, equal to the estate tax value of the property received) or carryover basis (i.e., an heir's basis is, in general, equal to the decedent's basis in the property after a number of statutory adjustments). In these cases, an extension of the election date to include late returns may, despite late filing and payment penalties, encourage deferred elections in an attempt to minimize the aggregate estate and income tax consequences to the recipients of inherited property. We would become concerned if such a trend developed. On balance though, we do not oppose the substantive change made by S. 541.

However, we do oppose S. 541 as drafted because of the bill's effective date and transition relief provisions. The bill is effective, in general, for estates of decedents dying after December 31, 1977. We do not believe this retroactive effective date is necessary. Rather, we recommend the provision be effective for estates of decedents dying after the date of enactment.

In addition, we are opposed to the special transition rule pursuant to which executors of estates of decedents dying before the general effective date could, within 90 days of enactment, perfect a defective alternate valuation date election so long as such an election had been indicated on the first estate tax return filed by the executor. Our primary difficulty with this form of transition relief is that, to the extent it is administrable, it will apply unevenly. It will reward those who attempted to elect alternate valuation in circumstances where a valid election was clearly prohibited. However, it will not afford relief to those who filed late returns and, cognizant of the fact that an alternate valuation election was prohibited under the circumstances, did not attempt an election even though it would have benefited the estate. The uneven application of the transition rule cannot be rectified short of granting all executors who filed late returns a limited time period within which to reelect the alternate valuation date. However, a transition rule fashioned so broadly would result in significant administrative difficulties and problems of identification of and notice to affected executors and heirs. Therefore we strongly recommend the transition relief be deleted from the bill.

S. 555 - THE INDEPENDENT LOCAL NEWSPAPER ACT OF 1979

The objective of S. 555 is to preserve local ownership of newspapers in the face of increasingly aggressive acquisition offers by large newspaper chains or conglomerates. If the owner of a local newspaper declines to sell and dies owning the newspaper, the estate tax value of the business is determined in part by reference to recent sales of comparable newspapers, which, it is alleged, are occurring at unrealistic, inflated prices. It is further alleged that a newspaper valued in this manner cannot generate funds sufficient to pay estate taxes. As a result, local newspaper owners, at death or prior thereto, are encouraged to sell out to the large chains.

The bill attempts to solve this problem by providing an extraordinary number of special exemptions from generally applicable tax provisions to permit the tax-free accumulation of funds to pay the estate tax attributable to the value of the newspaper and to allow any unfunded estate tax to be paid over fifteen years. Thirty-seven pages of statutory language are required to codify these provisions.

We have no quarrel with the proposition that a free and vigorous press should be protected. But if this is to be a national policy goal, we believe the problem should be addressed directly. If the independent local newspaper industry is threatened, special loan or subsidy programs should be considered. To the extent the value of these businesses is being artificially escalated by takeover bids from large newspapers, the possible modification of the anti-trust laws should be considered. Either or both of these courses would result in a more controlled and equitable resolution of the problem than the use of tax expenditures.

This point can be made clear by examining S. 555 in some detail. The bill is divided into two principal parts. The first permits the establishment of a trust by an "independent local" newspaper for the purpose of paying the estate tax attributable to any owner's interest in the business. The trust must have an independent trustee and its corpus may be invested only in United States obligations. The value of the trust cannot exceed 70 percent of the value of the owner's interest in the business. The income earned by the trust corpus will be exempt from tax. Contributions to the trust are not only deductible (up to an amount equal to 50 percent of the annual taxable income of the newspaper business) by the newspaper business, but are also excluded from the taxable income of the owner. These income tax benefits are recaptured roughly if, during the owner's lifetime, the newspaper ceases to meet the statutory definition of an "independent local" newspaper. The corpus of the trust is excluded from the owner's gross estate and the estate does not realize income when its estate tax liability is discharged by the trust. The estate tax benefit is recaptured in whole or part if the business interest is sold within 15 years of the owner's death.

The second part of the bill provides an elective deferral of the estate tax attributable to the newspaper interest not otherwise paid from the assets of the estate tax payment trust. Payment may be made on essentially the same terms as Code section 6166, with the same preferential 4 percent interest rate, but without regard to the size of the interest in relation to the owner's estate.

