U. S. Dept. of the Treasury.

T: PRESS RELEASES.

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

FOR IMMEDIATE RELEASE
November 1, 1979

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES RESULTS OF GOLD SALE

The Department of the Treasury announced that 1,250,000 troy ounces of fine gold were sold today to 11 successful bidders at an average price of $372.30 per ounce.

Awards were made in 300 ounce bars whose fine gold content is 89.9 to 91.7 percent at prices ranging from $365.50 to $378.12 per ounce. Bids for this gold were submitted by 12 bidders for a total amount of 1.5 million ounces at prices ranging from $320.00 to $378.12 per ounce.

Gross proceeds from the sale were $465.4 million. Of the proceeds, $52.8 million will be used to retire gold certificates held by Federal Reserve Banks. The remaining $412.6 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 successful bidders.

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Bank Leu New York NY	29,400
Credit Suisse Zurich Switzerland	161,400
EF Hutton & Co New York NY	15,000
Gold Standard Corporation Kansas City, MO	1,200
Phillip Brothers New York NY	90,000
Republic National Bank New York, NY	199,400
Samuel Montagu Inc. New York NY	39,000
Sharps, Pixley Inc. New York, NY	28,800
Swiss Bank Corp Zurich Switzerland	295,200
Union Bank of Switzerland Zurich Switzerland	78,600
Dresdner Bank AG New York NY	312,000

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

FOR RELEASE ON DELIVERY
Expected at 2:00 p.m.
Thursday, November 1, 1979

Testimony of the Honorable Anthony M. Solomon
Under Secretary of the Treasury for Monetary Affairs
before the
Subcommittee on Trade
Committee on Ways and Means
House of Representatives

Mr. Chairman, the Treasury Department joins the other agencies here today in strongly supporting the Trade Agreement between the United States and the People's Republic of China. Under former Secretary Blumenthal's leadership, the Joint U.S.-China Economic Committee was established earlier this year to serve as a forum for the resolution of economic problems between our two nations and to help lay the foundation for the orderly development of economic and financial ties. This Committee, now under the chairmanship of Secretary Miller, will meet in 1980, hopefully in the early part of the year. This meeting will be the occasion for a visit to the United States by Chinese Vice Premier Yu Qiuli.

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Treasury has also led the negotiations which produced the claims/assets agreement with China, an important first step toward normalization of our economic relations. As you know, the first Chinese payment under this agreement in the amount of $30 million was made to the U.S. on October 1, and Treasury has just this week sent out vouchers to certified U.S. claimants. I will be glad to answer any questions you might have on this agreement.

The U.S.-China Trade Agreement represents an even more significant step in the overall development of our commercial and economic relationship with China. Rather than an obstacle from the past that had to be overcome -- as with claims/assets -- the Trade Agreement will look to the future, laying the foundation for the expansion of our trade and financial ties with significant long-term benefits for the American economy.

Since Secretary Kreps and Deputy Secretary Christopher have covered, respectively, the economic aspects and political context of this Agreement -- and Ambassador Askew will address the relationship between U.S.-China textile trade and the Agreement -- I will direct my remarks toward China's overall international economic position, including trade with other countries, external financing, and its external debt position.

China's total foreign two-way trade has increased sharply during the 1970's, from approximately $6 billion in 1972 to more than $20 billion in 1978, of which U.S.-China trade accounts for only a small part -- roughly six percent in 1978. The sharp overall trade increase is due primarily to China's pursuit of a long-term modernization program which relies heavily on imported capital goods and technology. China's main trading partner during this period has been Japan, which currently accounts for approximately 25 percent of China's foreign trade, followed by Hong Kong with 11 percent, and Germany at 6 percent. Long-term trade agreements with the United Kingdom, France, Japan, Canada and Italy should further boost China's foreign trade during the period ahead. China's trade with nonmarket economies constitutes only a relatively small part of its foreign trade -- 15 percent in 1978.

We expect China's foreign trade to continue to grow rapidly during the next few years. Imports for 1979 are expected to be in the range of $15 billion, up from $11 billion in 1978. By 1985, annual imports may be as large as $40 billion.

The question arises as to how this trade will be financed. In the past, China's imports have been small, and limited by what foreign exchange China could earn through its exports. Imports of capital goods and services during the period immediately ahead will, however, -- because of China's modernization objectives -- exceed its foreign exchange earnings capability. China will therefore need to finance a portion of its imports from foreign borrowing.

In light of this, China has sought both official and private lines of credit to meet its financing needs. Currently, both private and official credit lines totalling between \$23 - \$30 billion have been negotiated or are under discussion. Private credits -- which account for about 20 - 30 percent of the total -- are primarily syndicated Eurodollar loans, although there is some project financing by private investment groups.

The focus of China's effort to secure lines of credit, however, has been directed toward official government sources, and these represent the bulk of China's foreign credit lines. China has negotiated officially supported export credits with France for \$7 billion, Great Britain for $5 billion, Canada for $1.9 billion, and Italy for $1 billion. Other export credit loans are now under discussion. In addition, Japan and China have agreed on an untied $2 billion resource development loan, to be financed by Japan's Export-Import Bank and, most recently, China has approached Japan for approximately $3-1/2 billion in aid loans to finance nine development projects.

In order to avoid excessive official credit competition, official export loans offered China should meet the terms and conditions of the International Arrangement for Export Credits. It appears that most official creditors are conforming to the terms and spirit of the International Arrangement. The Japanese Eximbank credits, which have low interest rates, are not considered a derogation from the Arrangement due to the fact that they are not tied to Japanese exports. The Japanese Government has assured us that non-Japanese exporters will benefit from this financing. We would expect, therefore, that some of the Japanese financing will support U.S. exports.

The role of the United States in financing China's trade has, of course, been minimal. With regard to private financing, many foreign banks preceded their U.S. competitors into the China market. In the past year, however, the U.S. banking community has moved quickly into this market with over 30 U.S. banks establishing full U.S. correspondent relations with the Bank of China. We are aware of the negotiation of $28 million in private credit lines between U.S. banks and China, and understand that additional credits are under discussion. In addition, we understand that the Bank of China -- which currently has overseas branches in London, Singapore, Hong Kong, and Luxembourg -- is preparing to open branches in New York and Tokyo in the not too distant future.

I have just noted the substantial official export credit which China has available from other nations. If U.S. exporters are to be competitive with foreign exporters -- and establish a foothold in what could ultimately become an extremely important market for western exports -- then it is vital that the U.S. Government also provide appropriate export financing. As Deputy Secretary Christopher has mentioned, we are moving forward in this area. We are prepared to offer China competitive export financing from the Export-Import Bank so that U.S. firms are in a position to compete with foreign exporters in the China market. As you know, Vice President Mondale recently advised the Chinese that we are prepared to make available a credit arrangement up to a total of $2 billion over a 5-year period on a case-by-case basis, and are willing to consider additional credit arrangments as developments warrant. The terms and conditions of these credits will, of course, be consistent with the International Arrangement on Export Credits. The approval of the Agreement before you today is necessary for the extension of Eximbank financing -- and therefore necessary to ensure that American exporters can compete effectively in the China market.

The use of balance of payments financing during the coming years will, of course, increase China's external debt. China has, however, historically taken a very prudent and cautious approach in its financial management. China's current debt service ratio is very low, approximately 6 percent. While this will undoubtedly rise somewhat, China to date has drawn very little on its new lines of credit, and we fully expect the Chinese to continue to take a careful approach to external financing.

In closing, I would like to reiterate that we view the Trade Agreement between China and the United States as a critical element in the normalization of our relations with China. I join my colleagues here today in strongly urging you to approve this Agreement in order that we may lay the foundation for an expansion of our commercial and financial ties with China in a manner that is in the best interests of both nations.

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

FOR IMMEDIATE RELEASE November 1, 1979

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

The Department of the Treasury has accepted $2,001 million of $3,280 million of tenders received from the public for the 30-year bonds auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	10.39%
Highest yield	10.48%
Average yield	10.44%

The interest rate on the bonds will be 10-3/8%. At the 10-3/8% rate, the above yields result in the following prices:

Low-yield price	99.863
High-yield price	99.045
Average-yield price	99.407

The $2,001 million of accepted tenders includes $ 133 million of noncompetitive tenders and $1,868 million of competitive tenders from private investors, including 44% of the amount of bonds bid for at the high yield.

In addition to the $2,001 million of tenders accepted in the auction process, $ 314 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.

SUMMARY RESULTS OF NOVEMBER FINANCING

Through the sale of the three issues offered in the November financing, the Treasury raised approximately $1.4 billion of new money and refunded $7.2 billion of securities maturing November 15, 1979. The following table summarizes the results:

	New Issues						
	11-5/8% Notes 5-15-83	10-3/4% Notes 11-15-89	10-3/8% Bonds 11-15-04-2009	Nonmarketable Special Issues	Total	Maturing Securities Held	Net New Money Raised
Public............	$2.8	$2.0	$2.0	$ -	$6.8	$5.4	$1.4
Government Accounts and Federal Reserve Banks.............	0.8	0.4	0.3	0.3	1.8	1.8	-
TOTAL.....	$3.6	$2.4	$2.3	$0.3	$8.6	$7.2	$1.4

Details may not add to toal due to rounding.

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epartment of the TREASURY **NEWS**

SHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 1, 1979

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

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process, $ 314 million
from Government accoun
in exchange for securi

Through the sale
the Treasury raised ap
$7.2 billion of securi
summarizes the results

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Public............. $2.
Government Accounts
and Federal Reserve
Banks.............. 0.
TOTAL..... $3.

Details may not add to -- due to rounding.

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10-3/8 % TREASURY NOTES ~~OF SERIES~~ BONDS OF 2004-2009

DATE: Nov. 1, 1979

HIGHEST ~~SINCE:~~ EVER * LAST ISSUE: 8/2/79

9 1/8 % 8.92 % YIELD

LOWEST SINCE: TODAY:

10 3/8 % 10.44 % YIELD

*PREVIOUS HIGH
9 1/8 % 9.23 % YIELD
5/2/79

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

FOR RELEASE AT 4:00 P.M. November 1, 1979

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $3,890 million, of 359-day Treasury bills to be dated November 13, 1979, and to mature November 6, 1980 (CUSIP No. 912793 4R 4). This issue will not provide new cash for the Treasury as the maturing issue is outstanding in the amount of $3,896 million.

The bills will be issued for cash and in exchange for Treasury bills maturing November 13, 1979. The public holds $1,517 million of the maturing issue and $2,379 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 Standard time, Wednesday, November 7, 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 November 13, 1979, in cash or other immediately available funds or in Treasury bills maturing November 13, 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.

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

TRANSCRIPT OF PRESS CONFERENCE

THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
WASHINGTON, D.C.

NOVEMBER 1, 1979

SECRETARY MILLER: Good morning ladies and gentlemen.

Let me start off by announcing the substance of what we are going to propose today. This morning the Administration is sending to the Congress a proposal for financial assistance for the Chrysler Corporation. We are proposing authority for Treasury to issue loan guarantees of $1.5 billion, conditioned upon there being new financing and concessions of an equal amount of $1.5 billion so that Chrysler would have the availability of a $3 billion financing package.

The federal assistance will be in the form of guarantees for loans. The additional financing will consist of either new loans or financial credits or from the infusion of additional equity or from the disposal of assets not essential to the basic automotive business.

Let me give you a little background on how this developed and some of the factors involved in making this recommendation. In this room, on August 9, having been in office for three days, I made a statement about the Administration's willingness to consider assistance for Chrysler. There were special factors that made it appropriate for us to consider financial assistance to Chrysler. We expressed willingness to consider it in the context of a financing and operating plan developed by Chrysler which would show how it could become a viable corporation in the future.

On September 15, Chrysler submitted a preliminary plan. We met here with its Board of Directors that day and reviewed the plan. After that meeting, it was agreed that further work was necessary. On October 17 Chrysler presented a revised plan. We have been working with considerable resources to analyze that plan, to make adjustments which appeared appropriate and to decide whether the plan was the basis for a proposal along these lines. Our consultants were Ernst & Whinney, one of the country's leading accounting firms. Their senior partner, Joe Keller, has been active in supervising this work. He has assembled a highly qualified team to work on this, some two dozen of his partners and associates, and their work is substantially complete. In addition, we retained John Secrest, a retired financial vice-president of American Motors, and his views have been most helpful to us. We came to the conclusion that we have made enough progress in our analysis to put forward a proposal.

There are several key considerations that led us to our recommendations: first, the automobile industry is an important industry. It deserves attention from the federal government. Should Chrysler be unable to continue, there could be serious impact on localities around the country--not only where Chrysler has plants but in places where automotive suppliers and dealers operate along with others who have an interest in this business. There is also risk of substantial unemployment and economic distress.

A second consideration is the alternative costs in case Chrysler should experience difficulty in finding necessary financing. Alternate costs to the government would include unemployment compensation, welfare payments, loss of local taxes and loss of federal revenues arising from curtailment of economic activities and incomes.

A third consideration is the importance of this industry to our international position. It is important to us as a nation to maintain a strong automotive industry. It is a worldwide business--if we do not produce autos at home, we will buy them abroad. We must take those steps that most assure that this industry remains a vital part of our economy.

Fourth, we must also maintain a competitive auto industry. Without Chrysler, the two remaining major automobile producers would provide a very narrow U.S. competitive base.

There are several factors since August 9 that have led to our recommendation for significantly larger aid to Chrysler. One is the changed outlook for the auto industry. Not only ourselves, but independent forecasters now project reduced levels of activity in this industry. This is partially because of the cost and availability of gasoline and energy supplies, and also because general economic conditions are more uncertain now.

Lastly, there is Chrysler's own situation. Chrysler reported a third-quarter loss of $460 million yesterday. Its outlook clearly calls for greater resources than were apparently required in August. We now have the benefit of an in-depth analysis of the future outlook of this company, and based on that, we have greater confidence in the degree to which assistance will be required. It is apparent to us that any financial assistance plan should be adequate and sufficient to accomplish the purpose. We must make sure Chrysler is able in the future to operate as a viable company and can operate on its own resources and be a constructive contributor to our economy in the years ahead.

Now I would be happy to answer a few questions.

[Q and A portion of Press Conference to come later.]

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

FOR RELEASE AT 4:00 P.M. November 1, 1979

52-WEEK BILL DATING CHANGE

The Department of the Treasury announced today that it is beginning a transition that, when completed, will change the issue and maturity date of 52-week bills from Tuesdays to Thursdays. During the one year transition period, the Department will continue to issue 52-week bills on Tuesdays but will set a maturity date 359 days later to occur on a Thursday. In a separate announcement today, the Department offered the first issue of 52-week bills with this dating pattern. When the transition cycle is completed, both the issue and maturity dates will be on Thursdays and the full 364-day maturity period will be resumed.

The Department said that the dating change is being made to make the 52-week bills mature on the same date as 13- and 26-week bills. The amount of each 52-week bill issue will be enlarged by subsequent issues of 13- and 26-week bills with the same maturity date. This will reduce the number of separate bill issues outstanding, facilitate market trading, and improve liquidity for the 52-week bills.

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

FOR RELEASE AT 12:00 NOON November 2, 1979

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills totaling approximately $6,200 million, to be issued November 15, 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 16, 1979, and to mature February 14, 1980 (CUSIP No. 912793 3R 5), originally issued in the amount of $3,014 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,100 million to be dated November 15, 1979, and to mature May 15, 1980 (CUSIP No. 912793 4E 3).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 15, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,642 million of the maturing bills. These accounts may exchange bills they hold for the bills now being offered at the weighted average prices of accepted competitive tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their par amount will be payable without interest. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Friday, November 9, 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 November 15, 1979, in cash or other immediately available funds or in Treasury bills maturing November 15, 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.

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

FOR RELEASE UPON DELIVERY
Expected at 2:30 p.m.

STATEMENT OF
JOHN M. SAMUELS
TAX LEGISLATIVE COUNSEL
U. S. DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE
SENATE FINANCE COMMITTEE
November 2, 1979

Senator Baucus and Members of this Distinguished Subcommittee:

We welcome the opportunity to present the views of the Treasury Department and the Internal Revenue Service on S. 1691, the Tax Court Improvement Act of 1979. S. 1691 would significantly change the structure of the Federal court system by establishing a United States Court of Tax Appeals that would have exclusive appellate jurisdiction over decisions of the Tax Court and District Courts in civil tax controversies.

Summary of Position

While we support the concept of a single appellate forum for the resolution of civil tax controversies, we do not support the establishment of such a court without regard to its composition or jurisdiction. We have two fundamental objections to the structure of the court that would be established by S. 1691. First, we believe that, at a minimum, the chief judge and a majority of the other judges on the new court should be permanently assigned to the court. Second, we believe that the decisions of the United States Court of Claims should be subject to review by the new court. Because of these objections, we are unable to support S. 1691 at this time. However, if the bill were amended to satisfy our concerns, we would be pleased to give it our full support.

Present Law

Under present law, a taxpayer may choose to litigate a dispute over Federal taxes that cannot be resolved administratively in one of three forums -- a United States District Court, the United States Tax Court, or the United States Court of Claims.

A taxpayer who is unwilling (or unable) to pay a disputed tax may file suit in the United States Tax Court to contest his or her liability for the disputed amount without first paying the tax. Alternatively, a taxpayer can first pay the tax and then file an action for a refund of the disputed amount in either a United States District Court or the United States Court of Claims. A trial by jury may be obtained in a District Court, but not in the Court of Claims or the Tax Court.

Appeals from the decisions of these courts diverge. A District Court or Tax Court decision generally may be appealed to the United States Court of Appeals for the judicial circuit in which the taxpayer is domiciled. Thus, whether the taxpayer files suit in a District Court or the Tax Court, the taxpayer's case would generally be reviewed by the same Circuit Court of Appeals. On the other hand, a Court of Claims decision is subject to appellate review only by the United States Supreme Court by writ of certiorari -- a rather remote possibility.

A decision of a particular Court of Appeals is binding only with respect to controversies within the jurisdiction of that Circuit Court. For example, a District Court within the Fifth Circuit is bound by decisions of the Court of Appeals for the Fifth Circuit, and is not bound by decisions of the ten other Circuit Courts of Appeals. Similarly, if a taxpayer residing in the Second Circuit files suit in the Tax Court, in making its decision the Tax Court is bound by the decisions of the Court of Appeals for the Second Circuit, but not by the decisions of any of the other Circuit Courts of Appeals. Finally, the Court of Claims is not bound by decisions of any of the Circuit Courts of Appeals.

Decisions of all three trial courts -- the Tax Court, District Courts and Court of Claims -- and the Courts of Appeals are bound by the decisions of the United States Supreme Court.

Description of the Bill

S. 1691 would establish a new United States Court of Tax Appeals that would have exclusive appellate jurisdiction over all decisions of the Tax Court and the District Courts in civil tax cases (excluding bankruptcy cases). Decisions of the Court of Tax Appeals would be reviewed by the United States Supreme Court by writ of certiorari. The court would be an additional court under Article III of the Constitution at the same level as the existing Federal Circuit Courts of Appeals.

The Court of Tax Appeals would consist of eleven judges designated by the Chief Justice of the United States from among the judges of the Circuit Courts of Appeals. The Chief Justice would be required to designate one judge from each of the eleven geographically designated judicial circuits. Court of Tax Appeals judges would serve three-year terms, during which they would continue to serve on their respective circuits and continue to participate in non-tax cases, if their workload permitted.

The Court of Tax Appeals would have permanent offices in the District of Columbia, but appeals would be heard in the judicial circuit in which the taxpayer is domiciled. The court would normally sit in panels of three or more judges, and would hear a case _en banc_ at the request of six judges.

Desirability of a Court of Tax Appeals

The establishment of a single court to review all civil tax appeals has been the subject of considerable debate in the legal and academic communities over the past 40 years, and most of the arguments for and against the creation of such a court have been fully aired.

The proponents of a court of tax appeals contend that it would eliminate many problems engendered by the delay under the present system in getting a final decision on tax issues, and cite a number of good reasons why the sure and speedy resolution of disputed tax issues is desirable. First, a national court of tax appeals would save valuable resources for both the government and taxpayers by greatly reducing the number of judicial and administrative tax controversies. The number of cases appealed beyond the trial court level would decline, since having only one appellate court would end the current practice -- by both the government and taxpayers -- of appealing identical issues in numerous circuits in the hope of securing a conflict to serve as a basis for Supreme Court review. In turn, because decisions of the court would be binding on both the government and taxpayers, it would relieve a heavy burden on the administrative process (through which most tax disputes are settled) by eliminating many issues that are in controversy simply because there has not been an authoritative resolution of the controverted issue. Second, the earlier resolution of tax questions that would result from taking all appeals to the new court would reduce the likelihood that taxpayers whose circumstances are in all other respects identical would be treated differently for tax purposes simply because they are residents of different circuits, and therefore are controlled by different precedents. Similarly, prompter settling of the law would reduce the period in which taxpayers could resolve questions in their favor on their tax returns, or gamble on the chance of successfully litigating the matter or working out a settlement based upon the risks of litigation. Third, speedier resolution of the issues means that businesses will be confronted with uncertain tax liability in far fewer situations, enabling business taxpayers to plan their financial affairs with a greater degree of certainty. Finally, appeals involving tax issues would be taken to the Supreme Court only if certiorari were granted, since there would no longer be conflicting decisions of courts of appeals. Relieved of the necessity of hearing and deciding tax issues over which the circuits disagree, the Supreme Court could devote itself to a more limited, but more consequential, review of tax cases.

On the other hand, those who favor the current system of appellate review of tax controversies argue that the benefits to be gained by centralizing tax appeals are more than offset by the virtues inherent in the present system that would have to be sacrificed if such a court were established. They argue that good jurisprudence is an evolutionary process of which reflection and reconsideration are integral parts. If tax appeals were centralized there would no longer be the opportunity for reconsideration of an issue already decided by the appellate court of one circuit by another appellate court free of the constraints of the doctrine of _stare decisis_. The review of the issue in the first court may have been distorted by the particular record, the admission of an argument, or simply may have been mistaken. Only after the initial decision may the importance of the matter become apparent -- along with the feeling that the decision did not take into account all relevant considerations. Recourse to Congress to correct such decisions would be far from certain, and in the cases it did occur would be an undesirable burden on the legislative process. They argue the existing practice, affording multiple appellate review of contested issues, provides such reflective consideration and can lead to more reasoned and thoughtful conclusions.

Opponents of a system for centralized tax appeals also stress the problems presented in dealing effectively with erroneous decisions of a single appellate court. They are concerned that the sparse opportunities for Supreme Court review and the uncertainty and delay involved in Congressional correction can result in extended application of an improper rule of taxation with its attendant unfairness.

On balance, the Treasury and the Internal Revenue Service believe that the advantages of a single court of tax appeals outweigh its disadvantages. We believe a single court of tax appeals would provide for earlier resolution of tax issues, thereby mitigating the delay, uncertainty and disparate treatment that occurs under the present system. We do not, however, support the creation of such a court unless its framework is designed to ensure a sound and capable court.

Recommended Changes

We believe the Court of Tax Appeals that would be established under S. 1691 would be such a court if the bill were changed in two respects. First, we recommend that S. 1691 be amended to provide that the chief judge and the number of other judges necessary to comprise a majority of the new court be permanently assigned to the court. Second, we believe a national court of tax appeals should be established only if it has appellate jurisdiction over decisions of the United States Court of Claims (or any successor to the Court of Claims).

Composition of the Court. The consideration of a particular tax issue by the Court of Tax Appeals will be both the first and most probably the final appellate consideration of that issue. Therefore, we believe it essential that such a court be composed of judges of sufficient ability and expertise to develop a sound body of precedent that will be consistent with Congressional intent and the overall scheme of the tax law.

S. 1691 provides that the judges on the Court of Tax Appeals would serve only three-year terms, and would continue to sit on non-tax cases in their original circuits. We believe that this short tenure, coupled with their continuing workload in the circuit courts, does not provide adequate assurance that the judges on the new court would have the required expertise in the tax law -- or the time in which to obtain it. Indeed, the rotation of judges required by S. 1691 raises the important question of how the Chief Justice is to choose the appointees from among the circuit court judges. Will they tend to be the judges most easily spared from their own circuits? If so, the heavy responsibility of unifying the tax law may not fall on the shoulders best able to undertake the task.

We would expect that the opportunity to hear appellate tax cases could attract outstanding tax practitioners and academicians to serve on the Court of Tax Appeals. We believe that a major defect of S. 1691 is that it does not take advantage of this opportunity.

In our view, the absence of judges with substantial tax expertise would vitiate the principal benefits to be gained by a centralized appellate court. We do not agree with the argument that permanent judges assigned to a court of tax appeals would deprive the tax law of the benefits of well-rounded judges and attorneys, and would encourage technical decisions that are out of touch with general principles of law. The fact that tax lawyers are specialists by no means suggests they are isolated from other areas of law. Tax laws cut across so many fields of law that a tax lawyer inevitably must have considerable familiarity with the legal principles governing other fields of law. Perhaps Dean Griswold best expressed this point when he wrote:

> "... this argument represents a complete misconception of the tax field. It is high time the tax lawyers rise up to defend themselves against the charge that tax work is narrow and stifling. On the contrary, it seems difficult to find a field which leads practitioners more widely through the whole fabric of the law .... He must be broad in his background and broad in his outlook, if he is to deal effectively with the manifold problems which make up the field of modern tax law." Griswold, "The Need for a Tax Court of Appeals", 57 Harvard Law Review 1153, at 1183-84 (1944).

In any event, designation of the remaining judges on the Court of Tax Appeals from among the judges of the Circuit Courts of Appeals should provide adequate assurance that the quality of decision making will not suffer as the result of undue specialization.

We are not alone in recommending that a national court of tax appeals would be best served by the assignment of a permanent body of judges. An informal poll of the members of the Section of Taxation of the American Bar Association taken in May of 1979 favored the assignment of permanent judges to a national court of tax appeals by a vote of 105 to 37. Similarly, the Commission on Revision of the Federal Court Appellate System rejected a rotating panel of judges from the circuit courts in making its recommendations for a National Court of Appeals:

> "Temporary service on a rotating basis by federal appellate judges sitting on assignment from their respective courts would, in the Commission's view, be even more undesirable. A court so composed would lack the stability and continuity that are essential to the development of national law ... . We note, too, the difficulty of devising a satisfactory process for selecting the judges to be assigned. Finally, should the rotation be relatively rapid, the circuits would be asked to bear the burden of vacancies and other deterrents to the smooth functioning of those courts." Proposed revision of Appellate System, Commission on Revision of the Federal Court Appellate System, 67 F.R.D. 195, at 237-238 (1975).

We also see no reason for the rigid geographical allocation of judgeships required by S. 1691. It is important, of course, to have a diversity of background and viewpoint represented on the court. We believe, however, that the judicial selection process will assure a bench that is both diverse and of high quality.

Court of Claims. The current system for judicial resolution of tax disputes allows taxpayers to choose among three trial forums -- the United States District Courts, the United States Tax Court or the United States Court of Claims. Decisions by the District Courts and the Tax Court are subject to intermediate appellate review by the Circuit Courts of Appeals. On the other hand, cases decided by the Court of Claims are subject to review only by the United States Supreme Court by writ of certiorari -- a rather rare occurrence. This limited appellate review of the Court of

Claims means its decisions in effect constitute a separate body of tax law, enabling taxpayers to avoid adverse precedents in the Courts of Appeals by litigating in the Court of Claims.

The Court of Tax Appeals that would be established by S. 1691 would have exclusive appellate jurisdiction over decisions of the Tax Court and District Courts, but would not have any jurisdiction over the tax decisions of the Court of Claims.* Thus, under S. 1691 well-advised taxpayers will be able to avoid the effect of decisions of the Court of Tax Appeals by litigating in the Court of Claims.

We believe that much of the benefit to be derived from a centralized review of tax cases would be lost if no intermediate appeals were allowed from the tax decisions of the Court of Claims, and strongly recommend that S. 1691 be amended to subject the decisions of the Court of Claims to review by the Court of Tax Appeals. Otherwise, much of the delay, uncertainty and disparate treatment that occurs under present law will not be remedied by S. 1691.

Indeed, we believe that the absence of effective review of Court of Claims decisions should not be allowed to continue even if S. 1691 is not enacted.** One solution to this problem is provided by S. 1477, a companion bill to S. 1691, which was passed by the Senate on October 30, 1979. S. 1477 would replace the Court of Claims with a new United States Claims Court and would provide for appellate review of the tax decisions of that court by the appropriate Circuit Courts of Appeals. While S. 1477 responds to the need for

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* This may be explained by the fact that at the time S. 1691 was reported by the Senate Committee on the Judiciary a companion bill, S. 1477, replaced the Court of Claims with a new Claims Court that did not have any jurisdiction over tax matters. Thus, it was not necessary for S. 1691 to give the new Court of Tax Appeals jurisdiction over tax issues decided by the new Claims Court. However, S. 1477, as passed by the Senate, has been amended to reinstate jurisdiction over tax issues in the new Claims Court. Therefore, the question of appellate review of Claims Court decisions by the new Court of Tax Appeals must be addressed.

**We believe it is appropriate to defer consideration of whether Court of Claims trial jurisdiction over tax issues should be eliminated until there has been a comprehensive review of the present system for the trial of tax cases.

appellate review of tax cases decided by the new Claims Court in the absence of a single court of appeals, its procedure for review of the decisions the new Claims Court would not be desirable if S. 1691 were enacted. If the Court of Tax Appeals were established under S. 1691, we believe it is essential that the decisions of the Court of Claims (or the new Claims Court) be reviewed by the new Court of Tax Appeals in the same manner it reviews decisions of the Tax Court and District Courts.

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federal financing bank NEWS
WASHINGTON, D.C. 20220
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FOR IMMEDIATE RELEASE November 2, 1979

FEDERAL FINANCING BANK ACTIVITY

Roland H. Cook, Secretary, Federal Financing Bank (FFB), announced the following activity for September 1-30, 1979.

Guarantee Programs

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

Date Signed	Government	Amount
9/5/79	Panama	$ 1,000,000.00
9/5/79	Thailand	30,000,000.00
9/18/79	Philippines	15,600,000.00
9/19/79	Israel	2,200,000,000.00
9/22/79	Colombia	12,500,000.00
9/22/79	Spain	120,000,000.00
9/24/79	Kenya	10,000,000.00
9/24/79	Malaysia	7,500,000.00
9/27/79	Peru	5,000,000.00
9/28/79	Morocco	5,000,000.00

Repayment of advances made under these loan agreements is guaranteed by the Department of Defense under the Arms Export Control Act. Also during September, FFB made 33 advances totalling $174,828,245.76 to 16 governments under existing DOD-guaranteed foreign military sales loan agreements.

Under notes guaranteed by the Rural Electrification Administration (REA), FFB advanced a total of $172,502,000 to 26 rural electric and telephone systems. Also, as of September 30, REA issued to FFB a 30-year, 9.425% Certificate of Beneficial Ownership in the amount of $302,225,000.

FFB provided Western Union Space Communications, Inc., with $500,000 on September 4 and $7,900,000 on September 20. These advances mature October 1, 1989, and carry interest rates of 9.749% and 9.839%, 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
9/11	M-050	$4,031,203.04	7/31/03	9.398%
9/14	L-058	203,248.04	11/15/04	9.396%
9/26	M-051	89,748.97	7/31/03	9.409%
9/28	K-024	967,936.70	7/15/04	9.417%

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
Toledo, Ohio	9/13	$500,000	7/15/80	11.363%
Kansas City, MO	9/19	200,000	6/15/80	11.295%

On September 19, FFB purchased a total of $10,570,000 in debentures issued by 11 small business investment companies. These debentures are guaranteed by the Small Business Administration, mature in 3, 5, 7 and 10 years, and carry interest rates of 9.925%, 9.615%, 9.585% and 9.545%, respectively.

Department of Transportation (DOT) Guarantees

FFB provided the following amounts to the National Railroad Passenger Corporation (Amtrak) under lines of credit maturing October 1, 1979.

Date	Note	Amount	Interest Rate
9/6	20	$ 6,000,000.00	10.609%
9/11	20	3,000,000.00	11.124%
9/12	20	5,000,000.00	11.016%
9/14	20	5,138,364.00	11.066%
9/14	18	3,861,436.00	11.066%
9/17	18	13,000,000.00	10.933%
9/20	18	5,500,000.00	10.748%
9/25	18	5,000,000.00	10.544%
9/27	18	3,000,000.00	10.769%
9/28	18	8,000,000.00	10.831%

FFB advanced $5 million to the Trustee of the Chicago, Milwaukee, St. Paul & Pacific Railroad under a $20 million credit guaranteed by DOT pursuant to Section 3 of the Emergency Rail Services Act. The advance carries an interest rate of 9.445% 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
Chicago & North Western 511-78-3	9/12	$1,418,527.00	11/1/90	9.464%
Trustee of The Milwaukee Road	9/14	194,888.00	11/15/91	9.777%

FFB lent the United States Railway Association (USRA) $1,380,000 on September 27 under Note #16. This advance matures October 31, 1979 and carries an interest rate of 10.769%. Under Note #13, FFB lent USRA $689,520 on September 28. Note #13, which matures December 26, 1990, bears a fixed interest rate of 8.125% set in 1978.

Agency Issuers

On September 4, the Export-Import Bank sold FFB a $516 million note which matures September 1, 1989. Interest is payable quarterly at a rate of 9.419%. This note refunded $410 million in maturing securities, and raised $106 million in new cash.

FFB advanced $45 million to the Student Loan Marketing Association (SLMA), a federally chartered private corporation. FFB holdings of SLMA notes now total $1,275 million.

FFB purchased two Farmers Home Administration Certificates of Beneficial Ownership during September. Interest is payable annually.

Date	Amount	Maturity	Interest Rate
9/7	$735,000,000	9/7/84	9.825%
9/24	400,000,000	9/24/84	9.783%

During September, the Tennessee Valley Authority sold FFB the following notes:

Date	Note #	Amount	Maturity	Interest Rate
9/17	106	$ 25,000,000	12/31/79	10.973%
9/28	107	620,000,000	12/31/79	10.844%
9/28	108	700,000,000	1/31/80	10.824%

Of the total $1,345 million borrowed, $195 million raised new cash and $1,150 million retired maturing securities.

On September 28, the United States Postal Service prepaid a total of $365 million in principal against their Notes #3, #7, and #9. On Note #3, $200 million in principal was prepaid at a discount of $4,149,984.21. On Note #7, $140 million of principal was prepaid at a discount of $2,922,554.41, while $25 million in principal was repaid at a discount of $667,740.69 against Note #9.

FFB Holdings

As of September 30, 1979, FFB holdings totalled $64.2 billion. FFB Holdings and Activity Tables are attached.

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FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	September 30, 1979	August 31, 1979	Net Change (9/1/79-9/30/79)	Net Change-FY 1979 (10/1/78-9/30/79)
On-Budget Agency Debt				
Tennessee Valley Authority	$ 7,125.0	$ 6,930.0	$ 195.0	$ 1,905.0
Export-Import Bank	7,952.9	7,846.3	106.6	1,384.6
Off-Budget Agency Debt				
U.S. Postal Service	1,587.0	1,952.0	-365.0	-527.0
U.S. Railway Association	445.7	443.7	2.1	89.0
Agency Assets				
Farmers Home Administration	31,080.0	30,445.0	635.0	8,805.0
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	1,223.2	921.0	302.2	585.2
Small Business Administration	94.4	95.7	-1.3	-17.8
Government Guaranteed Loans				
DOT-Emergency Rail Services Act	37.4	32.4	5.0	19.9
DOT-Title V, RRRR Act	92.7	91.0	1.6	56.9
DOD-Foreign Military Sales	5,270.9	5,126.5	144.4	1,293.0
General Services Administration	359.7	354.4	5.3	89.5
Guam Power Authority	36.0	36.0	-0-	-0-
DHUD-New Communities Admin.	38.5	38.5	-0-	-0-
DHUD-Community Block Grant	5.4	4.7	0.7	5.4
Nat'l. Railroad Passenger Corp. (AMTRAK)	432.3	368.8	63.5	-102.1
NASA	420.3	411.9	8.4	183.8
Rural Electrification Administration	5,926.5	5,754.0	172.5	1,734.9
Small Business Investment Companies	336.4	325.8	10.6	85.8
Student Loan Marketing Association	1,275.0	1,230.0	45.0	530.0
Virgin Islands	21.6	21.6	-0-	-0.2
WMATA	177.0	177.0	-0-	-0-
TOTALS	$64,211.0*	$62,879.5	$1,331.5*	$16,133.4*

Federal Financing Bank October 29, 1979

*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					
Thailand #2	9/4	$ 416,885.89	6/30/83	9.862%	
Thailand #3	9/4	202,524.00	9/20/84	9.743%	
Egypt #1	9/5	75,100,000.00	9/1/09	9.36%	
Liberia #4	9/6	3,735.62	10/30/84	9.842%	
Jordan #2	9/10	1,174,164.00	11/26/85	9.794%	
Jordan #3	9/10	110,600.00	12/31/86	9.737%	
Turkey #7	9/10	689,000.00	6/3/91	9.536%	
Jordan #3	9/11	57,733.20	12/31/86	9.760%	
Colombia #2	9/13	958,143.68	9/20/84	9.848%	
Israel #7	9/13	26,828,664.99	12/15/08	9.385%	
Spain #1	9/13	1,193,891.11	6/10/87	9.671%	
Spain #2	9/13	8,741,628.79	9/15/88	9.618%	
Turkey #7	9/13	1,343,751.00	6/3/91	9.492%	
Taiwan #9	9/14	1,900,000.00	7/1/86	9.777%	
Tunisia #4	9/14	4,035,674.48	10/1/85	9.816%	
Israel #7	9/17	1,000,000.00	12/15/08	9.369%	
Jordan #2	9/17	856,808.92	11/26/85	9.748%	
Jordan #3	9/17	1,134,210.00	12/31/86	9.688%	
Lebanon #2	9/17	2,196,097.00	4/15/86	9.666%	
Liberia #4	9/17	718,087.00	10/30/84	9.837%	
Turkey #2	9/17	1,985,914.53	10/1/86	9.699%	
Turkey #4	9/17	2,815,136.00	10/1/87	9.656%	
Turkey #6	9/17	4,881,027.94	6/3/88	9.630%	
Turkey #7	9/17	4,200,000.00	6/3/91	9.482%	
Korea #9	9/20	100,000.00	6/30/87	9.673%	
Egypt #1	9/24	19,678,225.00	9/1/09	9.340%	
Greece #10	9/24	2,008,816.07	2/1/89	9.585%	
Greece #11	9/24	1,568,595.00	5/10/89	9.565%	
Thailand #7	9/24	2,695,445.00	8/25/86	9.706%	
Turkey #6	9/24	109,679.00	6/3/88	9.628%	
Turkey #7	9/24	2,843,637.00	6/3/91	9.465%	
Honduras #4	9/28	426,860.00	5/4/84	10.017%	
Jordan #3	9/28	84,141.30	12/31/86	9.813%	
Export-Import Bank					
#21	9/4	516,600,000.00	9/1/89	9.53%	9.419% quarterly
Farmers Home Administration					
Certificate of Beneficial	9/7	735,000,000.00	9/7/84	9.595%	9.825% annually
Ownership	9/24	400,000,000.00	9/24/84	9.555%	9.783% "
Department of Housing & Urban Development					
Section 108 Block Grant					
Toledo, Ohio	9/13	500,000.00	7/15/80	11.095%	11.363% annually
Kansas City, Missouri	9/19	200,000.00	6/15/80	11.295%	
General Services Administration					
Series M-050	9/11	4,031,203.04	7/31/03	9.398%	
Series L-058	9/14	203,248,04	11/15/04	9.396%	
Series M-051	9/26	89,748.97	7/31/03	9.409%	
Series K-024	9/28	967,936.70	7/15/04	9.417%	
Rural Electrification Administration					
Cert. of Beneficial Ownership	9/30	302,225,000.00	9/30/09	9.425%	
United Power #67	9/6	4,100,000.00	9/6/81	10.195%	10.068% quarterly
United Power #129	9/6	3,700,000.00	9/6/81	10.195%	10.068% "
Chugach Electric #82	9/7	1,654,000.00	12/31/13	8.355%	8.248% "

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
Rural Electrification Administration (continued)					
Wolverine Electric #100	9/10	$ 2,222,000.00	9/10/81	10.275%	10.146% quarterly
Dairyland Power #54	9/10	4,775,000.00	9/10/81	10.275%	10.146% "
Allegheny Electric #93	9/10	7,330,000.00	9/30/81	10.235%	10.107% "
Northern Michigan Elect. #101	9/10	2,841,000.00	9/10/82	9.865%	9.746% "
Wabash Valley Power #104	9/10	3,804,000.00	12/31/13	9.371%	9.264% "
Western Farmers Electric #133	9/11	23,000,000.00	12/31/13	9.388%	9.28% "
Colorado-Ute Electric #78	9/12	3,700,000.00	9/12/81	10.175%	10.049% "
Cajun Electric Power #76	9/14	50,000,000.00	9/14/82	9.875%	9.756% "
Western Illinois Power #99	9/14	2,184,000.00	9/14/81	10.275%	10.146% "
Somerset Telephone #33	9/17	250,000.00	9/17/81	10.195%	10.068% "
East Kentucky Power #73	9/18	7,061,000.00	9/18/81	10.305%	10.176% "
Associated Electric #132	9/18	15,000,000.00	9/18/81	10.305%	10.176% "
Medina Electric #113	9/18	750,000.00	9/18/81	10.305%	10.176% "
Big Rivers Electric #58	9/20	2,742,000.00	9/20/81	10.255%	10.127% "
Big Rivers Electric #65	9/20	228,000.00	9/20/81	10.255%	10.127% "
Big Rivers Electric #91	9/20	1,910,000.00	9/20/81	10.255%	10.127% "
Big Rivers Electric #136	9/20	288,000.00	9/20/81	10.255%	10.127% "
United Power Assn. #86	9/20	1,350,000.00	9/20/81	10.255%	10.127% "
Gulf Telephone #50	9/20	767,000.00	12/31/13	9.356%	9.249% "
Chugach Electric #82	9/24	8,623,000.00	12/31/13	9.308%	9.202% "
M & A Electric Power #111	9/25	250,000.00	9/25/81	10.185%	10.059% "
East Ascension Telephone #39	9/26	1,100,000.00	9/26/81	10.185%	10.059% "
Tri-State Gen. & Trans. #79	9/26	336,000.00	8/31/86	9.545%	9.434% "
South Mississippi Elect. #3	9/26	155,000.00	9/28/81	10.185%	10.059% "
South Mississippi Elect. #90	9/26	205,000.00	9/28/81	10.185%	10.059% "
San Miguel Electric #110	9/27	10,000,000.00	9/27/81	10.195%	10.068% "
Elmore-Coosa Telephone #46	9/27	306,000.00	12/31/13	9.396%	9.288% "
Arizona Electric Power #60	9/27	1,100,000.00	12/31/13	9.396%	9.288% "
Basin Electric Power #88	9/28	869,000.00	9/28/81	10.285%	10.156% "
Doniphan Telephone #14	9/28	150,000.00	12/31/13	9.425%	9.343% "
Tri-State Gen. & Trans. #89	9/28	7,969,000.00	8/31/86	9.635%	9.522% "
Wabash Valley Power #104	9/28	1,783,000.00	12/31/13	9.343%	9.221% "
Small Business Investment Companies					
Capital for Terrebonne, Inc.	9/19	500,000.00	9/1/82	9.925%	
First Dallas Capital Corp.	9/19	4,000,000.00	9/1/82	9.925%	
North Star Ventures, Inc.	9/19	750,000.00	9/1/82	9.925%	
Northwest Business Invest. Corp.	9/19	170,000.00	9/1/84	9.615%	
Southwest Capital Invest. Inc.	9/19	500,000.00	9/1/84	9.615%	
Charles River Resources, Inc.	9/19	2,000,000.00	9/1/86	9.585%	
Enervest, Inc.	9/19	400,000.00	9/1/86	9.585%	
First Capital Corp.	9/19	375,000.00	9/1/86	9.585%	
First Capital Corp.	9/19	375,000.00	9/1/89	9.545%	
First Idaho Venture Cap. Corp.	9/19	500,000.00	9/1/89	9.545%	
Fundex Capital Corp.	9/19	500,000.00	9/1/89	9.545%	
Trans-Am Bancorp, Inc.	9/19	500,000.00	9/1/89	9.545%	
Student Loan Marketing Association					
Note #212	9/4	1,220,000,000.00	9/11/79	10.40%	
Note #213	9/11	1,250,000,000.00	9/18/79	11.124%	
Note #214	9/18	1,250,000,000.00	9/25/79	10.933%	
Note #215	9/25	1,265,000,000.00	10/2/79	10.544%	
Tennessee Valley Authority					
Note #106	9/17	25,000,000.00	12/31/79	10.973%	
Note #107	9/28	620,000,000.00	12/31/79	10.844%	
Note #108	9/28	700,000,000.00	1/31/80	10.824%	

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
Department of Transportation					
Emergency Rail Services Act					
Trustee of The Milwaukee Road #2	9/20	$ 5,000,000.00	7/12/94	9.445%	
Section 511					
Chicago & North Western 511-78-3	9/12	1,418,527.00	11/1/90	9.464%	
Trustee of The Milwaukee Road	9/14	194,888.00	11/15/91	9.549%	9.777% annually
National Railroad Passenger Corp. (Amtrak)					
Note #20	9/6	6,000,000.00	10/1/79	10.609%	
Note #20	9/11	3,000,000.00	10/1/79	11.124%	
Note #20	9/12	5,000,000.00	10/1/79	11.016%	
Note #20	9/14	5,138,364.00	10/1/79	11.066%	
Note #18	9/14	3,861,436.00	9/28/79	11.066%	
Note #18	9/17	13,000,000.00	9/28/79	10.933%	
Note #18	9/20	5,500,000.00	9/28/79	10.748%	
Note #18	9/25	5,000,000.00	9/28/79	10.544%	
Note #18	9/27	3,000,000.00	9/28/79	10.769%	
Note #18	9/28	8,000,000.00	10/1/79	10.831%	
United States Railway Association					
Note #16	9/27	1,380,000.00	10/31/79	10.769%	
Note #13	9/28	689,520.00	12/26/90	8.125%	
Western Union Space Communications, Inc. (NASA)					
	9/4	500,000.00	10/1/89	9.522%	9.749% annually
	9/20	7,900,000.00	10/1/89	9.608%	9.839% "

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HINGTON, D.C. 20220 TELEPHONE 566-2041

MEMORANDUM TO THE PRESS
Friday, November 2, 1979

For your information, the White House today released the following statement:

The President applauds the Thursday night Senate action which would give an important break to small savers. The bill approved by the Senate contains major recommendations that the President submitted to Congress in May.

The President proposed and now, under the leadership of banking committee chairman Senator William Proxmire, the Senate has agreed that major deregulatory reforms in the financial area are needed: the phase-out of federally-imposed deposit interest ceilings that limit the interest that savers earn on their savings accounts; the reversal of an appellate court decision that would have prohibited the pro-consumer automatic transfer system; and the validation nationwide of pro-consumer NOW accounts and share draft accounts at credit unions.

"The Senate has taken a significant step," the President said, "to provide equity for savers in our country and to assist depository institutions in competing more effectively for funds." The President urged that the House-Senate conference committee members "act promptly to return to both houses for final approval legislation that will provide this critically important relief to small savers."

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M-173

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

FOR IMMEDIATE RELEASE

November 5, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,100 million of 13-week bills and for $3,100 million of 26-week bills, both to be issued on November 8, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 7, 1980			:	26-week bills maturing May 8, 1980		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.954	12.050%	12.64%	:	93.902	12.062%	13.06%
Low	96.930	12.145%	12.74%	:	93.886	12.094%	13.10%
Average	96.942	12.098%	12.69%	:	93.890	12.086%	13.09%

Tenders at the low price for the 13-week bills were allotted 2%.
Tenders at the low price for the 26-week bills were allotted 82%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 42,775	$ 42,775	:	$ 45,525	$ 40,525
New York	3,625,805	2,476,305	:	4,247,680	2,653,770
Philadelphia	31,690	31,690	:	18,940	18,860
Cleveland	38,960	38,960	:	24,115	24,115
Richmond	47,745	47,745	:	63,320	33,110
Atlanta	44,800	44,790	:	35,025	32,525
Chicago	312,450	171,450	:	303,490	87,990
St. Louis	67,480	35,480	:	46,920	14,920
Minneapolis	16,945	16,945	:	13,450	7,450
Kansas City	39,390	39,390	:	29,775	28,525
Dallas	15,600	15,600	:	12,155	12,155
San Francisco	225,310	95,410	:	248,595	86,415
Treasury	43,505	43,505	:	59,850	59,850
TOTALS	$4,552,455	$3,100,045	:	$5,148,840	$3,100,210
Type					
Competitive	$2,709,565	$1,257,155	:	$3,086,545	$1,037,915
Noncompetitive	632,570	632,570	:	489,195	489,195
Subtotal, Public	$3,342,135	$1,889,725	:	$3,575,740	$1,527,110
Federal Reserve and Foreign Official Institutions	$1,210,320	$1,210,320	:	$1,573,100	$1,573,100
TOTALS	$4,552,455	$3,100,045	:	$5,148,840	$3,100,210

1/Equivalent coupon-issue yield.

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

FOR IMMEDIATE RELEASE November 5, 1979

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TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received
Boston	$ 42,775
New York	3,625,805
Philadelphia	31,690
Cleveland	38,960
Richmond	47,745
Atlanta	44,800
Chicago	312,450
St. Louis	67,480
Minneapolis	16,945
Kansas City	39,390
Dallas	15,600
San Francisco	225,310
Treasury	43,505
TOTALS	$4,552,455
Type	
Competitive	$2,709,565
Noncompetitive	632,570
Subtotal, Public	$3,342,135
Federal Reserve and Foreign Official Institutions	$1,210,320
TOTALS	$4,552,455

1/Equivalent coupon-issue yield.

DATE: November 5, 1979

	13-WEEK	26-WEEK
TODAY:	12.098%	12.0[illegible]
LAST WEEK:	12.256%	12.193
HIGHEST SINCE:		
LOWEST SINCE: 10/15/79		11.716
10/15/79	11.836%	

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SHINGTON, D.C. 20220 TELEPHONE 566-2041

For Release on Delivery
Expected Around 1 P.M., EST
Monday, November 5, 1979

REMARKS BY
THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
NATIONAL JOURNAL TAX CONFERENCE
WASHINGTON, D.C.
NOVEMBER 5, 1979

It is a pleasure for me to participate in the National Journal Tax Conference. This forum offers an important opportunity to review our tax system, always a useful exercise. While it would seem premature for me to prescribe a specific blueprint for tax policy of the 1980's, it is timely to suggest a framework for discussion of the critical tax questions the nation will be facing in the years ahead.

GUIDELINES FOR TAX POLICY

Any thoughtful consideration of the tax system must be shaped by economic realities. As the 1980's begin, inflation will continue to be our most pressing domestic concern. Its impact is felt first hand by all Americans. Inflation erodes the value of a worker's wages and a business' profits. It endangers jobs and impairs investments. Clearly, inflation poses a serious threat to the quality of life in this country.

The Administration is firmly committed to waging a vigorous battle against inflation. But the battle will not be won quickly or easily. Building up over the past 15 years, inflation has become deeply embedded in the economy. A successful anti-inflation effort will therefore require a comprehensive, sustained attack on fundamental causes. Tax policy can and should play an important role in that effort.

Fiscal discipline is a major weapon in the war against inflation. An inflation-conscious tax policy must therefore be developed with a keen eye on the Federal budget. During the past 3 years, the Federal deficit has been reduced from 4 percent of GNP to 1 percent of GNP. The 1979 deficit of $27.7 billion is the smallest since fiscal year 1974. Any proposed tax reduction should be analyzed in terms of its impact on the objective of moving toward a balanced budget.

Economic progress with price stability is also critically dependent upon improvement in the rate of savings and investment in the private sector. Sluggish savings and investment performance over the past several years has contributed to a marked slowing of productivity growth -- a trend that has, in turn, contributed to spiraling wage and price adjustments. Tax policy cannot ignore these developments; it must be shaped to promote job-creating investment and to restrain business costs.

These tax policy guidelines are demanding. Discipline in fiscal policy limits the opportunity for a general tax cut in the immediate future. And, should it become appropriate to consider more narrowly focused tax reductions, an austere budget requires that tax proposals be fashioned with extreme care. The only acceptable tax policy is one that contributes to our overall economic goals efficiently, fairly and simply.

DISCUSSION OF SPECIFIC PROPOSALS

Specific illustrations may be helpful. Among the items listed on this conference's agenda are proposals to accelerate recovery of capital costs, to provide special tax benefits for individual savers, and to reduce social security taxes. Each of these proposals has been advanced as a potential response to the nation's economic needs; each should be evaluated with reference to the tax policy guidelines just outlined.

Liberalized Depreciation

Liberalized depreciation is the investment incentive proposal currently receiving most public attention. An example is the so-called "10-5-3" bill, which would restructure the system of tax allowances for capital recovery. Under this bill, nonresidential buildings could be written off over a 10-year period, most equipment over a 5-year period, and a limited amount of expenditures for cars and light trucks over a 3-year period. Accelerated depreciation methods would continue to be allowed, and the investment tax credit would be favorably modified.

There is widespread agreement with the major premises underlying 10-5-3. The depreciation system should be simplified so that all businesses, large and small, can readily comply with tax rules. The present system also provides too little incentive for capital investment during periods of high inflation and financial uncertainty; liberalized depreciation allowances should certainly be given prime consideration when a tax reduction is appropriate.

However, in evaluating the specifics of any depreciation proposal, one must not lose sight of the objective of providing incentives that are as efficient and fair as possible. Such an assessment reveals some shortcomings in the 10-5-3 proposal. However, these shortcomings could be rectified without sacrificing the basic objectives.

Revenue cost is one concern. The tax cut proposed by 10-5-3 is generous. When combined with a full 10 percent investment credit, the 5-year write off for machinery is more advantageous than immediate expensing. The budgetary implications of such a change are troublesome.

Another cause of concern is the effect of 10-5-3 on various sectors of the economy. The investment tax incentive would vary widely among industries. For example, based on Treasury Department projections, the tax reduction per dollar of investment would be 4.4 percent for the construction industry, 8 percent for motor vehicle manufacturers, 18.5 percent for the communications industry and 25.7 percent for gas utilities and pipelines.

There is no discernible relationship between the amount of tax incentive and the relative need for improved productivity performance. For example, the communications industry, which has experienced about 9 percent average annual productivity growth from 1973 through 1978, would be among the most favored industries under 10-5-3. The construction industry, which has experienced an actual decline in economic growth during that period, would be among the least favored.

The 10-5-3 formula would also provide a fertile ground for the formation of "tax shelters". High-bracket taxpayers could be expected to seek investments with the largest tax writeoffs. This would tend to increase inequities in the tax system, and at the same time divert investment funds from industries most in need of capital.

Analysis of capital recovery proposals should also involve consideration of expenditures mandated by Government, such as those for pollution control equipment. Recent data indicate that about 5 percent of all capital expenditures are devoted to abatement of pollution. While such expenditures are necessary for the welfare of the public, they do not add directly to production.

Some non-productive expenditures are now subsidized by the Government through special tax provisions. Others are borne by the consumers of the product, through higher product costs, and not by taxpayers generally. This allocation issue involves fundamental questions of economic and social policy -- questions that the Treasury Department is currently addressing in a study, requested by Congress, on the appropriate tax treatment of mandated expenditures.

Savings Incentive for Individuals

Tax policy for the next decade must be concerned with the economic decisions of individuals as well as businesses. Individual Americans are consuming too much and saving too little. The nation's personal savings rate is now just over 4 percent of disposable income, the lowest rate in nearly 30 years. This disappointing rate has contributed to lagging productivity. For this reason, various tax incentives for savings have been suggested.

However, proposals for such tax incentives must be approached with caution. A delicate balance of competing considerations is required. On the one hand, the revenue loss of any proposal would have to be within reasonable bounds. On the other hand, an effective savings incentive would need to be applied broadly enough to provide a real inducement for increased savings and not merely a windfall for existing savers.

Consider current Congressional proposals to exempt a certain level of interest income -- ranging generally from $100 to $500. It is doubtful whether these proposals would have any appreciable impact on aggregate savings. A tax reduction would be available to individuals for savings activities they would already be inclined to perform; at most, such an incentive might result in an unproductive reshuffling of existing investments.

Problems of tax equity also weigh heavily in the consideration of individual tax policy. A tax exemption creates disparate tax savings, depending upon the particular rate bracket of the taxpayer. Incentives for individual savings should be structured to minimize this inequity.

Yet, in the final analysis, the best incentive for individual savings may not lie within the tax system. Small savers now receive low interest rates because of deposit interest rate ceilings imposed under Federal law. The Financial Institutions Reform Act proposed by the Administration would phase out the interest ceilings set forth in regulation Q. The Senate version passed the Senate last week. Reliance upon the private market system to enhance the return on savings would seem to be desirable, providing incentive without specially tailored tax breaks.

Payroll Tax Reduction

A third proposal -- a possible reduction in Federal payroll taxes -- would affect both individuals and businesses. In 1981, the combined social security tax rate for employers and employees is scheduled to rise from the current 12.26 percent to 13.30 percent, and the wage base is scheduled to increase from $22,900 to $29,700. The total tax increases are estimated at about $]8 billion. Some have recommended that these scheduled increases be trimmed back or eliminated.

A payroll tax cut does have attractive features. A reduction for employers would have the effect of reducing costs and thus prices. It would also be more progressive for individuals than almost any income tax reduction.

Yet, such a reduction would require alternate funding for future benefits. A schedule of payroll tax increases was adopted in 1977 for good reason: to protect the integrity of the social security trust funds. To allow for a payroll tax cut and still provide proper financing, one proposed alternative is a value added tax. Such a tax has far-reaching implications that will begin to be explored in Congressional hearings this week. The hearings should develop comparisons of the VAT, the income tax and the social security tax in terms of impact on the economy and on the equity and simplicity of the tax system.

CONCLUSION

As the discussion of specific tax proposals suggests, there are many constraints on tax policy decisions. During the period ahead there must be a special concern for the efficient use of our limited economic resources. Budgetary discipline is essential.

One aspect of budget policy has received extensive public attention. There seems to be a consensus that closer budgetary control should be exercised over Government spending. There is a concern that Government resources are being wasted -- and Federal deficits expanded -- through inefficient spending programs.

The same sense of public concern should extend to the other side of the Federal ledger -- to the tax system. The tax system is now doing much more than just collecting revenues to pay for spending programs. The Internal Revenue Code is becoming, in itself, an unwieldy network of Government spending programs.

The Federal Government has two basic means by which it can carry out its social programs. It can do so directly, such as by making grants or loans, or it can do so by reducing liabilities otherwise owed to the Government. The two methods are economically equivalent; a potential recipient can be provided the same amount of aid using either method. When aid is provided through the reduction of tax liabilities, the special reduction is referred to as a "tax expenditure."

The Congressional Budget Act of 1974 requires a listing of tax expenditures in the budget. There are now over 90 different tax expenditure programs. For fiscal year 1980, the aggregate revenue cost attributable to tax expenditures will exceed $150 billion.

Such a substantial portion of the budget must be subject to accountability. If the tax system is to be used to encourage savings and investment, the American public has the right to demand that the tax cuts be designed to accomplish the job efficiently. Likewise, housing, welfare, energy, agriculture, and a myriad of other programs effected through the tax code must be subjected to budget scrutiny. Where these tax programs are inefficient, unduly complicated or inequitable, they should be modified or repealed. Efforts to eliminate Government waste, reduce budget deficits and rationalize Federal programs must not end with an examination of direct Government spending.

The Federal tax system is, in many respects, the envy of other nations. Government revenues are collected primarily through a system of self-assessment with a minimum of Government involvement. The Internal Revenue Service has a reputation for integrity. The tax burden is generally imposed fairly in accordance with ability to pay. But the system can be improved. In the coming years, the challenge must be accepted -- in the name of good tax policy and of good budget policy.

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HINGTON, D.C. 20220 TELEPHONE 566-2041

IMMEDIATE RELEASE
Saturday, November 3

CONTACT: Charles Arnold
202/566-2041

STATEMENT BY SECRETARY OF THE TREASURY
G. WILLIAM MILLER

No one can doubt President Certer's position on the windfall profits tax. He is determined and has worked diligently to see that the oil industry does not reap unfair windfall profits at the public's expense. The President has stated repeatedly since he proposed the tax that the Congress should pass a windfall profits tax at levels no lower than his proposals. The House bill meets that criterion. While the Senate Finance Committee has recommended a tax which will produce less revenue, the President has made it clear that he expects the tax to be strengthened on the Senate floor and ultimately to be enacted in a form close to his proposals.

I hope Senator Kennedy will work in the Senate to help us achieve the goal for a windfall profits tax which he obviously shares with the President.

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M-176

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HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 5, 1979

Contact: John P. Plum
202/566-2615

TREASURY ANNOUNCES INTEREST RATES ON DEUTSCHE MARK NOTES

The Department of the Treasury today announced that the interest rates on its two and one-half year and three and one-half year notes denominated in Deutsche Mark are 8.55% and 8.50% respectively. The notes are priced at par. Interest shall be paid annually on the redemption date.

As announced earlier, the Treasury is offering notes denominated in Deutsche Mark in an aggregate ammount up to Deutsche Mark 2.0 billion. The notes are being offered to residents of the Federal Republic of Germany. Subscriptions will be received by the German Bundesbank, acting as agent on behalf of the United States, until 12:00 noon, Frankfurt time, on Tuesday, November 6.

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M-177

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

FOR RELEASE AT 3:00 P.M. November 5, 1979

TREASURY OFFERS $2,000 MILLION OF 167-DAY
CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $2,000 million of 167-day Treasury bills to be issued November 9, 1979, representing an additional amount of bills dated October 25, 1979, maturing April 24, 1980 (CUSIP No. 912793 4B 9).

Competitive tenders will be received at all Federal Reserve Banks and Branches up to 12:30 p.m., Eastern Standard time, Wednesday, November 7, 1979. Wire and telephone tenders may be received at the discretion of each Federal Reserve Bank or Branch. Each tender for the issue must be for a minimum amount of $1,000,000. Tenders over $1,000,000 must be in multiples of $1,000,000. The price on tenders offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Noncompetitive tenders will not be accepted. Tenders will not be received at the Department of the Treasury, Washington.

The bills will be issued on a discount basis under competitive bidding, and at maturity their par amount will be payable without interest. The bills will be issued entirely in book-entry form in a minimum denomination of $10,000 and in any higher $5,000 multiple, on the records of the Federal Reserve Banks and Branches.

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.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting tenders 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. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately available funds on Friday, November 9, 1979.

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 on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars may be obtained from any Federal Reserve Bank or Branch.

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HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 5, 1979

Contact: Alvin Hattal
202/566-8381

TREASURY PROPOSES PROCEDURES TO MEASURE OIL IMPORTS

The Treasury Department today announced proposed new standard procedures developed by the Customs Service to monitor oil imports into the United States.

The new standard procedures were recommended by a special task force on oil imports established by Commissioner of Customs R. E. Chasen. The procedures are designed to insure an accurate measure of the quantity of oil imported, and will provide a firm foundation for implementing the President's oil import quota program.

The measurement process proposed by Customs involves checks of both the amount of oil unloaded from ships and the amount entering shore tanks or pipelines. The two amounts cannot vary by more than one percent without an explanation and possible penalties. In any case where a discrepancy exists, the amount determined by the shore tank gauge will be used for statistical purposes, unless the discrepancy is greater than one percent and not adequately explained. In that event, the higher amount will be used.

Measurement of the amount of oil unloaded from ships is done by ullaging -- determining the amount of oil in a vessel's storage tank by measuring how much of the tank is empty. This is done by dropping a plumb bob to the top of the oil in a tank whose size is known.

Customs proposes that opening ullages be supervised by a Customs officer. The opening ullage is the measurement which establishes the content of the vessel and provides a benchmark against which other measurements are compared. Closing ullages would be supervised by a Custom officer whenever a vessel has not completely discharged its cargo.

Ullages may be performed by company employees, ships' crew members or by employees of firms providing ullaging and gauging services by contract -- called public gaugers.

The measurement of oil entering shore tanks is performed by an "opening gauge" of the amount of oil in the tank before a delivery and a "closing gauge" of the amount in the tank after the receipt of the new oil.

Under the proposal, Customs officers would witness all shore tank gauges performed by employees of the importing company or some related party. They would also check from 5 to 10 percent of the shore tank gauges conducted by public gaugers to verify through this sampling the accuracy of the public gaugers measurements. On the unusual occasions when no vessel ullages are taken, Customs officers would witness all shore tank gauges.

Under the proposal, Customs will step up its supervision of public gaugers by strengthening its requirements and conducting periodic audits concerning conflicts of interest, record-keeping and training. Only the reports of public gaugers approved by the Customs Service are acceptable by the Service. Failure to comply with the strengthened requirements may result in the suspension or revocation of the gauger's Customs approval and the assessment of monetary or other penalties.

When tankers which are too large to enter U.S. ports unload their cargoes into lighters, the lighters will be ullaged as though they were vessels from a foreign port.

Exceptions to the ullaging policy will occur only wher measurements cannot be taken because of safety or technological considerations. These include the dangers arising from boarding vessels in severe weather and the safety constraints on ullaging certain vessels equipped to carry a layer of inert gas in their tanl

The Customs district director may order complete supervision by a Customs officer of measurements whenever he or she considers that other procedures are inadequate to insure accurate data.

Oil entering the United States by pipeline will continue to be measured by Customs officers taking opening and closing meter readings. All pipelines meters must be approved by the Customs Service and checked periodically to insure that they are accurately recording the amount of fluid passing through.

In addition, Customs officers will witness the taking of samples of the incoming oil and Customs laboratories, as necessary will analyze these samples for water content and specific gravity. Separately, ullages are routinely adjusted for water that has settled out of the oil and for variations in oil temperature.

Of U.S. petroleum and petroleum product imports in 1978, approximately 90 percent arrived by vessel through 10 major areas, 9 percent came by pipeline and 1 percent by rail and truck.

The proposed new standard policies in general reflect a codification and standardization of existing practice in most Customs Districts. A Customs survey begun in July found that the existing measurement of oil imports was good but that certain procedures varied from location to location. The proposal would provide uniformity among the Customs Districts and tighten control of oil imports through increased supervision of various gauging procedures.

The proposal will be implemented by the issuance of internal Customs directives and the publication of amendments to the Customs Regulations. A notice of proposed rulemaking setting forth the necessary revisions to the Customs Regulations relating to these procedures will be published for comment in the Federal Register on November 7. Public comments on the proposal received during the next 30 days will be considered before final procedures are adopted.

Stockpile Information

November 5, 1979
FOR IMMEDIATE RELEASE

GSA #P-2551

The General Services Administration, in consultation with the Department of the Treasury, today announced the award of a total of 1,250,000 fine troy ounces of gold from U.S. Treasury stocks. The award consisted of gold of 899.0 to 917.0 fineness in approximately 300 ounce bars.

The sale of this material resulted from the sealed bid offering of U.S. Treasury gold conducted at 11 a.m., Washington, D.C., time on November 1. The gold was available from the U.S. Assay Office, New York, New York.

The acceptable bids are as follows:

Firm	Approximate Fine Troy Ounces	Price Per Fine Troy Ounce
Bank Leu, Ltd.	1,200	$378.12
New York, New York	2,400	376.78
	2,400	375.68
	1,200	374.92
	1,200	373.12
	1,200	372.88
	2,400	371.63
	1,200	371.50
	2,400	370.13
	2,400	369.52
	1,200	368.50
	10,200	367.70
Credit Suisse	150,000	374.00
Zurich, Switzerland	11,400	370.00
Dresdner Bank AG	39,000	374.26
New York, New York	39,000	373.88
	39,000	373.31
	39,000	372.86
	39,000	372.41
	39,000	371.99
	39,000	371.06
	39,000	370.21

-M O R E-

Firm	Approximate Fine Troy Ounces	Price Per Fine Troy Ounce
E. F. Hutton & Co. New York, New York	15,000	$374.26
Gold Standard Corporation Kansas City, Missouri	1,200	374.80
Philipp Brothers New York, New York	30,000	374.10
	30,000	373.10
	30,000	372.10
Republic National Bank of New York New York, New York	3,000	376.50
	3,000	375.75
	3,000	375.00
	15,000	374.00
	15,000	373.50
	15,000	372.50
	15,000	372.00
	15,000	371.50
	15,000	370.50
	9,900	370.00
	15,000	370.00
	15,000	369.50
	15,000	368.50
	9,900	368.00
	19,800	367.50
	15,800	365.50
Samuel Montagu, Inc. New York, New York	2,400	376.50
	1,500	375.50
	3,000	375.20
	2,400	375.00
	3,000	374.70
	1,500	374.50
	2,400	374.00
	3,900	373.50
	2,400	373.00
	3,900	372.50
	5,100	372.00
	7,500	371.50

-M O R E-

Firm	Approximate Fine Troy Ounces	Price Per Fine Troy Ounce
Sharps, Pixley, Inc.	2,400	$376.50
New York, New York	2,400	375.00
	2,400	374.00
	2,400	373.50
	2,400	373.00
	2,400	372.50
	4,800	372.00
	4,800	371.50
	4,800	371.00
Swiss Bank Corporation	10,200	376.25
Zurich, Switzerland	10,200	375.75
	21,000	375.27
	10,200	373.87
	33,000	373.78
	4,800	373.57
	3,900	373.50
	33,000	373.07
	10,200	372.75
	10,200	372.68
	3,000	372.52
	33,000	372.28
	3,900	372.00
	33,000	371.76
	3,000	371.47
	10,200	371.27
	15,000	370.87
	10,200	370.75
	3,900	370.50
	3,000	369.95
	10,200	368.75
	6,000	368.10
	3,900	368.00
	10,200	367.75

-M O R E-

Firm	Approximate Fine Troy Ounces	Price Per Fine Troy Ounce
Union Bank of Switzerland Zurich, Switzerland	10,800	$377.10
	5,700	374.10
	4,800	372.10
	4,800	371.10
	38,100	370.10
	4,800	369.10
	4,800	368.10
	4,800	367.10

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

FOR IMMEDIATE RELEASE
November 6, 1979

Contact: John P. Plum
202/566-2615

TREASURY ANNOUNCES RESULTS OF DEUTSCHE MARK NOTE SALE

The Department of the Treasury today announced that it is accepting a total of DM 2,005 million in subscriptions for its issues of two and one-half year and three and one-half year notes denominated in Deutsche marks. A total amount of DM 3,892 million in subscriptions for these issues was received.

The Treasury accepted DM 808 million in subscriptions for its two and one-half year notes. Total subscriptions received for this issue were DM 1,548 million. In the case of the three and one-half year notes, the Treasury accepted DM 1,197 million in subscriptions. Total subscriptions received for this issue were DM 2,344 million.

These acceptances represent allocations of 52 percent of subscriptions for the two and one-half year notes and 51 percent for the three and one-half year maturity. In each of the two maturities, allocations are being made on a pro rata basis. Individual subscriptions of DM 100,000 and less are being accepted in full.

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

For Release Upon Delivery
Expected at 10:15 a.m. E.D.T.

STATEMENT OF DANIEL I. HALPERIN
DEPUTY ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE COMMITTEE ON LABOR AND HUMAN RESOURCES
November 7, 1979

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to appear before you today to discuss S. 1089, "The ERISA Simplification Act of 1979" introduced by Senator Bentsen.

Treasury supports the continuing effort to reduce the overall paperwork burdens on plan administrators and employers, consistent with the purpose of ERISA to provide participants, beneficiaries and the administering agencies with adequate information. Although it is imperative that those responsible for plans not be impeded by excessive or unnecessary paperwork we believe that ERISA represents a very important advance in the protection of the benefits promised to retired employees and their beneficiaries. In the structure of rights and remedies there is strong emphasis placed upon the individual participants's initiative, as well as the oversight by governmental agencies. Neither the individual nor the interested agencies can function properly as intended by ERISA if they have too much of the wrong kind of information, or too little of the right kind. In either case the result is counterproductive.

The ERISA agencies are continuing their efforts to seek the proper balance. As commented on by the Department of Labor, much has been done in the last year; but we acknowledge that there is more to be done. We welcome the recommendations of the Congress and the opportunity to enter today into a dialogue on this important subject.

Sections 2: Collection of Premiums by the IRS

Section 2 of the bill provides for the collection of the Pension Benefit Guaranty Corporation premium through the use of the plan's annual report, Form 5500, filed with the IRS. In general, this issue is primarily of concern to PBGC and we support the conclusions reached by PBGC with regard to the needs of their program.

I would like to highlight one issue, however. The intended function of the Internal Revenue Service with respect to the information reported on the form is not clear. Because the process of validating the payment of premiums is of primary concern to the PBGC, we recommend that even if this provision is adopted, the PBGC should continue to have full authority to conduct investigations and enforcement actions with respect to premiums.

Section 3: Elimination of Summary Annual Report

Section 3 of the bill would eliminate the requirement that certain statements of the plan's financial condition be provided annually to all participants. In substitution, the bill would provide for a summary of that information and the source for obtaining additional information to be posted at various work places. Since this area is of primary concern to the Department of Labor we defer to that Department as to this section of the bill.

Section 4: Filing of forms with income tax returns

Section 4 of the bill provides that "taxpayers shall have the option to file any forms required by (ERISA) with the annual income tax forms required by the Internal Revenue Code...".

This presents certain difficulties. First many plans are maintained by more than one employer, and the responsibility for filing the appropriate documents rests primarily on the plan administrator rather than on the employers. Thus, there is no single employer's tax return to coordinate with the plan's filing.

Second, a plan's filing is geared to plan years, while the employer's income tax return relates to the particular taxable period used for income tax purposes. The income tax year and the plan year do not necessarily coincide, even when there is a single employer maintaining the plan. To the extent that the plan year ends early in the tax year of the employer the bill would permit an extension of the filing of the annual report for several months until the income tax return is due. At its worst this would result in a delay of 11 months from the time that the annual return for the plan would otherwise be due. This result would be undesirable from the standpoint of the agencies whose duty it is to administer the programs based on these annual reports, as well as from the standpoint of participants and other interested individuals looking to the reports for valuable information.

Under section 6072(b), the income tax filing date for a corporation is the 15th day of the third month following the close of the taxable year. The time for filing partnership and individual tax returns is the 15th day of the fourth month. Under section 6081 extensions may be granted for filing income tax returns for periods up to six months.

The plan's return (Form 5500) is required to be filed not later than the last day of the 7th month following the close of the plan year, unless an extension of time up to 2 1/2 months is granted by the Service. For this purpose, an extension of time for filing the employer's income tax return will automatically be treated as an extension of time to file the Form 5500 in the case of a single employer plan. Therefore, for an employer with a conventional single employer plan and a plan year coinciding with its tax year, there would be no difficulty in filing the two returns at the same time.

Further there would be no difficulty for a single employer to obtain IRS approval for a change of plan year to coincide with the tax year. Thus, in those situations where the goal of the bill is attainable - a single employer plan with identical tax and plan years - legislation is not necessary to achieve it.

A final comment should be made regarding other forms required by ERISA but which are not filed on a regular basis. For example, reports must be made to the Internal Revenue Service with respect to mergers and consolidations of plans in order to give the Internal Revenue Service an opportunity timely to intervene in a transaction. These forms are unrelated to the particular tax year of the employer and in most cases are unrelated to a plan year end. This provision of the bill should not in any event be extended to such forms.

Civil Enforcement Actions by Treasury Department

The bill provides the Secretary of the Treasury with authority to bring a civil action to enforce compliance by a plan or trust with the requirements of the Internal Revenue Code applicable to so-called qualified plans. Under present law, the failure to comply with such requirements results in "disqualification" leading to adverse tax consequences including possible denial of a tax deduction for the employer, taxation of the income of the trust and possibly less favorable tax treatment for employees and their beneficiaries. The bill is obviously intended to provide alternative sanctions. The Internal Revenue Service has been studying the question of alternatives to plan disqualification and we understand that Committees of the Tax Section of the American Bar Association have also been interested in this problem. We welcome the initiative of this Committee in developing a more widespread dialogue on this very important issue. However, certain questions must be faced in considering whether the approach of the bill should be adopted.

The provisions of the Internal Revenue Code related to qualified plans can be divided into several parts:

First, there are the portions of the Internal Revenue Code which parallel provisions in Title I of ERISA relating to participation, vesting and funding. With respect to such provisions the Secretary of Labor already has the authority under section 502(b) of ERISA to bring injunctive actions to enforce compliance. The question of the division of responsibility between Labor and Treasury is being studied in connection with the President's Reorganization Plan number 4 as to which OMB is required to submit a report to Congress by January 31. A transfer of civil litigation authority from the Department of Labor to the Internal Revenue Service is among the alternatives presently under study and it seems appropriate to defer consideration until the study is completed.

The second set of provisions in the Internal Revenue Code deal with nondiscrimination requirements. That is, a qualified plan may not discriminate in favor of higher paid employees. Under present law an employer has discretion as to whether or not to establish a plan. Once a plan is established it must comply with Title I requirements; however, it need not comply with the nondiscrimination requirements. The bill suggests that at least once a plan claims the benefit of qualified status it can be forced to comply with the requirements of the Internal Revenue Code. This raises significant questions. Suppose, for example, an employer establishes a plan for salaried employees which comprise 10 percent of the employees of the company. If the Internal Revenue Service finds that the exclusion of hourly paid employees results in a discriminatory plan will the employer be required to cover the remaining 90 percent of the employees?

Third, there are provisions in the Internal Revenue Code which neither affect discrimination nor are parallel to provisions in Title I.

As an overall matter, if it is decided that injunctive relief is appropriate in all or some of these circumstances we must decide whether it is consistent with the traditional role of the Internal Revenue Service which up to now, at least on the surface, has been to determine taxpayer's appropriate liability from particular activity and not to enforce any one mode of conduct. It is also necessary to consider whether injunctive action by either Labor or the Internal Revenue Service should be in addition to possible plan disqualification as it is today or whether in some circumstances, at least, injunctive relief should entirely replace plan disqualification as a sanction. It has been our belief that the self-enforcing aspect of the Internal Revenue Code would be severly weakened if the Internal Revenue Service could only require taxpayers to do what they should have been doing all along.

Bookkeeping Guide for Small Business and IRA Guide

The bill provides for two types of guides to be published with respect to ERISA. First, the bill requires the Department of the Treasury and Labor to publish a booklet to assist plan sponsors (particularly small businesses), in developing or revising record keeping systems to simplify compliance with ERISA. The problems of small business are of particular concern in connection with the cost of compliance with ERISA. Because they lack economies of scale the reporting and compliance burdens lay a particularly heavy burden on them. Although various aspects of compliance and reporting have been dealt with in privately published materials, it would be helpful for the government to provide in one place a summary of the current thinking on the subject by both agencies. However, since we have limited resources available, we would prefer the flexibility to determine how our resources should be allocated. Naturally we do welcome suggestions from others, and in particular from Congress.

The second guide provided for by the bill is to be prepared by the Secretary of the Treasury in the form of a booklet for taxpayers summarizing the rules concerning individual retirement accounts. The Internal Revenue Service has published such a document, Publication 590 entitled "Tax Information on Individual Retirement Arrangements". The last publication was dated January 1979, and a revised version of this publication is currently being worked on with the hope that it might be available prior to the filing date for the 1979 income tax returns. Because the law and the regulations affecting IRAs have been in a state of flux, it is difficult to determine when such a summary type booklet should be published, since there is always another change just over the horizon. The Treasury believes in the value of these booklets and will continue to provide information for the public on this subject as rapidly as is possible under the circumstances.

This concludes the formal part of my testimony. I would be happy to answer any questions you might have. Thank you.

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

FOR IMMEDIATE RELEASE
November 7, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY DEPARTMENT FINDS SUGARS AND SYRUPS FROM CANADA ARE SOLD HERE AT LESS THAN FAIR VALUE

The Treasury Department today said it has determined that sugars and syrups imported from Canada are 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 will be suspended fcr three months, effective November 8, 1979. The weighted average margin of sales at less than fair value in this case was 19.25 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 January-June 1979 were valued at about $22-million.

Notice of this determination will appear in the Federal Register of November 8, 1979.

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

FOR IMMEDIATE RELEASE November 7, 1979

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $3,890 million of 52-week bills to be issued November 13, 1979, and to mature November 6, 1980, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-issue Yield)
High -	88.236	11.797%	13.17%
Low -	88.217	11.816%	13.19%
Average -	88.223	11.810%	13.18%

Tenders at the low price were allotted 45%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 27,440	$ 5,640
New York	5,441,110	3,733,400
Philadelphia	68,015	3,015
Cleveland	7,430	7,430
Richmond	58,935	13,935
Atlanta	18,160	15,695
Chicago	277,890	43,890
St. Louis	33,970	6,970
Minneapolis	19,620	5,120
Kansas City	10,240	10,240
Dallas	8,390	6,390
San Francisco	212,810	27,310
Treasury	11,045	11,045
TOTALS	$6,195,055	$3,890,080
Type		
Competitive	$3,775,035	$1,470,060
Noncompetitive	153,390	153,390
Subtotal, Public	$3,928,425	$1,623,450
Federal Reserve and Foreign Official Institutions	$2,266,630	$2,266,630
TOTALS	$6,195,055	$3,890,080

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

FOR IMMEDIATE RELEASE November 7, 1979

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Cleveland	7,430	7,430
Richmond	58,935	13,935
Atlanta	18,160	15,695
Chicago		
St. Louis		
Minneapolis		
Kansas City		
Dallas		
San Francisco		
Treasury		
TOTALS		
Type		
Competitive		
Noncompetitiv		
Subtotal		
Federal Reserve and Foreign Official Institutions	$2,266,630	$2,266,630
TOTALS	$6,195,055	$3,890,080

52-WEEK BILL RATES

DATE: November 7, 1979

HIGHEST ~~SINCE~~ EVER

LAST MONTH — 10/16/79

11.508%

LOWEST SINCE

TODAY

11.810%

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

FOR RELEASE UPON DELIVERY
Expected at 2:30 P.M. EST
November 7, 1979

STATEMENT OF BRADFORD L. FERGUSON
ASSOCIATE TAX LEGISLATIVE COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT
OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and members of the Subcommittee:

I am pleased to have the opportunity to present the views of the Treasury Department on three tax bills. The bulk of my statement will be devoted to H.R. 2797, the "Technical Corrections Act of 1979." The second bill for discussion is S. 873, a proposal to waive in limited instances the foreign residence or physical presence requirement for certain tax benefits accorded individuals living abroad. The third bill is S. 1549, which would defer payment of the excise tax in the case of sport fishing equipment manufacturers.

H.R. 2797 (TECHNICAL CORRECTIONS)

About 1 year ago, in the final days of the 95th Congress, there was a spate of legislative activity in the tax area. The conference reports on three major tax bills -- the Revenue Act of 1978, the Energy Tax Act of 1978, and the Foreign Earned Income Act of 1978 -- were adopted on October 15, 1978. The Revenue Act alone comprises about 200 pages of statutory language and over 100 provisions, with many significant issues being resolved by the House-Senate conferees during the waning hours of the session. The draftsmen performed remarkably well under the severe time pressures; but as expected, there are some technical problems that need to be corrected.

M-184

The purpose of H.R. 2797 is to effect the needed technical changes. It deals with four tax acts adopted last Congress: the Revenue Act, the Energy Tax Act, the Foreign Earned Income Act, and the Black Lung Benefits Revenue Act. The bill was drafted initially by the staff of the Joint Committee on Taxation with the aid of comments from Treasury, the Internal Revenue Service and tax practitioners. A few additional corrections were added to the bill after hearings in the Ways and Means Commmittee. But significantly, the bill has remained free of controversial substantive changes in the law; H.R. 2797 is simply an effort to reflect more accurately and clearly the Congressional intent underlying the four tax measures just mentioned.

The extraordinary time pressures of last fall make passage of H.R. 2797 especially important; however, the need for technical corrections is not an isolated phenomenon. Regardless of the time devoted to consideration and drafting of statutory language, technical errors are inevitably discovered in major tax legislation. Problems range from clerical oversights, to ambiguous wording, to unforeseen and unintended implications of an amendment. These problems become apparent as IRS and Treasury begin to prepare regulations and forms and as taxpayers and practitioners seek to apply the new provisions to specific fact situations.

Prior to 1977, there was no established mechanism to correct the errors in tax legislation. Taxpayers and tax administrators simply had to deal with the statutes as originally drafted, and to accept many tax results that Congress did not intend. However, with the introduction of the Technical Corrections Act of 1977, a formal procedure was implemented to make technical modifications to the Tax Reform Act of 1976. The 1977 Corrections Act, like the bill you are now considering, was drafted initially by the Joint Committee staff with the cooperation of Treasury, IRS and taxpayer representatives.

Our experience with the 1977 Corrections Act is instructive. Once Congress has made a substantive decision on tax policy, both taxpayers and the Government have a strong interest in assuring that the policy is implemented by proper statutory language; the 1977 Act advanced this objective, and I believe the effort was well received by all individuals concerned with the tax system. At the same time, the process was impaired by delay; technical corrections for the Tax Reform Act of 1976 were not adopted until passage of the Revenue Act of 1978.

The protracted legislative course of the 1977 Corrections Act created a number of problems. For example, the delay affected IRS efforts to make timely and accurate changes in tax forms. A number of changes were made in the 1977 tax forms on the assumption that the pending 1977 Corrections Act would be enacted in 1977. When enactment was postponed until late 1978, the effective date of one of the corrections relating to community property laws and to the credit for the elderly was changed from January 1, 1977 to January 1, 1978 -- a change that required burdensome corrective action by the IRS to assure that affected taxpayers did not overpay their 1977 taxes.

A similar timing problem may arise in connection with the 1979 Corrections Act. Unless the bill is adopted before the close of this year, many taxpayers will encounter uncertainty and confusion in filing their 1979 tax returns. We believe that such expeditious passage is possible as long as the bill is not encumbered with substantive tax changes. As now drafted, H.R. 2797 is truly "technical" legislation. We hope that controversial provisions will continue to be excluded during Senate consideration of the bill.

<u>Items already approved by Finance Committee</u>.

In view of the timing problems raised by the impending tax filing season, the Finance Committee has already approved a portion of H.R. 2797. On October 2, 1979, the Committee adopted eight technical corrections that are especially important for IRS administration. All of these changes are reflected in the 1979 tax forms and instructions that the IRS began printing last month.

The provisions already approved by the Committee are the following:

° The Revenue Act of 1978 includes a new provision for an alternative minimum tax, payable if it exceeds the sum of a taxpayer's regular tax and add-on minimum tax liability. Under the new provision, alternative minimum taxable income is computed by subtracting all deductions from gross income and then adding back certain preference items. H.R. 2797 would permit persons who do not itemize deductions to use the zero bracket amount (formerly known as the standard deduction) in computing the alternative minimum tax.

- As now drafted, the alternative minimum tax provision permits a new operating loss to provide a double tax benefit. Through a drafting error, the loss can be deducted currently in computing the alternative minimum tax and can also be carried over to reduce the tax liability of other taxable years. H.R. 2797 would correct this defect by prohibiting the deduction of a net operating loss against alternative minimum taxable income in those instances where the loss can be carried to another year.

- The alternative minimum tax is imposed to the extent it exceeds a taxpayer's regular tax (including the add-on minimum tax). Certain "penalty" taxes are excluded from the definition of "regular tax" and thereby do not reduce the alternative minimum tax. The Revenue Act expressly excluded from the "regular tax" definition such penalties as the taxes imposed on premature distributions from certain pension and annuity plans or from individual retirement accounts. H.R. 2797 would extend the same treatment to the "penalty" tax imposed on premature redemptions of retirement bonds.

- Under the alternative minimum tax, one of the tax preference items is "adjusted itemized deductions." The preference is deemed to result when certain itemized deductions exceed 60 percent of adjusted gross income (with modifications). The literal language of the Revenue Act requires, in the case of trusts and estates, that some deductions be counted twice in arriving at the modified adjusted gross income figure. The effect is to increase artifically the alternative minimum tax liability of a trust or estate. H.R. 2797 would rectify this error.

- Present law permits deductions for state and local taxes to be excluded in computing the tax preference for adjusted itemized deductions. Under H.R. 2797, a deduction for foreign taxes would also be excluded from the preference.

- The Revenue Act liberalized the rules for computing a cooperative's investment tax credit and permitted investment credits unused at the cooperative level to be flowed-through to its patrons. H.R. 2797 would make conforming changes so that the new rule would also apply to computation of the work incentive (WIN) credit and the jobs tax credit.

- The Foreign Earned Income Act eliminated a prior requirement that taxable income be stacked in rate brackets on top of income excluded (under section 911) by Americans working abroad. With this change, it is appropriate for individuals who exclude foreign earned income to use the tax tables, and H.R. 2797 would so provide.