What generally applicable tax law principles does this bill violate? First, it permits a deduction for earnings diverted to the estate tax payment trust. Although the bill provides that such a deduction is allowable under section 162, the payment in no way can be said to meet the "ordinary and necessary" business expense criteria of that section. Nor is there any other provision in the tax law allowing a deduction for amounts to be used to pay death taxes.

Second, the bill provides that the funds transferred to the estate tax payment trust will not be included in taxable income by the owner. To the extent the newspaper business is held in corporate form, this payment would in all other cases be treated as a taxable dividend to the extent of earnings and profits.

Third, the exemption of trust earnings from income is contrary to existing law which would treat the beneficiary as the owner of the trust and taxable on its income.

Fourth, exclusion of the corpus of the trust from the owner's gross estate violates existing principles which would include in a decedent's estate any asset in which the decedent or his estate had an interest.

Finally, if it was appropriate to exclude the funding and earnings of the trust from the decedent's estate, then the exclusion from estate income of the amount paid by the trust to relieve the estate of its estate tax liability contravenes the basic income tax rule that discharge of an obligation of another results in income to the party whose obligation has been discharged.

The effect of these provisions is, in most cases, to cause the Federal government to pay a large share of the tax liability attributable to the value of an independent local newspaper. The Federal government's share will vary according to the period of time an estate tax payment trust has been in existence, the applicable corporate income tax rate, the amount of interest earned by the trust corpus, the marginal income and estate tax rates of the owner, and the form in which funds to pay the estate tax would have been accumulated absent this special relief. Nonetheless, the extraordinary scope of the benefits afforded by this bill can be illustrated by the following example.

Assume that A owns an interest in a local newspaper worth $1,000,000 at all times. Further, to highlight the problem of making lifetime arrangements to transfer this interest, assume that the $1,000,000 interest constitutes A's sole asset and he wishes to transfer the entire interest to his heirs at death. Under present law, A would have to accumulate $516,000 in a portfolio of marketable assets in addition to his newspaper interest to pay the $516,000 estate tax on a taxable estate of $1,516,000. This is the burden A, or any testator wishing to transfer a net of $1,000,000, must bear. A might meet this burden by saving more during his lifetime, or by drawing more funds from his newspaper to accomplish his objective.

Under the provisions of S. 555, this burden is reduced by 85 percent if A's income is taxed at a 40 percent rate, or by 92 percent if his income is taxed at 60 percent. This subsidy arises from two components of the bill. First, by excluding the trust corpus from the taxable estate, A is saved $217,200, or 42 percent of the normal estate tax. Second, by permitting deposits to be deducted by the newspaper, and thereby short-circuiting both the corporate and personal income taxes, S. 555 saves A an additional $220,975 (43 percent of the normal estate tax) if he is subject to a 40 percent income tax rate or $256,810 (50 percent of the normal estate tax) if he is subject to a 60 percent income tax rate. An alternative way of expressing the effect of the bill is to note that Congress could accomplish the same result by paying $438,175 to A's estate if he agrees to leave his heirs a $1,000,000 interest in a local newspaper, should his marginal income tax rate be 40 percent, or $474,010 should he be in a 60 percent tax bracket. Moreover, due to the progressivity of estate tax rates, in the case of a $5,000,000 interest in a local newspaper and assuming a 60 percent income tax rate, S. 555 would forgive 96 percent of the relatively larger normal estate tax; it would be the equivalent of Congress appropriating $8,100,000 to be paid into a testator's estate if he agreed to bequeath a $5,000,000 interest in a local newspaper to his heirs.1/

1/ The calculations on which this illustration are based assume a 20 year period for accumulating the estate tax liquid funds; the before-personal-tax (after-corporate-tax) yield on the newspaper interest is 10 percent; the corporation is subject to a 46 percent marginal tax rate; and that the yield on trust fund assets is only 8 percent. Accumulating the same amount over a shorter perod would <u>increase</u> the magnitude of S. 555 benefits.

At the cost illustrated by this example, it is apparent that the benefits of this bill should at the very least be restricted to those who can demonstrate that the estate tax will, in fact, result in a forced sale of the newspaper business. Otherwise, the bill turns all independent local newspapers into income and estate tax shelters. On the other hand, proper targeting of the benefits will result in complex amendments to what is already an enormously complex bill. Even then, because the phenomenon which gives rise to the need for this bill is the opportunity to sell newspapers at allegedly premium prices, it is not demonstrable that the bill ultimately would achieve its goal. The bill would, at best, make it less expensive to pass newspapers from generation to generation. It does nothing to cure the market situation which creates the need for the relief. Thus, this bill may be questionable public policy as well as bad tax policy.

While we are sympathetic to the plight of some owners of small businesses in planning the payment of estate taxes and retaining control of the business in the heirs, we also oppose this bill on the ground that it constitutes special relief for only one group of "small businessmen."

Present law already provides relief for small business owners and their heirs. Section 303 provides that in certain cases the purchase of stock by a corporation to pay estate taxes will be treated as a redemption and thus subject to capital gains rather than ordinary income tax. Also, if a portion of the business must be sold to generate funds to pay estate taxes, any gain realized will generally be taxed at the capital gains rate. Further, the transaction can often be structured as an installment sale, in which case the payment of the income tax is deferred over the installment payment period.

In computing the estate tax, there are special relief provisions. In the 1976 Act, the amount of property which may be passed without being subject to the estate tax was increased from $60,000 to $175,000. Also, the marital deduction for transfers to surviving spouses, which before the 1976 Act was limited to one-half the estate, was changed to a limit of the greater of 50 percent of the value of the adjusted gross estate, or $250,000.

Finally, the payment of the estate tax may be deferred where a business interest constitutes a major part of the estate. Under section 6161(a), the time for payment of the estate tax may be extended for up to 10 years upon a showing of reasonable cause. Reasonable cause exists when an estate consists largely of a closely-held business and does not have sufficient funds to pay the tax on time, or must sell assets to pay the tax at a sacrifice price. Section 6166 allows a 5 year deferral and a 10 year installment payment at a 4 percent interest rate on all or a portion of the deferred estate tax if the value of the closely-held business interest exceeds 65 percent of the adjusted gross estate. Finally, section 6166A is applicable to a broader number of situations and permits the estate tax attributable to a closely-held business interest to be paid in up to 10 annual installments.

The adoption of S. 555 would provide a wedge to be used again and again by other segments of society, each arguing its own importance. We do not believe in this piecemeal approach to legislation. There are existing provisions intended to minimize the problems inherent in the payment of taxes. If they are inadequate they should be reviewed in a comprehensive and not an ad hoc manner.

S. 999 - WAIVER OF INTEREST ON UNDERPAYMENT OF TAX

Under present law, a taxpayer is charged interest on any amount of tax that is not paid on time. S. 999 would impose interest unless the taxpayer's failure to pay tax on a timely basis is due to reasonable cause and not due to willful neglect. The Treasury opposes S. 999.

The payment of interest is an economic concept; it is not a punitive one. Interest is a charge for the use of money; the borrower's intent in taking out a loan is irrelevant. When a taxpayer does not pay tax on time--for whatever reason--the taxpayer has, in effect, borrowed money from the government upon which interest is due.

The Internal Revenue Code treats the interest paid consistently with this economic approach. The taxpayer may deduct the interest on unpaid tax, and the rate of interest is adjusted periodically to follow the prevailing lending rate. Moreover, an overpayment of tax is considered a loan to the government on which the government must pay interest.

The Code does not ignore a taxpayer's intent in not paying his tax. A penalty for the late payment or nonpayment of tax will not be imposed if the taxpayer's failure to pay is due to reasonable cause and not due to willful neglect. Because the penalty is a monetary form of punishment for failure to pay tax, it is not deductible and there is no reciprocal penalty imposed upon the government. It is, then, altogether appropriate to examine a taxpayer's intent in order to determine whether the penalty should be imposed. But intent is not an appropriate consideration where the payment of interest is concerned.