- Articles sold as supplies for fishing vessels are not subject to the 4 cents-a-gallon excise tax on fuels or the 6 cents-a-gallon tax on lubricating oil. However, a tax-free sale is often not available in the case of commercial fishing because the producer or supplier does not know the purpose for which the item is to be used or the intermediate seller does not want to perform the necessary paperwork to obtain the tax benefit. The Energy Tax Act eliminated a prior provision that permitted the purchaser to obtain a direct refund of 2 cents-a-gallon with respect to fuels and 6 cents-a-gallon with respect to lubricating oil. Since Congress did not intend to change the excise tax exemptions for commercial fishing vessels, H.R. 2797 would restore the 2-cent and 6-cent direct refunds where items are used on a commercial fishing vessel.

<u>Other Provisions in H.R. 2797</u>.

In addition to the eight items considered by the Finance Committee last month, the Technical Corrections bill contains 71 other amendments, not including changes that are purely clerical in nature. Detailed descriptions of these provisions are sent forth in the pamphlet prepared by the Joint Committee staff. Today, I would like to mention just a few of the most important of the provisions not yet considered on the Senate side.

Three amendments are necessary to coordinate properly the investment credit provisions contained in the Revenue Act and the Energy Act.

- The Revenue Act was designed to make the investment credit permanent at a 10-percent rate, rather than reverting after 1980 to a 7-percent rate as scheduled under prior law. However, the Energy Act restated the investment credit provisions of old law and was formally enacted after the Revenue Act. As a result, the Code may still technically retain a December 31, 1980 expiration date for the 10-percent credit. H.R. 2797 would clarify Congressional intent to make the 10-percent rate permanent.

- ° Certain equipment may qualify for both the regular 10-percent investment credit and an additional 10-percent credit for energy property acquired after September 30, 1978 and before January 1, 1983. Under the Revenue Act, only one-half of the otherwise qualified investment is eligible for the regular investment credit where the taxpayer uses the special 5-year amortization provision for pollution control facilities and also finances the facilities with tax-exempt bonds. Congress intended also to reduce the special energy investment credit to 5 percent in the case of energy property, including certain pollution control equipment, financed by tax-exempt bonds. But through interaction of the two provisions, the energy credit is effectively only 2.5 percent with respect to pollution control equipment subject to the limitations on the regular investment credit. This result was not intended, and the bill would amend the Code to provide a 5 percent energy investment credit to this property.

- ° The Revenue Act extends the regular investment credit to certain rehabilitation expenditures attributable to buildings that are at least 20 years old. To preclude the claiming of a double regular investment credit, the credit for rehabilitation expenditures is denied for property qualifying under other investment credit rules. As now written, the Code also prohibits a taxpayer from claiming both the energy investment credit and the regular investment credit for rehabilitation expenditures that qualify as expenditures for energy property. The bill would correct this unintended result.

Under the Revenue Act, no deduction is generally allowed for expenses incurred with respect to entertainment facilities. The Act specifically excepts "country club dues" from the new deduction disallowance rule. Congress did not intend the exception to be so restricted, and the bill would reflect the Congressional intent by deleting the word "country" from the exception for club dues.

The Revenue Act increased the capital gains deduction from 50 percent to 60 percent for individuals (so that 40 percent of individual capital gains would be subject to tax) and also reduced the alternative capital gains tax rate for corporations from 30 percent to 28 percent. H.R. 2797 contains several technical amendments to correct drafting errors and to clarify the application of these capital gains changes. Among the technical corrections are the following:

° Prior to the Revenue Act, an individual in high rate bracket could elect to have the first $50,000 of capital gains taxed at a 25 percent rate in lieu of deducting one-half of capital gains from gross income. This special "alternative tax" for individuals was repealed for taxable years beginning after December 31, 1978. Through inadvertence, the rules for calculating the alternative tax for taxable years prior to repeal were not altered to reflect the increase in the capital gains deduction from 50 percent to 60 percent. After consulting with Treasury staff and the Joint Committee staff, the Internal Revenue Service prepared its 1978 tax forms and instructions as though the conforming change were properly made, and the Technical Corrections bill would now formally correct this oversight in the Revenue Act.

° The increase in the capital gains deduction for individuals was made effective for sales or exchanges after October 31, 1978. The reduced alternative capital gains rate for corporations was made effective for sales or exchanges after December 31, 1978. Left unclear was the treatment of payments received after the respective effective dates for sales or exchanges occurring before the effective dates. Under H.R. 2797, the capital gains tax reductions would apply in instances where the income is properly taken into account by the seller during a period after October 31, 1978 (in the case of individuals) or after December 31, 1978 (in the case of corporations).

Another important change relates to the effective date of the targeted jobs credit. The Revenue Act was drafted to make the targeted jobs credit effective for wages paid or incurred through December 31, 1980. The statement of conference managers indicates that the expiration date is to be December 31, 1981. The statement of managers reflects the correct Congressional intent, and the Technical Corrections bill would rectify the clerical error in the Act.

<u>Additions to H.R. 2797</u>.

Subsequent to the House adoption of H.R. 2797, numerous additions and modifications have been proposed. In consultation with the Finance Committee staff and Treasury staff, the staff of the Joint Committee on Taxation has compiled a list of those proposals that appear to fall within the proper scope of the Technical Corrections bill. A description of these items is attached to my statement. Treasury does not object to any of these items, and we support the adoption of the attached package of amendments to the bill.

S. 873 (AMERICANS ABROAD)

S. 873 would waive in certain cases the foreign residence or physical presence requirement which otherwise must be met by individuals living abroad in order to qualify for certain tax benefits. The Treasury Department does not oppose this legislation.

Present law provides a deduction for certain excess living costs incurred by individuals who have been resident in a foreign country for at least 1 taxable year or who have been physically present in a foreign country for at least 510 days in an 18-month period. Alternatively, certain individuals who live in camps and who satisfy this residence test or physical presence test may elect to exclude a limited amount of income earned abroad.

In the case of individuals who are required to leave a foreign country because of war or civil unrest before qualifying for the deduction or exclusion, subsection (a) of H.R. 3874 would give the Secretary of the Treasury, after consultation with the Secretary of State, the authority to waive the residence or physical presence requirement if the individual establishes that he could reasonably have been expected to have met such requirement had not the war or civil unrest occurred. The bill is intended to provide relief to American employees who were forced to leave Iran before qualifying under the residence or physical presence test, as well as to others in similar circumstances. We believe that such relief is warranted and that the bill is suitably tailored to address the narrow circumstances contemplated. Accordingly, the Treasury Department does not oppose this legislation.

We do have some technical comments, however. Subsection (b)(1) of the bill provides that its relief provisions shall apply to taxable years beginning after December 31, 1976. Since the bill would amend section 913, its effective date should not be earlier than the effective date of section 913. Specifically, the amendment to section 913 should apply to taxable years beginning after December 31, 1977, or, in the case of taxpayers who made an election pursuant to section 209(d) of the Foreign Earned Income Act to have prior law (*i.e.*, section 911 as amended by the Tax Reform Act of 1976) apply to the 1978 taxable year, to taxable years beginning after December 31, 1978.

Section 913 generally replaced section 911 and subsection (b)(3) of the bill effectively provides that the Secretary shall apply analogous rules for the 1978 taxable year of individuals who made the election under section 209(c) of the Foreign Earned Income Act to have section 911 apply for that year. This raises two additional technical issues. First, consistent with subsection (b)(1), subsection (b)(3) should apply only with respect to individuals who, after September 1, 1978, left the foreign country in which they were resident or physically present. Second, consideration should be given to allowing taxpayers to qualify for tax year <u>1977</u> despite their premature departure. Taxpayers who might fail to qualify for 1977 are those who arrived in Iran late in 1977 and were forced to leave Iran before completion of an 18-month period or before completion of a full year's residence in 1978. The suggested change, which would ensure a partial exclusion for the portion of the 1977 year during which the individuals were abroad, could be accomplished by inserting at the beginning of subsection (b)(3) the language "With respect to the taxable year of an individual beginning during 1977, or...."

S. 1549 (FISHING EQUIPMENT)

S. 1549 would defer payment of the manufacturers' excise tax in the case of sport fishing equipment manufacturers. Under present law, payment of the tax is due by the ninth day following the end of each semimonthly period. S. 1549 would generally postpone the due date until the end of the quarter following the quarter in which the taxable article is shipped; however, existing law would continue to apply with respect to sales made during the last quarter of the Federal fiscal year (<u>i.e.</u>, July 1 through September 30). This proposal is virtually identical to section 7 of H.R. 5505, which has recently been passed by the House.

The bill is designed to match payment of the excise tax with the manufacturers' gross receipts. Apparently, the seasonal retail sales pattern for sport fishing equipment leads manufacturers to grant lengthy credit terms to distributors, so that the latter will increase stock during the off-season and enable the manufacturers to produce at a more even pace. Under present law, the manufacturers thus may pay the excise tax before they receive payment from their distributors.

However, the extended credit terms of the manufacturers also require them to finance all other expenses (rent, wages, raw materials, etc.) for some time before receiving payment from their distributors. S. 1549 would have the effect of delaying payment of the excise tax more than that of other expenses of the manufacturers. We do no believe such a special tax deferral is warranted, and we therefore oppose S. 1549.

Different trades have different customary credit terms, which are structured to facilitate operations and to maximize profits. Since the credit terms of an industry are for the benefit of the industry, Treasury sees no reason why the time of payment of excise taxes should be varied for different industries depending on the usual credit terms in the industry. If a special rule is fashioned for fishing equipment, other special rules may have to be given to other industries which have unique business practices.

CONCLUSION

Mr. Chairman, in closing let me reemphasize the importance of the Technical Corrections bill. H.R. 2797 -- and the proposed staff amendments -- represent an important effort to relieve confusion and unintended hardship for taxpayers. To achieve the purpose of the bill, prompt passage is critical. Therefore, we urge that H.R. 2797 remain technical and that its consideration not reopen substantive policy debate on the scores of tax issues addressed in 1977 and 1978.

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Treatment of Earned Income Credit in AFDC and SSI Programs (Section 101(a)(2)(A) and (B) of the Technical Corrections Act and sections 402 and 1612 of the Social Security Act)

The Technical Corrections Act, as passed by the House, amends the Social Security Act to specify that the earned income credit -- including both the portion received in advance payments and the portion received as a tax refund -- is to be treated as earned income for the purposes of the AFDC and SSI programs. The proposed amendment would make it clear that, if advance payments of the earned income credit exceed the actual credit so that the individual must return the difference, the welfare agency would give some reconciling increase in AFDC or SSI benefits. The procedures for computing this increase would be provided in regulations by the Secretary of Health and Human Services.

'larification of Effective Dates of Coordination of Invest- ıent Credit Rules for Pollution Control Equipment (Sec- :ion 103(a)(2) of the Technical Corrections Act and sec- :ions 46(c)(5)(B) and 48(ℓ)(1) of the Code)

Section 103(a)(3) of the Technical Corrections Act leals with coordinating the changes made to the general .imitation on credits for pollution control equipment (Code ;ection 46(c)(5)(B)) with a specific limitation for purposes ›f the energy credit for energy property, including certain ›ollution control equipment (Code section 48(ℓ)(11)). If ›oth limitations apply to pollution control equipment eligible 'or the energy credit, this credit is reduced to an effective 'ate of 2.5 percent. The Technical Corrections Act, as passed ›y the House, would make the general limitation inapplicable 'or purposes of the energy credit. This technical correction .s effective on January 1, 1979.

However, the energy credit became effective 3 months ›arlier, on October 1, 1978, and the interaction of the old pre-1979) general limitation and the energy credit limitation 'ill also cause the effective rate of the energy credit for 'ollution control equipment to be only 2.5 percent during he period from October 1, 1978 through December 31, 1978.

The proposed amendment would address this problem by making the effective date for the technical correction as if it were included in the relevant provision of the Energy Tax Act of 1978, rather than the Revenue Act of 1978, so that it would become effective at the same time as the energy credits on October 1, 1978.

<u>Rules for Work Incentive Credit and Targeted Jobs Credit for Cooperatives</u> (Section 103(a)(4) of the Technical Corrections Act of 1979 and sections 50B(f), 52(f), and 52(h) of the Code.

Prior to the Revenue Act of 1978, special rules applied for purposes of determining the amounts of work incentive (WIN) credit and general jobs credit which could be used by cooperatives. These special rules applied the same rules under which the amount of investment credit for cooperatives was determined. The Revenue Act of 1978 revised the rules pertaining to the investment credit for cooperatives. However, it did not change the rules pertaining to the WIN and jobs tax credits for cooperatives. The Technical Corrections Act, as passed by the House, provided that the new rules for investment credit of cooperatives would also apply to the WIN ad jobs tax credits. This amendment was accomplished by adding a cross reference in the WIN credit (Code section 50B(f)) and the jobs tax credit (Code section 52(f)). This amendment is to be effective for taxable years ending after October 31, 1978 (the same effective date as the change in treatment of investment tax credit). However, the provision now described in section 52(f) of the Code was numbered section 52(h) of the Code. This renumbering was effective for wages paid or incurred after December 31, 1978, in taxable years ending after that date. As a result, the amendment in the Technical Corrections Act, as passed by the House, does not cover wages paid or incurred in the period between October 31, 1978 and December 31, 1978. The proposed amendment would correct this result so that wages paid or incurred by a cooperative during the period from October 31, 1978 to December 31, 1978 would qualify for the new treatment.

Application of Withholding Tax to Medical Reimbursements (Section 103(a)(10)(A) of the Technical Corrections Act and section 3401(a)(19) of the Code)

Prior to the Revenue Act of 1978, medical reimbursements paid to, or on behalf of, an employee under a self-insured medical reimbursement plan of an employer generally were excluded from the employee's gross income and were not subject to withholding tax. Under the Act, such payments may be fully or partly includable in an employee's gross income for a year if the medical reimbursement plan discriminates in favor of highly compensated individuals for the year, and such payments are subject to withholding tax and reporting if they are includable.

The Technical Corrections Act, as passed by the House, provides an exclusion from withholding tax for amounts paid under a medical reimbursement plan for an employee if it is reasonable to believe that the employee will be allowed to exclude the payment from gross income under the rules applicable to such plans. The proposed amendment would provide an exclusion from withholding tax for all amounts paid under such a plan regardless of whether it was reasonable to believe that such payments would be excludable from gross income. However, reporting of taxable payments would continue to be required.

Clarification of Effective Date for Medical Reimbursement Plans (Section 103(a)(10)(D) of the Technical Corrections Act and section 366(b) of the Revenue Act of 1978)

Under the rules provided by the Revenue Act of 1978 for self-insured medical reimbursement plans, excess reimbursements made during a plan year are includable in the gross income of a highly compensated individual for the taxable year in which (or with which) the plan year ends.

The Technical Corrections Act, as passed by the House, provides that the medical reimbursement plan rules apply only to reimbursements paid after December 31, 1979. However, the legislative history indicates that, in determining the taxability of reimbursements made under a fiscal year plan, the employee coverage and benefits provided by a plan for its entire plan year beginning in 1979 will be taken into account. The proposed amendment would provide that payments made in 1979 would not be taken into account in determining whether payments made after 1979 are taxable.

Clerical Amendment Relating to Capital Gains Changes (Section 104(a)(3)(C) of the Technical Corrections Act and section 593(b)(2)(E)(iv) of the Code)

For purposes of computing the addition to reserves for bad debts of a thrift institution, taxable income is determined by excluding the effective amount of net capital gains not subject to tax. The Technical Corrections Act, as passed by the House, would change the computation to conform to the reduction in the top corporate tax rate and in the alternative tax rate on corporate capital gains. However, that change does not take into account the different rates in effect during a transitional period prescribed in the Revenue Act of 1978. The proposed amendment would correct this error.

<u>Clarification of Tax Treatment of Cooperative Housing Corporation Upon Death of Promotor</u> (Section 531 of the Revenue Act of 1978, section 105(a)(6) of the Technical Corrections Act, and section 216(b)(6) of the Code)

A tenant-stockholder in a cooperative housing corporation is entitled to deduct amounts paid to such a corporation to the extent such amounts represent his or her proportionate share of allowable real estate taxes and interest relating to the corporation's land and buildings (section 216). In general, for a corporation to qualify as a cooperative housing corporation (which can pass through these deductions to tenant-shareholders), 80 percent or more of the gross income of the cooperative housing corporation must be derived from individual tenant-stockholders.

Under the Revenue Act of 1978, as modified by the House version of the Technical Corrections Act, if an original seller (<u>e.g.</u>, promoter) acquires stock of a cooperative housing corporation either from the corporation or, in certain cases, by foreclosure, the original seller shall be treated as a tenant-stockholder for a period of not to exceed 3 years from the date of the acquisition of the stock.

Neither the 1978 Act nor the Technical Corrections Act, as passed by the House, indicate the tax treatment of the corporative housing corporation where the original seller dies within the 3-year period. The proposed amendment would allow the estate of the promotor to qualify the cooperative housing corporation for the same tax treatment as if the promotor had not died.

Cash Distributions from Employee Stock Ownership Plans After December 31, 1978 (Section 101(a)(6)(B) of the bill and sections 409A(h) and 4975(e)(7) of the Code.

The tax credit employee stock ownership plan provisions of the Revenue Act of 1978 generally applied with respect to qualified investment for taxable years beginning after December 31, 1978. The Technical Corrections Act, as passed by the House, specifies the effective date of the provisions with respect to ESOPs. Under the Technical Corrections Act, the cash distribution option provided in section 409A(h) of the Code would not apply to ESOPs until after December 31, 1979.

The proposed amendment would provide that cash distributions made from an ESOP after December 31, 1978 and before July 16, 1979, would be permissible.

<u>Limitation on Election to Have New Tax Credit Employee Stock Ownership Plan Rules Apply 1 Year Early</u> (Section 101(a)(6)(B) of the bill)

The Technical Corrections Act would allow taxpayers to elect to have the new tax credit employee stock ownership plan rules apply to taxable years beginning after December 31, 1977, rather than December 31, 1978. The proposed amendment would limit this election to plans adopted after December 31, 1978.

<u>Election to have New Put Option Rules Apply in Employee Stock Ownership Plans</u> (Section 101(a)(6)(B) of the Technical Corrections Act)

Under the Technical Corrections Act as passed by the House, an employer would be permitted to elect to have the new put option rules apply to all employer securities held by a tax credit employee stock ownership plan which are not readily tradable on an established market. The election could be revoked only with the consent of the Secretary.

The proposed amendment would delete this provision from the Technical Corrections Act because there is no need for legislative action. It is understood that the Secretary of the Treasury, under regulations, can, under present law, allow such an election (and revocation of election) of the new put option rules with respect to both tax credit employee stock ownership plans and employee stock ownership plans.

<u>Definition of Employer Securities for Employee Stock Ownership Plans</u> (Section 101(a)(6)(C) of the Technical Corrections Act and Section 4975(e)(8) of the Code)

The Technical Corrections Act, as passed by the House, amends the definition of qualifying employer securities for purposes of the prohibited transaction loan exemption available to employee stock ownership plans. The proposed amendment would make clear that this change in the definition of qualifying employer securities does not affect the status of employer securities acquired before December 31, 1979, which constituted qualifying employer securities as defined in section 4975(e)(8) of the Code at the time they were acquired.

Special Effective Date for Certain Deferred Compensation Payments to Independent Contractors (Section 133 of the Revenue Act of 1978)

Prior to the Revenue Act of 1978, section 404(a)(5) of the Code provided that where an employer deferred payment of compensation to an employee pursuant to a nonqualified plan, the employer could deduct the compensation only in the year in which the compensation was includable in the employee's gross income. If the payment was not made pursuant to a qualified plan, but pursuant to a "method of employer contributions or compensation [having] the effect of a stock bonus, pension, profit-sharing, or annuity plan, or similar plan deferring the receipt of compensation...," the deduction-timing limitations of section 404(a) were also applicable.

Section 133 of the Revenue Act of 1978 added a new Code section 404(d) which extends the deduction-timing limitation of section 404(a) to payments of deferred compensation made to independent contractors. Section 133 of the Revenue Act of 1978 also amended Code section 404(b) by changing the words "or similar plan" to read "or other plan." The provisions apply to deductions for taxable years beginning after December 31, 1978.

The proposed amendment would generally provide that the changes made by section 133 of the Revenue Act of 1978 would not be effective until taxable years beginning after December 31, 1979, in the case of a plan which defers payment of certain commissions by a title insurance company to its members.

<u>Employee Stock Ownership Plans Name Change</u> (Section 141 of the Revenue Act of 1978 and sections 46, 48, 56, 401, 409A, 415, 4975 and 6699 of the Code)

The Revenue Act of 1978 changed the names given to employee stock ownership plans. Under the Act, employee stock ownership plans were renamed "leveraged employee stock ownership plans," and TRASOP's were renamed "ESOP's."

The proposed amendment would again change these names. A leveraged employee stock ownership plan would be called an "ESOP" (as it was before the 1978 Act). An ESOP (TRASOP, as it was known before the 1978 Act) would be called a "tax credit employee stock ownership plan."

Amount of Matching Employer Contributions to a Tax Credit Employee Stock Ownership Plan (Section 141 of the Revenue Act of 1978 and section 48(n)(1)(B)(i) of the Code)

The 1978 Revenue Act continued the provision of prior law which allows a taxpayer to elect an additional one-half of 1 percent investment tax credit if employer securities (or cash used to acquire employer securities) are transferred to a tax credit employee stock ownership plan and are matched by employee contributions. However, the Code, as amended by the Revenue Act, does not provide an effective limitation on the qualified employee matching contributions which must be matched by the employer in order to obtain the credit. The proposed amendment would provide that in order for the taxpayer to be eligible for the additional one-half percent credit, the taxpayer must transfer securities having an aggregate value at least equal to the lesser of the sum of qualified matching employee contributions or one-half of 1 percent of the taxpayer's qualified investment for the taxable year.

<u>Time for Contribution of Matching Employer Contributions to Tax Credit Employee Stock Ownership Plan</u> (Section 141 of the Revenue Act of 1978 and section 48(n)(1)(C) of the Code)

Prior to the Revenue Act of 1978, employers were generally required to contribute any matching employer contributions to a tax credit employee stock ownership plan within 30 days after the time for filing the corporate income tax return for the taxable year for which the investment credit was taken. Employees were given up to 24 months after the close of that taxable year to make matching employee contributions.

The proposed amendment would clarify the rule relating to the time for making matching employer contributions to a tax credit employee stock ownership plan by allowing employers to make the matching employer contributions at the time the matching employee contributions are made.

Voting Rights for Participants in Employee Stock Ownership Plans (Section 141 of the Revenue Act of 1978 and section 409A(e) of the Code)

Under the Revenue Act of 1978, employee stock ownership plans are required to allow participants to direct the trustee in the manner in which employer securities allocated to the participants accounts are to be voted. Full voting direction is required where the employer has a registration-type class of securities. Limited voting direction (*i.e.*, only on major corporate issues) is required where the employer does not have a registration-type class of securities.

The amendment would repeal the requirement for limited direction of voting under an employee stock ownership plan where the employer does not have a registration-type class of securities. However, employee stock ownership plans would still be subject to the general rule that a defined contribution plan which is established by an employer whose stock is not publicly traded and which has more than 10 percent of the plan assets invested in securities of the employer will be required to pass through voting rights to employees on major corporate issues.

<u>Rules for Time of Establishing a Tax Credit Employee Stock Ownership Plan</u> (Section 141 of the Revenue Act of 1978 and section 409A(f) of the Code)

The proposed amendment would clarify section 409A(f) in two ways. First, it would provide that a tax credit employee stock ownership plan will not fail to meet the requirements of Code section 401(a) merely because it is not established by the close of the employer's first taxable year for which the employer claims a tax credit for contributions to the plan. Second, it would provide that a tax credit employee stock ownership plan will fail to meet the requirements of section 409A of the Code unless it is established before the due date for filing the employer's tax return (including extensions) for the first taxable year for which the employer claims a tax credit for contributions to the plan.

<u>Definition of Employer Securities for Employee Stock Ownership Plan Purposes</u> (Section 141 of the Revenue Act of 1978 and section 409A(ℓ) of the Code)

The Revenue Act of 1978 added to the Code a definition of employer securities for purposes of tax credit employee stock ownership plans and ESOP's.

The proposed amendment would make three changes in this definition.

First, the proposed amendment would make clear that where an employer has not issued readily tradable common stock, the term "employer securities" will include common stock issued by the employer which has a combination of voting power and dividend rights equal to the class of common stock with the greatest voting power and the class of common stock with the greatest dividend rights.

Second, the proposed amendment would provide that, under regulations to be issued by the Secretary, convertible preferred stock would be included in the definition of employer securities where such stock is subject to a call which would either (1) cause the preferred stock to be exchanged for other employer securities, or (2) cash out the preferred stock subject to the right of the holder of the preferred stock to convert the preferred stock into common stock.

Finally, the proposed amendment would make clear that the definition of employer securities would include preferred stock which is convertible into common stock which is not readily tradable.

Unrealized Appreciation in Employer Securities (Section 142 of the Revenue Act of 1978 and sections 402 and 2039 of the Code)

The proposed amendment would make it clear that in order for a lump sum distribution from a pension plan to qualify for the estate tax exclusion, it is not necessary to include in gross income the net unrealized appreciation in employer securities received in such distribution.

Integration of Simplified Employee Pensions with Social Security (Section 152 of the Revenue Act of 1978 and section 408(k) of the Code)

The provisions relating to simplified employee pensions, as added by section 152 of the Revenue Act of 1978, allow an employer to take into account contributions or benefits provided by the employer under the Federal Insurance Contributio Act, and in certain cases, require an employer to take into account payments made with respect to the tax on self-employment income. However, this provision was not intended to allow an employer to maintain both a conventional pension plan qualified under section 401(a) of the Code and a simplified employee pension where each plan is integrated with social security. Therefore, under the proposed amendment, a SEP could be integrated with social security only in those situations where the employer does not maintain any other tax-qualified plan which provides for integration of employer contributions or plan benefits with social security contribution or benefits.

Reporting Requirement for Simplified Employee Pensions
(Section 152(b) of the Revenue Act of 1978 and sections 408(l) and 6693(a) of the Code)

The Revenue Act of 1978 created a new type of retirement plan, known as a "simplified employee pension" ("SEP"). The Revenue Act requires an employer who makes contributions on behalf of an employee to a SEP to provide reports to the employee with respect to such contributions. However, no express provision is currently included in the Code to impose penalties if an employer fails to furnish required information to an employee.

Unless employers timely report the amount contributed to the SEP, employees will lack the information required to take the appropriate deduction on their tax returns. Therefore, the proposed amendment would extend to SEP's the current penalty relating to failure to provide reports on individual retirement accounts or annuities. This penalty is $10 for each failure unless the failure is due to reasonable cause.

Aggregation of Simplified Employee Pensions with Other Plans (Section 152(g)(3) of the Revenue Act of 1978 and section 415(e)(5) of the Code)

The Code limits the "annual additions" (employer contributions, forfeitures and, in some circumstances, a portion of employee contributions) that may be allocated to a participant's account in a defined contribution plan for any year. For this purpose, an individual retirement account or annuity ("IRA") is aggregated with other defined contribution plans of an employer if the participant for whom the IRA is maintained is in "control" of the employer. As drafted, the Revenue Act treats simplified employee pensions ("SEP's") the same as IRA's under the aggregation rule, so that a SEP for the benefit of a participant will be aggregated with the defined contribution plan of an employer only where the participant is in "control" of the employer.

A broader aggregation rule was intended with respect to SEP's. The legislative history of the Revenue Act of 1978 contemplates that employer contributions to a SEP are to be taken into account as employer contributions to a defined contribution plan under the "annual addition" limitations in all cases, without regard to whether the employee is in control of the employer. The proposed amendment would effect this change.

<u>Penalty for Failure to File a Partnership Return for Underwriting Syndicates</u> (Section 211 of the Revenue Act of 1978 and section 6698 of the Code)

The Revenue Act of 1978 imposed a penalty on the failure to file a partnership return. Historically, partnership returns have not been filed in the case of syndicates of dealers in securities formed for the purpose of underwriting, selling or distributing securities. The proposed amendment would provide an exception to the penalty for failure to file a partnership return in such a case.

<u>Computation of Tax From Foreclosure Property of a Real Estate Investment Trust</u> (Section 301 of the Revenue Act of 1978 and section 857(b)(4)(A) of the Code)

Under present law, a tax is imposed on the net income from foreclosure property of a real estate investment tax. The tax is determined using the corporate rates with a surtax exemption of zero. The Revenue Act of 1978 removed the surtax exemption for corporations and replaced it with a graduated rate schedule. The proposed amendment would make a conforming amendment providing that the tax on net income from foreclosure property of a real estate investment trust is to be computed at the highest rate applicable to corporations.

<u>WIN Credit for Subchapter S Corporations and Estates and Trusts</u> (Section 322 of the Revenue Act of 1978 and section 50B(d) and (e) of the Code)

The Revenue Act of 1978 provides that an employer's deduction for wages is reduced by the amount of WIN credit allowable (Code section 280C(a)). However, for estates, trusts, and subchapter S corporations, the credit is computed by individual beneficiaries and shareholders, who are not allowed deductions for the wages paid by the estate or corporation. Thus, the new provision is inconsistent with the current law method for the computation of the WIN credit by beneficiaries and shareholders. The proposed amendment would provide that the WIN credit is to be computed by the estate, trust or subchapter S corporation, rather than by individual shareholders and beneficiaries. The deduction of the estate, trust or subchapter S corporation will be reduced by the amount of WIN credit allowable.

<u>WIN Credit for Child Care Expenses Between October 1, 1978, and December 31, 1978</u> (Section 323 of the Revenue Act of 1978 and section 50B(a)(2)(B) of the Code)

The WIN credit, as in effect before the amendments of the Revenue Act of 1978, contained a provision denying the credit in connection with services performed after October 1, 1978, in connection with a child day services program. The Revenue Act permits a WIN credit for such services performed after December 31, 1978. The proposed amendment would repeal the termination date under prior law to avoid a 3-month gap in WIN credit coverage.

<u>Correction of Typographical Error</u> (Section 337(a) of the Revenue Act of 1978)

The proposed amendment would correct a typographical error in section 337(a) of the Revenue Act of 1978 by changing "or a refund profit" to "of a refund profit".

<u>Clarification of the Limitation on the Nondeductibility of Certain Entertainment Facility Expenses Includable in Income</u> (Section 361 of the Revenue Act of 1978, and section 274(e) of the Code)

Prior to the enactment of the Revenue Act of 1978, expenses incurred with respect to entertainment facilities*/ were deductible if they were ordinary and necessary, the facility was used primarily for the furtherance of the taxpayer's business (<u>i.e.</u>, more than 50 percent of the time that it was used), and the expense in question was related directly to the active conduct of the taxpayer's business. For this purpose, entertainment facility expenses included dues or fees paid to any social, athletic, or sporting club or organization. Dues or fees paid to professional associations, civic organizations, or to clubs operated solely to provide meals under circumstances normally considered to be conducive to business discussions generally were not considered to be entertainment facility expenses.

The Revenue Act of 1978 provided generally that no deduction was allowable for any entertainment facility expense. However, the Act retained a number of exceptions to the general rule that existed under prior law. One of these relates to expenses treated as employee compensation which are subject to withholding (section 274(e)(3)). The proposed amendment provides an exeption from the facility expense deduction disallowance rule in the case of expenses for individuals who are not employees if the taxpayer files an information return with respect to the amount includable in the individual's gross income (regardless of the amount involved).

*/ An entertainment facility generally is any item of personal or real property owned, rented, or used by a taxpayer during the taxable year for, or in connection with, an activity normally considered to be of an entertainment nature.

<u>Clarification of Treatment of Liabilities of Controlled Corporation</u> (Section 365(a) of the Revenue Act of 1978 and section 357(c)(3) of the Code)

THe Revenue Act of 1978 provided that where a cash basis taxpayer transfers property to a controlled corporation subject to certain liabilities, then certain "accounts payable" would not be taken into account in determining the amount of gain recognized by the transferor on the transfer. The legislative history indicates that the taxpayer could also qualify under this provision where he was using a hybrid method of accounting. The legislative history also indicates that "accounts payable" would include trade accounts payable and other liabilities (<u>e.g.</u>, interest and taxes) which relate to the transferred trade or business. Thus, the legislative history indicates that the scope of the provision is intended by Congress is broader than the literal language of the statute would seem to indicate. The proposed amendment clarifies the statutory language consistent with the intent of Congress by deleting the requirement that the taxpayer be using the cash method of accounting and that the liabilities to be disregarded must be "accounts payable".

<u>Relationship of the Recapture of the Investment Tax Credit and WIN Credit and the Alternative Minimum Tax</u> (Section 421(a) of the Revenue Act of 1978 and section 55(b)(2) of the Code)

The Revenue Act of 1978 imposed a new alternative minimum tax on individuals. The tax is the amount by which the gross alternative minimum tax exceeds the "regular tax" on the taxpayer. In determining the taxpayer's regular tax, certain penalty taxes are not taken into account. However, no adjustment to regular tax is made for the recapture of investment tax credit or WIN credit. As a result, there is no additional tax by reason of the recapture of the investment tax credit or WIN credit in any year where the alternative minimum tax occurs. The proposed amendment would correct this problem by excluding recapture of investment tax credit and WIN credit from the definition of regular tax.

<u>Allocation of Tax Preference Items in the Case of Trusts and Estates</u> (Section 421(c) of the Revenue Act of 1978 and section 58(c) of the Code)

The Revenue Act of 1978 imposed a new alternative minimum tax on individuals including trusts and estates. In the case of a trust or estate, items of tax preference are to be apportioned between the estate or trust and the beneficiaries on the basis of income of the estate or trust allocable to each. This rule does not work well in the case of the preference for adjusted itemized deductions. The proposed amendment would provide that the allocation of items of tax preference would be made in accordance with Treasury regulations.

<u>Recapture of Depreciation of Certain Subsidized Low-Income Housing</u> (Section 701(f)(3)(E) of the Revenue Act of 1978 and section 1250(a)(1)(B) of the Code)

The Revenue Act of 1978 added a provision to clarify that in computing the depreciation recapture under section 1250 of the Code for property on which rehabilitation expenditures were amortized under Code section 191, the amount of "straight line" depreciation is to be computed without regard to the 5-year useful life under section 191. This amendment may inadvertently have caused additional recapture to apply to certain subsidized low-income housing. The proposed amendment would negate this inadvertent impact by providing that subsidized low-income housing remains eligible for the special phase-out of recapture even though rehabilitation expenditures for that housing have been amortized under Code section 191.

Employee of Grantor or Beneficiary Treated as Related Person for Purposes of the Tax on Generation Skipping Transfers (Section 702(n)(2) of the Revenue Act of 1978 and section 2613(e) of the Code)

Under the generation skipping provisions, an individual is a beneficiary of a trust if he has a present or future power or interest in it. "Power" means "any power to establish or alter beneficial enjoyment of the corpus or income of the trust." A person has an "interest" if the person has either "a right to receive income or corpus from the trust" or "is a permissible recipient of such income or corpus." Thus, one can be a beneficiary by satisfying either or both of the tests.

The Tax Reform Act of 1976 excluded certain independent trustees from being treated as beneficiaries solely because of powers which they held to distribute trust corpus and income. The original language in section 2613(e) was found too restrictive and section 702(n)(2) of the Revenue Act of 1978 expanded the categories of individuals to whom independent trustees could make distributions without being treated as beneficiaries.

The 1978 Act excluded from the independent trustees any person who is an employee of a corporation in which the stockholdings of the grantor, the trust, and the beneficiaries of the trust are significant from the viewpoint of voting control, an employee of a corporation in which the grantor or any beneficiary of a trust is an executive, an employee of a corporation in which the grantor or any beneficiary of the trust is an executive, and an employee of a partnership in which the grantor or any beneficiary of the trust is a partner. However, the provision did not exclude a person who is directly employed by the grantor or any beneficiary of the trust. The proposed amendment would exclude an employee of the grantor or any beneficiary of the trust from being an independent trustee.

<u>Certain Powers of Independent Trustees Not Treated as a Power for Purposes of the Tax on Generation-Skipping Transfers</u> (Section 702(n)(2) of the Revenue Act of 1978 and section 2613(e) of the Code)

Under the generation-skipping provisions, an individual is a beneficiary of a trust if he has a present or future power or interest in it. "Power" means "any power to establish or alter beneficial enjoyment of the corpus or income of the trust." A person has an "interest" if the person has either "a right to receive income or corpus from the trust" or "is a permissible recipient of such income or corpus." Thus, one can be a beneficiary by satisfying either or both of the tests.

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The statute presently provides that an individual will not be treated as having a power if such an individual "is a trustee who has no interest in the trust" (emphasis added). Thus, an individual trustee who was the permissible appointee of trust assets under an unexercised power of appointment held by another would be deemed to have an interest in the trust and would therefore be treated as having a power over the trust. The trustee would be a beneficiary of the trust and the independent trustee exemption would be negated.

The legislative history of the Revenue Act of 1978 states that an individual trustee will not be treated as a beneficiary if "he has no interest in the trust other than as a potential appointee under a power of appointment held by another." The proposed amendment would adopt this result by providing that, solely for purposes of the independent trustee exemption, a trustee will not be treated as having an interest in the trust if his only interest is as a permissible appointee under an unexercised power of appointment held by another.

<u>Correction of Cross Reference</u> (Section 4(d)(7) of Public Law 95-227 and section 7454(b) of the Code)

The cross reference in section 7454(b) of the Code to section 502(c)(21) would be corrected to section 501(c)(21).

<u>Correction of Cross References in Code Section 401(a)(20)</u>

(Section 4 of Public Law 95-458)

Public Law 95-458 amended Code sections 402(a)(5) and 403(a)(4). Code section 401(a)(20) includes cross references to sections 402(a)(5) and 403(a)(4), but these cross references were not amended to reflect the changes made by Public Law 95-458. The proposed amendment would correct the cross references to reflect these changes.

<u>Security for Recapture of Estate Tax Reduction from Farm Valuation Where Property had been Involuntarily Converted</u> (Section 4 of Public Law 95-472 and section 6324B(c) of the Code)

The Tax Reform Act of 1976 provided that certain property used for farming or in a closely held business may be valued for estate tax purposes at its current use value instead of its highest and best use value. However, if the property is disposed of within a 15-year period all or part of the estate tax benefit is recaptured. A lien is placed on the property for the amount of the recapture tax. Section 4 of Public Law 95-472 provides that if an involuntary conversion of qualified real property takes place, no recapture of the estate tax benefit will occur if the property is replaced by other real property of at least equal value acquired for the same use. However, the property acquired in the involuntary conversion may be more highly leveraged so that the lien on the equity interest is insufficient for the recapture of tax benefits. The proposed amendment would provide that, if at any time the value of the property subject to the lien is less than the amount of the potential recapture tax, the Treasury Deparmtent may require the addition of additonal property subject to the lien or other security (such as a bond) which would bring the total amount of the security up to the amount of the potential recapture tax.

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

FOR IMMEDIATE RELEASE November 7, 1979

RESULTS OF TREASURY'S 167-DAY BILL AUCTION

Tenders for $2,002 million of 167-day Treasury bills to be issued on November 9, 1979, and to mature April 24, 1980, were accepted at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.185	12.535%	13.53%
Low -	94.132	12.650%	13.66%
Average -	94.163	12.583%	13.59%

Tenders at the low price were alloted 12%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

Location	Received	Accepted
Boston	$ ---	$ ---
New York	2,551,000,000	1,663,600,000
Philadelphia	---	---
Cleveland	10,000,000	10,000,000
Richmond	33,000,000	33,000,000
Atlanta	---	---
Chicago	341,000,000	149,000,000
St. Louis	16,000,000	16,000,000
Minneapolis	4,000,000	4,000,000
Kansas City	---	---
Dallas	---	---
San Francisco	205,000,000	126,000,000
TOTAL	$3,160,000,000	$2,001,600,000

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EXPECTED AT 10:00 A.M. EST
THURSDAY, NOVEMBER 8, 1979

TESTIMONY OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON WAYS AND MEANS

Mr. Chairman and Members of this distinguished Committee:

It is a pleasure to appear before this Committee to discuss the important issues raised by H.R. 5665, the "Tax Restructuring Act of 1979." This bill would result in fundamental changes in our Federal tax structure. Income taxes on corporations and individuals, as well as social security taxes, would be cut by $130 billion in 1981. A Federal value added tax would offset this revenue loss. This testimony will not concentrate on the specifics of H.R. 5665, but on the basic issue which the bill raises: whether the United States should replace some of its income taxes with a consumption tax. That is, whether the Federal tax system should weigh more heavily on consumption and less heavily on saving and investment. Many believe that such a change would contribute significantly to improved capital formation, higher productivity, and a more competitive position for American business in world markets. Others express concern that a consumption tax would have only small effects on investment and would place an unfair burden on lower income families already plagued by high prices for energy, food, housing, and other basic necessities of life. Higher consumption taxes, they believe, would mean still higher prices. These hearings will serve the valuable function of focusing the discussion on these significant economic and social issues.

An important element in this discussion is the role of a value added tax in the Federal tax structure. A value added tax is a multistage tax on consumer goods and services. Unlike a retail sales tax, it is collected at each stage in the production and distribution process. But since it is levied only on the amount of value added (the difference between sales and purchases) at each stage, rather than on the full selling price, it avoids the cascade, tax-on-tax, effects of a turnover sales tax. A value added tax is similar to a retail sales tax in that the total tax paid by the consumer is equal to the final price of the product multiplied by the tax rate.

Many European countries have value added taxes. Typically, they are imposed at a rate of about 15 to 20 percent and generate about 15 percent of a country's total national and local tax revenue. In contrast, state and local retail sales taxes raise about 7 percent of the total Federal, state, and local tax revenue in the United States. The $130 billion in value added tax revenue estimated to be raised by H.R. 5665 would be about 14 percent of total Federal, state, and local 1981 tax liabilities, assuming it is accompanied by the proposed income and social security tax cuts.

In nearly all cases, the European value added taxes replaced sales taxes, frequently of the cascade turnover type which, unlike the value added tax, taxed the full sales price at each stage, without allowing a credit for tax on previous transactions. The Europeans found the cascade tax objectionable because it discriminated against nonintegrated firms and because the export rebate and import tax could not be accurately estimated for border adjustment purposes. Thus, in the European case, the adoption of a value added tax was regarded as a reform of an unwieldy and distortionary system of indirect taxation. This characterization does not apply to the present indirect tax system in the United States. Only the United Kingdom has used the value added tax to reduce income taxes, as Chairman Ullman is suggesting for the United States.

The popularity of the value added tax is not universal. The voters of Switzerland have twice rejected it by referendum. The latest rejection was based in part on a perceived threat to local autonomy since a Federal value added tax would have replaced some of the local Swiss taxes. Most recently, Japan, largely as a result of its parliamentary elections, appears to have postponed the planned introduction of a value added tax.

For the United States, a value added tax raises a number of important questions. Would it encourage capital formation? What impact would it have on the price level? Would it improve the trade balance? Would it be regressive? No one is seriously suggesting the value added tax solely as an additional Federal tax. Consequently, the answers to these questions, as well as others, depend upon which taxes the value added tax replaces. By way of illustration, two of the proposals made by Chairman Ullman call for reducing the corporate income tax and the social security taxes.

<u>Capital Formation</u>

Taxes on capital income, such as the corporate income tax and the individual income tax on interest and dividends, reduce the after-tax return on savings. Put another way, an income tax encourages present, as compared to future, consumption. With no taxes, a person with $100 of income could choose between buying

$100 of consumption goods this year or saving now and buying $110 of consumption goods next year, assuming the interest rate is 10 percent. Thus, a person can consume 10 percent more next year by saving now. Similarly, with a consumption tax, which exempts the earnings from capital, a person with $100 of income could consume $50 this year and pay $50 in tax or, by saving the income this year, could consume $55 next year and pay $55 in tax. Thus, a person could still consume 10 percent more next year by saving now.

If a 50 percent income tax, rather than a consumption tax, is imposed, however, the individual, after paying the tax, can buy $50 of consumption goods this year or can save the $50 and, after paying the tax on the interest earnings, buy $52.50 of consumption goods next year. Because of the income tax, a person can buy only 5 percent, rather than 10 percent, more consumption goods next year. Because of this lower return, the individual may decide to consume now rather than save for future consumption. It is important to recognize, however, that the responsiveness of saving to more favorable taxation is an unsettled issue. If one concludes that savings will rise in response to reduced taxation, then substituting a value added tax for the corporate income tax should encourage saving.

There are other considerations in assessing the mechanism that leads to an increase in investment. First, an increase in savings must be channeled into domestic financial markets in order to lower interest rates and therefore the cost of capital. Second, producers must respond to the lower cost of capital by using more capital intensive methods of production. There probably will be some response, but its magnitude is open to discussion. Third, the mix of new investment must be considered; it may be concentrated in housing, consumer durables, or fixed business capital. Thus, the substitution of a value added tax for the corporate income tax will increase capital formation only if savings increase, the cost of capital falls, and business responds by investing in the United States.