Although circumstances may exist which cause a taxpayer to be unavoidably late in the payment of his taxes, such circumstances usually do not prevent the taxpayer from earning a return on the money that is retained rather than paid in taxes. Thus, even if a taxpayer has a legitimate excuse for not paying his taxes on time, the waiver of interest in such circumstances would frequently provide a windfall gain. However sympathetic we may be to taxpayers such as the victims of natural disasters who cannot pay their tax on time, these people are still, in effect, borrowing money from the government. It is highly unusual in the business world for interest to be waived short of bankruptcy proceedings, even for natural disasters. There is no reason why the government should receive less than any other creditor in the same situation.

S. 1638 - AMORTIZATION OF START-UP COSTS

S. 1638 would permit a taxpayer to elect to amortize over a period of not less than five years certain business start-up costs that otherwise would not be deductible. The start-up costs that may be amortized under this bill are the costs paid or incurred prior to the functioning of the business as a going concern and that are incident to the investigation, formation, or creation of the business. The costs must not create an asset having a useful life of its own; they must be of a character that would be subject to amortization over the life of the business (and not the life of some other asset) if the business had a determinable useful life. Typical of these costs are the investigatory expenses directly related to the particular business, and the appraisals, advertising, insurance, utilities and other routine expenditures paid or incurred prior to the actual commencement of business.

For the following reasons, we support S. 1638.

This bill is designed to reduce the disparity in tax treatment between certain ordinary and necessary preopening expenses and similar expenses incurred by an existing business. Under current law, most preopening expenses are neither deductible nor subject to amortization but similar expenses incurred by a going concern are usually currently deductible. It is difficult to justify such disparate treatment for similar expenses.

The problem of start-up costs arises not only for taxpayers entering their first business, but also for taxpayers with an existing business when beginning a new business that is unrelated or only tangentially related. The tax treatment of the start-up costs of a related business has generated much controversy. Under current law, these costs are currently deductible if the new operations are part of the existing "trade or business" and the costs do not create a separate asset; costs must be capitalized, however, if the new operations constitute a separate trade or business. The large number of controversies between taxpayers and the IRS on this issue reflects (1) the difficulty in many cases of determining what constitutes a new business and when a new asset is created, and (2) the consequences of the determination. Depending on where these lines are drawn, the start-up costs are either deductible in full or must be capitalized indefinitely.

It is our hope that enactment of this bill will induce taxpayers with existing businesses to elect to amortize the start-up costs of a marginally related business thereby reducing the number of controversies in this area. In the unclear cases, of which there are many, taxpayers should elect to amortize; if they fail to elect and the IRS successfully maintains that the costs must be capitalized, the election would not be available and the costs would not be recoverable through amortization.1/ Electing to amortize these expenses over five years would appear for most taxpayers to be a more prudent decision.

In summary, we support S. 1638 because it would (1) reduce the disparity in tax treatment between certain ordinary and necessary preopening expenses and similar expenses incurred by an operating business, and (2) tend to reduce the number of controversies between taxpayers and the IRS especially where a taxpayer begins a related business.

I will be happy to answer any questions you may have.

1/ This is based on the assumption that the bill is clarified to require that the election be made not later than the time prescribed by law for filing the return (including extensions thereof) for the year the expense was paid or incurred. A provision of this nature would be necessary, in our view, to achieve one of the major virtues of this bill.

APPENDIX A

SUMMARY OF TREASURY POSITIONS

1. S. 541 - Oppose as drafted.
2. S. 555 - Oppose.
3. S. 999 - Oppose.
4. S. 1638 - Support.

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

FOR IMMEDIATE RELEASE
October 31, 1979

Contact: Jack Plum
566-2615

TREASURY ANNOUNCES DETAILS OF NOVEMBER DM NOTE SALE

The Department of the Treasury today announced that on November 5 and 6 it will offer notes denominated in Deutsche marks in an aggregate amount of up to DM 2.0 billion at par.

Interest rates will be announced on November 5. The notes will have maturities of two and one-half and three and one-half years and will be allocated between those maturities at the discretion of the Treasury.

The notes are being offered exclusively to residents of the Federal Republic of Germany through the Deutsche Bundesbank (German Central Bank) acting as agent on behalf of the United States. Subscriptions must be received at offices of the Bundesbank prior to 12:00 noon (Frankfurt time) on November 6 and will be binding until 11:00 a.m. on November 7. For each maturity, the minimum subscription must be for the amount of DM 5,000. However, the minimum denomination for subsequent transfer will be DM 1,000. Allotments will be announced not later than 11:00 a.m. November 7. Payment for and issuance of the notes will be on November 12, 1979.