Finally, it bears noting that the potential of the value added tax for promoting capital formation may be exaggerated by an analysis that compares a "pure" consumption tax with a "pure" income tax levied on all returns to capital. The current income tax does not apply with full force to all types of saving and investment. For example, home ownership, pension reserves, and assets eligible for the investment tax credit or the asset depreciation range receive relatively favorable tax treatment. Similarly, not all forms of consumption would be taxed the same under any likely value added tax.

In contrast to an income tax, neither the social security tax nor a value added tax applies directly to the return from saving. Consequently, substituting a value added tax for the social security tax would be unlikely to affect savings decisions.

Price Level Impact

A value added tax, by itself, will probably increase prices, since the tendency for business to pass the tax on to consumers is unlikely to be offset by an unduly restrictive monetary policy. The result would be a "one-shot" increase, not a recurrent increase, in the price level, although the subsequent price effects of adjustments in wage contracts, social security payments, and other indexed items may occur over time. In this regard, it is noteworthy that the Thatcher government's program of increased value added taxation and reduced individual income taxation has been accompanied by a significant increase in the consumer price index in the United Kingdom.

The important question, then, is whether the inflationary impact of the value added tax would be offset by reductions in other taxes. In the short run, the corporate income tax reduces the after-tax rate of return to capital, rather than increases product prices. Accordingly, prices will probably not fall as corporate income taxes are cut. Thus, substituting a value added tax for the corporate income tax is likely to increase prices. This is a serious drawback to the value added tax.

Substituting a value added tax for the social security tax may be less inflationary. Reducing the employer portion of the social security tax would tend to reduce business labor costs and possibly prices. Reducing the employee portion of the social security tax, however, would probably have no effect on the price level. Thus a value added tax, accompanied by an equivalent reduction in employer and employee social security taxes, would result in some increase in the price level. This would be particularly distressing to individuals least able to protect themselves from rising prices.

The impact of a value added tax on prices is largely independent of whether it is hidden in the price of the product or whether it is quoted separately to consumers. While it is not customary in Europe to quote the value added tax separately, this need not be the case in the United States. State retail sales taxes are quoted separately because the merchants persuaded legislators to require it, and the same could occur in the case of a United States value added tax. Furthermore, nonseparate quotation of the value added tax might be viewed as an attempt to hide the tax from public scrutiny.

Balance of Trade

Many have expressed the view that a value added tax would improve our trade balance. This is based on the observation that current international rules allow indirect taxes, such as sales or value added taxes, to be imposed on imports and rebated on exports. These adjustments are not allowed for direct taxes, such as the corporate income or social security taxes. It is doubtful, however, that the U.S. trade balance would improve significantly from substituting a value added tax for the corporate income tax.

The impact of the value added tax on trade is closely related to what happens to prices. Quite simply, one must ask the question: will the substitution of the value added tax for some other tax increase prices? It seems likely that the immediate impact of substituting a general value added tax of 5 percent for part of the corporate income tax would be to increase prices by about 5 percent. Since the new tax would be rebated on exports, just like our state retail sales and Federal excise taxes, exports would leave the country tax free. While domestic prices would be 5 percent higher, export prices would remain unchanged. Foreign consumers, therefore, would find U.S. products no more attractive than before; there would be no increase in demand for U.S. exports.

Since imports would be subject to the value added tax their prices also would increase by about 5 percent, the same as for domestic goods and services. As a consequence, domestic consumers would find imports just as attractive as before; there would be no incentive to reduce the demand for imports. Thus, on both the export and import side, there would be little immediate impact on the U.S. trade balance if a value added tax were substituted for the corporate income tax. There might, of course, be a positive trade impact in the long run if the substitution led to an improved investment climate, enhanced capital formation, and a more productive and competitive U.S. economy.

A modest trade balance improvement might result from replacing the social security tax with a value added tax, if the price level increased by less than the value added tax. Because of the price-dampening effect of reducing the employer portion of the social security tax, this is a possibility.

Regardless of which tax it replaces, many believe that a value added tax rebate, in itself, will expand exports and that a value added tax levy will retard imports. This belief might have a positive effect on trade if it encourages businesses to compete more vigorously in international markets. This result would depend upon the importance of nonprice considerations in explaining export activity.

It is also important to recognize that other countries could restructure their own tax systems if they felt the United States was gaining an unfair trade advantage. Relative to other countries, the United States has a moderately high corporate income tax, but a low social security tax. (See Annex A.) Thus, the possibility exists that other countries might maintain their competitive position by increasing their existing value added taxes and reducing their corporate income or, especially, their social security taxes. This outcome is by no means certain. After all, a country's tax structure is not determined solely by international considerations. Moreover, except for Japan, U.S. indirect taxes, as a share of gross domestic product, are the lowest of the major developed countries. (See Chart 1 and Annex A.) Other countries may believe that the United States should be allowed to "tilt" its tax structure to reach some "reasonable" or "average" level of indirect taxation.

This issue has been studied before. Both the President's Task Force on Business Taxation, in its 1970 review of tax policy, and the Advisory Commission on Intergovernmental Relations, in its 1973 value added tax study, considered the trade issue. Both expressed doubt over any trade benefits resulting from substituting a value added tax for the corporate income tax and both noted the possibility of foreign retaliation.

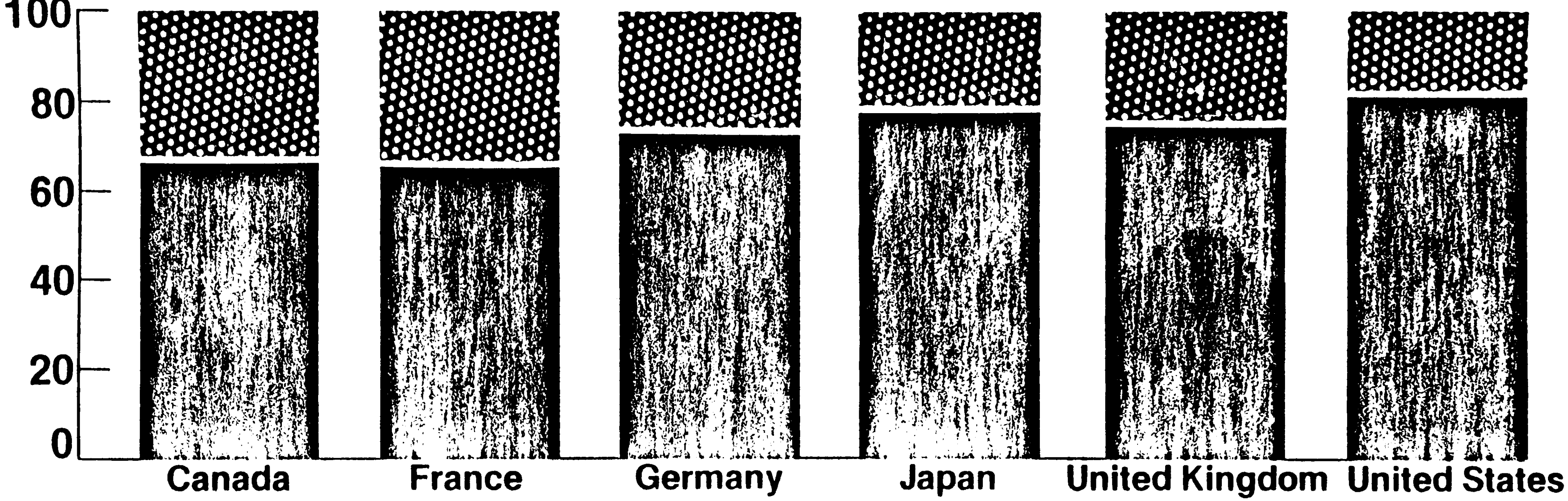
Distribution of Tax Burden

Lower income taxpayers, who must spend all their income on consumption, may find a value added tax burdensome because of its regressivity. While a value added tax, by itself, is regressive, one must consider which tax it replaces. The immediate impact of the corporate income tax is probably progressive since it falls on income from capital. Therefore, substituting a value added tax for the corporate income tax would make the tax structure less progressive. The social security tax, on the other hand, also is regressive because it is limited to the first $22,900 of wages and applies only to labor income. Accordingly, substituting a value added tax for the social security tax would not make the tax system noticeably less progressive. One regressive tax would be substituted for another. Retired individuals, however, who do not pay social security tax, would be distressed by having to pay value added tax. They could justifiably say that they already had paid for their retirement during their working years and that higher prices and taxes in retirement were unfair. Their distress might be partially assuaged by the fact that social security payments are indexed.

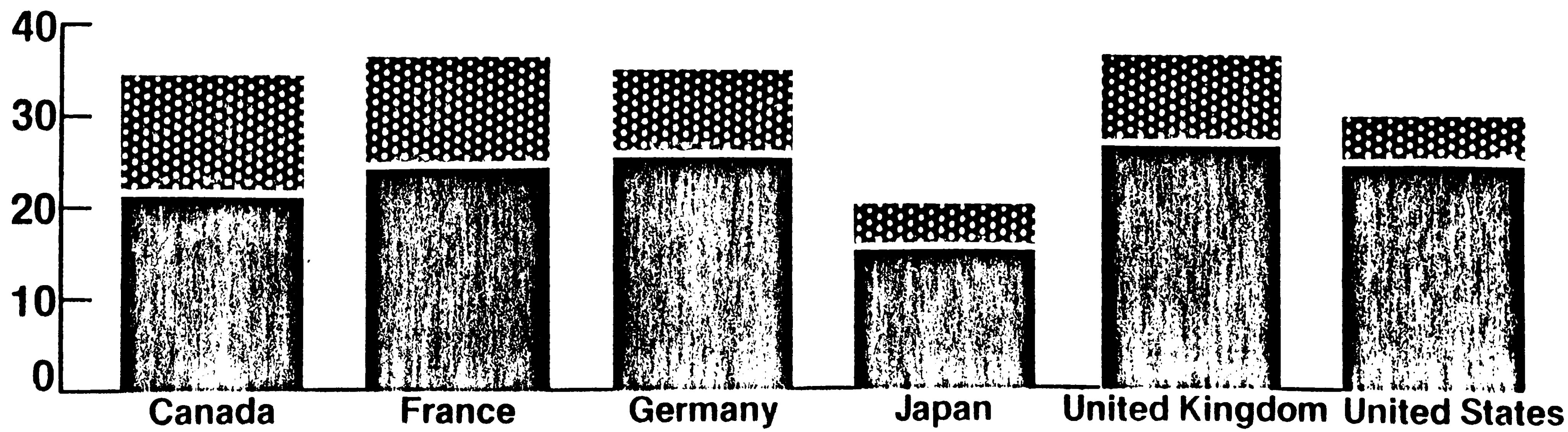
One way to illustrate possible distributional effects is to ask what would happen to tax burdens if a value added tax completely replaced the individual income and social security (employee portion) taxes. (See Chart 2.) The combination of the current income and social security taxes is progressive while a value added tax, even with necessities excluded, is regressive. As a share of income, the present individual income and social security taxes are only 2 percent for families with less than $5,000 in income, but increase throughout the income range to 33 percent for families with over $100,000 in income.

CHART 1

DIRECT AND INDIRECT TAXES AS A PERCENT OF TOTAL TAX REVENUE

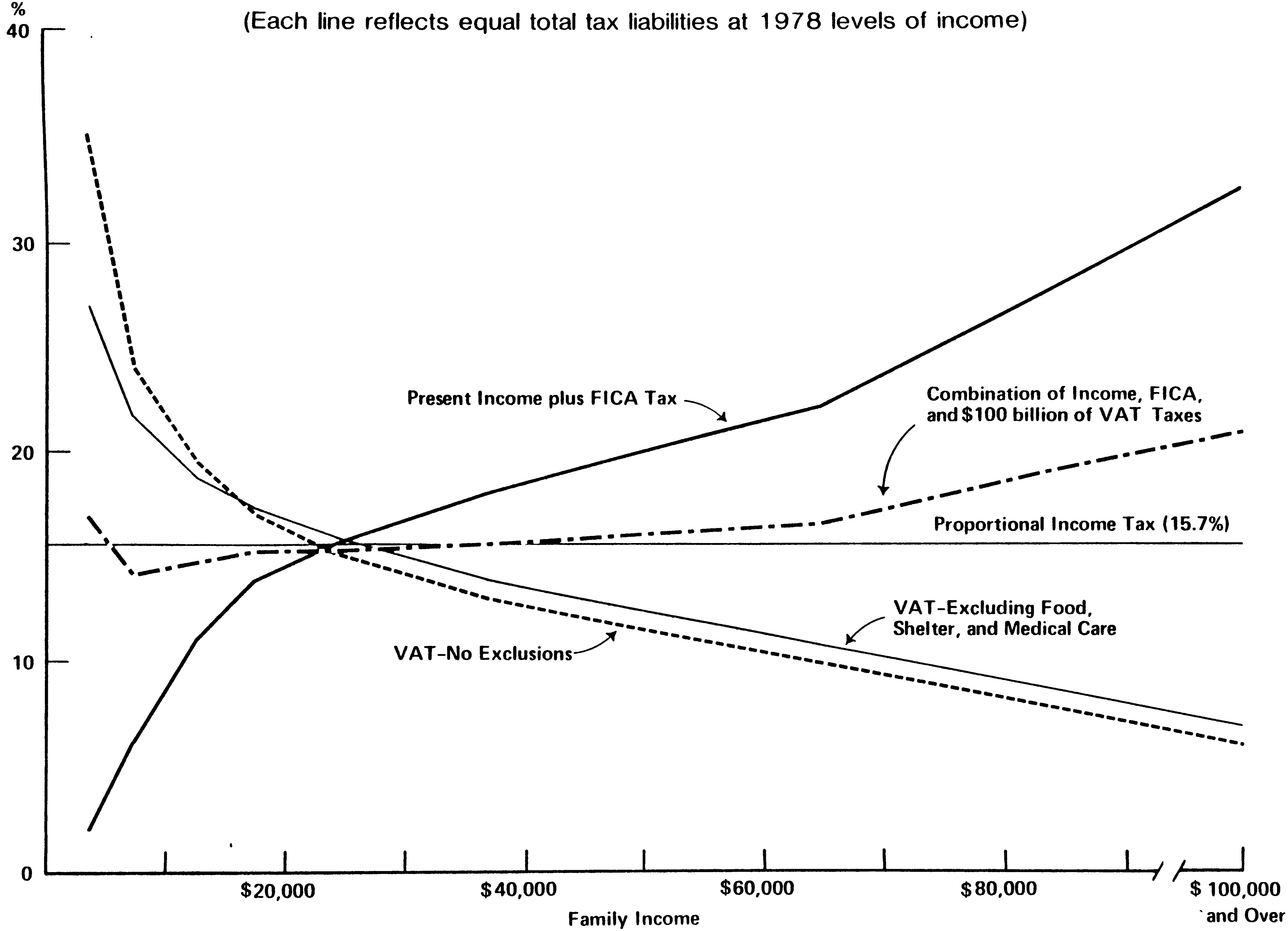


TAX REVENUES AS A PERCENT OF GROSS DOMESTIC PRODUCT



TAXES AS PERCENT OF INCOME

(Each line reflects equal total tax liabilities at 1978 levels of income)



This may be contrasted with a value added tax with no exclusions at a 23.2 percent rate, sufficient to equal the revenue raised by the individual income and employee social security taxes in 1978. As a share of income, such a value added tax would be 35 percent for families with less than $5,000 in income, but fall to 6 percent for families with over $100,000 in income.

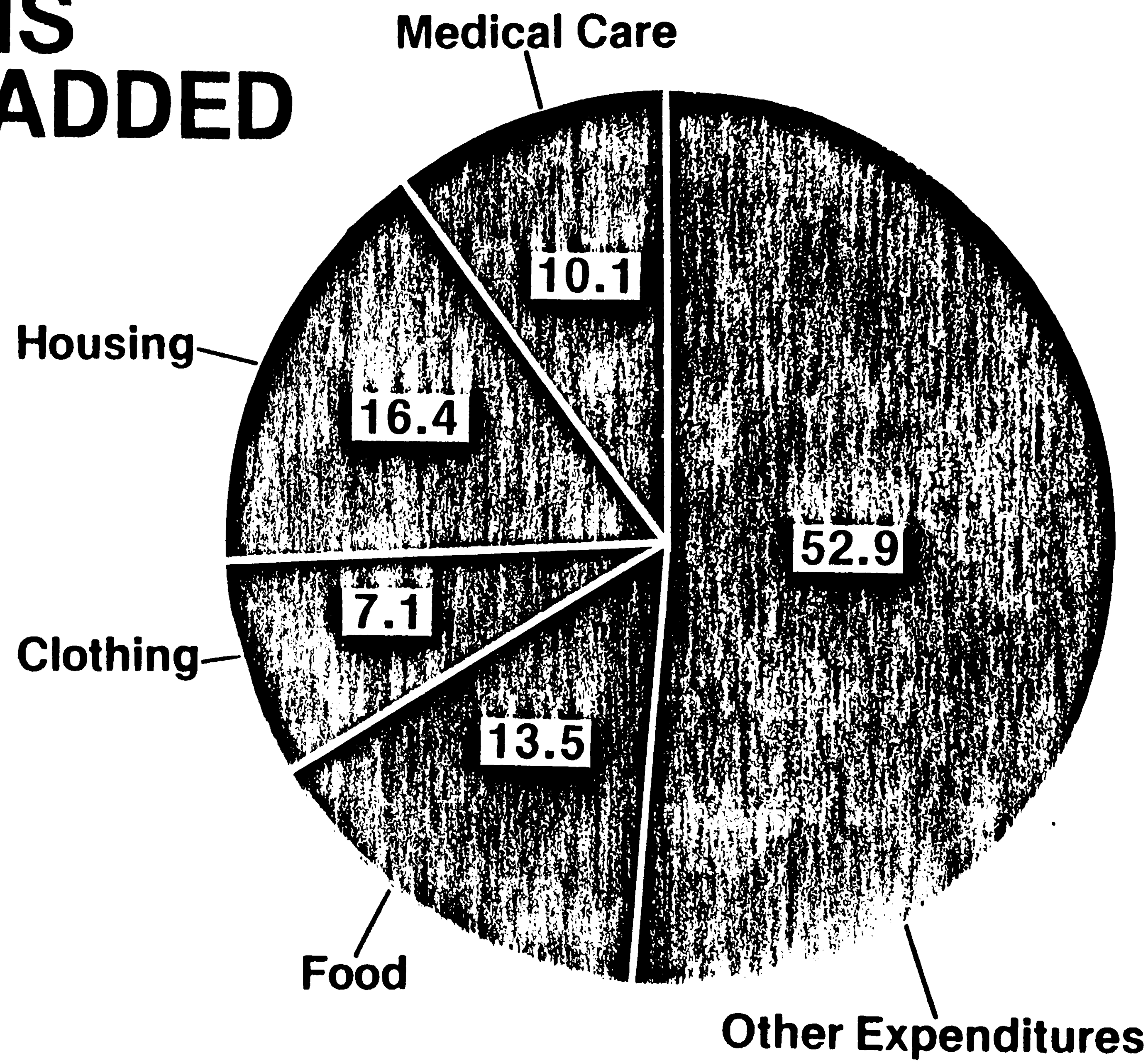
No one, of course, is proposing the complete substitution of the value added tax for the income and social security taxes. A more realistic alternative would be to substitute a value added tax for part of the combined individual income and social security taxes. One possibility would be to reduce income and employee social security taxes by $100 billion, keeping the same degree of progressivity for these taxes as under present law, and offset the revenue loss with a $100 billion value added tax with no exclusions. The resulting distribution of tax burdens would be regressive at the lowest income levels and mildly progressive elsewhere. As a share of income, families with less than $5,000 in income would pay 17 percent in taxes, families with between $5,000 and $10,000 in income would pay 14 percent, and taxes would then increase throughout the income range so that families with over $100,000 of income would pay 21 percent of their income in taxes. The overall distribution is significantly less progressive than the present combination of income and employee social security taxes.

The regressivity of the value added tax can be moderated, but not eliminated, by special measures. One possibility is the use of exemptions and reduced rates for necessities, as in Chairman Ullman's proposal and in some European countries. These reduce the tax burden of the value added tax at the lowest income levels, but the tax remains regressive. Exemptions and reduced rates, moreover, create administrative problems. A tax with two, three, or four rates is more complex than a tax with one rate. The specially-taxed items must be identified. Does a lower rate for food, for example, apply to such items as chewing gum, soda pop, candy, or caviar? Experience with the income tax shows that even medical services and drugs are not easy to define. Beyond the definitional problems, total or partial exclusions erode the value added tax base and its revenue potential. (See Chart 3.)

The regressivity of a value added tax also can be reduced by a refundable income tax credit for tax paid on a necessary amount of consumption. This avoids the need to define exempt commodities and can be implemented at a lower revenue cost than a complete exemption for certain "essential" commodities. It can, for example, be phased out at increased income levels. In effect, middle and upper income groups would still pay tax on purchases of food and other necessary items. On the other hand, a refundable credit is effective only if it reaches the roughly 25 million individuals who do not appear on an income tax return. These tend to be individuals most in need of the credit, mainly

CHART 3

SUBTRACTIONS FROM VALUE ADDED TAX BASE
(Percent)



recipients of social security benefits and of transfer payments under social and welfare programs. Unlike lower rates and exemptions, if the credit was not paid until the end of the year, the consumer would have to finance the tax during the year.

Administrative and Design Considerations

Both the European value added taxes and the tax suggested by Chairman Ullman have certain basic similarities:

- they are broad based, applying to services as well as goods;

- tax liability is determined by the credit method with tax paid on purchases deductible from tax due on sales;

- they are consumption type taxes, any tax paid on capital equipment purchases is immediately deductible; and

- they extend through the retail stage.

A value added tax of this type for the United States would involve about 15 million taxpayers. This number might be reduced by 5 million if exemptions were provided for very small proprietorships and farming. But under a value added tax, nearly all transactions are taxed. Even a firm that is tax exempt on its sales will have paid tax on its purchases. If it is to receive credit for tax paid on its purchases, it either would have to file a return or the credit would have to be made available to its customers.

Even 10 million taxpayers would add about 30 percent to the number of returns filed with the Internal Revenue Service, assuming quarterly returns are required. Since the value added tax would not totally replace any other tax and would be a new tax, requiring new returns, new regulations, and a new body of case law, this would be a net addition to the work of taxpayers, the Internal Revenue Service, and the courts. This differs sharply from the typical European case where the value added tax completely replaced another sales tax.

Reporting and payment requirements for a value added tax would be similar to those for Federal excises, which require liability to be computed on a semimonthly basis with payment due 9 days later. The actual excise tax return is filed quarterly and is accompanied by the payment of any remaining balance. Liquor and tobacco excises, however, have slightly different rules. A value added tax payment system which would fit more neatly with ordinary bookkeeping would be a monthly liability period with payment due at the end of the next month. This would be similar to that proposed by Chairman Ullman.

Other Considerations

A Federal value added tax would raise a number of other issues. Forty five states and the District of Columbia impose general sales taxes, a revenue source which they tend to view as belonging exclusively to them. Sales and gross receipts taxes account for about 30 percent of state tax revenue. In contrast, excise taxes generate less than 4 percent of Federal tax collections. Nevertheless, while a Federal value added tax may make it more difficult for the states to raise their sales taxes, it should not prevent such increases. All levels of government, for example, impose income taxes. Moreover, total Federal, state, and local sales tax collections are lower in the United States than in most developed countries.

Because of likely differences in the tax bases, it is doubtful that a Federal value added tax could be coordinated with the state sales taxes. Separate taxes, admittedly, would mean higher administrative and compliance costs. Each level of government would require a collection and audit capability. Taxpayers would have to become familiar with separate tax bases and separate returns. Revenue departments and taxpayers, however, already face this problem with Federal and state income taxes. Efforts aimed at Federal-state cooperation and coordination have not been successful.

As shown by Chairman Ullman's proposal, even a broad-based value added tax may not apply to all forms of final consumption. Practical considerations may require special treatment for many items. In the area of housing, for example, homeowners and tenants should be treated equally. But if rental payments are taxed, how should homeowners be taxed? It may be difficult to value the so-called "imputed rent" on owner occupied housing. Taxing the purchase price of a home is one alternative, but this may aggravate the problems of many families already hard pressed to cope with high housing prices. The treatment of interest in the housing area also is troublesome. If it is exempt, what part of a rental payment should a landlord be allowed to exclude from the tax base? These and other problems will require careful study.

The value added tax is a very potent revenue source. At 1979 levels of consumption, a value added tax would raise roughly $10 billion in revenue for each percentage point. Thus, a 7 percent value added tax would raise about as much revenue as the corporate income tax and a 12 percent value added tax would raise as much revenue as the social security taxes. With such a powerful instrument for raising revenue, many are concerned that the value added tax eventually will be used to add to the total Federal tax burden.

Conclusion

Mr. Chairman, you are to be commended for initiating an examination of the very important, but complex, issues of how the Federal tax structure affects our national well being. This is a time of great change. It is also a time of troublesome and unfamiliar economic conditions. The combination of high inflation, slow growth, and persistent trade deficits must make us wonder if the traditional economic remedies still work. In this sense, your decision to study a broad range of new initiatives could not come at a better time. But changes of such major consequences require careful and deliberate study. We welcome the opportunity to participate with you in that study.

ANNEX A

Federal, State and Local Tax Revenues for Selected Countries as Percent of Gross Domestic Product, by Type of Tax, 1975
(Country Rankings in Parentheses)

Country	Total	Indirect Taxes	Direct Taxes							
			Social Security 2/							
		Sales and Excise 1/	Total	Employer	Employee and Self Employed	Corporate Income	Noncorporate Income 3/	Property 4/	Other 5/	Total Direct Taxes 6/
Belgium	41.43(5)	10.87(6)	13.14(5)	8.44(4)	4.70(5)	3.07(6)	13.24(4)	1.01(12)	0.10(8)	30.56(4)
Canada	33.98(9)	10.94(4)	3.22(12)	n.a.	n.a.	4.67(2)	11.32(7)	3.13(3)	0.70(4)	23.04(11)
Denmark	43.05(4)	14.71(1)	0.48(13)	0.31(12)	0.17(12)	1.37(13)	23.86(1)	2.57(4)	0.06(10)	28.34(5)
France	36.90(6)	12.44(2)	14.72(3)	10.61(2)	4.11(6)	2.00(9)	4.58(13)	1.46(9)	1.70(2)	24.46(9)
Germany (Fed Rep)	35.22(8)	9.37(8)	12.03(6)	6.60(7)	5.43(4)	1.56(12)	10.60(8)	1.09(11)	0.57(6)	25.85(7)
Italy	32.34(10)	9.34(9)	14.83(2)	11.92(1)	2.91(9)	2.04(8)	4.95(12)	1.17(10)	0.01(11)	23.00(12)
Japan	20.23(13)	3.67(13)	5.09(11)	2.63(11)	2.46(10)	3.43(4)	5.07(11)	1.94(7)	1.03(3)	16.56(13)
Luxembourg	46.74(2)	9.72(7)	14.05(4)	7.80(6)	6.25(2)	7.22(1)	12.78(5)	2.34(5)	0.63(5)	37.02(1)
Netherlands	46.90(1)	10.91(5)	17.99(1)	8.40(5)	9.59(1)	3.61(3)	12.66(6)	1.48(8)	0.25(7)	35.99(2)
Sweden	45.96(3)	11.48(3)	8.89(7)	8.47(3)	0.42(11)	1.99(10)	21.17(2)	0.51(13)	1.92(1)	34.48(3)
Switzerland	29.49(12)	5.90(11)	8.49(8)	3.05(10)	5.44(3)	2.46(7)	10.51(9)	2.13(6)	--	23.59(10)
United Kingdom	36.77(7)	9.24(10)	6.71(10)	3.75(9)	2.96(8)	1.92(11)	14.29(3)	4.54(1)	0.07(9)	27.53(6)
United States	30.31(11)	5.49(12)	7.42(9)	4.18(8)	3.24(7)	3.29(5)	9.98(10)	4.13(2)	--	24.82(8)

Office of the Secretary of the Treasury
Office of Tax Analysis

Source: Revenue Statistics of OECD Member Countries, 1965-1975.

1/ Includes general sales, value added, and specific excise taxes.

2/ Includes contributions of employers, employees, and self employed. Category is broadly defined to include all tax payments to institutions of general government providing social welfare benefits, provided they are levied as a function of pay or a fixed amount per person. Thus, for the United States this category includes contributions to the railroad retirement fund, unemployment insurance fund, workman's compensation fund, and civil service retirement program in addition, of course, to the more familiar social security-type payments made pursuant to the Federal Insurance Contributions Act (FICA).

3/ Includes income taxes on individual and unincorporated enterprise, such as proprietorships and partnerships.

4/ Includes taxes on net wealth, immovable property, estates, and gifts.

5/ Includes taxes on employers based on payroll or manpower and miscellaneous taxes which cannot be classified within a specific direct tax category.

6/ Computed by subtracting sales and excises from total.

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November 8, 1979 -- 10:00 a.m.

STATEMENT OF THE HONORABLE ROBERT CARSWELL
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SENATE APPROPRIATIONS SUBCOMMITTEE ON TREASURY,
POSTAL SERVICE, AND GENERAL GOVERNMENT AND
THE SENATE GOVERNMENTAL AFFAIRS SUBCOMMITTEE
ON CIVIL SERVICE AND GENERAL SERVICES ON
PROTECTION OF FORMER PRESIDENTS AND
THEIR WIDOWS AND OTHER RELATED MATTERS

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to testify today in this oversight hearing and to discuss with you a number of issues involving the protective mission of the Secret Service. In particular, pursuant to the Committee's request, I will discuss issues related to the protection of widows of former Presidents, the protection of former Presidents themselves and the protection of individuals other than those specifically enumerated in Section 3056 of Title 18. Accompanying me today is Richard J. Davis, Assistant Secretary for Enforcement and Operations and Director H. Stuart Knight of the Secret Service.

There are two underlying premises which are relevant to a consideration of these issues. The first is that Secret Service protection is associated with the Presidency. The nature of this protection reflects the security risks involved in having a relation to that office. Thus, under its authorizing statute, Secret Service protection is provided for those who are or have been President, their family members and those seeking the office. Similarly, the statute also provides for the protection of those who have equivalent positions in other countries and are subject to similar risks -- visiting heads of state and government.

This concept has more than theoretical significance. It is in providing this type of all-encompassing protection -- that is, in establishing a secure environment -- where the expertise of the Secret Service exists. This does not mean that the Service should use the same techniques and the same resources in support of all its protectees. Adjustments should be and are made to reflect the actual security problems involved in the different situations with which it deals. This comprehensive protection is, however, considerably more complex than simply providing a driver and/or bodyguard to escort someone from place to place, basic measures in which the Secret Service has no more expertise than other agencies. Therefore, to the extent that examination of particular issues shows that assistance of this latter type is all that is genuinely required, the need for a continuing Secret Service role should not escape close scrutiny.

Our second underlying premise is that it is important to maintain a reasonable balance between the protective and the investigative responsibilities of the Secret Service. Protection as practiced by the Service is more than a "bodyguard" function. It involves investigation, analysis and detailed advanced planning. It also involves responsibility for the safety of our most important leaders. It is, therefore, important that the Service have available high caliber people with the training and capability to perform these functions. If the mission of the Service were solely protection or overly weighted in that direction, the Department would be concerned about its ability to attract the type of people needed for the job. In addition, the ability to rotate people between permanent protection and criminal investigations assists in dealing with tedium and other problems sometimes associated with providing protection on a long term basis.

Protection of Former First Ladies

The protection of former First Ladies was first provided for in legislation following the assassination of President John F. Kennedy. When first enacted, the legislation applied only to Mrs. Kennedy and her children and only authorized protection for two years. In late 1965, however, the wife, widow and minor children of former Presidents were added to the list of those entitled to protection under Section 3056. This authorization continued for a period of four years after the President left or died in office. This time limit was extended in 1967 to March 1, 1969, for widows and children receiving protection at the time of enactment. Finally, in October of 1968, the basic protective authority was again amended to provide protection on a permanent basis for spouses of former Presidents and for a widowed former First Lady until her death or remarriage and for minor children of a former President until they reached 16 years of age. An option to decline protection was also included in the amendment.

The question of whether it is necessary to have this automatic Secret Service "protection for life" for former Presidents' widows has been raised at various times since 1972, but it has not produced any changes in the law. We fully agree that it is worthy of review by the Subcommittee.

As Director Knight indicated in testimony before this Committee in May of 1979, from a security perspective, there does not appear to be a need to provide continuous protection to widows of former Presidents. There simply have not been frequent threats to or incidents directed at these individuals. The Department thus is prepared to support legislation which would terminate Secret Service protection for these individuals six months after the death of the former President. Any such legislation should take into account, however, the possibility that specific threats or other events might create a temporary need for Secret Service protection. These situations can be accommodated by providing the Secretary of the Treasury with the authority to restore such protection if needed in particular cases.

While elimination of Secret Service protection for these individuals is justified, other support for them may be appropriate. As a result of their participation in public life at the highest level, these individuals have lost a large measure of their privacy. The Committee thus might want to consider providing them with a driver and/or some form of escort. This could be done directly or by providing an increased expense allowance for this purpose.

Finally, the Department believes that any legislation in this area should be prospective. Its terms should not apply in any way to those wives or widows of former Presidents now receiving protection.

<u>Protection of Former Presidents</u>

Authority for the Secret Service's protection of our former Presidents was first included in Section 3056 in 1962. The law at that time provided for protection, if requested, for a "reasonable time" after the President left office. Protection was extended to a former President's lifetime in 1965. This protection may be declined.

Providing Secret Service protection to former Presidents is appropriate. These individuals have occupied the highest office in our country; they inevitably have been involved in numerous controversies; they have become persons about whom strong feelings are held; and they have lost any prospect of privacy.

The degree to which there is a security need for this protection will, of course, vary. Certain individuals are bound to be more controversial than others. And certainly, over time, attitudes about individuals change and often become less intense. As Director Knight noted in his May testimony, traditionally the number of threats directed at a former President declines as time passes. Nonetheless, it is difficult to say that there is a clear time when, as a general rule, the risks to former Presidents are sufficiently reduced so as to negate the need for Secret Service protection. The situation may well vary among individuals. Considering all these factors, we do not believe new legislation is needed in this area.

It has also been suggested that statutory limits be placed on the extent of Secret Service protection by limiting, for example, the number of trips on which a former President could receive protection. We do not believe such an approach should be adopted. Former Presidents are public people and inevitably will travel. If it is believed that these individuals should have protection, then they should have it wherever they go without limitation. The protection provided would simply be of little value, if the person then proceeded to take a number of trips without it.

Protection for Individuals Not Enumerated in Section 3056

The Secret Service, acting on the President's instructions, has in numerous situations provided protection for individuals not within any of the then existing categories of protectees included in its authorizing statute. Relying on their constitutional authority as Chief Executive, varying Presidents, going at least as far back as President Roosevelt ordered protection for visiting Heads of State; President Truman ordered protection on foreign trips by Secretaries of State; President Johnson ordered protection for Senator Kennedy in 1968; President Nixon ordered protection for former Vice President Humphrey for six months, for Dr. Kissinger, for Senator Kennedy in 1972 and for Governor Rockefeller on an official trip to Latin America; President Ford ordered protection for Vice President-Designate Rockefeller and Mrs. Carter, Mrs. Dole and Mrs. Mondale prior to the enactment of legislation; and President Carter ordered protection for Senator Kennedy in September, 1979. In addition, at varying times, the Secretary of the Treasury has received Secret Service protection.

While the Presidential power to order this protection has been exercised by many Presidents over many years, some have argued that there is no such authority. We do not concur with this view. Nonetheless, we do feel that it would be appropriate to develop legislation which would create a formal statutory mechanism for providing protection to persons not included in Section 3056.

We look to working with this Committee in determining how best such legislation can be drafted. In doing so there are a number of issues which must be addressed. Should this authority rest with the President or the Secretary of the Treasury? Should there be a requirement that an advisory committee, such as that used in candidate protection, be consulted? Under what circumstances should protection be authorized? We do not yet have final answers to all these questions. It is important, however, that any such statute make clear that this protection should be provided in the truly exceptional case. It should assure that protection is provided when, as discussed at the beginning of my testimony, Secret Service type protection is genuinely required.

That concludes my statement and we will be happy to respond to your questions and those of the other members of the Subcommittee.

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STATEMENT OF PAUL H. TAYLOR
FISCAL ASSISTANT SECRETARY
OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON
INTERGOVERNMENTAL RELATIONS AND HUMAN RESOURCES
HOUSE OF REPRESENTATIVES
November 8, 1979

Mr. Chairman and members of the Committee:

I am glad to be here today to comment on delivery systems for Treasury's payments and problems associated with replacement of lost and stolen checks. The Department welcomes the Committee's interest in this area.

The total volume of Treasury payments as of the close of this past fiscal year approached 700 million. This represents an increase of 15 million over the volume of payments made by Treasury in Fiscal Year 1978. However, despite the large increase in volume, the Treasury has made a concerted effort to insure that payments are made as timely and reliably as possible.

M-188

Direct Deposit

A major part of our effort in this area is the direct deposit program. This is a voluntary program to pay individual recurring benefits through direct deposits in payee accounts in financial organizations. The system provides for the rapid computer-assisted transfers of funds between the Treasury and the Federal Reserve and financial organizations. For Fiscal Year 1979, the direct deposit program accounted for about 17 percent of the payments made by the Treasury. This service is now available to recipients under all major federal benefit programs and will soon be available to Government employees for salary payments. It eliminates thefts and forgeries in the payment operation and assures timely receipt. The dramatic success of this system is evident from the statistics. Since Fiscal Year 1976, the annual volume of Treasury's direct deposits has grown from slightly over 2 million to almost 119 million. For each of these payments a check issuance has been eliminated and the expense of mailing and handling has been avoided. For every check issuance eliminated about 12¢ is saved. At the present level, that equates to annual savings of over $14 million. We have an active marketing program to enhance participation, including extensive use of check inserts and media messages and we are aiming for a voluntary participation rate of 30 percent by Fiscal Year 1982.

Continued Reliance on Checks

While the direct deposit program has many advantages, the majority of beneficiaries still receive checks. Most payments are for Social Security, Supplemental Security Income or similar types of benefits. Many beneficiaries are hesitant to try something new and continue to receive checks. For example, in the Supplemental Security Income Program, only 7 percent of the payees have elected to receive benefits under this method. As a result, Treasury has continued to emphasize improvements in the timely issuance of replacement checks when nonreceipt is claimed.

Although the number of checks is about double the number issued only twenty years ago, the annual number of checks drawn on the Treasury Government-wide has leveled off to about 700 million annually and the number issued by Treasury is actually decreasing.

One step which would reduce the incidence of theft and reduce peak-load operating problems is the issuance of monthly recurring benefits on a cycle basis. The Social Security Administration is presently considering this method of issuance for new beneficiaries beginning in Fiscal Year 1982. The cycling of checks throughout the month, rather than issuing all at one time, would substantially reduce peak-load operating problems for the Postal Service, commercial banks, the Federal Reserve System, and Treasury.

In the meantime, Treasury continues to work toward insuring that checks are received by payees as timely as possible under current procedures. It should be noted that 99.9 percent of the over 700 million checks issued annually are received by the payees without difficulty, and in those relatively few cases where a replacement check must be issued we have reduced processing time by at least a third since January 1977.

However, I do not mean to minimize the problem because even one tenth of a percent results in almost 600 thousand replacement checks per year. About half a million of these are substitute checks. Of those, 75 percent pose no problem for the Treasury while the remaining 25 percent result in double payments. After reaching a high of $78 million in August, our double payment accounts receivable balance was reduced to $68.9 million as of last Friday, November 2. We are working to reduce these receivables through bank reclamation action in the case of forgeries, collection from the payees, or chargeback to the program agency under prior agreement.

Nevertheless, I must emphasize that without an acceleration of payment data reaching Treasury, the number of double payments is directly related to the speed with which we issue replacement checks. The speed itself is a direct result of litigation and expressed Congressional interest in faster replacement for lost and stolen checks, as well as our own concern for timelier service. As an example of continuing Congressional interest, H.R. 4904 would require replacement of Supplemental Security Income (SSI) benefit checks within two mail delivery days following the regularly scheduled delivery day.

Joint Treasury/SSA Project

In this regard, the Treasury and the Social Security Administration have already worked to jointly develop a system for rapid replacement action for SSI payments. Under this system, Treasury agreed to replace checks during the month of issue without first checking the status of the original based on the presumption that the original checks would not have flowed through the banking system by the time the claims of nonreceipt on these checks are received and processed by Treasury. The result of this system is very timely replacement action. Claims of non-receipt on these checks received during the month of issue at a local Social Security district office are processed and received by the Social Security headquarters in Baltimore by 6:00 p.m. each day. The claim is then processed and forwarded to the Treasury's Birmingham Disbursing Center by 1:00 a.m. and a substitute is mailed by 8:00 a.m. the following morning. Since this rapid system of replacement does result in a higher number of duplicate payments, it has not been extended to other classes of beneficiaries.

Other Service Improvements

In addition to our work in connection with the SSI System, during 1977 and 1978 special efforts were devoted to improving the replacement of other types of checks. Among these were Social Security benefits and tax refund checks. With agencies submitting claim information on magnetic tape, substitute checks are being issued in a little over a week after the Treasury receives the claim. In contrast to the special procedure for the relatively low volume SSI payments, this procedure provides for verification that the original check is unpaid before issuing the substitute. The one week time frame for replacement is now less than half the time required in January 1977. While the efforts to provide faster service in issuing replacement checks have been successful in alleviating financial hardships, they have, as a consequence, increased the number of double payments.

Check Truncation System

At the same time that the Treasury was accelerating the replacement of lost checks, we installed a new check payment system to accelerate the transmission of payment information on Government checks to the Treasury. The program provides for stopping, or truncating, the flow of checks at the Federal

Reserve Banks where key information is converted to microfilm and magnetic tape and sent to Treasury for processing. The objectives were to obtain payment information faster while reducing the shipping and handling of hundreds of millions of checks. The check truncation program was implemented this past year and initial implementation problems were greater than anticipated. Therefore, the goals for faster recording of payment data have not yet been fully realized. The combination of accelerated replacement without a commensurate acceleration in payment information resulted in increased double payments and larger work backlogs which temporarily reduced the volume of referrals to Secret Service and increased account receivable balances. A substantial effort is now underway to correct these problems. Mr. Chairman, these improvement efforts are covered in considerable detail in responses prepared to questions posed earlier by the Committee. I understand the Treasury responses will be made a part of the hearing record. However, I will briefly summarize them at this point.

-- The Division of Check Claims has added 100 employees to process collection requests for double payments and refer those involving forgery to the Secret Service. For the month of October, referrals were above 6,800. This is the highest volume for any month in the past year.

-- A Departmental Check Claims Task Force has been established to plan and monitor operational improvements designed to reduce buildups of work in this area and prevent future ones.

-- Management-by-Objective Goals have been established to reduce the accounts receivable balance significantly and clear backlogged cases by December 1980.

-- The Bureau of Government Financial Operations internal audit staff is analyzing the receivable account to estimate the amount which may ultimately prove to be uncollectible. In addition, the Bureau has established a project to develop an automated management information system to monitor and control all accounts receivable actions associated with claims operations.

-- The check truncation system is being carefully monitored and efforts are being made both in Treasury and the Federal Reserve Banks to speed the flow of payment data to Treasury. In addition, a task force has been established in the Bureau to resolve difficulties associated with obtaining original checks from storage and to consider other problems associated with the check payment system.

While the Treasury's primary objective is to provide timely service in the replacement of checks, if necessary, we could consider a temporary cut back in the speed with which we issue replacement checks in order to slow down the buildup in double payments. For example, a delay of one week, while affecting service to the majority of payees, would probably result in only a moderate reduction in double payments. However, it should be noted that such a delay would allow a higher percentage of original checks to be recorded as paid by the time the claims are fully processed and, in those cases, claimants would have to wait approximately 8 weeks for settlement action.

Conclusion

In summary, we feel that substantial improvements have been made in the delivery of payments to the public. The most efficient and effective system is the direct deposit of recurring benefits to payee accounts in financial organizations. Since no checks are issued, the risk of theft or loss is completely eliminated. Participation in the direct deposit program is growing but it is a voluntary program and there will continue to be a large volume of payments made by check.