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

MEMORANDUM FOR THE PRESS
October 31, 1979

Contact: Alvin M. Hattal
202/566-8381

Treasury Secretary G. William Miller is scheduled to go to the Bureau of Engraving and Printing at 2:00 p.m., Thursday, November 1, to see for the first time dollar bills with his signature roll off the press.

The new 1977A Series for the $1 denomination will be released first, with serial numbers reverting back to No. 1 and bearing the identification letter A of the Boston Federal Reserve Bank. They have been released to the Federal Reserve System, and general circulation will be made as current supplies are depleted or retired.

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

FOR IMMEDIATE RELEASE October 31, 1979

RESULTS OF AUCTION OF 10-YEAR NOTES

The Department of the Treasury has accepted $2,001 million of $3,418 million of tenders received from the public for the 10-year notes, Series B-1989, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	10.70%
Highest yield	10.79%
Average yield	10.75%

The interest rate on the notes will be 10-3/4%. At the 10-3/4% rate, the above yields result in the following prices:

Low-yield price	100.303
High-yield price	99.759
Average-yield price	100.000

The $2,001 million of accepted tenders includes $329 million of noncompetitive tenders and $1,671 million of competitive tenders from private investors, including 35% of the amount of notes bid for at the high yield.

In addition to the $2,001 million of tenders accepted in the auction process, $400 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, 1979.

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

Remarks of Anthony M. Solomon
Under Secretary of the Treasury
for Monetary Affairs
Before the U.S.-Japan Trade Council

October 31, 1979

The U.S. and Japan: Getting the Economic Relationship Right

This is a good time to think and talk about U.S. economic relations with Japan, although I recognize that the new cabinet is in the process of being formed. Recent developments, the result of actions we both have taken, have produced a period of relative calm in our bilateral affairs. We have come through a period of some strain in our economic relationship. Speeches in Congress, statements by private businessmen and in the popular press, gave strong indications of an unhealthy attitude toward the relationship. Pressures for protectionist actions which could have had a major detrimental impact on the relationship mounted to a dangerous level.

This threat was rooted in the broader, global situation. The major global economic problem sprang from current account imbalances involving the U.S., Japan and Germany which placed major strains on the system. At the same time, there was a major bilateral U.S. deficit vis-a-vis Japan, and it was the specific complaints of specific firms to specific Congressmen with respect to the bilateral trade which fueled most of the political fire. The concern arose not solely because of the absolute size of these current account imbalances, but because of the trend.

-- Between 1975 and 1978, the U.S. position went from an $18.4 billion surplus to a $16 billion deficit, a swing of over $34 billion.

-- Over the same period, the Japanese current account moved from rough balance (a deficit of $0.6 billion) to a surplus of $16.5 billion, a swing of over $17 billion.

-- In addition, there was a sharp increase in the bilateral U.S. trade deficit with Japan, from $1.4 billion in 1975 to $11.7 billion in 1978.

Fortunately, both the U.S. and Japan were able to respond to this situation with cooperation, not with conflict. It took a lot of consultations at levels ranging from Prime Minister and the President to working-level experts on individual commodities. We consulted in many fora, both multilateral and bilateral. We developed new channels and procedures for consultation and cooperation. We took concrete policy actions to address the sources of the imbalances.

Part of the problem was that cyclical expansion had proceeded further in the U.S. than had been the case in Japan and Germany. As a result of agreements at the Bonn Summit, both Japan and Germany took fiscal action to stimulate their economies. The result: Faster growth in other OECD countries and the global economy, contributing to reduction of the Japanese and German surpluses, and the U.S. deficit. We now expect solid, domestically-oriented growth to be sustained in both Germany and Japan into 1980 and hopefully, beyond. Both countries will be in modest current account deficit both this year and next.

At the same time, the U.S. recognized its obligation to curb inflation and to take forceful action in the area of energy policy. We initiated a phased decontrol of domestic oil prices, embarked on an ambitious program to spur production of alternative energy sources, and adopted a voluntary program of wage and price moderation. We have a disciplined fiscal policy stance, and a restrictive monetary policy.

We have improved our efficiency in energy use, and have had relatively good price performance on those elements subject to the wage/price program. It has been the externally imposed 60 percent increase in the price of oil, shortages in some types of foodstuffs, and rising housing costs that have wrecked our price performance. Prices in areas subject to the pay-price program have been rising at a rate of less than seven percent, roughly one-half the overall average. And we have not seen a spill-over of the higher rate into wage demands. We are aiming for a return to single-digit inflation by early next year.

In response to the altered pattern of growth and the effects of the exchange rate changes experienced during the first three quarters of 1978, the massive current account imbalances of the "Big Three" have virtually disappeared. There has been some -- though modest -- improvement in the bilateral U.S.-Japan balance, reflecting both the 1978 exchange rate movements and the strong growth in Japanese domestic demand. We expect the U.S. current account to move into surplus next year. The prospect of a further modest current account deficit for Japan next year should not be cause for concern; in view of the prospective large OPEC surplus, it may indeed be appropriate.

Some of the more explicit bilateral strains have been eased as well. Japan has

-- accelerated tariff reductions or removal of quota controls on a number of products of interest to the U.S.;

-- increased imports of beef, oranges and citrus;

-- committed itself to review and revise the foreign exchange control system;

-- relaxed rules for the standard method of settlement applied by Japanese customs;

-- substantially improved the opportunities open to American banks to do business in Japan.

To get at some of the more fundamental structural changes needed, the Prime Minister of Japan affirmed that it was Japanese policy "to encourage a shift to greater reliance on rising domestic demand to sustain Japan's economic growth and -- to open Japanese markets to foreign goods, particularly manufactured goods."

The U.S. agreed to "pursue a broad range of policies to reduce the U.S. rate of inflation, to restrain oil imports, and to promote U.S. exports."

Both countries accepted, as an objective, a current account position "consistent with a balanced and sustainable pattern of international trade and payments."

And so we find ourselves, as a result of these actions and agreements, and the adjustment in current account positions which have occurred, in a period of relative calm in the overall U.S.-Japanese economic relationship. We are reaping the benefits of past actions in terms of a hiatus to both economic and political strains.

We need to use this time to pursue the longer-term restructuring of our economies which was the purpose of the specific policy orientations agreed to at the Summit -- the restructuring we need to guard against a resurgence of the strains.

There is no doubt that the first responsibility of the U.S. is to stop the inflation. Price stability in the U.S. is almost as important to Japan and other areas of the world as it is to the U.S. itself. We must -- and we intend -- to persevere with fiscal and monetary austerity until inflationary expectations are broken.

As I previously noted, the exchange rate changes which occurred during the first three quarters of 1978 were an important factor in the strengthening position of the U.S. current account so far this year, and the expected further improvement next year. The dollar is now nearly eight percent, on a trade-weighted basis, above its low point of October 1978. It has appreciated 35 percent vis-a-vis the yen and four percent vis-a-vis the deutschemark over the same period. The need to ensure that these exchange rate movements do not erode the U.S. competitive position and weaken our payments position at some later time is one more reason why our anti-inflation effort must succeed. As a supplement to these fundamental efforts to ensure a strong U.S. competitive position, we recognize the need to improve the aggressiveness and export orientation of U.S. industry.

Further, we recognize that a reorientation within the U.S. which will stimulate higher rates of saving and investment is essential if we are to achieve the goal of sustained, noninflationary growth.

For its part, Japan has recognized the importance of a growth strategy which is centered on strong domestic demand, as contrasted with the export-led growth of the previous period. The Japanese Government has also accepted as a longer-term goal an increase in the share of manufactures in Japan's imports within a more general policy of rendering the Japanese market fully open to foreign products.

Strong domestic demand in Japan, coupled with the effects of the OPEC pricing actions and of past exchange rate movements, combined to produce a major shift in the Japanese current account position. However, the swing has been so dramatic, and the effect of OPEC pricing actions and Japanese dependence on imported oil has produced such uncertainty, that the yen has depreciated substantially.