The issuance of replacement checks has been accelerated during the past three years but with certain adverse side effects -- most notably, an increase in the amount of double payments. This increase, coupled with operational problems in the Check Claims area and in implementing the truncation system resulted in internal workload buildups and a drop in referrals to the Secret Service. We are making every effort to reduce current workload buildups and will make additional system improvements to preclude a recurrence. I can assure you that these managerial problems are receiving top level attention within the Department.

This concludes my prepared comments. As you requested, we have submitted additional information for inclusion in the hearing record. I will be happy to answer any other questions you may have.

Department of the TREASURY NEWS
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FOR RELEASE UPON DELIVERY
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STATEMENT OF
THE HONORABLE DANIEL I. HALPERIN
DEPUTY ASSISTANT SECRETARY (TAX POLICY)
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
OF THE
COMMITTEE ON WAYS AND MEANS
NOVEMBER 9, 1979

Mr. Chairman and Members of the Subcommittee:

I am pleased to present the views of the Treasury Department on the seven bills being considered by the Subcommittee today. I have attached to my written statement an appendix that summarizes our position on each bill.

H.R. 3874--WAIVER OF TIME LIMITS IN FOREIGN RESIDENCE OR PRESENCE REQUIREMENT FOR AMERICANS WORKING ABROAD

H.R. 3874 would waive in certain cases the foreign residence or physical presence requirement which otherwise must be met by individuals living abroad in order to qualify for certain tax benefits. The Treasury Department does not oppose this legislation.

Present law provides a deduction for certain excess living costs incurred by individuals who have been resident in a foreign country for at least one taxable year or who have been physically present in a foreign country for at least 510 days in an 18-month period. Alternatively, certain individuals who live in camps and who satisfy this residence test or physical presence test may elect to exclude a limited amount of income earned abroad.

In the case of individuals who are required to leave a foreign country because of war or civil unrest before qualifying for the deduction or exclusion, subsection (a) of H.R. 3874 would give the Secretary of the Treasury, after consultation with the Secretary of State, the authority to waive the residence or physical presence requirement if the individual establishes that he could reasonably have been expected to have met such requirement had not the war or civil unrest occurred. The bill is intended to provide relief to American employees who were forced to leave Iran before qualifying under the residence or physical presence test, as well as to others in similar circumstances. We believe that such relief is warranted and that the bill is suitably tailored to provide relief in the narrow circumstances contemplated. Accordingly, the Treasury Department does not oppose this legislation.

We do have some technical comments, however. Subsection (b)(1) of the bill provides that its relief provisions shall apply to taxable years beginning after December 31, 1976. Since the bill would amend section 913, its effective date should not be earlier then the effective date of section 913. Specifically, the amendment to section 913 should apply to taxable years beginning after December 31, 1977, or, in the case of taxpayers who made an election pursuant to section 209(c) of the Foreign Earned Income Act to have prior law (i.e., section 911 as amended by the Tax Reform Act of 1976) apply to the 1978 taxable year, to taxable years beginning after December 31, 1978.

Section 913 generally replaced section 911. Subsection (b)(3) of the bill effectively provides that the Secretary shall apply analogous rules for the 1978 taxable year of individuals who made the election under section 209(c) of the Foreign Earned Income Act to have section 911 under prior law apply for that year. This raises two additional technical issues. First, consistent with subsection (b)(1), subsection (b)(3) should apply only with respect to individuals who after September 1, 1978, left the foreign country in which they were resident or physically present.

In addition, consideration should be given to allowing taxpayers to qualify for tax year 1977 despite their premature departure. Taxpayers who might fail to qualify for

1977 are those who arrived in Iran late in 1977 and were forced to leave Iran before completion of an 18-month period or before completion of a full year's residence in 1978. The suggested change, which would ensure a partial exclusion for the portion of the 1977 year during which the individuals were abroad, could be accomplished by inserting at the beginning of subsection (b)(3) the language "With respect to the taxable year of an individual beginning during 1977, or."

H.R. 4103--EFFECTIVE DATE OF BASIS LIMITATION FOR PLAYER CONTRACTS ACQUIRED IN CONNECTION WITH THE PURCHASE OF A SPORTS FRANCHISE

This bill is designed to change the effective date of provisions of the 1976 Tax Reform Act in order to prevent these provisions from applying to a restructuring of the Boston Patriots by William H. Sullivan, Jr. For the following reasons the Treasury Department is not opposed to this bill.

Section 1056 of the Internal Revenue Code, added by the Tax Reform Act of 1976, provides that in the case of a sale or other transfer of a sports franchise after December 31, 1975 the amount allocated to a player contract by the transferee cannot exceed the adjusted basis of the contract to the transferor at the time of the transfer plus the gain (if any) recognized by the transferor on the transfer of the player contract. Before this provison, a purchaser of a sports franchise typically would allocate most of the purchase price to player contracts because the cost of these contracts could be amortized over the lives of the contracts. The seller, on the other hand, typically would allocate most of the sales price to franchise rights in order to recognize a greater amount of capital gain and a lesser amount of gain attributable to depreciable assets that might be subject to recapture as ordinary income. Thus, although the allocation of the purchase price was to be based on the relative fair market values of the assets acquired, the purchaser of the franchise frequently allocated a greater amount to player contracts than did the seller. To insure consistency, the Internal Revenue Service would have to contest the allocations of both the buyer and seller.

In considering this problem, the Ways and Means Committee indicated on several occasions that it would propose a provision requiring the buyer and seller of a sports franchise to treat the transaction consistently; the amount allocable to player contracts by a purchaser could not exceed the amount of the sales price allocated to these contracts by the seller. It was not, however, until October 20, 1975 that the language of Section 1056 was first drafted. The draft of October 20 did not merely require that the buyer and seller treat transactions consistently; it specifically limited the basis of player contracts to the purchaser of a franchise to the adjusted basis of the contracts in the hands of the seller plus the gain recognized by the seller on the transfer. Thus, if the transferor of the contracts does not recognize gain, the purchaser will have a basis in the contracts equal to the transferor's basis which may be negligible. This would be true in some cases even though the stock of the transferor was sold in a fully taxable transaction.1/

By October 5, 1975, William H. Sullivan, Jr., had entered into contracts to acquire the voting stock of the New England Patriots. These contracts, which obligated Mr. Sullivan to purchase the stock of the Patriots, were executed before any indication had been given by the Ways and Means Committee that anything more than consistency would be required by the transferor and transferee of a sports franchise. The acquisitions were consummated on November 7, 1975. Mr. Sullivan subsequently through a related corporation caused the New England Patriots to be liquidated; the liquidation which effected the transfer of the franchise occurred after December 31, 1975, the effective date of Section 1056.2/

Because a corporation generally does not recognize gain upon the distribution of property to its shareholders in connection with its liquidation, the applicability of Section 1056 greatly reduced the amount that otherwise could have been allocated to the player contracts by the new corporation. This was true even though the shareholders who sold their stock to Mr. Sullivan recognized gain upon the sale. If consistency were the only requirement, the new corporation would have been entitled to allocate significantly more to the player contracts. Of course the tax consequences of an allocation would have been virtually meaningless to the old corporation; as a liquidating corporation it basically recognized gain only to the extent of any depreciation recapture of which there was little.3/

Because the acquisition of stock was an integral and necessary part of the restructuring of the Boston Patriots, and the provision preventing a step-up in basis was not first proposed until after Mr. Sullivan was legally obligated to acquire the stock, it is our view that there is an equitable basis for relief.

In view of the equitable basis for relief present in the circumstances, the Treasury Department does not oppose enactment of H.R. 4103.

H.R. 4503--SPECIAL RULE RELATING TO DEBT-FINANCED INCOME OF EXEMPT ORGANIZATIONS

H.R. 4503 provides a limited exception to the definition of "acquisition indebtedness" for purposes of determining whether the disposition of real property by a tax-exempt organization gives rise to unrelated debt-financed income that is taxable to the exempt organization. The Treasury opposes H.R. 4503.

In general, the income that an exempt organization receives from investment property is taxable in the proportion that the property is financed by debt. If the property is sold, gain on the sale is also taxable in the proportion that the property is debt-financed. This proportion is determined by the highest "acquisition indebtedness" on the property for the twelve-month period preceding the date of disposition.

The circumstances under which the limited exception of H.R. 4503 would apply are detailed. Basically, it would exclude from these rules a sale of real property during 1976 that had been financed before 1965, provided certain other narrow requirements are met.

Clearly Congress intended to tax sales of "debt-financed property." Equally clearly, Congress intended that the test of whether property was debt-financed at sale was to be judged by looking at the twelve-month period preceding the date of sale. An exempt organization planning to dispose of income producing property may extinguish the acquisition indebtedness on the property and sell it without tax only after a twelve-month waiting period.

These rules were enacted in 1969, and, after a transitional period, have applied to dispositions of all debt-financed property since 1972. Exempt organizations have had more than enough time to adjust to this provision in the years since its enactment, and we have no reason to believe that they have not done so. We, therefore, consider the special retroactive exception of H.R. 4503 to be discriminatory and unwarranted.

H.R. 4611--CHARITABLE DEDUCTION FOR CERTAIN CONTRIBUTIONS OF REAL PROPERTY FOR CONSERVATION PURPOSES

H.R. 4611 would create an additional exception to the general rule prohibiting a charitable deduction for a contribution of a partial interest in real property and would also make two existing temporary exceptions, enacted in 1976 and scheduled to expire in 1981, permanent. As a matter of tax policy, the Treasury Department does not necessarily oppose this bill. However, we are concerned about the difficulty of measuring properly the value of the charitable contribution and with the potential for abuse of these exceptions.

We, therefore, believe it would be preferable to defer consideration of the bill until we have had further experience with the 1976 provisions. The very purpose of enacting legislation with a sunset date is to permit the Congress, the Administration and other interested parties to give careful consideration to these temporary provisions before deciding whether to let the legislation lapse, be extended or made permanent. In the meantime we would hope to see more information developed as to the type of transactions intended to be encouraged by H.R. 4611.

Under present law, in general, a charitable deduction is not allowed for income, estate or gift tax purposes for a contribution to charity (not in trust) of a partial interest in property. Two exceptions that permit deductions for partial interests in real property that are contributed exclusively for conservation purposes were added as part of the historic preservation and conservation tax incentives enacted with the Tax Reform Act of 1976. Under these exceptions, a taxpayer may donate, exclusively for conservation purposes, a lease, option to purchase, or easement with respect to real property that is granted in perpetuity, or a remainder interest in real property, and receive a charitable contribution deduction. 1/ The term "conservation purposes" is broadly defined to include the preservation of land areas for public outdoor recreation or education, or for scenic enjoyment, the preservation of historically important land areas or structures, or the preservation of natural environmental systems. These two exceptions, as amended by the Tax Reduction and Simplification Act of 1977, contain the same sunset feature as the other historic preservation and conservation tax incentives enacted in 1976, all of which expire during the first half of 1981.

H.R. 4611 would amend present law in two respects. Section 1 of H.R. 4611 would augment the exceptions now in the Code by permitting a deduction for the contribution of any interest in real property, where the only interests retained by the taxpayer are oil, gas, or other mineral interests, and access thereto, provided that such retained oil, gas or other minerals may not be extracted or removed by means of strip mining, open pit mining, contour mining, area mining, or any other surface extraction method. This provision is not limited to contributions made exclusively for conservation purposes; it would apply to contributions made for any purpose. Section 2 would make permanent the present exceptions for contributions of partial interests in real property exclusively for conservation purposes.

There are several reasons why the Internal Revenue Code denies a charitable deduction for the contribution of a partial interest in property. As early as the Revenue Act of 1964, Congress acted to deny deductions for future interests in tangible personal property as long as the intervening interest was owned by the taxpayer or a related person. 2/ It was felt to be an abuse to allow a current charitable deduction for a gift of a painting, for example, which continued to hang in the taxpayer's home and would not be available for public use until after the taxpayer's death. In part, the difficulty in allowing a deduction for transfers of such interests is that, like other partial interests in property, they were regarded as difficult to value and therefore amenable to aggressive valuations that could not always be policed. Moreover, although the contribution of a remainder interest in property to a charity might well reduce the value of the property in private hands, it would not affect the donor's current enjoyment of the property in any material way. Thus, while the contribution of a future interest in property might properly be regarded as giving rise to a charitable deduction for estate tax purposes, when the donor's enjoyment of the property ceased, it was regarded as undesirable to give current recognition to the contribution of a remainder interest by allowing an income tax deduction as well.

In 1969, Congress focused on the difficulty of valuing the gift of a partial interest, particuarly where the use of the property after the gift might be such as to favor the private interest over the charitable income interest. For example, if a charity were given an income interest in a trust, the trust assets could then be invested in growth stocks paying a low current return, leaving a greater remainder interest to accrue to the non-charitable remainder beneficiaries. 3/

The provisions that would be amended by H.R. 4611 raise several of these concerns. First, it may well be difficult to ascertain the diminution in market value of a parcel of property resulting from the transfer of less than the taxpayer's entire interest in the property for conservation purposes. It is therefore difficult to measure accurately the proper charitable contribution deduction. While valuation problems arise under other parts of section 170, the difficulties with valuing partial interests in real property may be particularly acute, especially where such interests have no impact on the donor's current enjoyment of the property.

Second, for a taxpayer who does not have the present intention to sell or develop the property, the gift of, for example, a conservation easement, while perhaps diminishing the value of the property, does not do so until a later date; in particular, it may have no material impact on the continuing enjoyment of the property by the donor of the easement. Allowing a current charitable deduction to such taxpayers thus appears inconsistent with the provisions barring deduction for gifts of future interests in art works. These problems seem especially likely to arise in the case of transfers of surface rights to property where only the mineral and related access rights are retained. Where the donor's principal interest is in the mineral rights, and where the ability to exploit those minerals is not affected by the gift, allowing a current deduction for a contribution of the surface rights has no greater adverse impact on the donor's enjoyment of the property than in the case of an individual who transfers a future interest in a painting to a museum, retaining the right to enjoyment of the painting throughout the donor's life.

There also may be instances in which one could question the charitable nature of such transfers. For example, the

Treasury understands that statutes in some local jurisdictions provide taxpayers with a reduction in local property taxes in return for the grant of conservation easements; where that occurs it is not clear whether the contribution should be regarded as truly charitable. Not only is it somewhat troubling to grant a charitable deduction in such cases, but, in view of the private benefit from nondevelopment, the charitable deduction may not be essential to achieve the public purpose.

Finally, apart from questions such as these, it is not clear to us whether procedures exist to insure that a donated partial interest in property, such as a conservation easement contributed to a private charitable organization, will continue to be used for conservation purposes and for the benefit of the general public. Without mechanisms to insure the continued use of the donated interest for such purposes, it is not clear that the public interest is being properly served.

We recognize that the overriding benefits to the public may be sufficient to overcome these difficulties and to justify a charitable deduction in some circumstances. We are keeping an open mind on that issue. Nevertheless, in light of these concerns, it seems premature to consider H.R. 4611 at this point.

This is especially so in light of the fact that the rules were changed just three years ago. There has been insufficient time to gain experience with the new statute. It has taken charitable organizations time to become familiar with the new legislation and transactions involving these provisions have only recently begun to occur. It is only as transactions have begun to occur that we have started to become aware of possible abuse. For these reasons, we believe another year of experience with these provisions is needed before deciding whether they should become a permanent feature of the law, or if so, with what revisions.

For similar reasons, we also believe it would be premature to act on section (1) of H.R. 4611, which would permit a deduction for contributions of real property subject to retained mineral and related access rights. While it is argued in behalf of this provision that similar results can be obtained under existing law through the sale of subsurface mineral rights followed by the transfer of the taxpayer's remaining interest in the land, allowing a deduction for the contribution of surface rights by a donor who retains the mineral rights presents more difficult questions of valuation. Moreover, the transfers that would be authorized by section (1) are not, as is the case with other transfers of partial interests permitted by existing law, restricted to transfers for conservation purposes. Consequently, we feel the desirability of making such a revision to the existing provision should be considered in the context of an overall review of the provisions added with the Tax Reform Act of 1976.

Finally, we note that the provisions H.R. 4611 would make permanent were enacted as part of a package that included several provisions intended to encourage historic preservation. Those provisions, like the provisions with which H.R. 4611 is concerned, must also be reauthorized before June of 1981. In connection with the question of reauthorization both the Treasury Department and the Congressional Budget Office have initiated studies of the benefits, possible abuses and difficulties of administering these provisions. It seems to us a wiser course to permit studies of this entire area to be completed before acting on legislation such as this.

H.R. 4634--ELECTION TO TREAT INCOME FROM SPACECRAFT AS FROM U.S. SOURCES

H.R. 4634 pertains to the question of whether income from spacecraft leasing is from sources within or without the United States.

Generally, the source of rental income is determined according to the location where the rental property is used. Thus, under present sourcing rules rentals received from leasing of spacecraft are allocated between U.S. and foreign sources depending upon the actual geographical use of spacecraft.

H.R. 4634 would allow a lessor of a spacecraft used in international commerce to elect to treat all income or loss from the spacecraft, including gain from sale, as income or loss from sources <u>within</u> the U.S. A similar election is now available to lessors of certain ships and aircraft. Owners of spacecraft would typically have tax losses generated by depreciation deductions during the early years of operation. Thus, if an owner is unable to use these losses or the investment tax credit because his U.S. tax liability is extinguished by other tax benefits, the owner would generally arrange to lease the property from other taxpayers who could use the depreciation deduction and the investment tax credit. The lessor normally passes on some of these tax benefits to the lessee through reduced rental charges. Under the present source rules, lessors with foreign source income, which is sufficiently sheltered by foreign tax credits to preclude U.S. tax on foreign source income, would not benefit from the depreciation deductions on spacecraft used outside the U.S. Therefore, the number of available potential lessors would be substantially reduced.

The Treasury Department sees no reason to tinker with the present source rules in order to satisfy the desires of a limited class of taxpayers. We do not believe that the urgency of this matter has been demonstrated, and we think it would be difficult to distinguish the circumstances covered by H.R. 4634 from other leasing cases. In general, we believe the present source rules for income from leasing are logical, clear, and consistent. If those rules are to be changed, moreover, we believe the changes should not be elective in nature. The source rules are intended to define primary United States taxing jurisdiction. However those rules are to be drawn, we see no reason to leave them to the discretion of particular taxpayers.

For these reasons we oppose H.R. 4634.

H.R. 4968--NET OPERATING LOSS CARRYOVER PERIOD FOR TAXPAYERS CEASING TO BE A REAL ESTATE INVESTMENT TRUST

H.R. 4968 would affect the net operating loss carryover period of a real estate investment trust (REIT) or a former REIT. Although we do not oppose the bill's change in the treatment of pre-1976 REIT net operating losses, we do oppose the bill's extension of the carryover period of losses incurred by a disqualified REIT.

Under current law, if a REIT incurs a net operating loss in a qualified year after 1975, the loss may be carried over for eight years. Pre-1976 losses, however, may be carried over for five years, with an extension of up to three years as long as the REIT has remained continuously qualified in all years following the year of loss. The bill would treat pre-1976 losses the same as post-1975 losses, and would allow an eight-year carryover period for all REIT losses, regardless of the year the loss is incurred or the REIT's qualified status in subsequent years.

We do not oppose this change, which affects only those pre-1976 losses that were incurred by qualified REITs. The REIT industry suffered its greatest losses in 1973 and 1974. Recovery has been slow, and many of these large losses will expire unused, regardless of qualification. Although we are leery of a change that may encourage trafficking in REIT losses, there has been no substantial trend in this direction that would warrant denying the benefit of this aspect of the bill to the industry as a whole.

We are, however, opposed to the second part of the bill. A net operating loss can never be carried back to a year in which a REIT was qualified. If a disqualified REIT incurs a loss and cannot carry back the loss to any one of the three preceding years because of its prior REIT status, the bill would increase the disqualified REIT's net operating loss carryover period by the number of taxable years to which the loss is barred as a carryback. The carryover period could not be increased to more than eight years.

Once a REIT becomes disqualified, it is taxed as a normal corporation or trust, as the case may be. We see no reason to give an advantage to a REIT that has chosen to be taxed as a normal corporation merely because it once was a REIT, particularly since many REITs become disqualified so that they can manage their assets more flexibly, without being subject to REIT restrictions on their operations. The situation is analogous to a corporation that has start-up losses; that corporation is not granted an extended carryover period because its loss cannot be used as a carryback.

From an historic point of view, REITs that disqualified themselves before 1976 expected the same five year carryover period for operating losses that normal corporations had. The bill would, in effect, change the effective date of the extended seven year carryover period introduced by the Tax Reform Act of 1976 with respect to disqualified REITs, without a similar benefit for normal corporations. In addition, the bill could add an extra year to that seven year period for losses incurred by disqualified REITs, also a benefit denied to normal corporations. We think this unjustified. We therefore oppose that part of the bill that extends the net operating loss carryover period of a disqualified REIT.

H.R. 5391--SECOND TIER EXCISE TAX ON PROHIBITED ACTS OF CERTAIN TAX-EXEMPT FOUNDATIONS AND TRUSTS

H.R. 5391, the "Chapter 24 Second Tier Tax Correction Act of 1979," attempts to remedy a procedural defect in the current two-tier excise tax system applied to certain acts, or failures to act, by private foundations, employee retirement trusts, and Black Lung Benefit Trusts. While we have some concerns with the bill and suggest a slightly different approach to the problem, we believe it is most important to remedy the defect in the statute and we hope to work with your staff to reach a mutually agreeable position as soon as possible.

Current Law

Private foundations, employee retirement trusts and Black Lung Benefit Trusts are subject to certain restrictions and requirements. The two-tier excise tax system attempts to enforce these requirements and restrictions in two ways. First, it seeks to deter violations by automatically imposing a small excise tax on the prohibited act or the failure to act. Second, it seeks to restore the status quo by imposing a substantial second-tier tax if the prohibited act, or failure to act, is not corrected. The problem which has arisen and which is intended to be corrected by H.R. 5391 relates to the imposition of the second-tier excise tax in certain circumstances.

The problem may be illustrated by focusing on the private foundation self-dealing provisions.1/ Under the Code, any act of self-dealing between a private foundation and a "disqualified person" (generally, any party with a substantial interest in the foundation) is prohibited. If such an act takes place, an excise tax equal to five percent of the "amount involved" (generally, the greater of the amount of money and the fair market value of the property (a) given or (b) received) is imposed on the disqualified person. If the act is not corrected within the "correction period," an additional second-tier tax (in this case, 200 percent of the amount involved) is imposed. Generally, correction involves undoing the transaction to the extent possible, but in any case placing the private foundation in a financial position not worse than what it would have been in if the disqualified person had dealt with the foundation under the "highest fiduciary standards."

Description of Problem

The problem addressed by H.R. 5391 has arisen in connection with the relationship between imposition of the second-tier tax and the definition of the correction period. Under current law, the second-tier tax is not imposed unless the correction period has expired, but the correction period does not end until the Tax Court decision becomes final.2/

In recent cases, 3/ the Tax Court has held that, since the second-tier tax is not "imposed" at the time the taxpayer's petition is filed with the Tax Court, there is no deficiency for the Tax Court to consider. Such a result vitiates the second-tier tax and substantially reduces the incentive for voluntary compliance with the correction requirement.

Before addressing the solution to the problem proposed by H.R. 5391, it is appropriate to review the purposes of the two-tier excise tax system in order to assure that any legislative solution to this problem is fashioned in a manner which best achieves the results intended.

Purposes of System

Before 1970, if a private foundation and a related person engaged in a prohibited self-dealing transaction, the penalty imposed was loss of the private foundation's tax exemption for a minimum of one year and the loss of charitable contribution deductions under certain circumstances.

In 1969, Congress developed the approach of imposing excise taxes for engaging in a prohibited activity rather than penalizing the foundation directly by loss of its exempt status.

In addition to changing the focus of the penalty from the private foundation to the disqualified person, the excise tax system was structured to encourage the correction of prohibited acts or the failure to act so that a private foundation would be in essentially the same position after the correction as it would have been if the prohibited act, or failure to act, had not occurred. This is achieved by imposing a substantial second-tier tax if the prohibited act or failure to act is not corrected. As noted above, in the area of private foundation self-dealing, the second-tier excise tax is 200 percent of the amount involved. For the purpose of the second-tier tax the amount involved is the highest fair market value of the property during the correction period. (For the first-tier tax the amount involved is the value at the time of the transaction.)

We believe two significant principles are embodied in the second-tier tax as originally enacted in 1969. First, the second-tier tax is intended to be large enough to ensure correction. The tax itself is not intended to be collected. Second, in order to avoid manipulation, the risk of market fluctuation on the value of property obtained from the private foundation or other organization must be borne by the disqualified person dealing with the foundation or other organization.

H.R. 5391

H.R. 5391 would resolve the problem faced by the Tax Court by treating the tax as being "imposed" if the act or failure to act is not corrected within the "taxable period." In general, the taxable period would end when the Internal Revenue Service mails a notice of deficiency for the first-tier tax even though a Tax Court petition is filed.

Under this approach the Tax Court would have jurisdiction over the assessment of the second-tier tax by the Internal Revenue Service since the tax would be imposed as required by the Tax Court jurisdictional standards.

In addition, the bill would continue to allow a prohibited act or failure to act to be corrected throughout the period in which the taxpayer may seek Tax Court review of the determination made by the Internal Revenue Service.

Treasury Position

We have a number of concerns with H.R. 5391. Our most substantive concern relates to the allocation, between the disqualified person and the private foundation, of the risk of fluctuation in the fair market value of the property. H.R. 5391 would, in addition to treating the second-tier tax as being imposed if the transaction was not corrected during the "taxable period," determine the amount involved for purposes of the second-tier tax on the basis of the same period.

H.R. 5391 could permit the self-dealer to profit by the transaction with the private foundation. The amount involved, on which the 200 percent tax is based, will be determined by reference to the highest value of the property during the "taxable period," which will end when the Internal Revenue Service mails a notice of deficiency with respect to the first-tier tax. However, the self-dealer would still have the opportunity to determine whether to correct the transaction during the pendency of the Tax Court proceeding. If the self-dealer holds property which appreciates sufficiently, the tax would be paid and the transaction not corrected.

To avoid this potential we would propose a two-notice approach. This would authorize the issuance of a second notice of deficiency for second-tier taxes independent of whether a notice of deficiency is issued for the first-tier tax. The second notice would be triggered by a determination of first-tier tax liability and would be imposed at that time, although the amount of second-tier liability would not be determined until after the correction period had ended.

Under this two-notice approach, judicial economy would be fostered because issues extraneous to the first-tier tax (e.g., the highest value of the property during the correction period) would be addressed only after a decision with respect to the first-tier tax had been made, and not before.

In addition, we would provide that the correction period would include any period during which the assessment of a second-tier tax is under judicial review, including review by a district court or the court of claims. This would give the parties involved the right to judicial review of the liability for the first-tier tax before being forced to correct in order to avoid the second-tier tax. However, since we would also provide that the amount involved would include the fair market value of the property during the correction period as extended by judicial review, the opportunity to profit from changes of value would be eliminated. Finally, we would follow the provision in H.R. 5391 which allows the court that made the determination as to excise tax liability to engage in supplemental proceedings to determine whether the act or failure to act had been corrected, and the highest value of the property involved during the correction period.

We are prepared to discuss other alternatives. However, at this time, we believe the two-notice approach with extension of the correction period described above would both reduce the procedural uncertainties involved in the area and achieve what we believe are the goals of the two-tier system.

Finally, we would like to make three technical comments with respect to the bill.

First, H.R. 5391 would amend the Code to provide in effect that the second-tier tax would be imposed at the time the Internal Revenue Service mails a notice of deficiency to the taxpayer with respect to the first-tier tax. An issue has arisen with respect to whether this provision could lead to avoidance of the second-tier tax. For example, assume that a private foundation makes a section 4945 taxable expenditure and reports a one time first-tier tax liability on Form 4720. In this circumstance there would be no first-tier tax liability and, therefore, on the face of the statute, no notice of first-tier tax deficiency to end the taxable period for second-tier tax. While it would be possible to provide by regulation, as has been done by the regulations under sections 4941 and 4942 (see §§53.4941(e)-1(a)(3), 53.4942(a)-1(c)(1)(ii)), that the date of payment in this case shall be treated as the end of the taxable period, no such interpretation would be in the law until such regulations are issued. Further, with respect to other sections of the Code which would be amended by H.R. 5391, the same problem may arise. Therefore, if the approach embodied in H.R. 5391 is adopted, we recommend that the definition of taxable period be revised to deal with the situation where a notice of deficiency with respect to the first-tier tax is not mailed.

Second, the term "section 4942(j)(3) operating foundation" has become a term of art to technicians in the Internal Revenue Service and in the sectors of the public concerned with exempt organizations. Section 2(b)(2) of H.R. 5391 redesignates section 4942(j)(3) as section 4942(j)(2). (In addition, clerical amendments are made to various sections of the Code reflecting this change.) This redesignation would require numerous changes in the Internal Revenue Manual and determination letters issued to taxpayers, in Forms 990-PF and 1023 and the instructions to those forms, in Publication 578 and Publication 892, and in the regulations under section 4942(j)(2) through (5), 170, 6110, and 7428. We recommend that, to avoid this administrative burden, section 4942(j)(3) remain as currently designated.

Finally, section 2(b)(5) of H.R. 5391 amends section 4945 to add a definition of taxable period. Although section 4952, relating to the excise tax on taxable expenditures by Black Lung Benefit Trusts, is similar to section 4945, H.R. 5391 does not add a definition of taxable period to section 4952. We believe such a change to section 4952 is necessary.

FOOTNOTES

H.R. 4103

1/ In some cases this problem is alleviated where the nonrecognition by the seller is by reason of Section 337(a).

2/ The liquidation was effected through a merger of the original Boston Patriots corporation into the corporation newly formed by Mr. Sullivan. The franchise was distributed to the newly-formed corporation which owned all the voting stock of the original Boston Patriots corporations; cash was distributed to the nonvoting stockholders. For federal income tax purposes, the distribution to the newly-formed corporation and to the non-voting stockholders was a taxable transaction.

3/ The 1976 Tax Reform Act also changed the rules relating to depreciation recapture of player contracts. These changes do not have any practical effect upon transfers of franchises where the transferor had already fully depreciated its original player contracts by 1976.

H.R. 4611

1/ We understand that it may be the opinion of the Solicitor of the Interior Department that section (4) of the Fish and Wildlife Improvements Act of 1978, as amended, 16 U.S.C. §341f(b), authorizes deductions for contributions of partial interests in property to the Fisheries and Wildlife Service, regardless of whether such interests are eligible for a deduction under section 170(f)(3)(B) of the Code. If so, this opinion is incompatible with the Treasury Department's understanding of that legislation, and the Department of the Treasury does not consider itself bound by the opinion.

2/ Now Section 170(a)(3) of the Code.

3/ Section 170(f)(2)(B). Section 170(f)(2)(B) is intended to preclude the double tax benefit of obtaining a charitable deduction for foregone income that is never reported on the taxpayer's return.

FOOTNOTES CONTINUED

H.R. 5391

1/ The excise tax technique established for limiting acts of self dealing (section 4941) has also been extended to a number of other areas. These include the requirements regarding income distributions of private foundations (section 4942), the disposition of excess holdings by a private foundation in certain businesses (section 4943), the removal of certain investments that jeopardize the charitable purposes of the private foundation (section 4944), and the correction of certain private foundation taxable expenditures (section 4945).

The excise tax approach was further extended in 1974 under the Employee Retirement Income Security Act ("ERISA") which provides that if an employee retirement plan does not meet certain minimum funding standards (section 4971), or engages in a prohibited transaction with a disqualified person (section 4975), the two-tier excise tax is imposed.

Finally, in 1978 Congress again turned to the excise tax compliance technique to control acts of self-dealing and the types of expenditures made by Black Lung Benefit Trusts (sections 4951 and 4952).

2/ The correction period is defined as beginning on the date of the act of self-dealing and ending 90 days after the IRS mails a notice of deficiency with respect to the second-tier tax, extended by any period during which "a deficiency cannot be assessed." Under the rules of section 6213(a) of the Code, if a taxpayer files a timely petition with the U.S. Tax Court, a deficiency cannot be assessed until the decision of the Tax Court becomes final.

3/ Adams v. Commissioner, 72 T.C. No. 8 (1979) (no second-tier tax under section 4941, relating to private foundation self-dealing); Larchmont v. Commissioner, 72 T.C. No. 12 (1979) (following Adams as to section 4945, relating to private foundation taxable expenditures); and H. Fort Flowers Foundation v. Commissioner, 72 T.C. No. 38 (1979) (following Adams as to section 4942, relating to private foundation's failure to distribute income).

APPENDIX -- SUMMARY OF TREASURY DEPARTMENT'S VIEWS

H.R. 3874 -- Not opposed.

H.R. 4103 -- Not opposed.

H.R. 4503 -- Opposes.

H.R. 4611 -- Recommends that consideration of the bill be deferred until Treasury Department and Congressional Budget Office studies have been completed.

H.R. 4634 -- Opposes.

H.R. 4968 -- Does not oppose that part of the bill that would extend the carryover period for pre-1976 net operating losses of qualified REITs; opposes that part of the bill that would extend the carryover period for net operating losses of disqualified REITs by the number of years the loss could not be carried back because of prior REIT status.

H.R. 5391 -- Recommends an alternative approach, and is willing to work with staff to reach a mutually agreeable position.

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

FOR IMMEDIATE RELEASE
November 9, 1979

Contact: George G. Ross
202/566-2356

TREASURY ANNOUNCES TENTATIVELY THAT MELAMINE IN CRYSTAL FORM FROM THE NETHERLANDS IS NOT BEING DUMPED

The Treasury Department today announced its preliminary determination that melamine in crystal form from The Netherlands is not 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.)

A final Treasury decision in this case must be made by March 17, 1980. If Treasury determines that sales at less than fair value are occurring, the case would be referred to the U. S. International Trade Commission (ITC) to determine whether these sales are injuring or likely to injure an American industry. An affirmative ITC decision would require the imposition of dumping duties.

Notice of this action will appear in the Federal Register of November 13, 1979.

Imports of this merchandise amounted to $2.3-million during November 1978-March 1979.

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HINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE
November 9, 1979

Contact: George G. Ross
202/566-2356

TREASURY WITHHOLDS APPRAISEMENT
ON MELAMINE IN CRYSTAL FORM
FROM AUSTRIA AND ITALY

The Treasury Department today said it is withholding appraisement on imports of melamine in crystal form from Austria and Italy. The withholding action, based on a tentative determination that they are being sold in the United States at "less than fair value," will not exceed six months. A final determination will be issued no later than March 17, 1980.

Under the Antidumping Act, the Secretary of the Treasury is required to withhold appraisement when he has reason to believe or suspect that sales at less than fair value are taking place. (Sales at less than fair value generally occur when imported merchandise is sold in the United States for less than in the home market or to third countries.)

Withholding of appraisement means that the valuation for Customs duty purposes of goods imported after the date of the tentative determination is suspended until completion of the investigation. This is to permit assessment of any dumping duties that are ultimately imposed on those imports.

Cases in which a final determination of sales at less than fair value is issued are referred to the U.S. International Trade Commission to determine whether an American industry is being, or is likely to be, injured by such sales. Both "sales at less than fair value" and "injury" must be found to exist before a dumping finding is reached.

Notice of this action will appear in the Federal Register of November 13, 1979.

Imports of this merchandise from Austria from November 1978 through March 1979 were valued at about $500,000. Imports from Italy for the period November 1978 through April 1979 were also valued at $500,000.

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

FOR IMMEDIATE RELEASE November 9, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,100 million of 13-week bills and for $3,100 million of 26-week bills, both to be issued on November 15, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 14, 1980			26-week bills maturing May 15, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	96.992	11.900%	12.47%	94.016	11.836%	12.80%
Low	96.940	12.105%	12.70%	93.938	11.991%	12.98%
Average	96.960	12.026%	12.61%	93.961	11.945%	12.92%

Tenders at the low price for the 13-week bills were allotted 14%.
Tenders at the low price for the 26-week bills were allotted 28%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 35,395	$ 35,395	$ 36,040	$ 36,005
New York	3,535,450	2,437,450	4,220,740	2,463,660
Philadelphia	23,510	23,510	16,445	16,445
Cleveland	27,535	27,535	21,325	21,325
Richmond	29,130	29,130	29,480	29,480
Atlanta	45,080	45,080	47,205	45,975
Chicago	316,850	191,850	336,800	214,300
St. Louis	44,785	26,485	37,980	18,980
Minneapolis	11,535	11,535	12,245	12,245
Kansas City	50,100	50,100	26,670	26,670
Dallas	17,150	17,150	12,830	12,830
San Francisco	215,190	170,190	197,450	142,450
Treasury	34,860	34,860	59,760	59,760
TOTALS	$4,386,570	$3,100,270	$5,054,970	$3,100,125
Type				
Competitive	$2,699,010	$1,412,710	$3,168,180	$1,213,335
Noncompetitive	548,545	548,545	422,790	422,790
Subtotal, Public	$3,247,555	$1,961,255	$3,590,970	$1,636,125
Federal Reserve and Foreign Official Institutions	$1,139,015	$1,139,015	$1,464,000	$1,464,000
TOTALS	$4,386,570	$3,100,270	$5,054,970	$3,100,125

1/Equivalent ~~coupon-issue~~ yield.

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STATEMENT OF
DONALD C. LUBICK
ASSISTANT SECRETARY OF TREASURY FOR TAX POLICY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
OF THE
HOUSE OF REPRESENTATIVES
November 13, 1979

Mr. Chairman and Members of the Committee:

I am pleased to appear before this Committee to discuss the important income tax question of the appropriate tax treatment of appreciated property passing at death. H.R. 4694, The Carryover Basis Simplification Act of 1979, introduced by Mr. Fisher, is a reasonable solution to all the important problems that have been raised in the two and a half year debate over the carryover basis provisions enacted in 1976. Mr. Fisher's bill assures income tax equity and eliminates income tax avoidance. It relieves the administrative burdens imposed by the present statute. It provides generous relief for illiquid estates. No small business or family farm will have to be sold to raise cash to pay income taxes attributable to the sale of inherited farm or business property.

On August 2, 1976, this Committee reported H.R. 14844, The Estate and Gift Tax Reform Act of 1976, to the full House. The bulk of H.R. 14844, together with this Committee's Report on the bill, subsequently became part of the Tax Reform Act of 1976. H.R. 14844 made major revisions in the estate and gift tax law. In addition, the bill addressed an income tax issue which naturally arises in connection with any comprehensive consideration of property transferred at death and which had troubled serious analysts of the income tax law for decades. The issue was how properly to treat, for income tax purposes, appreciated property owned by a decedent.

Before the Tax Reform Act of 1976, the basis of property acquired from a decedent was its estate tax fair market value. This rule is commonly called "step-up" in basis. The effect of step-up is to forgive forever the collection of any income tax on the increase in value that has accrued in property held by an individual at death.

This Committee examined the consequences of "step-up." It decided that the retention of step-up in the income tax law was wrong and recommended legislation to provide that a decedent's basis in property would "carry over" to the heir receiving that property. This rule does not impose currently any new tax burden. It simply preserves the appreciation in value for imposition of an income tax upon a later disposition by the heir. This is a central point.

In reaching its conclusion regarding step-up, the Committee stated:

> [Step-up] results in an unwarranted discrimination against those persons who sell their property prior to death as compared with those whose property is not sold until after death. Where a person sells appreciated property before death, the resulting gain is subject to the income tax. However, if the sale of the property can be postponed until after the owner's death, all of the appreciation occurring before death will not be subject to the income tax.***
>
> In order to eliminate these problems, your Committee believes that the basis of property acquired from or passing from a decedent should have the same basis in the hands of the recipient as it had in the hands of the decedent, i.e., a "carryover basis." This will have the effect of eliminating the unwarranted difference in treatment between lifetime and deathtime transfers.1/ (Emphasis supplied)

1/ House Committee on Ways and Means Report, Estate and Gift Tax Reform Act of 1976, H. Rep. No. 94-1380, 94th Cong., 2d Sess., 36-37 (1976).

In the almost three years that have passed since Congress decided to do away with step-up, no one has seriously attempted to rebut the basic premise for the change in the law. It is as true today as then. The litany of objections to carryover basis is principally a smokescreen behind which special interest groups continue to seek for themselves and their clientele unjustified tax advantages.

Administrative and technical problems with the carryover basis provisions as enacted are, as I shall later discuss, solved by H.R. 4694, The Carryover Basis Simplification Act of 1979, introduced by Mr. Fisher. Thus, the real question the Committee should address is how the permanent and irrevocable forgiveness of income tax on appreciation accrued in assets held at death can be justified. Those who would return to step-up must carry the burden of justification. We do not believe it can be done.

Step-Up Is Indefensible Income Tax Policy

As a matter of income tax policy, step-up is fundamentally unsound for at least four reasons:

1. Horizontal and Vertical Inequity. The tax equity case against step-up is overwhelming. It can be demonstrated by a simple example which by this time may be familiar to many of you.

To make the point most graphically, let us first assume we live in a world without an estate tax. Now, assume that on the same day two taxpayers, A and B, each bought shares of stock in the same corporation for $100,000. A and B decide to sell when the stock is worth $1,100,000. Each would pay a capital gains tax of 28 percent on any recognized capital gain. A goes into his broker's office and sells his shares. He walks out into the street and meets his friend B, who is about to go into the broker's office to sell his shares. They engage in animated conversation about what each will do with his net after-tax proceeds of $820,000 and fail to observe a speeding vehicle which strikes and kills them both.

A sold his shares before he died.2/ He realized a capital gain of $1,000,000 upon which an income tax of $280,000 is due. His heir is left with $820,000 after the tax is paid.

Compare B, who has died before he could sell his shares. The shares pass to his heir with a new basis of $1,100,000. B's heir can immediately sell the shares for that price and pocket the entire $1,100,000.

2/ For purposes of illustration the technical question of when a sale of stock is complete is ignored.

Accidental, untimely death has caused A's heir to receive $820,000 and B's heir to receive $1,100,000. (See Example 1 attached.) The result cannot be justified.

Some assert that the income tax problem so glaringly highlighted by the example does not really exist because the appreciation in the shares owned by B is subject to estate tax. If this assertion is true, the net amount received after payment of both income and estate tax should be the same for A's heir and B's heir.

To test the assertion, assume that the shares or their proceeds in the estates of A and B are both taxed at a 41 percent rate. A's estate after payment of income tax has assets of $820,000. After the further payment of $336,200 in estate tax, A's heir receives $483,800. On the other hand, B's estate has assets of $1,100,000. When the shares are sold to pay B's estate tax liability of $451,000, B's heir receives $649,000, $165,200 more than that of A. (See Example 2 attached.) The combined income and estate tax burden on B's heir is reduced by about 27 percent from the burden on A's heir.

Note, however, that in a carryover basis system this disparity is cured. B's heir will receive an upward basis adjustment of $410,000 3/ to account for the fact that the shares were subject to estate tax in B's estate. Thus, if B's heir sells the shares for $1,100,000 and his capital gains are taxed at 28 percent, he will incur an income tax liability of $165,200.4/ The total income and estate tax attributable to the shares sold by B's heir is $616,200, the same as the total income and estate tax attributable to A's shares. (See Example 3 attached.) Both heirs retain $483,800.

This example makes clear a number of fundamental points. First, the estate tax and the income tax are two separate tax systems. The estate tax applies to the transfer of property, the income tax to the receipt of income. As the example demonstrates, the estate tax is not a surrogate for the income tax. It applies to wealth accumulated after payment of income tax as well as to wealth that was not subject to income tax.

3/ The adjustment, determined by the simplified method contained in H.R. 4694, is equal to the appreciation in the shares times the estate tax marginal rate or $1,000,000 x .41.

4/ $1,100,000 amount realized - $510,000 basis ($100,000 original basis + $410,000 death tax adjustment) = $590,000 gain x .28 = $165,200.

Second, the example demonstrates the disparate income tax treatment which can occur under step-up due solely to the timing of capital gain recognition. Step-up permits those who are able to accumulate wealth in the form of unrealized appreciation to pass on that wealth free of income tax. Those who have recognized capital gains, as well as salaried individuals, can pass on only that which is left after income tax has been paid. This disparate treatment is unacceptable as an abstract proposition. It is even more unfair when one recognizes that only the wealthiest of American taxpayers are in a position to live comfortably solely on dividends, rents and interest derived from appreciating assets they are rarely forced to sell. There is no tax policy or economic policy that justifies granting this segment of society an income tax advantage over the vast majority of the American people.

The amount of appreciation assumed in the foregoing example is not in any sense exaggerated for effect. We have derived some estimates of the magnitude of untaxed appreciated assets from records of completed sales. We examined the records in the 1973 Sale of Capital Assets Study to identify transactions in which the sales price exceeded $1,000,000 and was also more than four times the basis of the asset sold. Table 1 sets forth 40 such examples and provides information as to the nature of the asset sold as well as the holding period involved. In fact, we estimate that over 1,300 transactions reported in 1973 would fulfill the dual requirements of a selling price over $1,000,000 and a sales price to basis ratio in excess of four.