We recognize and sympathize with the dilemma the authorities face as a result of the current pressures on the yen. The slide in the foreign exchange market, together with the oil price increase, are the primary causes of an increase of nearly 50 percent in the yen price of Japanese imports. With an increase in import prices of this magnitude, it is not surprising that wholesale prices are climbing at a disturbing rate -- an annual rate of nearly 16 percent since January. There seems little doubt, however, that the foreign exhange market movement is an over-reaction not fully justified by fundamental factors. If this situation were to continue, the Japanese might well find themselves a year from now back in the position of exporting at a level far beyond that needed to maintain a reasonably balanced position, and at a level once again disruptive to the world trading system and to the U.S. in particular. It would be in no one's interest for this to happen.

On the other hand, of course, the Japanese authorities are conscious of the importance of maintaining strong domestic growth and of the contribution of Japanese growth to world economic prospects, particularly at a time when the U.S. must concentrate on stabilization, rather than growth.

In any event, it is essential for both economic and political reasons that Japan persevere in its policy of opening its market, and orienting its growth policy toward reliance on domestic demand rather than on exports. Both the appearance and the reality of openness on both sides is essential if the open trade and payments system is to be preserved.

A widely-held view in the U.S. is that the dependence on Japanese firms on one another has led to a rather widespread practice -- unspoken policy, perhaps -- of never buying a product abroad if it is manufactured in Japan. Neither better price nor superior quality will enable a foreign firm to win a Japanese contract if other Japanese firms are in position to produce the needed item. No doubt this charge is overdrawn, and there are some instances of U.S. and other foreign sales. But there is enough substance to it to discourage bidding on Japanese contracts.

If we are to deal with the structural problems -- to bring Japan wholly within the circle of international trade -- that attitude must change. We may need in the field of Japanese industrial procurement the equivalent of the U.S. affirmative action program to overcome the ingrained inequities of centuries of discrimination.

I believe we need more joint ventures in Japan which bring foreign firms into participation in the Japanese industrial economy.

One American firm has achieved great success with a program to train Japanese businessmen in the American language. Perhaps there would be scope for a Japanese firm to teach Americans how to do business in Japan and how to recruit Japanese citizens to work for American firms in Japan. Much has been done in Japan to enable Japanese businessmen to learn about the U.S. It's time to turn over the coin and teach American businessmen about Japan.

Clearly the U.S. and Japan share one important structural problem in common. Both of us are going to need to adapt our domestic production to accommodate the increasing capability for production of manufactured goods in such dynamic LDCs as Korea, Taiwan, Hong Kong and Singapore as well as Brazil and Mexico. Adapt we must -- along with Western Europe -- because these countries must meet the needs of their growing populations. But if we can meet this challenge right we will benefit along with the ADCs themselves. It is important to get down to brass tacks -- to specific industries and products -- and encourage the reorientation of our own economies. And not just try to foist off the import pressures on each other.

There is a second need for structural adjustment which we and our Japanese friends share with most of the countries of the world. That is the need to conserve imported oil and to develop new sources of energy. The need for a concerted response to the energy problem was the central focus of the Tokyo Summit; since that meeting was held, both we and Japan have announced our intention to better the targets to which our nations agreed to at that time. Even these goals may not be enough. I cannot overestimate the importance of both increasing efficiency in our use of energy and in developing increased sources of energy itself.

The next few years will be crucial to the U.S.-Japanese relationship and to our collective ability to maintain the open, liberal trade and payments system. There are a series of issues on which cooperative action by the U.S. and Japan will be essential to maintaining and strengthening the system.

An area in which cooperation is especially urgent is implementation of the MTN. The agreements reached in the MTNs, in particular the non-tariff barrier codes, will provide the framework for trade in the future. The key issue confronting the trading system and which these codes address is the international regulation of government policies affecting trade. The subsidy/cvd, government procurement, standards, and customs valuation codes -- all set limits on acceptable government actions, provide clear obligations, set forth rights if those obligations are violated and provide for dispute settlement mechanisms.

At this time, the U.S. is the only major trading nation which has completed the necessary procedures to bring its legislation into accord with the MTN agreements. Under our current schedule we intend formally to sign the MTN agreements in late November and implement them by January 1, 1980.

This timetable could be jeopardized, however, if other trading nations fail to sign the MTN agreements during this period. Our Trade Act gives the President authority to accept the MTN agreements <u>only</u> if the other major trading nations also are doing so. This is to ensure reciprocity.

Once the agreements are signed, their prompt implementation is all important. We all must fully implement both the spirit and letter of the agreements. Delay in implementing, or less than full implementation, would jeopardize the trade liberalization so painstakingly achieved in five years of negotiation.

Removal of Japan's barriers to bidding on government purchases of telecommunications and computer products has become a "lightning rod" issue in our trade relations -- a question which has taken on major political and symbolic significance. The U.S. and Japan agreed that there must be reciprocal market access in trade of these products. The U.S. is an exporter of high technology items. This is an area in which the U.S. can compete if it can compete anywhere in manufactured goods. We must no longer be prevented from selling in the Japanese markets by artificial barriers. If U.S. exports are kept out by artificial barriers, there will be a public backlash, and we will experience a serious setback in the progress we have made thus far. American industry and American political leaders are expecting results -- results in the concrete form of orders for specific products. Only when actual orders come will American industry be convinced that the barriers have come down.

Another major area for cooperation to strengthen the system is the strengthening of the international export credit arrangement. International cooperation to impose discipline in the area of official export credit financing made a promising start in 1976. Further progress was made in February 1978 when agreement was reached on the International Arrangement on Export Credits. The Arrangement formalized and spelled out the terms and procedures in providing official export credits.

This Arrangement has been a useful instrument in restraining competition between export credit agencies. However, substantive improvements were necessary to reflect changing times and conditions. We sought agreement to correct those deficiencies but the necessary unanimity for such changes was lacking.

It is an anomaly that the minimum interest rate provisions of the International Arrangement on Export Credits still provide that a country can give an official export credit for 10 years to certain countries and only charge 7.5 percent interest on that credit. We have the absurdity of an Arrangement which sanctions highly subsidized interest rates on export credit transactions. I doubt this oddity can or will long persist.

We have been disappointed that our trading partners were not willing to strengthen the Arrangement and impose the needed self-discipline on export credit practices. The only option open to the United States was to enter the competition itself aggressively, supporting U.S. exporters and meeting foreign official export credit competition. There is a growing serious danger that major nations will find themselves in a costly and self-defeating export credit war. Japan can help us avoid this war by supporting the strengthening of this export credit arrangement.

Orderly financing in the China market is especially important. Excess competition in that growing and potentially large market poses another threat to the viability of the International Arrangement on Export Credits. For this reason, we ask that economic assistance to China be clearly distinguished from export credits. To insure that the two are not confused, we would hope that the grant element in an aid loan, as calculated by the DAC formula, be well above the 50 percent mark so that the loan qualifies clearly as aid and not an export credit.

In addition, we believe that all countries whose underlying external position is basically strong -- and there is no doubt that Japan fits that definition despite the current numbers -- should provide their official aid on an untied basis.

The nations of the world have revised the IMF Articles to provide a concrete basis for cooperative effort in dealing with the problems of an interdependent world. The Articles focus on the fundamentals of domestic economic policy as the basic determinant of stability in the international economy. The institutional and consultative framework we have established enables us to deal with these problems in a concerted fashion. The Articles have given us an SDR which is slowly being moved to the center of the system. A substitution account which could contribute to the evolution of the system and the central role of the SDR in the system is now under discussion.

The route to stability is through cooperative action on the fundamentals. The U.S. and Japan have excellent institutional arrangements -- bilateral and multilateral -- to foster this cooperative effort. For example, another of the regular, periodic meetings of U.S. and Japanese economic officials at subcabinet level will be held at the end of next week in Tokyo. A new dimension is also being added to our bilateral consultations with the forthcoming activation of the "Wisemen's" group which was agreed on at the May bilateral summit in Washington.

These forums, and others ranging from day-to-day contacts at embassy staff level right up to meetings between respective heads of state, give us the framework. The improved balance in the positions of the two countries at this moment give us breathing space -- time -- to solve the more structural problems. It is imperative that we use this time well -- to strengthen and deepen the basis for cooperation between the two largest economies in the free world.