These data are relevant to the step-up debate because these transactions are illustrative of the size of unrealized gains that taxpayers in otherwise similar circumstances might have accumulated and that would escape income tax under step-up if the sales had not occured. In fact, we believe these reported transactions would tend to understate the ratio of selling price to basis in unrecognized transactions, since the tendency is to retain assets with the highest ratio of appreciation to basis.

Several recent court decisions provide additional confirmation of the magnitude of the problem. In _Estate of David Smith_,5/ the court found the value of art works owned and created by the decedent to be $2.7 million. Basis was almost zero. Under step-up, virtually $2.7 million in appreciation passed to the decedent's heirs free of income tax. In _Estate of Henry_,6/ the taxpayer made gifts of marketable corporate stocks totalling $6.7

5/ 57 T.C. 650 (1972), aff'd 510 F.2d 479 (2d Cir. 1975), cert denied 423 U.S. 827

6/ 69 T.C. 665 (1978)

million with a basis of $115,000. The unrealized appreciation was almost $6.6 million. In Owen v. Commissioner, 7/ the taxpayer gave marketable American Express Company stock worth $5.2 million with a basis of $1,200. Virtually the entire $5.2 million was unrealized appreciation. In Bradford v. Commissioner, 8/ property worth $2 million with a basis of $283,000 was the subject of the gift. Over $1.8 million of unrealized appreciation was transmitted. In Johnson v. Commissioner, 9/ the property given was worth $500,000; its basis was $10,800. Almost $490,000 of unrealized appreciation was transmitted.

This phenomenon is not restricted solely to those with inherited wealth. As noted in an article in *Fortune* magazine, "there are dozens -- perhaps even hundreds -- of individuals who have amassed fortunes of $50 million or more in privately held companies." 10/ As the article shows, the initial investment in these enormously successful enterprises is nominal when compared to their current worth.

The vertical inequity of step-up occurs because appreciation rises as a percentage of the gross estate as estates increase in size. Thus, the larger the estate, the greater the benefit of step-up. Table 2 tabulates this progression. It also shows that over 75 percent of unrealized appreciation in assets other than personal residences is found in estates of over $175,000, which comprise the estates of less than 4 percent of decedents dying annually.

2. Revenue loss. Step-up results in a significant revenue loss. Under step-up, an estimated $20 billion in accrued appreciation passes untaxed annually. The income tax of $833 million under the current carryover basis statute is not just foregone in the year of a decedent's death. It is permanently and irrevocably forgiven.

3. Economic distortions. Step-up also creates serious adverse economic effects. The opportunity entirely to avoid income tax on appreciated assets by holding those assets until

7/ T.C.M. 1978-51

8/ 70 T.C. 584 (1978)

9/ 495 F. 2d 1079 (6th Cir. 1979)

10/ "In Search of the Elusive Big Rich", *Fortune*, February 12, 1979, 12.

death distorts capital mobility by inducing individuals to retain assets solely to obtain this benefit. Any tax practitioner can recite from his own experience instance after instance of advice by him to his clients to retain assets that would otherwise be sold. Retention is advised primarily to secure forgiveness of income tax at death. The inducement to hold assets to avoid the payment of income tax is referred to as "lock-in".

It is almost impossible to quantify the amount of wealth that is "locked-in". This is because "lock-in" is a negative phenomenon. It occurs when sales otherwise dictated by sound investment strategies do not occur. Of course, the decision not to sell may involve other considerations which cannot be separated from tax-induced "lock-in". Nonetheless, to the extent the income tax system can be said to cause "lock-in", step-up is a major source of that "lock-in". Those whose estate planning takes step-up into account, and plainly this includes many elderly taxpayers and most taxpayers with large accumulations of unrealized appreciation, will inevitably find their decision whether to hold or sell affected by this provision. No matter how low the capital gains rate, so long as it is above zero step-up is a "better bargain" with regard to appreciated assets the taxpayer is in a position to retain.

Congress in 1978 relied upon revenue from higher sales volume to justify increasing the capital gains exclusion to 60 percent. The purpose of the reduced capital gains rate was to unlock capital in the form of unrealized appreciation in assets that were not being sold because of the allegedly excessive tax burden imposed on the sales proceeds. This goal will not be met if taxpayers have the opportunity to avoid income tax entirely by holding appreciated property until death.

"Lock-in" can best be reduced by treating death as a recognition event. If unrealized appreciation were taxed at the current long-term capital gains rates at death, a significant amount of the "lock-in" effect would be eliminated.

As to "lock-in", carryover basis is a second best approach. It somewhat reduces the "lock-in" effect for investors concerned with estate planning, since complete forgiveness is eliminated. However, if the property continues to appreciate in value, the capital gains tax would be greater when the heirs consider selling, and their "lock-in" would be somewhat increased. Thus, "lock-in" would be decreased for some but increased for others. The net effect on aggregate "lock-in" cannot be determined fairly.

4. Disparate basis treatment for lifetime gifts and accrued but unpaid income items. Carryover basis for property acquired by lifetime gift has been the law since 1921. Similar treatment has existed since 1942 in the case of property passing at death that consists of compensation, pension benefits and unpaid installment obligations from the disposition of property. Yet, most property

acquired by gift at death received a new basis. Lifetime and deathtime transfers should be treated similarly for income tax basis purposes.

5. Summary. The case against forgiveness on the grounds of inequity, revenue loss, adverse economic effects and structural inconsistency is overwhelming. The problem was resolved in an acceptable manner through the enactment of the carryover basis concept. Technical problems that have surfaced since enactment are cured by H.R. 4694, and, in any event, cannot obscure the fact that as a policy matter, step-up is indefensible.

The Arguments for Step-up Forgiveness

The 1976 repeal of step-up prompted a large volume of comment. As I noted earlier, little, if any, of this comment addressed the fundamental income tax equity issue raised by step-up. However, the sheer magnitude of these oft-repeated assertions requires that they be examined critically and exposed as nonsubstantive, rhetorical attempts to shift the focus of the debate to issues irrelevant to the question of the appropriate income tax treatment of unrealized appreciation in assets held at death.

1. Carryover basis is inherently unworkable because proof of basis problems are insurmountable. Advocates of income tax forgiveness assert that carryover basis cannot work because taxpayers do not keep adequate records of the acquisition cost of assets during their lives or if they do, those records disappear at death.

This problem did not deter Congress when it first enacted the income tax. The basis of property held on March 1, 1913 was its value on that date or historical cost and the income tax system managed to work. The Canadians adopted a similar basis rule when they first treated gifts and deathtime transfers as recognition events. Their system has not posed significant basis determination questions. Both Canadian government authorities and private practitioners inform us that the issue of proof of basis has not even been a matter of public discussion. Moreover, carryover of basis has not caused significant difficulties for property transferred by gift or items of income in respect of a decedent passing at death. These carryover basis provisions have existed since 1921 and 1942, respectively.

We do not dispute the assertion that not all taxpayers keep accurate records and that record keeping, even among the most conscientious, varies according to the type of asset at issue. This point is demonstrated by an American Bankers Association survey, the results of which have been made available to the Committee and to us. However, the real question is whether failure to keep records automatically leads to the conclusion that the income tax on the unrealized appreciation in all assets passing at death should be forgiven.

The proposition that record keeping problems should control whether tax is imposed on an otherwise clearly taxable event would, if carried to its logical extreme, mean that only "easily measurable" income should be taxed. It also implies that the determination whether income is "easily measurable" rests entirely with the taxpayer. Thus, the taxpayer can, in his own discretion, control whether sufficient records exist to determine his income tax liability. If he fails to maintain records, income becomes hard to measure and hard to measure income is not subject to tax. Forgetfulness should not be blessed with forgiveness.

In attempting to analyze the scope of the record keeping problem, several different issues must be considered. First, to what extent can we expect records to be available because they are essential to compute depreciation or depletion or to calculate the income tax consequences of a lifetime sale or other disposition of property? Second, what special rules are needed for the types of assets for which it is reasonable to assume taxpayers will not retain cost records? Third, is special relief needed for taxpayers who acquired certain assets prior to the effective date of the new system?

Under our income tax system (and for gift tax reporting purposes), an individual who acquires property should retain cost basis information. That information will be necessary to compute depreciation, depletion or cost of goods sold in the case of business assets and in all cases where the income tax consequences of a sale or other disposition is at issue. Even under step-up forgiveness, records were unnecessary only if a taxpayer knew with absolute certainty that the particular asset would be held until death. Since most taxpayers pay for assets they acquire, and all taxpayers are interested in reducing tax on sale, it is in their interest to retain or obtain cost records. Otherwise, secondary evidence will be needed to establish some basis or the entire sale price will be taxable.

We believe most taxpayers recognize this and do retain cost records for most investment assets. This has certainly been the experience of the Internal Revenue Service in auditing income tax returns. Whether those records are uniformly reliable, readily accessible or in a form which could be understood by others is a different question and one to be examined in the context of transition relief. However, it is simply not true that the vast majority of taxpayers of this country fail to keep records as to the acquisition cost of the great majority of assets they acquire, especially investment assets held by the wealthiest 2 percent of taxpayers. In our view, this conclusion is not shaken by the result of the Bankers' survey. Indeed, as that survey notes, proof of basis problems generally tended to diminish as estates got larger.11/

11/Results of American Bankers Association Survey in Difficulties and Cost of Proving Basis, March 28, 1979, 4.

Records regarding the acquisition cost of closely held corporate stock may be difficult to find but should be capable of reconstruction. In the case of partnerships and subchapter S corporations, past income tax returns will provide basis information. For those who are engaged in sole proprietorships, or own depreciable or depletable property, past income tax returns will show the basis of depreciable assets and inventory.

If acquisition cost records do not exist with regard to nondepreciable investment real estate, it is usually possible to recreate or estimate basis by a number of methods. For example, many deeds state the purchase price of real estate. Transfer tax stamps or local property tax assessments may also provide guidance. The basis of marketable securities can be estimated by reference to market quotations on or about the acquisition date.

We recognize, however, that record keeping problems do exist with regard to certain types of assets and that it is necessary to address these problems in designing practical legislation. For example, as demonstrated by the Bankers' survey, many taxpayers fail to retain records of the cost of items of tangible personal property such as furniture, clothing, collections of nominal value and the like. Many taxpayers also fail to keep accurate records with regard to improvements to personal residences. H.R. 4694 has special rules for these cases.

We firmly believe that a distinction must be made between records for property acquired before and after the effective date of the repeal of step-up. In previous testimony we have stated that Congress must assume that any justification for failure to keep records disappears once taxpayers are on notice that assets acquired after the effective date are subject to the new statute. In its August 21, 1979 Analysis of H.R. 4694, the American Bankers Association takes issue with this, stating "[W]hat reason is there to live in a dream world contrary to experience and believe that individuals who do not choose to or for some reason are unable to maintain cost records for their own purposes during lifetime will change their habits and do so because such records might be needed after their deaths?12/

There are several answers. First, we do not believe that for the estates that would subject to carryover basis if H.R. 4694 were enacted the problems of proof of basis for investment assets acquired even prior to the effective date are impossible. As one respondent to the Bankers' survey put it, "I view as futile any attempt to argue that proof of basis is impossible: there is

12/American Bankers Association Analysis of H.R. 4694 Introduced by Representative Joseph Fisher To Amend Carryover Basis, August 21, 1979, 6.

nothing new in that area, as taxpayers have for years been able to prove basis in capital gains transactions to the satisfaction of the income tax examiner." Another said, "[E]ven if proof of basis were to go into effect, although there may be some administrative inconvenience, we do not believe that we will be facing an impossible task."

Second, and more important, we strongly believe that just because records will be necessary to establish basis for heirs, taxpayers will indeed take more care. Many of the cases of lost records cited in the Bankers' survey occured as taxpayers got older. While those records would still be necessary if property was sold by those taxpayers, it is also true that those taxpayers might have relaxed their record keeping. At that time in their lives, it probably became more clear that much of their accumulated property would not be sold prior to death and step-up would eliminate the need for cost records.

Finally, and most important, we return to our original assertion. Congress must assume that taxpayers will take reasonable steps to comply with the law so long as that law does not impose unreasonable requirements. Our experience under the income tax when originally enacted and the more recent experience of the Canadians indicates that, despite the fears of the Bankers, this should not be a serious problem.

The material we have reviewed indicates that the record keeping problems to be addressed relate to tangible personal property, personal residences and, in some cases, investment assets acquired prior to the effective date of carryover basis. H.R. 4694 addresses each of these issues and provides solutions which eliminate proof of basis problems for virtually all the examples cited in the Bankers' survey. In short, the proof of basis problem has become a red herring.

2. Carryover basis will cause the forced sale of family farms and closely held businesses. Income tax liability will arise in a carryover system when an estate or heir sells inherited appreciated property. That is a necessary and intended consequence of carryover basis. Moreover, it may also be necessary for an estate to sell additional property to raise funds to pay the income tax arising from the first sale. This had led farm and small business groups to assert that the "mushrooming" income tax, arising from the need to sell appreciated property to raise funds to pay death taxes, will result in the forced sale of farms and closely-held businesses.

The liquidity problems which are allegedly "caused" by carryover basis must be placed in perspective. First, carryover basis itself does not cause liquidity problems. No tax is due in a carryover basis system until carryover basis property is sold. No owner of a family farm faces a tax liability from carryover basis until the farmland is sold. The same is true of closely-held businesses. If liquidity problems exist, they arise because of the estate tax.

Second, a large portion of the appreciated property held by estates is comprised of marketable securities and investment real estate. In the case of marketable securities there can be no liquidity problem. In the case of investment real estate, the estate tax will be imposed on the value of the property net of indebtedness. To the extent investment real estate is subject to estate tax, the net equity in the property should in most cases be sufficient to secure a loan to pay the estate tax.

However, we recognize that close-held business interests and farms, which represent only 7 percent of the value of assets reported on estate tax returns, pose a somewhat different problem. In those cases, it is in fact more probable that the estate tax liability cannot be satisfied under current law unless some of the business property is sold. H.R. 4694 addresses this problem directly.

First, in an effort to reduce the number of situations in which sales will be necessary, the bill combines into one section the two provisions of existing law which permit the deferred payment of estate tax attributable to closely-held businesses and farms. The new section contains the more generous provisions of each of the two existing provisions. Thus, in aplicable cases, payment of estate tax attributable to a qualifying closely-held business or farm is deferred for five years and the balance may be paid in up to 10 annual installments commencing in the sixth year after death. These changes should, in most cases, eliminate forced sale of property to pay estate taxes.

For those cases in which sales are still required, H.R. 4694 contains a special provision which allows the basis adjustment for death taxes to be allocated to property equal in value to the sum of death taxes and administration expenses. In effect, the sale of property to pay death taxes and administration expenses is accorded the same income tax treatment as occurred when the basis of property in the hands of an heir was "stepped-up" to estate tax value.13/ While there is less aggregate death tax basis adjustment available for the retained portion of the closely-held business or farm, this will not cause difficulty because, by hypothesis, the retained property will not be sold by the heir. Moreover, this provision provides investment flexibility because there is no requirement that the sales proceeds actually be used to pay death taxes or administration expenses.

13/Examples illustrating the operation of this provision are attached as Appendix 1.

3. <u>Carryover basis delays the probate of estates, inordinately increases the cost of estate administration and presents irreconcilable fiduciary conflicts.</u> The allegation is made that carryover basis, solely by introducing a new concept to be taken into account during estate administration, frustrates efforts of the probate bar to simplify the administration of estates. It is true that any departure from step-up introduces additional complexity. However, if H.R. 4694 is enacted, complexity will not exist for 1,947,000 of the approximately 2,000,000 estates coming into existence annually. The question is whether carryover basis unduly affects and delays administration of the remaining 53,000 estates.

If H.R. 4694 is enacted, much of the anticipated difficulty and cost of administration of carryover basis is eliminated. The aggregate cost of compliance will be insignificant compared to the revenue generated and the increased income tax equity produced.

It is also alleged that carryover basis improperly intrudes in estate administration by creating an entirely new set of considerations to be taken into account in distributing assets to various beneficiaries. While by no means certain under applicable state law, it is possible that a fiduciary may have to take income tax basis into account in making distributions.

If this is an assertion that fiduciaries are incapable of administering estates when they must take tax consequences into account, it is a curious one. Estate planning and administration is replete with tax considerations. The tax literature abounds with learned discussions of various minimization techniques. Entire books have been written on subjects such as the marital deduction. Law schools devote entire courses to estate planning and administration. Many wealthy taxpayers, who also happen to be those who would be most affected by the repeal of step-up, often pay substantial legal fees to tailor estate plans to minimize taxation.

If this argument is premised on the fact that property with bases different from estate tax value cannot be dealt with by fiduciaries, it is also rather curious. The real world is complicated for those administering large estates. Fiduciaries must already make choices which have both tax consequences and affect the net amounts received by beneficiaries. They are not clamoring to have these elections eliminated. For example, fiduciaries must decide whether to file a joint or separate income tax return for the year of the decedent's death; whether to claim expenses as estate or income tax deductions; whether to elect the alternate valuation date; whether to elect special use valuation; whether to elect to pay estate tax in installments; whether to distribute property in cash or in kind; whether to receive retirement benefits in other than a lump sum; whether to choose a fiscal year; whether to accumulate or distribute estate income; which assets to sell and how to reinvest the sales proceeds; when to settle claims and when to terminate administration. Carryover basis considerations do not materially add to these decisions. Indeed, in the more sophisticated estate plans, the administration of formula marital deduction clauses makes the alleged carryover basis problems pale in significance.

4. If carryover basis is the appropriate solution to the problem of the income tax treatment of appreciated property held at death, it is unfair for it to apply to only 2.7 percent of the estates coming into existence annually. If H.R. 4694 is enacted, carryover basis will apply only to approximately 53,000 of the estimated 2,000,000 estates coming into existence annually. Some have attacked H.R. 4694 on the ground that removing 97.3 percent of all estates from the carryover basis system is nothing more than an inequitable attempt to "soak the rich."

This allegation is interesting. The same individuals who now argue the inequity of a $175,000 threshold level of carryover basis applicability previously argued vociferously that the $60,000 entry level of existing law was too low because it brought into the carryover basis system estates for which federal estate tax returns were not required. One cannot have it both ways.

The real point is this. While it is true that virtually all decedents own some appreciated property, it is also appropriate to recognize that administrative considerations lead one toward some exemption level. The question then becomes what level is appropriate. We believe it is appropriate to conform the carryover basis system to the exemption level of the estate tax system. Therefore, we support H.R. 4694 under which carryover basis would be inapplicable to those estates containing less than $175,000 of carryover basis property. Moreover, under H.R. 4694 a $175,000 minimum basis is available to those estates which are subject to carryover basis. The net effect, therefore, is to permit all estates a minimum basis of up to $175,000 and approximately 75 percent of the unrealized appreciation contained in the estates of all decedents dying annually is covered by the carryover basis system.

5. Death is a "tax loophole." The assertion has been made that those who favor repeal of step-up view death as a "tax loophole." The issue is whether property which passes at death should be treated the same as property which passes *inter vivos*. It is not true that the repeal of step-up discriminates against people who hold property until death. Deferral of taxation aside, carryover basis simply places those individuals on an equal income tax footing with those who have not accumulated wealth in the form of unrealized appreciation and held it until death.

6. Repeal of step-up will result in a new tax. Some assert that the repeal of step-up constitutes a new tax. This is untrue. There is no new tax imposed if step-up is repealed; rather, certain property on which deferred income tax was forgiven now becomes subject to that tax. This is not a semantic point.

Forgiveness results in taxpayers who have sold property before death being treated differently than those who did not. The result is unequal application of the laws.

Others contend that while it is appropriate to impose an income tax on the gain from lifetime sales, because those sales were voluntary, it is incorrect to subject unrealized appreciation that has accrued over a decedent's lifetime to income tax when the property is sold by an heir. There are several difficulties with this proposition. First, so long as property appreciates in value and is not sold, the owner is able to defer the payment of income tax on the appreciation. Second, carryover basis does not impose an income tax on an involuntary sale any more than the tax law does for involuntary sales occurring during life. Rather, an income tax is imposed on an heir under the same circumstances it would have been imposed on the decedent; usually when the heir voluntarily sells the property.

7. The expectancies of those who relied on step-up must be protected. It is alleged that the repeal of step-up dashed the expectations of those who relied on that provision in making investment decisions. The answer to real, and not imagined, difficulties regarding valid expectations lies in appropriate transition rules. The original carryover basis provision in H.R. 14844 contained no transition relief. To protect legitimate expectations, the transition rule, known as the "fresh start" adjustment, was added by the Conference Committee. To the extent that provision does not achieve its intended purpose, it has been modified by H.R. 4694. It is totally inappropriate to retain step-up forgiveness because the transition rule may require adjustment.

8. Repeal of step-up results in tax on inflation gains only. Some assert that step-up should be retained because much of the appreciation that would be subject to tax under carryover basis is attributable to inflation. The amount of appreciation involved in the examples cited earlier demonstrate that this is not the case. There is no way that inflation can account for increases in value of that magnitude. But even if it were true, the simple example of A and B provides a total response. Each was equally affected by inflation and yet the heirs of each receive different amounts. While the effect of inflation is a matter which deserves attention, it is neutral in this context.

9. Death is an inappropriate time to impose income tax. Some of the comment over repeal of step-up has as its core the notion that it is inappropriate to treat the involuntary event of death as an income tax recognition event. This argument does not lead to the conclusion that forgiveness is correct. Rather, if accepted, it would lead one to adopt carryover basis. Under carryover basis no income tax is imposed until an appreciated asset is sold.

10. <u>Repeal of step-up is unnecessary because unrealized appreciation is subject to estate tax.</u> Some assert that it is not necessary to subject unrealized appreciation to income tax because that unrealized appreciation is included in the decedent's estate and is subject to estate tax. This argument is rebutted by the simple example of A and B, one of whom sold his assets before death and the other did not.

It has been suggested that, to the extent the argument against step-up forgiveness involves concern over the revenue loss attributable to the $20 billion of unrealized appreciation passing untaxed annually, the solution is simply to raise estate tax rates. However, there is nothing like the uniformity in the ratio of appreciable assets to estate size, between taxpayers having the same estate size, that would be required before consideration could be given to substituting an estate tax increase for repeal of step-up. A simple increase in estate tax will not result in fairness for income tax purposes between estates of the same size.

If it is believed that carryover results in too great an overall tax burden, it would be fairer to lower estate tax rates for all estates than to forgive income tax liability. However, the question of overall tax burden cannot be permitted to obscure the basic issue forgiveness raises: the equitable income tax treatment of those who have realized gain prior to death as opposed to those who have not.

11. <u>Carryover basis results in double tax, subjecting the same asset to both estate and income taxation.</u> This assertion is incorrect. The adjustment to basis for death taxes attributable to appreciation is the mechanism by which "double taxation" is avoided. Thus, as demonstrated by the example of A and B, where an heir and beneficiary are in the same income tax bracket, the total estate and income tax will be the same whether the property is sold before or after death.

12. <u>Carryover basis is regressive.</u> The death tax basis adjustment is made to account for the fact that estate tax has been paid on property that has been valued without taking into account the contingent income tax liability on unrealized appreciation. Because of this basis adjustment the increase in overall tax for a given amount of appreciation will decline as the size of the estate increases. This is said to be regressive.

It is, of course, true that for estates in the 70 percent bracket, forgiveness of income tax only lets the heirs keep 30 cents for each dollar of income tax that is avoided while in the 40 percent estate tax bracket, the advantage of step-up forgiveness is 60 cents on the dollar. Carryover merely eliminates the advantage to the extent it exists. There is no more regressivity here than in the allowance of a deduction for administration expenses that is worth 70 cents on the dollar to a very large estate and nothing to a very small estate. Yet the deduction is necessary to measure the estate transferred. The death tax adjustment simply assures that the income tax applies to the correct tax base.

13. Carryover basis is too complex and cannot be simplified. The advocates of step-up assert that carryover basis is totally unworkable due to its inordinate complexity. Indeed, it is solely on this ground that the Senate Finance Committee justified the amendment to the Windfall Profits Tax Bill that would repeal the carryover basis provisions.

Any system without step-up forgiveness is more complicated than a system with step-up. There is no question that forgiveness is simple. There is no need to determine basis and so long as an individual does not sell an asset, inaccurate or nonexistent records present no problems.

However, this argument proves too much. Nontaxation is always the simplest system and an argument as to simplicity can be made with regard to almost any taxing provision, including deductions or credits.

Carryover basis is an acceptable solution to the forgiveness problem. However, we agree experience has shown that the 1976 Act statutory structure could be improved. As many of you know, over the past two years Treasury has made a major effort to meet with interested professional groups and individuals to learn of their specific concerns and their suggestions for change. We have received valuable assistance from the American Institute of Certified Public Accountants, the Trusts and Estates Law Section of the New York State Bar Association and individual members of the Special Carryover Basis Committee of the Tax Section of the American Bar Association, to name just a few. We assessed their recommendations and in testimony before the Senate Finance Subcommittee on Taxation and Debt Management on March 12, 1979, proposed a number of specific changes we believed would eliminate the technical and administrative difficulties which arise under the existing statute.

Representative Fisher consulted with us and developed a package of simplification proposals which were incorporated in H.R. 4694. When H.R. 4694 was introduced on June 29, 1979, it was accompanied by an extensive General and Technical Explanation which explained the reasons for and the operation of the proposed changes. In light of this comprehensive explanation, I will not attempt to go through the bill in detail. I have, however, appended to this statement as Appendix 2 a summary of the problems addressed by H.R. 4694, the proposed solutions to those problems, and our assessment of the effect of the Fisher proposals.

In our view, H.R. 4694 addresses adequately all the legitimate complaints that have been raised since the enactment of carryover basis. If that bill is enacted, we believe there can be no question but that carryover basis can be administered. The bill does contain compromise solutions to difficult problems and, in some cases, does increase the responsibilities placed upon fiduciaries. But where this occurs, it is to give fiduciaries the flexibility they have previously claimed was necessary to mitigate the difficulties they would face under a less flexible system. The point is that in assessing comments on H.R. 4694 we must remember that there is no way to satisfy all of the parties with an interest in this issue on all aspects of the solution. Any simple legislative solution to a complex problem necessarily involves balancing a number of competing interests. Carryover basis is no exception. Compromise is inevitable because the affected groups do not have identical interests.

Conclusion

The issue before this Committee is the fairness of an income tax system which forgives income tax on appreciated assets passing at death. Forgiveness is indefensible income tax policy. Those who would return to step-up must justify that step. They cannot justify return to step-up on tax policy grounds and they cannot use technical complexity as a rationale. Technical problems are solved by H.R. 4694.

It is the Administration's firm position that unrealized appreciation in property held at death cannot be permitted to escape income taxation. Carryover basis is an acceptable solution.

EXAMPLE 1

Income Tax Consequences of a Sale Before and After Death,
Assuming Prior Law
(No Estate Tax)

	A Sale Before Death	B Sale After Death
Sales Price	$1,100,000	$1,100,000
Basis	100,000	1,100,000 1/
Gain	1,000,000	0
Income Tax (28%)	280,000	0
Net Amount Received	820,000	1,100,000
Difference	$280,000	

1/ Assumes step-up basis from $100,000 to $1,100,000.

EXAMPLE 2

Estate Tax Consequences of a Sale Before and After Death, Assuming Prior Law

	A Sale Before Death	B Sale After Death
Asset in Gross Estate	$820,000	$1,100,000
Estate Tax (41%)	336,200	451,000
Net Amount Received	483,800	649,000
Difference	$165,200	

EXAMPLE 3

Combined Income and Estate Tax Consequences of a Sale Before and After Death, Assuming Carryover Basis

A Sale Before Death			B Sale After Death		
Income Tax			**Estate Tax**		
Sales Price	$1,100,000		Asset in Gross Estate	$1,100,000	
Basis	100,000				
Gain	1,000,000				
Income Tax (28%)		$280,000	Estate Tax (41%)		$451,000
Estate Tax			**Income Tax**		
Asset in Gross Estate	820,000		Sales Price	1,100,000	
			Basis	510,000 1/	
			Gain	590,000	
Estate Tax (41%)		336,200	Income Tax (28%)		165,200
Total Tax		616,200			616,200

1/ Assumes basis equal to .41 (marginal estate tax rate) x $1,000,000 (appreciation) + $100,000 (decedent's basis)

TABLE 1

**Examples of Capital Gains Transactions
with Large Gains and High Ratio of Selling Price to Basis, 1973**

Transaction	Sales Price	Cost or Other Basis	Net Gain	Ratio of Sales Price to Basis	Years Asset Held	Type of Asset
1.	1,168,988	126,183	1,042,805	9.3	20	Corporate Stock
2.	3,527,480	200,030	3,327,450	17.6	*	Business or Rental Buildings
3.	2,055,769	261,894	1,793,875	7.8	12	Corporate Stock
4.	1,029,137	960	1,028,177	1072.0	9	Corporate Stock
5.	1,189,600	109,495	1,080,105	10.9	38	Corporate Stock
6.	4,000,000	58,899	3,941,101	67.9	19	Corporate Stock
7.	3,607,500	11,212	3,596,288	321.8	15	Business Property
8.	1,700,200	68,317	1,631,883	24.9	11	Corporate Stock
9.	1,281,062	32,005	1,249,056	40.0	33	Corporate Stock
10.	1,556,466	15,368	1,541,098	101.3	21	Corporate Stock
11.	1,140,000	123,032	1,016,968	9.3	73	Depreciable Property
12.	1,330,071	90,509	1,239,562	14.7	*	Business Property
13.	1,389,468	67,800	1,321,668	20.5	3	Corporate Stock
14.	3,934,729	53,893	3,880,836	73.0	15	Business Property
15.	2,681,497	15,386	2,666,111	174.3	7	Business Buildings
16.	1,241,500	12,735	1,228,765	97.5	10	Corporate Stock
17.	3,225,000	18,338	3,206,662	175.9	*	Installment Sale
18.	1,686,922	40,201	1,646,021	42.0	*	Corporate Stock
19.	2,300,000	154,500	2,145,500	14.9	18	Corporate Stock
20.	1,500,000	221,460	1,278,540	6.8	2	Depreciable Property
21.	1,041,682	3,000	1,038,682	347.2	28	Business Property
22.	2,835,602	43,800	2,791,802	64.7	*	Corporate Stock
23.	1,109,000	100,800	1,000,000	11.0	2	Corporate Stock
24.	1,399,005	70,350	1,328,655	19.9	12	Corporate Stock
25.	2,838,250	25,165	2,813,085	112.8	17	Corporate Stock
26.	7,134,130	1,169,691	5,964,439	6.1	4	Business Property
27.	1,333,285	68,382	1,264,903	19.5	*	Corporate Stock
28.	12,448,135	271,892	12,176,243	45.8	15	Business Property
29.	1,161,000	13,455	1,147,545	86.3	7	Corporate Stock
30.	1,029,636	29,210	1,000,428	35.2	27	Corporate Stock
31.	2,227,348	392	2,226,956	5682.0	8	Corporate Stock
32.	4,392,259	10,904	4,381,355	402.8	5	Corporate Stock
33.	1,731,482	5,000	1,726,482	346.3	7	Corporate Stock
34.	3,250,000	300,000	2,950,000	10.8	14	Business Property
35.	3,787,398	75,755	3,711,643	50.0	13	Corporate Stock
36.	1,727,623	4,967	1,722,656	347.8	15	Corporate Stock
37.	1,703,277	102,343	1,600,934	16.6	*	Corporate Stock
38.	1,989,473	66,260	1,923,213	30.0	22	Corporate Stock
39.	21,775,278	755,244	21,020,034	28.8	13	Corporate Stock
[illegible]	8,883,427	1,961,909	6,921,518	4.5	12	Corporate Stock

Office of the Secretary of the Treasury
Office of Tax Analysis

April 19, 1979

TABLE 2

APPRECIATION AS A PERCENT OF GROSS ESTATE
BY SIZE OF GROSS ESTATE

(1979 Levels)

Size of gross estate	Gross estate	Appreciation including personal residence			Appreciation excluding personal residence		
		Amount	As a percent of gross estate	Average per return	Amount	As a percent of gross estate	Average per return
	(..$ millions	..)	(...%...)	(dollars)	($ mil.)	(...%...)	(dollars)
Under 175	$25,183	$ 4,386	17.4%	$ 18,000	$ 3,242	12.9%	$ 13,300
175 - 200	3,291	633	19.2	35,900	479	14.6	27,200
200 - 300	9,037	1,800	19.9	48,200	1,375	15.2	36,800
300 - 500	9,215	2,013	21.8	83,000	1,609	17.5	66,300
500 - 1,000	9,774	2,280	23.3	158,500	1,888	19.3	131,300
1,000 - 2,000	7,082	1,739	24.6	335,100	1,459	20.6	281,110
2,000 - 3,000	3,179	821	25.8	622,400	722	22.7	547,400
3,000 - 5,000	3,101	812	26.2	990,200	708	22.8	863,400
5,000 - 10,000	3,057	833	27.2	1,876,100	752	24.6	1,693,700
10,000 and over	3,365	1,153	34.3	7,161,500	1,114	33.1	6,919,300
Total	$76,284	$16,470	21.6%	$ 47,700	$13,347	17.5%	$ 38,600

Office of the Secretary of the Treasury
Office of Tax Analysis

March 8, 1979

APPENDIX 1

EXAMPLES ILLUSTRATING OPERATION OF THE LIQUIDITY RELIEF PROVISIONS OF H.R. 4694, THE CARRYOVER BASIS SIMPLIFICATION ACT OF 1979

The overall purpose of the liquidity relief provisions is to prevent the forced sale of closely-held businesses and farms which a decedent's heirs desire to continue to own and operate.

The provision permitting deferred payment of estate tax attributable to closely-held businesses and farms allows an adequate time period over which estate tax liability may be paid from earnings generated by the business. The following examples illustrate that the allowance of a 15 year time period over which to pay the estate tax attributable to the closely-held business or farm will, in most cases, prove adequate.

Nonetheless, there may be situations where either this relief is insufficient, or, particularly in the case of closely-held stock, it is necessary or desirable to redeem some portion of the stock. As the examples illustrate, a sale or redemption may be made without income tax consequences if the executor elects to allocate a sufficient amount of the death tax basis adjustment to the property sold or redeemed. In effect, the sale of property to pay death taxes and administration expenses is accorded the same income tax treatment as occurred when the basis of property in the hands of an heir was ""stepped up" to estate tax value. While there is less aggregate basis adjustment available for the retained portion of the closely-held business, this will not cause difficulty because, by hypothesis, the retained property will not be sold by the heir.

EXAMPLE 1

X, a widower, dies on December 31, 1990 with the following assets (all acquired after December 31, 1976) and liabilities. For purposes of illustration, administration expenses are ignored and it is assumed that the farm does not qualify for special use valuation.

Asset/Liability	Fair Market Value	Basis
Farm real property	$900,000	$200,000
Farm machinery	75,000	50,000
Cash	5,000	5,000
Life insurance	10,000	10,000
Stocks & bonds	20,000	12,000
Debts associated with farm	200,000	N/A

I. Calculation of Estate Tax Due

Gross Estate

Farm real property	$900,000	
Farm machinery	75,000	
Cash	5,000	
Life insurance	10,000	
Stocks & bonds	20,000	
		$1,010,000
Less:		
Debts associated with farm	200,000	
		$ 200,000
Taxable Estate		810,000
Estate Tax Before Unified Credit		271,700
Unified Credit		47,000
Estate Tax Payable		224,700

II. Estate Tax Liquidity Relief--Deferred Estate Tax Payment

The estate of X qualifies for the deferred estate tax payment privilege under proposed section 6166(a)(1)(A) because the value of the farm real property and machinery (net of debts) exceeds 65 percent of X's adjusted gross estate. Thus, the estate of X may elect to pay the estate tax attributable to the farm real property and machinery in up to 10 annual installments commencing in the sixth year after X's death at a 4 percent interest rate. The estate tax attributable to the farm real property and machinery is equal to the estate tax due X

$$\frac{\text{closely-held business amount}}{\text{adjusted gross estate}} = \$224{,}700 \times \frac{775{,}000}{810{,}000}$$

$$= \$214{,}991$$

If the executor of the estate of X so elects, \$9,709 will be payable at the time the estate tax return is due, interest of \$8,600 will be payable annually for five years on the deferred estate tax of \$214,991 and that deferred amount may be paid in 10 annual installments of \$21,499 (plus interest) commencing in year 6.

This 15 year payout period, at a modest 4 percent interest rate, should itself permit the estate to pay the deferred estate tax from funds generated from the farm operation. However, should it be necessary or advisable to sell property additional liquidity relief is provided by proposed section 1023(f).

III. Income Tax Liquidity Relief--Allocation of Death Tax Basis Adjustment

Because X's estate qualifies for the deferred estate tax payment privilege, the executor of X's estate may elect to apportion the death tax adjustment to any carryover basis assets with an aggregate fair market value not in excess of \$224,700.

The maximum amount of the death tax adjustment equals, in general, the highest applicable marginal estate tax rate times the net appreciation in all carryover basis assets included in the estate. In this example, the applicable marginal estate tax rate is 39 percent and the net appreciation in all carryover basis properties is $733,000. The aggregate death tax adjustment is $285,870.

If the executor of X's estate allocated $8,000 of the aggregate death tax adjustment to the $20,000 of stocks and bonds and $159,211 to farm real property worth $204,700, those assets could be sold without recognition of gain because the fair market value of each asset equalled basis. Moreover, under the facts in this example, the sale would not cause an acceleration of the deferred estate tax. Thus, the executor would have $224,700 in cash to invest while retaining the privilege of paying $214, 991 in installments at 4 percent interest.

The balance of the death tax adjustment, $118,659, would be available for allocation by the executor to any other carryover basis assets, subject only to the limitation that the per asset adjustment could not exceed .39 times the appreciation in each asset.

EXAMPLE 2

Y, a widower, dies on December 31, 1990 with the following assets (all acquired after December 31, 1976). For purposes of illustration, administration expenses and debts are ignored.

Asset/Liability	Fair Market Value	Basis
Closely-held stock	$600,000	$200,000
Residence	250,000	80,000
Cash	25,000	25,000
Life insurance	50,000	50,000
Marketable stocks and bonds	75,000	40,000

I. Calculation of Estate Tax Due

Gross Estate

Closely-held stock	$600,000	
Residence	250,000	
Cash	25,000	
Life insurance	50,000	
Marketable stocks and bonds	75,000	
		$1,000,000

Taxable Estate	1,000,000
Estate Tax Before Unified Credit	345,800
Unified Credit	47,000
Estate Tax Payable	298,800

II. Estate Tax Liquidity Relief--Deferred Estate Tax Payment

The estate of Y qualifies for the deferred estate tax payment privilege under proposed section 6166(a)(1)(B) and (C) because the value of the closely-held stock exceeds 35 percent of Y's gross estate and 50 percent of Y's taxable estate. Thus, the estate of Y may elect to pay the estate tax attributable to the closely-held stock in up to 10 annual installments commencing in the sixth year after Y's death at the statutory interest rate, currently 6 percent. The estate tax attributable to the closely-held stock is equal to the estate tax due X

$$\frac{\text{closely-held business amount}}{\text{adjusted gross estate}} = \$298{,}800 \times \frac{600{,}000}{1{,}000{,}000}$$

$$= \$179{,}280$$

If the executor of the estate of Y so elects, $119,520 will be payable at the time the estate tax return is due, interest of $10,757 will be payable annually for five years on the deferred estate tax of $179,280 and that deferred amount may be paid in 10 annual installments of $17,928 (plus interest) commencing in year 6.

This 15 year payout period should itself permit the estate to pay the deferred estate tax from funds generated by the business. However, should it be necessary or advisable to sell property additional liquidity relief is provided by proposed section 1023(f).

III. Income Tax Liquidity Relief--Allocation of Death Tax Basis Adjustment

Because Y's estate qualifies for the deferred estate tax payment privilege, the executor of Y's estate may elect to apportion the death tax adjustment to any carryover basis assets with an aggregate fair market value not in excess of $298,800.

The maximum amount of the death tax adjustment equals, in general, the highest applicable marginal estate tax rate times the net appreciation in all carryover basis assets included in the estate. In this example, the applicable marginal estate tax rate is 39 percent and the net appreciation in all carryover basis properties is $605,000. The aggregate death tax adjustment is $235,950.

If the executor of Y's estate allocated $35,000 of the aggregate death tax adjustment to the $75,000 of marketable stocks and bonds and $149,200 to closely-held stock worth

$223,800, the marketable stocks and bonds could be sold and the closely-held business stock sold or redeemed without recognition of gain because the fair market vlaue of each asset equalled basis and the redemption qualifies as a sale or exchange under section 303. Indeed, the executor could elect to allocate $199,200 of the death tax adjustment to closely-held stock worth $298,800 and have that amount redeemed under section 303 without income tax consequences. Moreover, under the facts in this example, the sale of this amount of closely-held stock would not cause an acceleration of the deferred estate tax. Thus, the executor would have $298,800 in cash proceeds from the sale of carryover basis assets and $75,000 in cash from Y's savings and life insurance. Estate tax of $119,520 would be due with Y's estate tax return, leaving the executor with $254,280 to invest while retaining the privilege of paying $179,280 in installments at 6 percent interest.

The balance of the death tax adjustment, $51,750 or $36,750 under the above alternatives, would be available for allocation by the executor to any other carryover basis assets, subject only to the limitation that the per asset adjustment could not exceed .39 times the appreciation in each asset.

APPENDIX 2

Summary of H.R. 4694 Solutions to Carryover Basis Problems

1. Problem: Carryover basis creates administrative burdens for estates not required to file estate tax returns.

   Solution: Exclude from the operation of carryover basis virtually all estates for which estate tax returns are not required.

   Effect: - When combined with other changes, more than 97 percent of estates coming into existence annually are excluded from the carryover basis system.

2. Problem: The $60,000 minimum basis is too low, its applicability cannot be determined until after complicated death tax adjustments have been made and the formula by which it is allocated is complex.

   Solution: Increase the minimum basis from $60,000 to $175,000 and apply it before the death tax adjustment is made. The minimum basis would be allocated in the discretion of the executor.

   Effect: - Assures up to $175,000 of basis for all estates;

   - Dovetails carryover basis system with nonfilers;

   - Reduces computational complexity and uncertainty of allocations due to possible estate tax audit changes;

   - Provides a floor for death tax basis adjustment rather than a limitation as is the case presently;

   - Discretionary allocation provides limited liquidity relief.

3. **Problem:** The amount of the "personal and household effects" exclusion is too small and the term is ambiguous.

Solution: Permit the executor to elect to exclude up to $25,000 of tangible personal property which was a capital asset in the hands of the decedent.

Effect: - Definitional problems associated with the term "personal and household effects" are eliminated;

- Proof of basis problems are eliminated for those assets for which basis is most difficult to prove;

- Many collections are removed from the carryover basis system.

4. Problem: The present death tax adjustments are unduly complicated, are computed by reference to an incorrect rate and require recomputation for all assets if the value of one asset is changed on audit.

Solution: The death tax adjustment is now a single computation. First, an overall amount available to be apportioned is computed. That amount is equal to the highest marginal tax rate applicable to the estate multiplied by the aggregate appreciation of all appreciated carryover basis properties, subject to the limitation that the amount of appreciation so determined cannot exceed the greater of $175,000 or, in general, the taxable estate. If less than $50,000 of the estate is taxable at the highest rate, the next lower rate will apply. The aggregate amount may be apportioned by the executor in his discretion among the estate's carryover basis properties subject to the limitation, in general, that the adjustment for any particular property cannot exceed the marginal rate times the appreciation in that property.

Effect: - Is enormous simplification (as illustrated by attached example) and responsive to criticism regarding computational complexity.

-- Reduces the number of calculations necessary to determine the basis of any particular asset.

-- Assures that in almost all cases, an audit change will require the recomputation of the basis of only the affected asset.

-- Removes "suspended basis" problems arising from present law requirement that only property "subject to tax" is eligible for basis adjustment.

- $50,000 rule assures that a significant portion of the estate is subject to tax at the marginal rate to be applied to the appreciation.

- Rule is generous--particularly for small estates.

-- Estate for which returns are required but which do not pay federal estate tax still get a generous basis adjustment to compensate for any state death taxes.

- Cannot harm those whose assets at date of death had a basis in excess of estate tax value because the adjustment applies only to appreciation existing at that time.

-- Effect therefore is only to decrease gain on appreciated assets.

- Adjustment is automatically provided for state and foreign death taxes not in excess of the federal credit.

5. <u>Problem</u>: The sale of appreciated property to raise funds to pay estate tax will result in income tax liability. Additional property may have to be sold to raise funds to pay the income tax from the first sale. This income tax liability may result in the forced sale of farms and closely held businesses.

<u>Solution</u>: Where an estate qualifies for estate tax deferral on account of closely held business interests, the executor is permitted to elect

to allocate the death tax adjustment to any asset without regard to the general limitation of the marginal tax rate times appreciation. Thus, the executor can allocate the death tax adjustment to property sold to pay tax without incurring any income tax liability. The fair market value of properties eligible for this privilege is limited to the sum of the death taxes and funeral and administration expenses. However, there is no requirement that the proceeds from the sale of the assets benefiting from the special basis allocation be used to pay death taxes or administration expenses.

Effect: - Property sold to pay death taxes effectively receives "step-up" in basis treatment. No income tax will arise on its sale.

- Provision allows generous liquidity relief because the proceeds of sale need not be used to pay death taxes.

6. Problem: It is unduly burdensome and time consuming to require the death tax adjustment to be computed separately for each asset in the decedent's estate.

Solution: Permit the executor to elect to average the basis of similar items of property acquired at different times.

Effect: - Substantially reduces the number of computations necessary to determine the death tax adjustment for items such as mutual fund dividend reinvestment shares and shares of stock in the same corporation acquired at different times.

- Provides the same basis for all items of similar property.

7. Problem: People do not keep track of the cost of home improvements.

Solution: Permit an annual $250 addition to basis to account for improvements unless a larger amount can be substantiated in any year.

Effect: - Recordkeeping problems for minor home improvements are eliminated.

8. Problem: The present reporting requirements are unduly burdensome.

Solution: Require basis information reporting only from those subject to carryover basis and assess penalties pursuant to a negligence standard only.

Effect: - Basis information will be required only from executors of the less than 3 percent of the estates subject to carryover basis.

9. Problem: The basis of carryover basis property remains uncertain until that property is disposed of in a transaction in which basis becomes relevant.

Solution: A procedure is created whereby executors may request the Internal Revenue Service to audit the basis of carryover basis assets, permits executors to utilize the administrative procedures of the Internal Revenue Service to resolve basis disputes, and creates declaratory judgment jurisdiction in the Tax Court to deal with those problems which cannot be settled administratively. Basis determinations which are agreed upon by the Service and the taxpayer or adjudicated will become binding on both the Service and the recipient of the property. If the Service fails to audit a return where the executor has requested a basis audit, the amount shown on the return will be binding unless an heir is able to prove a different basis at the time of the later sale or disposition of the property.

Effect: - Basis uncertainties are resolved at a time when records are most likely to be available.

- Heirs will not be subject to basis uncertainties.

10. Problem: The present fresh start rule for non-marketable securities will not work because the acquisition date and/or cost of the property is unknown.

Solution: The discount back rule of the Revenue Act of 1978 would be applied at a rate of 6 percent to determine the fresh start basis for all property held on December 31, 1976 other than marketable bonds and securities, with a floor of 25 percent of estate tax value.

<u>Effect</u>: - Historical data is not necessary to determine the fresh start basis for any property.

- Combination of this rule, liberalized tangible personal property exclusion and use of fresh start basis for both gain and loss effectively eliminates proof of basis problems for assets acquired prior to effective date.

11. <u>Problem</u>: The fresh start adjustment unfairly discriminates against certain types of nonmarketable property.

<u>Solution</u>: Property the value of which was readily determinable on December 31, 1976 without regard to appraisals will be given a fresh start basis equal to the value determined by reference to the appropriate valuation method.

<u>Effect</u>: - Gives nonparticipating, nonconvertible preferred stock a fresh start basis equal to its redemption price.

- Fresh start value of property subject to a binding buy-sell agreement will equal the price determined by reference to the agreement.

12. <u>Problem</u>: The unavailability of the fresh start adjustment for purposes of determining loss makes historical cost data important and that data does not exist.

<u>Solution</u>: Allow fresh start basis to be used for computing both gain and loss.

<u>Effect</u>: - The importance of cost data is reduced. It is only relevant if it exceeds the fresh start basis and usually that can be determined easily.

- Fiduciary duties are reduced.

EXAMPLE COMPARING THE OPERATION
OF THE SINGLE DEATH TAX ADJUSTMENT
OF H.R. 4694 WITH PRESENT LAW

ASSETS: $590,000 (All assets acquired after December 31, 1976)

	Fair Market Value at Death	Basis
Principal Residence	$180,000	$167,000
Life Insurance	75,000	-------
Marketable Security X	50,000	20,000
Marketable Security Y	70,000	40,000
Closely-Held Security Z	200,000	160,000
Tangible Personal Property	15,000	Unknown
	$590,000	$387,000

DEBTS AND EXPENSES: $20,000

DATE OF DEATH: January 1, 1981

STATE ESTATE TAX: $12,800

STATE INHERITANCE TAX ON RECIPIENT OF Z: $10,000

COMPUTATION OF ESTATE TAX

Gross Estate		$590,000
Less: Debts and Expenses*		20,000
Taxable Estate		$570,000
Gross Tax ($155,800 + 37% of $70,000)		$181,700
Less: Unified Credit	$47,000	
State Death Tax Credit ($10,000 + 4% of $70,000)	12,800	59,800
Estate Tax		$121,900

*Assumes no marital or charitable deduction.

COMPUTATION OF CARRYOVER BASIS OF ASSET "Z"

1976 Act

I. Computation of Federal Estate Tax Adjustments			
1. Estate tax value of "Z"		$200,000	
2. Basis of "Z" in hands of decedent		160,000	
3. Net appreciation in "Z" (1-2)		40,000	
4. Fair market value of all property subject to federal estate tax		590,000	
5. Ratio of net appreciation in "Z" to fair market value of all property subject to federal estate tax (3 ÷ 4)		.068	
6. Federal estate tax attributable to net appreciation in "Z" (5 x $121,900)		8,289	
7. Basis of "Z" after federal estate tax adjustment (2 + 6)			$168,289
II. Computation of State Estate Tax Adjustment			
8. Estate tax value of "Z"		$200,000	
9. Basis of "Z" after federal estate tax adjustment		168,289	
10. Remaining net appreciation (8 - 9)		31,711	
11. Fair market value of gross estate	$590,000		
12. Property not subject to state estate tax (residence)	180,000		
13. Fair market value of all property subject to state estate tax (11 - 12)		410,000	
14. Ratio of remaining net appreciation to fair market value of all property subject to state estate tax (10 ÷ 13)		.077	
15. State estate tax attributable to remaining net appreciation (14 x $12,800)		986	
16. Basis of "Z" after federal and state estate tax adjustments (9 + 15)			169,275
III. Computation of State Inheritance Tax Adjustment			
17. Estate tax value of "Z"		$200,000	
18. Basis of "Z" after federal and state estate tax adjustments		169,275	
19. Remaining net appreciation (17 - 18)		30,725	
20. Ratio of remaining net appreciation to fair market value of all property acquired by by recipient of "Z" (19 ÷ 17)		.154	
21. State inheritance tax attributable to remaining net appreciation (20 x $10,000)		1,540	
22. Basis of "Z" after all adjustments (21 + 18)			$170,815

H.R. 4694

1. Estate tax value of "Z"	$200,000	
2. Basis of "Z" in hands of decedent	160,000	
3. Net appreciation in "Z" (2 - 1)	$ 40,000	
4. Highest marginal federal estate tax bracket of "Z's" estate*	.37	
5. Adjustment for death taxes (4 x 3)	14,800	
6. Basis of "Z" in hands of recipient (5 + 2)		$174,800

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

FOR P.M. RELEASE
TUESDAY, NOVEMBER 13, 1979

REMARKS BY THE HONORABLE C. FRED BERGSTEN
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
BOSTON WORLD AFFAIRS COUNCIL

"THE INTERNATIONAL MONETARY SYSTEM: CURRENT SITUATION AND FUTURE PROSPECTS"

Just over a year ago, the United States dramatically adopted a series of measures to strengthen the dollar in the exchange markets. Over the last month, we have taken a series of further steps that complement and strengthen these efforts.

It is therefore useful to review the international monetary events of the past twelve months, with three key questions in mind:

-- Has greater exchange rate stability been achieved?

-- Is fundamental adjustment of the underlying imbalances taking place?

-- Is the international monetary system working well enough, or are further improvements needed in its functioning?

There have certainly been disappointments during this period, which have set back our effort. Inflation has accelerated. The oil situation is having a major impact on prices, growth and payments imbalances here and abroad.

But I believe that major progress has also been made, and that too little attention has been paid to that progress:

-- The dollar has strengthened, and exchange markets disorders have been curbed.

-- The balance of payments adjustment process has operated almost precisely as the textbooks predict.

-- Indeed, the impact of the oil price and supply situation has tended to mask the successful adjustment of the large imbalances of the United States, Germany and Japan which had been the principal sources of exchange market instability in recent years.

-- It is thus clear that the monetary system is working effectively, though we have during this period also seen the need for its further evolution -- and begun to move in that direction.

Exchange Market Developments

It may be useful to begin the review by recalling the exchange market situation last fall. Although the United States had already begun to make progress in reducing its record trade and current account deficits, confidence in our ability to achieve a sustainable position was being eroded by rising inflation and delays in implementing an energy program. Severe and persistent exchange market disorders developed which led to an excessive decline of the dollar. In the month of October, the dollar fell sharply against virtually all major currencies.

This excessive decline of the dollar added needlessly to inflation in our own economy. Because the dollar remains the world's key currency, this decline also threatened the stability of the entire international financial system. This, in turn, threatened our own economy -- because one of every eight manufacturing jobs in this country and one of every three acres of farm land produce for export, and because almost one of every three dollars of U.S. corporate profits derives from the international activities (investments as well as exports) of American firms.

Forceful, direct action was therefore required to break the psychological atmosphere, restore confidence and establish a basis for greater international financial stability. Our measures began in August 1978 with an intensified effort to control inflation; they included a series of steps on monetary policy and adoption of the wage/price guidelines. However, the individual steps, looked at in isolation, were seen as insufficient and even intensified the negative atmosphere.

On November 1, the United States announced a package of measures to strengthen the dollar at home and abroad. The package included a then unprecedented one percent increase in the discount rate and other measures to tighten monetary policy, expanded gold sales to improve the trade position and the mobilization of up to $30 billion in foreign currency resources to finance the U.S. share of joint intervention operations --with Germany, Switzerland and Japan -- in the foreign exchange market to restore stable conditions.

After an initial period of testing official intentions, the exchange markets calmed and the dollar experienced increasing demand throughout the first half of the year. Leads and lags returned to normal. Large net capital inflows to the United States developed as short positions were closed out.

However, despite the measures adopted in late 1978, our inflation rate continued to rise. As a result, market sentiment again turned bearish on the dollar. The concerns mounted irregularly but with rising force in September, and some movement occurred in the rates. Not all attention centered on the dollar, however. The German mark exhibited growing strength within the European Monetary System, which led to speculation on a realignment of rates there, but which also put additional pressure on the dollar.

Three factors helped bring this episode to a close -- an EMS realignment, the October 6 actions by the Federal Reserve and subsequent actions by the Treasury. Despite the periods of pressure, the dollar now stands substantially above the levels of last October. In terms of a trade-weighted average against the currencies of other major industrial countries, the dollar has increased in value by about 8 percent, including 35 percent against the Japanese yen and 3 percent in terms of the German mark.

The dollar is also about 8-12 percent higher in terms of the major currencies needed to pay for OPEC imports. (The precise figure depends on the averaging technique used.) Contrary to the widespread impression that it has weakened substantially since mid-year, the dollar has strengthened by more than 2 percent in terms of an average of other major currencies since the June OPEC meeting. This point is extremely important, since a "weaker dollar" is sometimes cited as justification for increased oil prices. The reality is to the contrary.

The renewed strength of the dollar derives from a variety of sources. Clearly the measures of November 1, 1978 and our subsequent actions have demonstrated forcefully our determination to deal with exchange market disorders. We will continue to intervene actively in the foreign exchange market when conditions require, and have ample resources for this purpose. In this connection, Treasury has recently issued $1.1 billion equivalent of securities denominated in Deutsche Marks and plans a further offering of up to DM 2 billion in January.

We have also adopted a more flexible gold sales program to help deter the speculative disturbances in the gold market which have caused instability in other commodity markets and the exchange markets. In the future, sales of Treasury gold will be subject to variations in amounts and dates of offering, thereby increasing the uncertainties and risks associated with gold speculation. In accordance with this approach, 1.25 million ounces of gold were sold on November 1.

The Adjustment Process

Exchange market intervention, and other efforts to deal with market forces directly, can of course succeed only if they rest on a solid underlying position. Indeed, we were able to move boldly in November 1978 because we were confident that the fundamental trends were moving in the right direction -- and hindsight reveals that we were right, in that the U.S. external position had already begun to improve markedly after the first quarter of that year.

Indeed, substantial improvement has now been recorded in the U.S. current account position. Last November, we were projecting a halving of the U.S. current account deficit from $14 billion in 1978 to the $6-8 billion range in 1979, assuming no further increase in oil prices. In fact, oil prices have risen by more than 60 percent -- a development which no one expected, and which has raised our 1979 oil bill by about $16 billion.

Nevertheless, our current account deficit during the first half of this year was only $1 billion. For the year as a whole, it is expected to run a few billion dollars at most. In 1980, we expect the United States to be in fairly substantial current account surplus, assuming oil prices rise no more than prices of other goods. Indeed, we expect the United States to have by far the largest current account surplus outside the OPEC group.

The improved U.S. performance derives from two key developments. First, the trade deficit in the first three quarters of 1979 is running at a $6 billion annual rate below the $34 billion deficit in 1978 despite the rise of $16 billion in oil imports. Our non-oil trade balance has, in fact, improved by a whopping $44 billion annual rate over the past six quarters.

In the year through September, the volume of non-agricultural exports is estimated to be more than 20 percent higher than the same period in 1978. At the same time, the volume of non-oil imports rose by only about 2 percent. Since the volume of world trade as a whole has been growing by 5-6 percent, it is apparent that both our export and import-competing industries have made major gains in market share. The lagged effects of competitive gains from past exchange rate changes, and shifts in relative growth rates, have produced this substantial improvement in the competitive position of the United States. In 1980, these factors will produce continued improvement in our overall trade balance even though oil import costs will rise another $10 billion or so, even on the basis of current prices.

Second, the United States surplus on services transactions is also growing rapidly. It is presently running about $7 billion higher than the $20 billion surplus achieved in 1978. Receipts from U.S. direct investment abroad have been especially strong, reflecting the improved profitability of foreign operations as growth overseas picked up and the translation effects of past exchange rate movements. In 1980, further gains in this area should result in an even larger services surplus.

It is worth noting that, at the present level of our services surplus, the United States can run a merchandise trade deficit of almost $30 billion and still be in surplus on current account -- the best single indicator of a country's international economic position. And our services surplus continues to rise rapidly each year. The structure of our current account is thus very different from that of Japan and Germany, each of which runs a sizable services deficit and thus must run a sizable surplus on merchandise trade to achieve overall current account balance.

In addition to the U.S. improvement, we are also witnessing a very significant adjustment in the positions of other major industrial countries. In particular, the Japanese position has reversed dramatically. A sizable Japanese deficit is expected for 1979, perhaps on the order of $7-8 billion, in contrast to a $16.5 billion surplus in 1978. Thus the Japanese position will swing by $20-25 billion in one year alone. Moreover, Japan is likely to continue in deficit in 1980. The German surplus -- which amounted to about $9 billion in 1978 -- has been nearly eliminated this year, and a small deficit is likely next year.

These developments provide clear evidence that the international adjustment process works. To be sure, as we have known all along, there is a considerable delay between changes in relative prices and growth rates, on the one hand, and trade flows on the other. However, the results are now plain for all to see -- just as they were, incidentally, after the exchange-rate realignments of the early 1970s. These adjustments will provide a pattern of payments balances among the major countries over the next year or so which will be a major factor for greater exchange market stability.

At the same time, it is obvious that even balanced current account positions are not enough to stabilize exchange markets unless there is a reasonable degree of confidence in the adequacy of economic policies in the major countries, and especially in the determination of the authorities in the United States to stand their ground until inflation is brought under control.

Food and energy prices have temporarily driven the increase in U.S. price indices into the double-digit range. In coming months, this pressure will recede as food prices moderate in the wake of good harvests and the OPEC actions work their way fully through the economy -- provided, of course, that there is no new surge in oil prices.

But the underlying inflation rate is still much too high and must be brought under control. The broad array of U.S. policies is directed at that objective. The recent Federal Reserve Board measures to restrain money supply growth are strong medicine and will be maintained. A disciplined fiscal policy will complement the Fed's efforts; indeed, the high employment budget has already swung more than $30 billion toward restraint over the past two years. The National Accord between the Administration and labor provides a basis for a more effective program of private sector wage/price moderation. But inflation has become deeply embedded in our economic structure, and will take a prolonged period of austerity to root out.

The Evolution of the International Monetary System

The economic problems of the past decade have brought home forcefully to the United States the pervasive interdependence of national economies. Our autonomy in dealing with these problems is much less than many realize. Our real economic sovereignty is far less than our nominal sovereignty. The success of our efforts to bring inflation under control, achieve satisfactory growth and maintain a strong, stable dollar will be affected significantly by the actions of others.

The economic realities of interdependence have, however, out-paced the institutional mechanisms for dealing with them. Despite the progress cited above in adjusting national balance-of-payments positions, we are all too aware of the periodic outbreaks of instability in the monetary system and the frequent delays in initiating effective adjustment actions. We are still in the very early stages of the system of flexible exchange rates, and further improvements in its functioning are needed. The agenda for the 1980's must be directed toward developing a framework for ensuring that the international dimensions of economic policies are adequately reflected in national policy decisions.

The IMF Articles of Agreement provide a useful starting point in the critical areas of multilateral management of the global economy and international liquidity. While the new Articles provide wide leeway for members in the choice of exchange rate arrangements, they impose an obligation to foster economic stability and avoid unfair competitive exchange rate practices -- which , in a world of high inflation, may comprehend efforts to keep exchange rates artificially high just as a world preoccupied with excessive levels of unemployment faced periodic national efforts to keep exchange rates artificially low.

The IMF has been given enhanced responsibility for surveillance over the operation of the system to ensure that members fulfill these obligations. In the area of surveillance, the Fund has adopted principles for the guidance of members in conducting exchange rate policy, and procedures and criteria for assessing members' policies. The guidelines, and IMF practice, recognize that surveillance must encompass the broad range of economic policies affecting balance of payments adjustment as well as exchange rate practices themselves.

The surveillance role constitutes a potentially major strengthening of the IMF's ability to promote a sound global economy. In the past, the Fund's ability to advise members and encourage appropriate policies was limited primarily to cases in which severe payments problems required a country to borrow from the Fund. The new provisions extend the Fund's mandate to countries which do not use its resources, including those in surplus or with alternative sources of financing. This more symmetrical approach should enhance the IMF's effectiveness.

The IMF has been understandably cautious in implementing this authority. But the time has come for it to take a more active role. Consequently, the United States has proposed several steps to strengthen IMF surveillance. These include procedures for measuring individual country performance against agreed global standards; requiring countries with large imbalances, surplus or deficit, to submit for IMF review an analysis of how they propose to deal with the imbalances; a more active role for the IMF Managing Director in initiating consultations with members; and establishment of a Governors Council with decision-making powers to replace the advisory Interim Committee. These steps could be an important start in developing an effective IMF role in managing the balance of payments adjustment process.

With greater interdependence among nations has also come a greater balance in terms of economic size. While the dollar remains the central currency for international reserves and liquidity, other currencies have an enhanced capacity for an international role. The development of a multiple currency system, however, would have an undesirable long-term potential for instability and disruption -- as the opportunities for switching among currencies become even greater than today. Consequently, there is increased interest in multilateral efforts to manage global liquidity.

Interest has centered on efforts to promote the role of the SDR. The SDR was created in 1969 as a supplementary source of liquidity which did not rely on gold or payments deficits of the reserve currency country. The instabilities of the 1970's, with the rapid expansion of currency based liquidity, retarded the full development of the SDR. However, the new IMF Articles establish the objective of making the SDR the principal reserve asset in the monetary system.

A number of important steps have been taken to promote the SDR. It has replaced gold as the central unit for the IMF, serving as the numeraire for the system and the unit of account and vehicle for many IMF transactions. Allocations of SDR's have been resumed, with SDR 4 billion being distributed annually during the 1979-81 period. The interest rate on the SDR has been brought more in line with market rates and the number of transactions in which SDR may be used have been expanded, thus improving the SDR's ability to compete with other reserve assets.

The IMF is now considering the establishment of a substitution account under which dollars and possibly other currencies could be exchanged for SDR denominated assets. The Interim Committee, at its recent meeting in Belgrade, concluded that a properly designed account could contribute to improving the system and promoting the role of the SDR, and requested a further report from the Fund's Executive Board next April.

The United States believes that the development of a substitution account could offer a number of attractions for the international community in general. The SDR is a diversified instrument, inherently involving less exchange risk than holdings of a single national currency. A substitution account could provide an internationally sanctioned, non-disruptive means for countries to achieve a desired reserve portfolio composition without having to hold a number of national currencies. Implementation of an account would constitute a significant step toward wider use of the SDR and to its longer term development as the principal reserve asset.

There are, however, many difficult questions in the construction of such an account and on sharing the costs associated with operating it. For example, questions must be answered concerning the interest rate and liquidity of the assets issued by the account, the investment of the dollar deposits and the amount and use of interest earnings, and measures to maintain the capital position of the account. These are exceedingly complex issues and we cannot be certain when, or whether, satisfactory answers will be found. Nevertheless, the United States considers the effort worthwhile and is participating in a cooperative, constructive fashion.

Conclusion

I draw the following conclusions from this assessment of international monetary developments over the past year, and of the current situation:

-- First, a key source of the exchange market pressures and instabilities of recent years -- the large U.S. deficit and the large German and Japanese surpluses -- has disappeared. The pattern of payments balances among the major countries provides a sound basis for exchange market stability.

-- Second, these changes demonstrate that the international adjustment process works. To improve the functioning of the process still further, however, it is essential to initiate corrective measures at an early stage before problems become self-reinforcing and require severe action -- and the IMF may have a much larger role to play in that regard.

-- Third, we should not be surprised -- nor disturbed -- if the relative role of the dollar in international finance tends to diminish over time. In lieu of a multiple currency system, which could be quite unstable, we might well see the gradual emergence of the SDR as a major factor in international finance.

Finally, it is clear that all solutions to our current problems require international responses. The mechanisms for cooperative action must be strengthened to provide for effective global management of the balance of payments adjustment process and the provision of international liquidity. We are living in an interdependent world, and our policies and institutions must be based on that reality.

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FOR IMMEDIATE RELEASE
November 13, 1979

Contact: Robert E. Nipp
202/566-5328

SECRETARY MILLER TO VISIT MIDDLE EAST

Secretary of the Treasury G. William Miller in late November will visit Saudi Arabia, the United Arab Emirates and Kuwait to establish and strengthen personal relationships with economic and financial leaders in these countries and to discuss financial, economic and energy matters. In Riyadh, the Secretary will sign a renewal of the Technical Cooperation Agreement which authorizes the extensive program activities of the U.S.-Saudi Arabian Joint Commission on Economic Cooperation.

The Secretary and his party depart Washington Thursday, November 22, and will return Thursday, November 29.

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

FOR RELEASE AT 4:00 P.M. November 13, 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 23, 1979. This offering will provide $ 300 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,922 million. The two series offered are as follows:

90-day bills (to maturity date) for approximately $3,100 million, representing an additional amount of bills dated August 23, 1979, and to mature February 21, 1980 (CUSIP No. 912793 3S 3), originally issued in the amount of $3,017 million, the additional and original bills to be freely interchangeable.

181-day bills for approximately $3,100 million to be dated November 23, 1979, and to mature May 22, 1980 (CUSIP No. 912793 4F 0).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 23, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,810 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 19, 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 November 23, 1979, in cash or other immediately available funds or in Treasury bills maturing November 23, 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 000661 NEWS
HINGTON, D.C. 20220 TELEPHONE 566-2041

IMMEDIATE RELEASE
November 13, 1979

CONTACT: Alvin Hattal
202/566-8381

SECRET SERVICE BEGINS PROTECTION OF RONALD REAGAN

The Treasury Department today announced that effective November 13, 1979, the Secret Service will provide protection to Ronald Reagan as a major Presidential candidate.

The protection was ordered after consultation with the Candidate Nominee Advisory Committee concerning a request by Mr. Reagan that protection be provided on this date. The request was made on October 12, 1979.

The Committee has recommended to the Secretary of the Treasury that Secret Service protection be offered to eligible candidates, starting January 11, 1980. On October 29, the Advisory Committee released formal guidelines for determining the major candidates who should be recommended to the Secretary of the Treasury for Secret Service protection.

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

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
November 14, 1979

STATEMENT OF THE HONORABLE ROGER C. ALTMAN
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE TASK FORCE ON BUDGET PROCESS OF
THE HOUSE BUDGET COMMITTEE

Mr. Chairman and Members of the Committee:

I welcome this opportunity to discuss the Administration's proposal for a system to control Federal credit programs, which President Carter proposed in his January Budget Message. The new system will improve legislative and executive controls over credit programs and will make more clear the overall financing requirements involved and their effects on credit markets.

The Administration proposes that annual limits on new lending under direct and guaranteed loan programs be established in the regular budget and appropriations process. An overall annual limit would be proposed in the President's budget as well as a limit on each program. Legally binding limitations for each individual budget account would be set in regular annual appropriation acts.

To implement this proposal, the Office of Management and Budget is requiring Federal credit program agencies to include in their fiscal year 1981 appropriation requests limits on new commitments for both direct and guaranteed loans. Pending legislative proposals, such as the bill sponsored by Chairman Mineta (H.R. 5683), would support these Administration efforts by requiring Congress to include targets and ceilings on direct and guaranteed loan programs in the Congressional budget resolutions.

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The major impact of the new system will be on loan guarantee programs. Concerning direct loans, opportunity now exists for review and control of them in the regular budget and appropriations process, since most direct loan programs are included in the budget totals. Loan guarantee programs, however, largely escape the budget process because the loan guarantees do not result in budget outlays, except in cases of default or where explicit subsidy payments are provided.

The new control system would not apply to Government-sponsored enterprises such as the Federal National Mortgage Association, the Farm Credit System, and the Federal Home Loan Bank System. These agencies are entirely privately-owned and are largely self-supporting. Thus, they differ significantly from Federal loan guarantee programs which are administered by Federally-owned agencies and are effectively backed by the credit of the U.S. Treasury. However, even though the Government-sponsored enterprises would be excluded from the new control system, their activities should be taken into account in determining the overall Federal impact on total credit demands and on the allocation of credit to particular sectors of the economy.

Mr. Chairman, you have requested that I specifically address the following questions:

-- Is the total volume of credit in our national economy limited? If so, what kind of effects do Federal credit programs have?

-- Do Federal credit programs affect the cost of Federal borrowing?

-- What factors should the Congress consider in setting targets and ceilings on the aggregate levels of Federal credit programs?

The total volume of credit in our economy at any time is limited by a number of constraints, including the flow of savings and investment and the constraints of monetary policy and the level of interest rates. Federal credit programs change the allocation of this volume by increasing the availability or lowering the cost of credit to preferred borrowers. Indeed, that is their purpose. These programs reflect determinations by Congress that the credit markets in their normal functioning do not provide the right mix of credit since they do not supply adequate credit to the class of borrowers covered by the programs.

The limited supply of credit available in the economy means that the increased demands of Federal credit programs add to pressures on interest rates and tend to raise interest costs for all borrowers, including the Federal Government. It is difficult to measure their effects, but total Federal and Federally-assisted borrowings clearly have substantial impacts. As indicated in the attached table, Federal and Federally-assisted borrowing from the public is currently estimated at $81 billion in fiscal year 1980. Furthermore, the total of such debt outstanding at the end of fiscal 1980 is estimated at $1,067 billion.

This brings me to your third question -- factors to be considered in setting targets and ceilings on the aggregate levels of Federal credit programs. We would suggest two guiding principles: First, in setting these targets and ceilings, Federal credit programs should not be considered in isolation, but must be viewed in the context of total Federal demands on financial markets, including direct Treasury borrowings and those of Federally-sponsored credit agencies. As you know, these borrowings vary substantially from year to year as economic conditions vary.

Second, we advise against adopting as a target or ceiling any fixed percentage of the supply of credit estimated to be available in the economy. On the one hand, during times of economic slack, the share of credit taken by Federal and Federally-assisted borrowings may rise without putting undue pressure on interest rates, as private demands for credit fall. Also, Federal borrowing may rise in these periods if budget deficits increase due to reduced tax receipts and increased unemployment-related expenditures. Also, some credit programs can be operated in a counter-cyclical fashion, and it may be appropriate to set higher targets for these programs during times of economic slack. On the other hand, during periods of high economic activity, Federal demands on the credit markets should be reduced, to avoid putting upward pressure on interest rates and to make room for higher private credit demands.

For a target to be effective, it should control the agency which deals with the public and should not concern itself with inter-agency lending. For example, the Treasury Department lends to several agencies to provide funds for direct loans to the public or to backstop guarantees of borrowings by private borrowers. Thus the Treasury is in a relatively passive role, as in its check-writing function, of providing funds which are actually controlled by other program agencies of the Government. Similarly, the Federal Financing Bank lends to other Federal agencies and purchases guaranteed obligations from them, but the FFB cannot provide funds for any purposes other than programs for which Congress has already authorized the required financing.

Also, in attempting to implement a system of control over guaranteed loans, it is essential at the outset to define guaranteed loans. In the Federal Financing Bank Act of 1973 the Congress defined "guarantee" to mean "any guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any obligation..." In keeping with this definition, the FFB has purchased a wide variety of obligations guaranteed or insured by Federal agencies, including obligations secured by Federal agency lease payments and obligations acquired directly by Federal agencies and then sold to the FFB subject to an agreement that the selling agency will assure repayment to the FFB in the event of default by the non-Federal borrower. We also interpret the FFB Act definition of guaranteed obligations as including obligations supported by Federal agency commitments to make debt service grants, e.g., to support public housing authority bonds, or other commitments such as price support agreements or commitments by Federal agencies to make direct "take-out" loans in the event of default on a private obligation. The broad definition of guaranteed loans in the Federal Financing Bank Act of 1973 is also the approach taken in the tabulation and analysis of guaranteed loans in Special Analysis F of the President's Budget. Unless the definition of "guarantee" used in the credit program control system is sufficiently broad to encompass the wide variety of contractual arrangements which provide support equivalent to outright guarantees, there will be a budget incentive for outright guarantee programs to be replaced by equivalent programs in order to escape the control system.

Growth in Federal Loan Guarantees

The sharp growth of loan guarantees in recent years has been the principal focus of the Congressional committees interested in credit program controls. The table attached to my statement shows an estimated $333 billion of guaranteed loans outstanding at the end of FY 1980, an increase of $37.4 billion over the 1979 level. Thus, the net demands on financial markets this year from Government loan guarantee programs will total $37.4 billion. These demands have increased rapidly in recent years, from $16.2 billion in FY 1976 to $20.5 billion in FY 1977, $25.1 billion in FY 1978, and an estimated $32.8 billion in FY 1979.

By comparison, the net demands on financial markets to finance the Federal budget deficits during this period have been declining. They fell from $66.4 billion in FY 1976, to $45.0 billion in FY 1977, $48.8 billion in FY 1978, $27.7 billion in FY 1979, and an estimated $29.4 billion in FY 1980. Thus, while budget deficit financing is expected to be cut by more than half in this 4-year period, the net off-budget financing required for loan guarantee programs will more than double.

A major reason for the proliferation of guarantees is the common misconception that they are cheaper and less risky to the Federal Government than direct loans. There is, however, no inherent difference, from the Federal viewpoint, between the costs and financial market effects of these two forms of credit.

The argument favoring guarantees relies primarily on experience with the largest and best known guarantee program -- the FHA's single family mortgage insurance program. This successful program, enacted during the great depression of the 1930's, assured private lenders that they could safely make long term, low down payment mortgage loans at reasonable interest rates, thus filling an important credit gap. Today, the FHA program's objectives are being achieved increasingly by private financial institutions without the need for Government intervention.

Unfortunately, FHA insurance has been the exception. A review of the programs covered in Special Analysis F of the Budget belies the argument that most guaranteed loan programs pose minimal costs to the Federal Government. Indeed, most involve substantial subsidies to borrowers and direct costs to the Treasury and, ultimately, the taxpayer.

Let me list some of these subsidies:

--<u>Principal subsidies</u>. In some cases, the Federal Government has extended loan guarantees with the expectation of paying part or all of the principal amount of the loan. The guaranteed loan is equivalent, therefore, to an outright grant of taxpayer funds. An extreme case is the public housing program, involving $15 billion of public housing note and bond guarantees (debt service contracts) outstanding. It is unlikely that public housing projects will generate sufficient revenues to service any of this debt. As a result, the Federal Government probably will make all interest and principal payments on this $15 billion.

--<u>Interest subsidies</u>. Other guaranteed loan programs involve direct interest subsidies -- for example, rural community facilities, and subsidized private housing -- in addition to the subsidy implicit in the guarantee itself.

--<u>Default costs</u>. Beyond these principal and interest subsidies, all guaranteed loans obviously involve Federal assumption of credit risks and thus potential costs to the Federal taxpayer in the event of unanticipated default.

Let me make a final comparison between direct loans and guaranteed loans. All loans involve three basic functions -- assuming risk, supplying funds, and processing the loan.

Some argue that guarantees involve the Government only in risk assumption, and that the private sector supplies the funds and handles the paperwork. Yet another examination of the types of guarantees outstanding indicates that certain agencies issuing guarantees perform all three of these functions.

Specifically, several agencies, including HUD, HEW and Agriculture, make direct loans but then convert them into guarantees. In making the direct loans, they assume the risk, supply the funds and handle the processing. They then can sell the loans to private parties, however, continuing to guarantee them. A second example involves HUD's urban renewal program, which provides direct loan authority. Here, a commitment to make a direct loan is treated as a guarantee and sold by borrowers into the market.

Another misconception is that guaranteed loans are still largely financed by local lending institutions, with minimal Government involvement, and thus have little net impact on the securities markets. In fact, the $37.4 billion net financing requirements for loan guarantees in FY 1980 will be largely financed directly in the securities markets: An estimated $10.8 billion will be financed through the Federal Financing Bank, and thus by the Treasury; $10.5 billion will be financed by GNMA mortgage-backed securities; $3.1 billion by public housing bonds and notes; and additional amounts of securities market financing will be required for certain other guarantee programs such as the SBA, Farmers Home Administration, and the Maritime Administration.

Improved Standards For Federal Credit Programs

Better control over Federal credit programs, also can be achieved by improving the standards under which credit assistance authority is provided by Congress in the first place.

Program agencies should be given more specific guidelines on the circumstances under which credit assistance is to be provided and the related terms and conditions of them. Giving these agencies broad assistance authority and then expecting them to resist the inevitable demands for assistance unavoidably leads to serious problems of control over credit assistance totals and general misallocation of our limited credit resources.

Let me discuss the basic circumstances in which credit assistance is issued and make some suggestions for tightened lending standards and how they would help with the broader problem of controlling credit programs.

Credit need 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. To achieve this purpose more effectively, and to provide a built-in control over program growth, enabling legislation should be more specific on requiring evidence that borrowers cannot obtain credit from conventional lenders. Specifically, we think that legislation should require the credit program agency to certify that borrowers would be unable to obtain credit on reasonable terms and conditions.

Coinsurance. In addition, guarantee programs are often intended to induce private lenders to extend loans on more favorable terms to marginal borrowers. The borrowers involved generally can obtain loans on their own, but only on costly and otherwise disadvantageous terms. In these cases, 100 percent guarantees don't make sense because they would lower the interest rate below that paid on unguaranteed loans to creditworthy borrowers for the same purposes. Doing so would stimulate a demand for guaranteed loans by creditworthy borrowers who do not need Federal credit aid.

To avoid such excessive demand for guarantees, we favor a much greater use of partial, rather than 100 percent guarantees. In the future, legislation generally should limit the guarantees to assume, say, 90 percent of the loan. Private lenders then would charge higher ratesof interest commensurate with project risk and with the rates charged on unguaranteed loans. Such risk-sharing, or coinsurance, by private lenders would contribute to the development of more normal borrower-lender relationships, would prompt lenders to exercise greater surveillance over the loans, and would stimulate increased conventional lending for the economic activities involved.

Guarantees of tax-exempt bonds. 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.

Fixed interest rates. Another example of poor program structure, which leads to program control problems, involves loan programs where borrowers pay a fixed interest rate, and the Federal agency pays the difference between that rate and the market rate. Thus, as interest rates rise, there is an automatic increase in the Federal subsidy and in the demands on the Federal budget. The benefits to the assisted borrower are thus determined by fluctuations in the market rather than by changes in the borrower's real needs. As an example of these perverse effects, take the Rural Electrification Administration program of 2 percent, 35 year loans to rural electric cooperatives. At the time the 2 percent rate was written into law in 1944, it was slightly higher than prevailing Treasury borrowing costs. As market rates of interest have risen, this program which was self-supporting in 1944 has become a program in which the subsidy element predominates. Under current market conditions with Treasury borrowing costs of about 10 percent, the cost to the Government of making $100 million of these loans is the same as providing a grant of $61 million and requiring the remaining $39 million to be repaid with interest at 10 percent.

Excessive financing costs. Also to be avoided are guarantee programs which are financed directly in the securities markets at disproportionately high costs because of the small size or poor timing of the issue, the lack of investor familiarity with the program, or other special marketing factors. Many of these problems have been cured by financing such guaranteed obligations through the Federal Financing Bank.

Equity participation. Many credit programs involve circumstances where borrowers could take equity positions in the projects being financed, and these programs should encourage them to do so. Requiring borrowers to have such a stake would help avoid excessive demands for credit, help assure more efficient projects, and help protect the interests of the Federal Government as lender or guarantor.

Other loan terms and conditions. Demands for credit assistance will also be excessive if the authorizing legislation does not contain specific restrictions on such terms and conditions as maximum maturities, guarantee fees, reasonable assurance of repayment, and default procedures.

This is not to say that Federal credit assistance programs should not contain subsidies -- indeed, that is their purpose -- but the legislation should be carefully drafted so that the subsidies provided are by design, not chance, and are directed at specific needs.

In short, I believe that more effective Congressional control over Federal credit programs can be accomplished by adopting standards which build that control into the structure of each program. I recognize that this is not an easy task, particularly since there are more than 100 different loan programs which fall under the jurisdiction of many different subcommittees of the Congress.

In the Executive Branch, the Office of Management and Budget and the Treasury Department strive to assure a uniform application of standards in the process of reviewing proposed credit assistance legislation. Within Congress, however, it may be unrealistic for each interested subcommittee to develop the intense focus on credit program standards which is essential to this improved control. Accordingly, it may be worthwhile for such a responsibility to be lodged in one committee of the Congress. Alternatively, the Congress could take the approach taken in the Federal Financing Bank Act or the Government Corporation Control Act and enact omnibus legislation to establish credit program standards.

I would be happy to answer any questions.

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Net Increase in Federal and Federally Assisted Borrowing from the Public
(fiscal years; billions of dollars)

Year	Federal borrowing from the public: Budget deficit	Off-budget deficit 1/	Other means of financing 2/	Total 3/6/	Federally assisted borrowing from the public: Guaranteed obligations	Sponsored agency obligations 4/	Deduct to avoid double counting 5/	Total	Total Federal and Federally assisted borrowing from the public
1970	2.8	-	2.6	5.4	6.4	10.7	5.6	11.5	16.9
1971	23.0	-	-3.6	19.4	16.1	1.5	3.4	14.2	33.7
1972	23.4	-	-3.9	19.4	18.8	5.0	4.6	19.2	38.6
1973	14.8	.1	4.4	19.3	15.2	8.8	- .7	24.7	44.0
1974	4.7	1.4	-3.1	3.0	10.1	14.9	4.0	21.0	24.1
1975	45.2	8.1	-2.4	50.9	16.4	11.9	14.4	13.9	64.7
1976	66.4	7.3	9.2	82.9	16.2	5.3	6.5	15.0	97.9
TQ	13.0	1.8	3.3	18.0	2.7	1.7	3.3	1.1	19.1
1977	45.0	8.7	- .1	53.5	20.5	7.0	2.0	25.5	78.9
1978	48.8	10.3	- .1	59.1	25.1	24.1	13.8	35.4	94.5
1979 e	27.7	12.4	-6.5	33.6	32.8	13.3	12.7	33.4	67.0
1980e	29.4	11.6	-2.0	39.0	37.4	16.9	12.4	41.9	80.9
Net Change 1970-80	344.2	61.7	-2.2	403.5	217.7	121.1	82.0	256.8	660.3
Outstanding 9/30/80				683.4	333.4	146.5	96.4	383.5	1066.9

Office of the Secretary of the Treasury
Office of Government Financing

November 6, 1979

Source: Special Analysis E of the Fiscal Year 1980 Budget: FY 1979 Final Monthly Treasury Statement of Receipts and Outlays.

1/ Deficit of off-budget Federal entities. Consists largely of Federal Financing Bank borrowings to finance off-budget programs.

2/ Consists largely of changes in Treasury cash balances.

3/ Consists of borrowing by Treasury and minor amounts by other Federal agencies.

4/ Consists largely of Federal National Mortgage Association and the Federal home loan bank and farm credit systems.

5/ Largely Federal and sponsored agency purchases of guaranteed obligations.

6/ 1976 figure excludes retroactive reclassification of $471 million of Export-Import Bank asset sales to debt.

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

FOR IMMEDIATE RELEASE
Wednesday, November 14, 1979

CONTACT: George G. Ross
202/566-2356

TREASURY ISSUES ADDITIONAL BOYCOTT GUIDELINES

The Treasury Department today issued eight additional guidelines, consisting of questions and answers, relating to the provisions of the Tax Reform Act of 1976 which deny certain tax benefits for participation in or cooperation with international boycotts.

All of these guidelines, with the exception of guideline H-17, are additions to those issued on January 20, 1978 (Treasury News Release B-653). They address a variety of factual situations not previously addressed.

The additions to the "M" series of guidelines, M-10 through m-13, address commonly used shipping and insurance certificates. These guidelines penalize agreements to give such certificates in the absence of an explanation by the country from which the request originates indicating that the certificates relate to considerations other than the boycott. Such an explanation has been received from Saudi Arabia.

A copy of the attached notice will appear in the Federal Register on November 19, 1979.

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M-199

For purposes of applying the rules in guidelines M-12 and M-13, an explanation offered by Country X is deemed to retroactively interpret and be effective for shipping and insurance certificates required by Country X prior to the date on which the official explanation is given. The Kingdom of Saudi Arabia has offered such an explanation.

All of the guidelines issued today elaborate on principles reflected in the guidelines issued on January 20, 1978. Nonetheless, guidelines M-10 and M-11 are made effective prospectively to avoid a hardship on taxpayers who have misunderstood the applicability of existing guidelines to the facts of guidelines M-10 and M-11.

The principal author of these guidelines was Leonard E. Santos of the Office of the Secretary of the Treasury.

Assistant Secretary
(Tax Policy)

D-6 Q: Company C is a partner in foreign or domestic Partnership P. The total partnership interest in Partnership P held directly, indirectly, or constructively by

1. Company C,

2. all members of the controlled group of corporations of which Company C is a member, and

3. all persons that control (within the meaning of section 304(c)) Company C or a member of the controlled group of corporations of which Company C is a member

is equal to or less than 50 percent. Partnership P enters into an agreement that constitutes participation in or cooperation with an international boycott. Will that agreement trigger the application of the sanctions of sections 908(a), 952(a)(3), and 995(b)(1)(F) to Company C and the other members of Partnership P? Will that agreement give rise to the presumption that all the operations in boycotting countries of Company C, of each person that controls or is controlled by (within the meaning of section 304(c)) Company C, and of each member of the controlled group of corporations of which Company C is a member, are operations in connection with which there is participation in or cooperation with an international boycott?

A: The sanctions of sections 908(a), 952(a)(3), and 995(b)(1)(F) will apply to Company C and each member of Partnership P. However, Partnership P's agreement will not give rise to the presumption that all the operations in boycotting countries of Company C and of each person that controls or is controlled by (within the meaning of section 304 (c)) Company C are operations in connection with which there is participation in or cooperation with an international boycott. Nor will Partnership P's agreement give rise to the presumption that all the operations in boycotting countries of each member of the controlled group of corporations of which Company C is a member are operations in connection with which there is participation in or cooperation with an international boycott. The answers in the first two sentences would be the same if Company C were an individual and the partnership interest held directly, indirectly, or constructively by the individual did not exceed 50 percent.

H-17. Q: Company C receives an inquiry from Country X about certain goods that Company C manufactures. The inquiry also requests Company C to furnish information about the following matters: whether it does business with Country Y and whether it does business with any United States person engaged in trade in Country Y. Company C furnishes the requested information to Country X. Later, Company C signs a contract with Country X to export goods to Country X. Does

Company C's action constitute an agreement under section 999(b)(3)?

A: No. By furnishing such information Company C has not agreed to take any action, as a condition of doing business with Country X, that is described in section 999(b)(3). The answer would be the same if Company C had furnished the information in the form of a certificate, and if the certificate instead stated that neither Company C nor companies from which it purchased goods were blacklisted. See also Answer H-32. However, the furnishing of boycott-related information in response to a prior commitment which is not contemporaneous with the furnishing of the information would constitute an agreement within the meaning of section 999(b)(3). Information (in a certificate or otherwise) will be considered to be furnished in response to a commitment that is not contemporaneous if, between the time of the commitment and the delivery of the information, conduct to which the information relates could be altered to conform to that information. See Answer H-35.

An agreement under section 999(b)(3) could be inferred from an overall course of conduct that includes the furnishing of information that is not in response to a prior commitment in addition to other factors. An example of another factor which could give rise to such an inference is any concomitant termination or lessening in Company C's relationships with Country Y or with U.S. persons engaged in trade with Country Y, for no valid business reason. On the other hand, the repeated furnishing of such information would not give rise to such an inference.

H-35. Q: Company C signs a contract with Country X to export goods manufactured by Company C to Country X. The contract provides that Company C will provide Country X with a certificate at the time the goods are shipped indicating that the goods were not manufactured by a blacklisted company. Does Company C's action constitute participation in or cooperation with an international boycott under section 999(b)(3)?

A: Yes. Company C's contract requiring the presentation of the blacklist certificate constitutes an agreement by Company C to refrain from engaging in activities which will lead to the blacklisting of Company C (with the result that Company C cannot present the requisite certificate). See Answer H-17. The answer would be the same whether the blacklist certificate given by Company C concerns its blacklist status only or the blacklist status of those trading with Company C, and whether Company C itself executes the certificate or transmits a certificate executed by those with whom it trades. The answer would also be the same if the certificate were instead required by the terms of a letter of credit by which payment to Company C is to be made.

See Answer H-8.

H-36. Q: Company C signs a contract with Country X to export goods to Country X. The contract provides that Company C will provide Country X with a certificate in connection with the shipment of goods indicating the country or countries in which the goods originated and the name(s) of the manufacturer(s) of the goods. Company C complies with this requirement and provides the certificate. Does Company C's action constitute participation in or cooperation with an international boycott under section 999(b)(3)?

A: No. Company C's agreement to provide a certificate identifying the origin and manufacturer of goods exported does not constitute an agreement by Company C to refrain from doing business with any person. See guideline M-9. However, an overall course of conduct which includes providing such certificates in addition to other factors could give rise to such an inference. Repeatedly furnishing such certificates does not constitute such a course of conduct.

M-10. Q: Company C signs a contract to export goods to Country X. The contract requires that Company C provide Country X with a certificate stating that the vessel on which the goods are shipped is eligible to enter into the ports of Country X in conformity with the laws and regulations of

Country X. The laws and regulations of Country X prohibit, inter alia, blacklisted vessels from calling at its ports. Does Company C's action constitute participation in or cooperation with an international boycott under section 999(b)(3)?

A: Yes. In the absence of additional circumstances, Company C's contract is deemed to be an agreement to provide a certificate stating that the vessel on which the goods are shipped is not blacklisted. See Answers H-35, M-1, and M-7. The answer is the same whether the shipowner makes the certification which Company C transmits to Country X or Company C makes the certification on behalf of the shipowner. The answer would be the same if the certificate were instead required by the terms of a letter of credit by which Company C is to receive payment.

M-11. Q: The facts are the same as in Question M-10, except that Company C's contract with Country X requires a certificate stating that the insurer of the goods has a duly qualified and appointed agent or representative in Country X. Country X's laws and regulations prohibit, inter alia, blacklisted insurance companies from qualifying or appointing an agent in Country X. Does Company C's action constitute participation in or cooperation with an international boycott under section 999(b)(3)?

A: Yes. In the absence of additional circumstances, Company C's contract is deemed to be an agreement to certify that the insurance company insuring the goods is not blacklisted. See Answers H-35, M-1 and M-7. The answer is the same whether the insurance company provides the certificate which Company C transmits to Country X or Company C makes the certification on behalf of the insurance company. The answer would be the same if the certificate were instead required by the terms of a letter of credit by which Company C is to receive payment.

M-12. Q: Company C signs a contract to export goods to Country X. The contract requires that Company C provide Country X with the certificate described in guideline M-10. In an explanation of this shipping certificate, Country X states that eligibility, in the context of the certificate, relates to maritime matters such as the age and condition of the ship. Country X's explanation notes that, in addition, Country X applies a number of laws and regulations to the entry of ships into its ports. Does Company C's action constitute participation in or cooperation with an international boycott under section 999(b)(3)?

A: No. Country X's explanation of the general language contained in the certificate indicates that the certificate relates to matters other than the boycott.

Accordingly Company C's contractual obligation to provide the shipping certificate does not place Company C in the position of certifying to the non-blacklisted status of ships which it uses, or of selecting ships on the basis of their owners' ability to certify that the ships are not blacklisted. The answer would be the same if the certificate were instead required by the terms of a letter of credit by which Company C is to receive payment.

M-13. Q: Company C signs a contract to export goods to Country X. The contract requires that Company C provide Country X with the certificate described in guideline M-11. In an explanation of this insurance certificate, Country X states that the insurance certification is required to facilitate dealings with insurers by Country X importers in the event of damage to insured goods. Country X's explanation notes that, in addition, Country X applies a number of laws and regulations to the appointment by companies of agents or representatives in Country X. Does Company C's action constitute participation in or cooperation with an international boycott under section 999(b)(3)?

A: No. Country X's explanation of the general language contained in the insurance certificate indicates that the certificate relates to matters other than the boycott. Accordingly, Company C's contractual obligation to provide the insurance certificate does not place Company C in the position of certifying to the non-blacklisted status of its insurers, or of selecting insurers on the basis of the insurers' ability to certify that they are not blacklisted. The answer would be the same if the certificate were instead required by the terms of a letter of credit by which Company C is to receive payment.

DEPARTMENT OF THE TREASURY

Office of the Secretary

ISSUANCE OF ADDITIONAL BOYCOTT GUIDELINES

November 14, 1979

The Treasury Department today issued additional guidelines, consisting of questions and answers, relating to the provisions of the Tax Reform Act of 1976 which deny certain tax benefits for participation in or cooperation with international boycotts.

Guideline H-17 is a revision of the existing guideline while the other guidelines are additions to those issued on January 20, 1978 (Treasury News Release B-653). The guidelines issued today generally are effective for operations occurring after, requests received after, and agreements made after November 3, 1976. However, guidelines M-10 and M-11 are effective for operations occurring after, requests received after, and agreements made after November 23, 1979. In addition, in the case of binding contracts entered into before November 24, 1979, guidelines M-10 and M-11 will not be effective until January 1, 1980.

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

FOR RELEASE AT 4:00 P.M. November 13, 1979

TREASURY TO AUCTION $4,300 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $4,300 million of 2-year notes to refund approximately the same amount of notes maturing November 30, 1979. The $4,289 million of maturing notes are those held by the public, including $1,403 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 $502 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.

oOo

Attachment

(Over)

M-200

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 2-YEAR NOTES
TO BE ISSUED NOVEMBER 30, 1979

November 13, 1979

Amount Offered:	
To the public......................	$4,300 million
Description of Security:	
Term and type of security...........	2-year notes
Series and CUSIP designation........	Series Z-1981 (CUSIP No. 912827 KD 3)
Maturity date.......................	November 30, 1981
Call date...........................	No provision
Interest coupon rate................	To be determined based on the average of accepted bids
Investment yield....................	To be determined at auction
Premium or discount.................	To be determined after auction
Interest payment dates..............	May 31 and November 30
Minimum denomination available......	$5,000
Terms of Sale:	
Method of sale......................	Yield auction
Accrued interest payable by investor............................	None
Preferred allotment.................	Noncompetitive bid for $1,000,000 or less
Deposit requirement.................	5% of face amount
Deposit guarantee by designated institutions........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Wednesday, November 21, 1979, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds.......	Friday, November 30, 1979
b) check drawn on bank within FRB district where submitted...................	Tuesday, November 27, 1979
c) check drawn on bank outside FRB district where submitted..................	Monday, November 26, 1979
Delivery date for coupon securities.	Thursday, December 6, 1979

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
NEWS
000741

FOR IMMEDIATE RELEASE November 16, 1979

N. JEROLD COHEN TAKES OATH AS
CHIEF COUNSEL OF INTERNAL REVENUE SERVICE

Secretary of the Treasury G. William Miller today administered the oath of Office as Assistant General Counsel of the Treasury Department and Chief Counsel of the Internal Revenue Service to N. Jerold Cohen of Georgia.

President Carter announced Mr. Cohen's appointment on October 17, and the U. S. Senate confirmed the appointment on November 7. Mr. Cohen succeeds Stuart E. Seigel who resigned on May 31, 1979.

Mr. Cohen, 44, has been a partner since 1968 in the law firm of Sutherland, Asbill and Brennan in Atlanta, Ga., and Washington, D. C., which firm he joined in 1965. Prior to that, Mr. Cohen practiced with the New York City law firm of Cleary, Gottlieb, Steen and Hamilton from 1961-1965.

A native of Pine Bluff, Ark., Mr. Cohen received the B.B.A. degree from Tulane University in 1957. In 1961 he received his law degree magna cum laude from Harvard Law School, where he was book review editor of the Harvard Law Review.

Mr. Cohen is author of articles on taxation and has been a frequent lecturer on tax matters. During 1967-1976, he was an adjunct professor of law at Emory University School of Law in Atlanta. A member of the Georgia, New York, and District of Columbia bars, Mr. Cohen is a member of the Georgia, Atlanta and American Bar Associations, and has served on several committees of the American Bar Association.

Active in community affairs, Mr. Cohen was Chairman of the Atlanta Community Relations Commission. He is a former member of the Board of Directors of the American Civil Liberties Union, and past President of the Georgia ACLU. Mr. Cohen resides in the District of Columbia.

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M-201

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

FOR IMMEDIATE RELEASE November 19, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,101 million of 13-week bills and for $3,101 million of 26-week bills, both to be issued on November 23, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 21, 1980			26-week bills maturing May 22, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.026	11.896%	12.46%	93.959 a/	12.015%	13.00%
Low	97.005	11.980%	12.56%	93.940	12.053%	13.04%
Average	97.014	11.944%	12.52%	93.949	12.035%	13.02%

a/ Excepting 1 tender of $525,000

Tenders at the low price for the 13-week bills were allotted 62%.
Tenders at the low price for the 26-week bills were allotted 72%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 37,945	$ 37,945	$ 31,225	$ 30,995
New York	4,154,135	2,587,425	4,256,810	2,607,380
Philadelphia	41,935	41,905	18,690	18,640
Cleveland	34,015	34,015	22,650	22,650
Richmond	32,330	32,330	31,645	29,645
Atlanta	40,430	40,420	26,700	26,700
Chicago	271,825	103,925	387,510	172,730
St. Louis	48,290	20,290	44,505	22,505
Minneapolis	7,375	7,375	6,485	6,485
Kansas City	35,205	35,205	37,610	30,020
Dallas	19,215	19,215	10,705	10,705
San Francisco	282,450	95,175	275,150	64,020
Treasury	45,690	45,690	58,405	58,405
TOTALS	$5,050,840	$3,100,915	$5,208,090	$3,100,880
Type				
Competitive	$3,176,675	$1,226,750	$3,219,065	$1,111,855
Noncompetitive	610,730	610,730	459,225	459,225
Subtotal, Public	$3,787,405	$1,837,480	$3,678,290	$1,571,080
Federal Reserve and Foreign Official Institutions	$1,263,435	$1,263,435	$1,529,800	$1,529,800
TOTALS	$5,050,840	$3,100,915	$5,208,090	$3,100,880

1/Equivalent coupon-issue yield.

M-204

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

Immediate Release
November 19, 1979

Contact: Ev Munsey
566-8191

TREASURY ESTIMATES IRANIAN BLOCKED ASSETS AT MORE THAN $8 BILLION

The Treasury Department said today it estimates that Iranian assets blocked by President Carter's November 14 action include over $6 billion in bank deposits and total assets of more than $8 billion.

This is comprised of $1.8 billion in the Federal Reserve Bank of New York--consisting of $1.2 billion principally in U.S. Government securities and $600 million in gold valued at the current market price, $400 million deposited with Treasury for use by the Department of Defense, over $1 billion of deposits in domestic commercial banks, over $500 million with private non-bank companies in the United States, and more than $4 billion of deposits in foreign branches and subsidiaries of U.S. banks.

M-203

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

FOR IMMEDIATE RELEASE
November 20, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES FINAL DETERMINATION
IN COUNTERVAILING DUTY INVESTIGATION
OF PIG IRON FROM BRAZIL

The Treasury Department today announced a final affirmative determination under the Countervailing Duty Law that imported pig iron from Brazil is being subsidized. The case is now being referred to the U.S. International Trade Commission for an injury determination.

The Countervailing Duty Law requires the Secretary of the Treasury to collect an additional duty that equals the net amount of any subsidy paid on merchandise exported to the United States if the International Trade Commission has found that a U.S. industry is being injured by the subsidized imports. The injury test currently applies only to imports that are free of duty. Pig iron is a duty-free item.

As a result of its investigation, Treasury found that Brazilian manufacturers of this merchandise received benefits which are considered bounties or grants. These include excessive rebates of sales taxes (the "IPI" credit) and preferential, short-term financing provided by the Government of Brazil at terms more favorable than those available commercially.

The average subsidy received by the 16 companies investigated was approximately 24 percent ad valorem, with most of the large firms receiving benefits falling in that range. One firm received a subsidy of over 30 percent.

Notice of this action will appear in the Federal Register of November 26, 1979. Under the transition provision of the 1979 Trade Act, the International Trade Commission must reach its injury determination by March 15, 1980.

Imports of Brazilian pig iron during 1978 were $20.4-million.

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

FOR RELEASE AT 4:00 P.M. November 20, 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 $6,400 million, to be issued November 29, 1979. This offering will provide $500 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,917 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,200 million, representing an additional amount of bills dated August 30, 1979, and to mature February 28, 1980 (CUSIP No. 912793 3T 1), originally issued in the amount of $3,009 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated November 29, 1979, and to mature May 29, 1980 (CUSIP No. 912793 4G 8).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing November 29, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,477 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 26, 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 November 29, 1979, in cash or other immediately available funds or in Treasury bills maturing November 29, 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
WASHINGTON, D.C. 20220
TELEPHONE 566-2041
NEWS

FOR RELEASE AT 4:00 P.M. November 20, 1979

TREASURY TO AUCTION $2,500 MILLION OF 5-1/2-YEAR NOTES

The Department of the Treasury will auction $2,500 million of 5-1/2-year notes to raise new cash. Additional amounts of the notes may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

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

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Attachment

M-207

(over)

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 5-1/2-YEAR NOTES TO BE ISSUED DECEMBER 4, 1979

November 20, 1979

Amount Offered:	
To the public..........................	$2,500 million
Description of Security:	
Term and type of security...........	5-1/2-year notes
Series and CUSIP designation........	Series C-1985 (CUSIP No. 912827 KE 1)
Maturity date..........................	May 15, 1985
Call date..............................	No provision
Interest coupon rate...................	To be determined based on the average of accepted bids
Investment yield.......................	To be determined at auction
Premium or discount....................	To be determined after auction
Interest payment dates.................	May 15 and November 15 (first payment on May 15, 1980)
Minimum denomination available......	$1,000
Terms of Sale:	
Method of sale.........................	Yield auction
Accrued interest payable by investor............................	None
Preferred allotment....................	Noncompetitive bid for $1,000,000 or less
Deposit requirement....................	5% of face amount
Deposit guarantee by designated institutions..........................	Acceptable
Key Dates:	
Deadline for receipt of tenders.....	Tuesday, November 27, 1979, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds.......	Tuesday, December 4, 1979
b) check drawn on bank within FRB district where submitted..................	Friday, November 30, 1979
c) check drawn on bank outside FRB district where submitted..................	Friday, November 30, 1979
Delivery date for coupon securities.	Tuesday, December 11, 1979

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

FOR IMMEDIATE RELEASE November 21, 1979

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $4,301 million of $7,556 million of tenders received from the public for the 2-year notes, Series Z-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	12.18% 1/
Highest yield	12.26%
Average yield	12.24%

The interest rate on the notes will be 12-1/8%. At the 12-1/8% rate, the above yields result in the following prices:

Low-yield price	99.905
High-yield price	99.767
Average-yield price	99.801

The $4,301 million of accepted tenders includes $1,042 million of noncompetitive tenders and $2,634 million of competitive tenders from private investors, including 70% of the amount of notes bid for at the high yield. It also includes $625 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 $4,301 million of tenders accepted in the auction process, $502 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing November 30, 1979.

1/ Excepting 5 tenders totaling $35,000

M-208

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 5-1/2-YEAR NOTES TO BE ISSUED DECEMBER 4, 1979

November 20, 1979

<u>Amount Offered</u>:	
To the public..........................	$2,500 million
<u>Description of Security</u>:	
Term and type of security...........	5-1/2-year notes
Series and CUSIP designation........	Series C-1985 (CUSIP No. 912827 KE 1)
Maturity date........................	May 15, 1985
Call date............................	No provision
Interest coupon rate.................	To be determined based on the average of accepted bids
Investment yield.....................	To be determined at auction
Premium or discount..................	To be determined after auction
Interest payment dates...............	May 15 and November 15 (first payment on May 15, 1980)
Minimum denomination available......	$1,000
<u>Terms of Sale</u>:	
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
<u>Key Dates</u>:	
Deadline for receipt of tenders.....	Tuesday, November 27, 1979, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds.......	Tuesday, December 4, 1979
b) check drawn on bank within FRB district where submitted..................	Friday, November 30, 1979
c) check drawn on bank outside FRB district where submitted..................	Friday, November 30, 1979
Delivery date for coupon securities.	Tuesday, December 11, 1979

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

FOR IMMEDIATE RELEASE November 21, 1979

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Average-yield price	99.801

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In addition to the
auction process, $502 m
price from Government a
account in exchange for

1/ Excepting 5 tenders

12-1/8% TREASURY NOTES OF SERIES Z-1981

DATE: 11-21-79

HIGHEST SINCE:

LAST ISSUE:
OCTOBER 1979
12 5/8% 12.66% YIELD

LOWEST SINCE:
10 1/8% 10.21% Yield
SEPTEMBER 1979

TODAY:
12-1/8% 12.24% YIELD

M-208

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

FOR RELEASE AT 12:00 NOON November 21, 1979

TREASURY OFFERS $3,000 MILLION OF 143-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $3,000 million of 143-day Treasury bills to be issued December 3, 1979, representing an additional amount of bills dated October 25, 1979, maturing April 24, 1980 (CUSIP No. 912793 4B 9).

Competitive and noncompetitive tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Wednesday, November 28, 1979. Form 4632-2 (modified) should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury. Each tender for the issue must be for a minimum amount of $10,000. Tenders over $10,000 must be in multiples of $5,000. The price offered on competitive tenders must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

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. The bills will be issued entirely in book-entry form in a minimum denomination 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.

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

.ings on such securities, when submitting tenders for
ners, must submit a separate tender for each customer whose
.ong position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for
st accompany all tenders submitted for bills to be
ntained on the book-entry records of the Department of the
reasury. A cash adjustment will be made on all accepted
nders for the difference between the par payment submitted
d 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. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection 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 Monday, December 3, 1979, in cash or other immediately available funds.

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 on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch or from the Bureau of the Public Debt.

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

FOR IMMEDIATE RELEASE November 26, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,200 million of 13-week bills and for $3,200 million of 26-week bills, both to be issued on November 29, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 28, 1980			:	26-week bills maturing May 29, 1980		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	97.258	10.847%	11.34%	:	94.465 a/	10.948%	11.78%
Low	97.168	11.204%	11.72%	:	94.379	11.118%	11.98%
Average	97.215	11.018%	11.52%	:	94.428	11.022%	11.87%

a/ Excepting 2 tenders totaling $1,050,000

Tenders at the low price for the 13-week bills were allotted 68%.
Tenders at the low price for the 26-week bills were allotted 53%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Recei
Boston	$ 21,
New York	3,036,
Philadelphia	20,
Cleveland	32,8
Richmond	25,7
Atlanta	37,6
Chicago	266,9
St. Louis	24,3
Minneapolis	16,8
Kansas City	33,6
Dallas	13,1
San Francisco	168,5
Treasury	36,3
TOTALS	$3,734,43
Type	
Competitive	$2,260,65
Noncompetitive	467,81
Subtotal, Public	$2,728,46
Federal Reserve and Foreign Official Institutions	$1,005,97
TOTALS	$3,734,43

DATE: November 26, 1979

	13-WEEK	26-WEEK
TODAY:	11.018%	11.022%
LAST WEEK:	11.944%	12.035%
HIGHEST SINCE:		
LOWEST SINCE: 10/5/79	10.808%	10.662%

1/Equivalent coupon-issue yield.

M-210

.ings on such securities, when submitting tenders for ners, must submit a separate tender for each customer whose .ong position in the bill being offered exceeds $200 million.

Payment for the full par amount of the bills applied for st accompany all tenders submitted for bills to be ntained on the book-entry records of the Department of the reasury. A cash adjustment will be made on all accepted enders for the difference between the par payment submitted d 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. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection 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 Monday, December 3, 1979, in cash or other immediately available funds.

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 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.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE November 26, 1979

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	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	97.258	10.847%	11.34%	:	94.465 a/	10.948%	11.78%
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Average	97.215	11.018%	11.52%	:	94.428	11.022%	11.87%

a/ Excepting 2 tenders totaling $1,050,000

Tenders at the low price for the 13-week bills were allotted 68%.
Tenders at the low price for the 26-week bills were allotted 53%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 21,580	$ 21,580	:	$ 27,485	$ 27,485
New York	3,036,075	2,622,075	:	3,621,055	2,760,980
Philadelphia	20,655	20,655	:	13,295	13,295
Cleveland	32,850	32,850	:	29,655	19,655
Richmond	25,790	25,790	:	21,200	21,200
Atlanta	37,625	37,625	:	23,475	23,475
Chicago	266,950	216,950	:	252,555	137,555
St. Louis	24,355	24,355	:	27,070	23,070
Minneapolis	16,870	16,870	:	15,970	15,970
Kansas City	33,690	33,690	:	22,695	22,695
Dallas	13,195	13,195	:	12,075	12,075
San Francisco	168,500	98,500	:	201,725	81,725
Treasury	36,300	36,300	:	41,280	41,280
TOTALS	$3,734,435	$3,200,435	:	$4,309,535	$3,200,460
Type					
Competitive	$2,260,650	$1,726,650	:	$2,712,185	$1,603,110
Noncompetitive	467,815	467,815	:	353,050	353,050
Subtotal, Public	$2,728,465	$2,194,465	:	$3,065,235	$1,956,160
Federal Reserve and Foreign Official Institutions	$1,005,970	$1,005,970	:	$1,244,300	$1,244,300
TOTALS	$3,734,435	$3,200,435	:	$4,309,535	$3,200,460

1/Equivalent coupon-issue yield.

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

FOR IMMEDIATE RELEASE
Monday, November 26, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY TO START ANTIDUMPING INVESTIGATION ON RAIL PASSENGER CARS AND ORIGINAL PARTS FROM JAPAN AND ITALY

The Treasury Department today said it will start an antidumping investigation of imports from Japan and Italy of rail passenger cars and parts thereof intended for use as original equipment in the United States.

Treasury's announcement followed summary investigations conducted by the U.S. Customs Service after receipt of a petition filed by the Budd Co. alleging that firms in Japan and Italy are dumping these products 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.

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 11/27/79.

Contracts for the importation on rail passenger cars and original parts from Japan and Italy concluded in 1978 and 1979 were valued at $58 million and $108 million, respectively.

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

FOR IMMEDIATE RELEASE
November 26, 1979

CONTACT: George Ross
202/566-2356

U.S.-SAUDI ARABIA TECHNICAL COOPERATION AGREEMENT EXTENDED

Treasury Secretary G. William Miller and Minister of Finance and National Economy Muhammad Abalkhail Sunday signed an agreement to extend, for an additional five years, the Technical Cooperation Agreement (TCA) between the United States and Saudi Arabian Governments. The Agreement makes possible technical cooperation programs between the two countries under the auspices of the United States-Saudi Arabian Joint Commission on Economic Cooperation.

Secretary Miller and Minister Abalkhail serve as the co-chairman of the Joint Commission which was established in June 1974.

At the signing ceremony in Riyadh, Secretary Miller and Minister Abalkhail expressed their satisfaction with the technical cooperation taking place through the programs of the Joint Commission. The two governments also noted the contribution of the Joint Commission to increased understanding and to strengthening the relationship between the United States and Saudi Arabia. The signing of the extension of the Agreement will make it possible for the cooperative programs to run until at least February 13, 1985.

There are currently more than twenty programs ranging from vocational training and solar energy to electrification and desalination research taking place in Saudi Arabia under the auspices of the Joint Commission. Additional programs are expected to be developed under the Joint Commission in the coming year. Attached is the text of the extension of the TCA agreement and a list of current Joint Commission projects.

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Twenty major technical cooperation projects have been signed to provide assistance in the following areas:

1. Statistical Assistance and Data Processing.
2. Specialist Assistance in the Agricultural and Water Resources.
3. Electrical Equipment Procruement.
4. Kingdom-Wide Electric Power System Plan.
5. Formation and Operation of Saudi Arabian National Center for Science and Technology.
6. Assistance to the Nasseriah Power Station.
7. Vocational Training and Facilities Construction.
8. Establishment of a Kingdom National Park.
9. Procurement of Electrical Power Equipment for the Eastern Province.
10. Desalination.
11. Consumer Protection Services.
12. Financial Information Services.
13. Highway Transportation.
14. Solar Energy.
15. Audit Services.
16. Customs Administration and Training.
17. Centralized Procurement.
18. Agricultural Bank Management and Training.
19. Executive Management Development.
20. Transportation.

Extension of the Technical Cooperation Agreement between the Government of the United States of America and the Government of the Kingdom of Saudi Arabia

The Government of the United States of America and the Government of the Kingdom of Saudi Arabia,

Noting with satisfaction that the Technical Cooperation Agreement (the Agreement) between the two Governments which was signed on February 13, 1975, and which expires on February 13, 1980 has provided a framework for a broad and varied program of technical cooperation being carried out under the auspices of the United States-Saudi Arabian Joint Commission on Economic Cooperation (the Commission),

Considering that the programs under the Commission have also contributed to increased understanding and to a strengthened relationship between the two countries,

Desiring to continue this important cooperative effort, the Government of the United States of America and the Government of the Kingdom of Saudi Arabia hereby agree:

(a) to extend the Agreement for a five-year perioc beginning on February 13, 1980;

(b) to continue their cooperation within the Commission under the co-chairmanship of the United States Secretary of the Treasury and the Saudi Arabian Ministe of Finance and National Economy; and

(c) to review annually the status and progress of cooperative projects carried out under the auspices of the Commission, and to identify new areas for cooperation between the two countries.

Signed this ____________________ day of November, 1979.

For the Government of the United States of America	For the Government of the Kingdom of Saudi Arabia
G. William Miller	Muhammed Aba al Khail

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

FOR IMMEDIATE RELEASE
November 26, 1979

CONTACT: George Ross
202/566-2356

UNITED STATES AND SAUDI ARABIA AGREE
TO COOPERATIVE RESEARCH AND INSTRUCTION PROGRAM

Secretary of the Treasury G. William Miller and Saudi Arabian Minister of Finance and National Economy Mohammad Abalkhail announced today that the Government of Saudi Arabia and the United States have signed an agreement for cooperation between the Institute of Meteorology and Arid Land Studies at King Abdulaziz University and a consortium of American Universities in a program of instruction and research. They said the project would provide significant benefits to both countries.

The agreement, signed by Secretary Miller, Minister Abalkhail and the Rector of KAU, Dr. Abdullah Al-Nassir, establishes the newest cooperative project to be implemented under the Saudi Arabian-U.S. Joint Commission on Economic Cooperation. It is also the first project agreement with a Saudi Arabian University.

Under the terms of this project the American Consortium for International Development representing a group of universities, will provide faculty in the fields of meteorology, arid land studies, and environmental protection. The experts will work with the Institute in developing curriculum, teaching courses and conducting research. The members of the consortium are Colorado State University, Texas Tech, New Mexico State, University of Arizona, University of California (Riverside), Cal State Polytechnic University, Oregon State, Washington State, University of Idaho, Montana State and Utah State.

The first of the faculty members are expected to arrive in time for the second term of the current academic year. The first-year funding for this project is approximately 4-million Saudi Riyals (U.S. $1.2 million) and will include purchase of specialized equipment for research in arid land studies.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE AT 4:00 P.M. November 27, 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 $6,400 million, to be issued December 6, 1979. This offering will provide $600 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,834 million. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,200 million, representing an additional amount of bills dated September 6, 1979, and to mature March 6, 1980 (CUSIP No. 912793 3U 8), originally issued in the amount of $3,014 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated December 6, 1979, and to mature June 5, 1980 (CUSIP No. 912793 4H 6).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 6, 1979. Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,462 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, December 3, 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 December 6, 1979, in cash or other immediately available funds or in Treasury bills maturing December 6, 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 November 27, 1979

RESULTS OF AUCTION OF 5-1/2-YEAR TREASURY NOTES

The Department of the Treasury has accepted $2,501 million of $3,512 million of tenders received from the public for the 5-1/2-year notes, Series C-1985, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	10.28%
Highest yield	10.49%
Average yield	10.40%

The interest rate on the notes will be 10-3/8%. At the 10-3/8% rate, the above yields result in the following prices:

Low-yield price	100.389
High-yield price	99.532
Average-yield price	99.898

The $2,501 million of accepted tenders includes $ 620 million of noncompetitive tenders and $1,881 million of competitive tenders from private investors, including 17% of the amount of notes bid for at the high yield.

In addition to the $2,501 million of tenders accepted in the auction process, $ 5 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

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

FOR IMMEDIATE RELEASE November 27, 1979

RESULTS OF AUCTION OF 5-1/2-YEAR TREASURY NOTES

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The $2,501 million of accepted tenders includes $ 620 million of
noncompetitive ... competitive tenders from
private inves...
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In addit...
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10-3/8% TREASURY NOTES OF SERIES C-1985

DATE: Nov. 27, 1979

HIGHEST ~~SINCE~~ EVER in the approximate 5-1/2 maturity range

LAST ISSUE: 9-1/4% notes of [illegible] 8/27/79 *

LOWEST SINCE:

TODAY: 10-3/8%

* 4 Year 8 month Notes

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

FOR IMMEDIATE RELEASE
Wednesday, November 28, 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 November 27 was 10.85%, rounded to the nearest 5 basis points.

(This rate will be used by the agencies in determining the maximum interest payable in December 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 NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE ON DELIVERY
November 29, 1979

STATEMENT OF THE HONORABLE RICHARD J. DAVIS
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT AND OPERATIONS)
BEFORE THE
SUBCOMMITTEE ON GENERAL OVERSIGHT AND RENEGOTIATION
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

Mr. Chairman and members of the Subcommittee,

Thank you for the opportunity to testify concerning currency transactions and their relationship to the narcotics traffic and to describe some of the things that the Treasury Department is doing in this area. As the Subcommittee suggested, I plan to review our proposal to amend the Treasury regulations (31 CFR Part 103) requiring the reporting of large currency transactions, to discuss our recent report on the currency transactions in the Federal Reserve System, and to comment on other actions that we believe would improve the effectiveness of the regulations and be helpful in drug enforcement efforts.

The Bank Secrecy Act

Since our official interest in currency flows and currency transactions stems from our responsibility for the implementation of the Bank Secrecy Act which was passed as part of Public Law 91-508, I would like to begin this statement with a few remarks about the background of the Act and its purpose. The Congressional hearings which preceded the passage of the Act in 1970 documented the need for this legislation. Representatives of major Federal law enforcement agencies testified concerning the problems they encountered in investigating the financial activities of criminals especially when foreign transactions were involved. Witnesses described how foreign accounts are used in tax evasion, bribery, securities violations, black marketing, and smuggling. One of the more sensational cases cited was a drug violation. It involved heroin smuggled into the United States from Europe disguised as canned food and a circuitous method of payment. The payment, amounting to $950,000, which was intended to be deposited in a European bank account of a Latin American shell company known as the "Me Too Corporation", required several financial transactions. Couriers delivered $800,000 in currency to two foreign exchange firms in New York. From there, the funds were transferred to the

European bank account. The other $150,000 in currency was deposited with a large New York bank for the account of a South American brokerage firm. Those funds were later transferred by check to the same European bank.

The purpose of the Bank Secrecy Act was to make such transactions easier to detect and document. The Act contains two types of provisions to help Federal law enforcement officials investigate the financial aspects of crime. First, it calls for recordkeeping requirements for a wide variety of financial institutions. Congress recognized that many criminals use legitimate financial institutions to carry on their activities and included the recordkeeping provisions to ensure the maintenance of records for criminal, tax, and regulatory investigations. Second, it requires reports by financial institutions and others of certain types of financial transactions. The reporting provisions include reports of foreign financial accounts, of the international transportation of monetary instruments, and of "unusual" currency transactions.

The reporting requirements authorized by the Act are interrelated. This is especially true of the requirement that banks report currency transactions and travellers report the international transportation of currency. They complement each other. For example if banks were not required to report currency transactions, there would be little need for criminals to smuggle money out of the country. Currency simply could be taken into a bank and the funds transferred abroad to a secret bank account without disclosing the identities of the persons directing the transfer or receiving the funds. Conversely, without reports of the import or export of currency, the requirement that banks report large currency transactions would be much less meaningful.

<u>Cash Flow Patterns</u>

The Treasury Department recently released a study of the currency transactions in the Federal Reserve bank offices. This study was undertaken "to gather information which would be useful in assessing the effectiveness of the existing reporting requirements and in identifying areas that appear to merit further study or investigation." It was based mainly on statistics related to the amount of Federal Reserve notes placed into circulation or withdrawn from circulation by each Federal Reserve office. The data covered the period 1970 through 1978 and showed a constantly increasing supply of currency in circulation. In 1978, for example, an additional $10.2 billion was put into circulation. In our review of the available statistics, we detected at least two patterns which we believe merit additional investigation. The first related to the Federal Reserve offices in Florida. In 1970, when the Jacksonville office served the entire state, it received $1.6 billion and paid out $1 billion. Its net receipts were about $600 million. In 1971, the Federal Reserve opened an office in Miami; and in 1978, the two offices in Florida received $6.1 billion in deposits and paid out $2.9 billion, their net receipts amounted to almost $3.3 billion, which was more than six times the surplus in 1970. The most startling change has occurred since the end of 1974. The net receipts (surplus) has grown during that period from $921 million in 1974 to $3.3 billion in 1978. It has already exceeded $4 billion this year.

While certainly a variety of factors contribute to this surplus, it is clear that a substantial amount is related to the trafficking of marijuana and other narcotics in Florida. We have determined that a large number of the currency transaction reports filed in Florida appear to be related to drug trafficking. In Fiscal Year 1979, alone, we provided the Drug Enforcement Administration (DEA) with 2,135 reports (IRS Form 4789) reflecting $228 million in transactions. The vast majority of them pertain to transactions in Florida. In addition, other information stemming from a variety of sources, including the Customs Service, DEA, and Congressional hearings also indicates that there has been a tremendous influx of drug related money in Florida.

A second pattern warranting more attention involves the increase in $100 bills in circulation. During the 1970 to 1978 period, $100 bills have accounted for an increasingly large part of the annual increase in the nation's supply of currency. In 1978, $5.4 billion, more than 50% of the additional currency in circulation, was in $100s. This represents a 410% increase over the $1 billion added to circulation in 1970. Our analysis shows that the New York Federal Reserve office has accounted for a large part of the additional $100s that are being put into circulation. This has been particularly noticeable since 1974. In 1978, for example, when the increase in $100s was about $5.5 billion, New York was responsible for almost half of it, $2.6 billion. These figures are especially significant because some analysts believe that the increase in $100s may be related to the growth of the subterranean economy.

The report on the currency flows, which has been made available to the Subcommittee, points out other patterns and figures that may be of interest to you. For example, the Federal Reserve bank offices in San Antonio and El Paso also reported sizeable surpluses of receipts while Chicago and Detroit reported relatively large net pay outs of currency.

One reason that the patterns of currency transactions in Florida and New York are of particular interest to us is that the analysis of the currency transaction reports required to be filed with the Treasury Department under the provisions of the Bank Secrecy Act do not appear, in themselves, to account for the large amounts of currenc flowing in and out of those offices.

The Department has already taken steps to gather additional information about the New York and Florida activities. Aside from working with the Federal Reserve officials to obtain more detailed information concerning the transactions in those areas, we will also conduct appropriate follow-up investigations.

Regulatory Proposals

An analysis of the results of the cash flow study also contributed to our decision to propose modifications to existing regulations under the Bank Secrecy Act. The current Treasury regulations require financial institutions to report currency transactions in excess of $10,000 unless the transaction is with other financial institutions. They may, however, exempt the transactions of established depositors if the transactions do not exceed amounts which the bank may reasonably conclude are commensurate with the customary conduct of the customer's business. Obviously, this provision was intended to eliminate the reporting of legitimate business transactions that would be of little or no interest to law enforcement officials. Banks were given this authority because it was thought that due to their knowledge of their customers' financial activities, they would be able to identify such transactions without difficulty. The regulations provide, however, that the Treasury Department can request a bank to supply us with a list of the depositors it has exempted from the reporting requirement.

We have already asked approximately 600 banks in Florida to provide us with such a list. In addition, requests for lists have also been sent to banks in New York, California, and Illinois. Our review of the lists of exempted customers that we have received from those banks confirm our previous view that there has been a great lack of understanding of the purpose of the exemption provision and of how it should be used. Bank officials have exempted foreign nationals and other individuals from the reporting requirement solely on the basis that they have customarily brought in large amounts of currency. The bankers frequently had no knowledge of how that currency was accumulated. This situation made it apparent that the governing regulations need to be amended.

The proposed amendments to the currency reporting requirements, which were published in September, would:

(1) Require that the report be filed within 15 days after the day on which a transaction occurred instead of 45 days under the currency regulations -- financial institutions are expected to have little difficulty in meeting this deadline, and the increased promptness should substantially increase the value of the information to law enforcement agencies.

(2) Require financial institutions to retain a copy of each Currency Transaction Report for a period of five years -- while it is our understanding that many banks routinely retain copies of the reports, the requirement would ensure that copies would be available for the use of the bank supervisory agencies that have the responsibility for examining financial institutions for compliance with the reporting requirement.

(3) Refine the requirements for the identification of a customer for whose account currency transaction is to be effected, and of his agent in such transactions, to specify the documents that will be acceptable for identification of aliens and citizens and require that the method of identification used be included in the report.

(4) Require banks to report transactions with, or originated by, financial institutions or foreign banks -- such transactions are currently exempt from the reporting requirement. The revision would limit this exemption to transactions with other domestic banks. Banks would be required to report large currency transactions with securities dealers, foreign banks, and miscellaneous financial institutions, such as exchange dealers, persons in the business of transferring funds for others, and money order issuers. The additional information concerning the currency transactions with foreign banks and non-bank financial institutions will substantially improve the Treasury Department's ability to obtain overall compliance with the regulations and alert the Department to unusual transnational movements of currency.

Since Treasury presently does not receive reports of currency transactions between domestic and foreign banks, it is not possible to develop information concerning normal international flows or to identify unusual movements of currency involving particular institutions or classes of institutions which might provide insights into possible criminal activities. The proposed requirement would correct this deficiency.

The proposed requirement that banks report transactions with securities brokers/dealers and other miscellaneous financial institutions would provide an effective and badly needed check on the compliance of such institutions with the regulations. Such institutions are much more difficult to recognize and catalogue than are banks. Therefore, it is not surprising that there are indications that many of them have not been identified or inspected for compliance. By requiring banks to report large currency transactions with such firms, the opportunity to identify those that are dealing in significant amounts of currency will be greatly increased. Once identified, they can be scheduled for compliance checks.

(5) Formalize the procedure for exempting other transactions from the reporting requirements -- banks are exempted from the reporting of currency transactions with an established customer maintaining a deposit relationship with the bank, in amounts which the bank may reasonably conclude do not exceed amounts commensurate with the customary conduct of the business, industry or profession of the customer concerned. This requires the bank to exercise its professional judgment in determining whether or not a currency transaction report should be filed. The proposed revision would require a record of the exemption to be made at the time it is granted and would limit the exemption to an established customer who operates a retail type of establishment within the United States. If the customer is located in a contiguous or neighboring country, or if the business is not a retail establishment, a currency transaction report would be required.

The exemption would be limited to businesses, that would normally generate large amounts of currency, such as a finance company, a race track, a department store, a theater, a supermarket, sports arena, etc.

(6) Provide additional assurance that this exemption is judiciously employed by the bank -- a report listing the customers whose currency transactions are not reported because of the exemption is now required to be made to the Secretary of the Treasury or his delegate upon demand. The revision would: (1) specify that such report shall include the name, street address, nature of the business, taxpayer identification number, and deposit account number of the customer whose transactions have been exempted under this provision; (2) elaborate on the Secretary's authority to require the filing of the Form 4789 reports for any customer listed and (3) require the report to be submitted within 15 days following receipt of the demand for the report. These proposed amendments would provide the information Treasury needs in order to review the exemptions to ensure that they are appropriate.

We believe that the proposed changes, possibly with some modifications that have been suggested by the public, will greatly improve the usefulness of the currency transaction reporting requirement.

We recognize that in addition to drafting sound reporting regulations it is essential to have an effective means of assuring compliance with them, and we believe that we have made significant progress in this area. Early this year, after consulting with the Federal Reserve System, the Federal Deposit Insurance Corporation, we recommended a uniform examination procedure which would result in a more rigorous review of the banking industry's compliance with the reporting requirements. Our recommendation currently is being reviewed by the Federal Financial Institutions Examination Council, and we hope that it will be adopted in the near future. We have also conducted a review of the training given to bank examiners, which we expect will bring about a substantial improvement in bank examiners' knowledge of the regulations.

Statutory Amendments

Certain needed improvements in our administration of the Bank Secrecy Act require statutory changes. Three bills, already introduced -- H.R. 4071, 4072, and 4073, would accomplish these changes. H.R. 4071 would add a new section to the Act to permit the payment to an informant of a 25% share of any recovery realized by the United States, when the actual recovery by the Government exceeds $50,000. The informant's share would in any event be limited to a maximum of $250,000. H.R. 4072 would amend Section 231(a) of the Act by making it illegal to attempt to transport currency into or out of the United States without filing the required report. H.R. 4073 would amend Section 235 of the Act to authorize a Customs officer to search for currency at the border when he has a reasonable cause of suspect (the same search standard that Customs officers presently have to enforce the Customs laws) that an amount in excess of $5,000 is being transported into or out of the United States.

Although we have good reason to believe that, at a minimum, hundreds of millions of dollars were carried or shipped out of the United States during Fiscal Year 1979 to purchase illegal drugs, our records indicate that only $46 million has been reported to us as the amount of currency that left the United States in that same period. While one can never expect that all who are transporting currency will file reports, it is obvious that we are not receiving all the reports that should be filed. These amendments are needed to deal with this problem.

The best way to illustrate the problems we encounter in enforcing this aspect of the Act is to compare the situation we face when an individual enters the United States to the situation when he leaves.

Imagine an individual arriving by plane from abroad with $10,000 in cash in his luggage. As he approaches the U.S. Customs inspector for routine inspection and clearance, he is notified of his legal obligation to file the Customs Form 4790 (Report of the International Transportation of Currency and Other Monetary Instruments) because a specific question concerning this obligation appears on the baggage declaration form given to him on the airplane. In addition, signs notifying travellers of this requirement are posted at ports of entry and verbal notice of the requirement may also be given by Customs personnel. Should he attempt to avoid filing this form, it is conceivable that the currency would be discovered by the Customs inspector in the course of the routine inspection. If the individual declines to file the report after being specifically advised of his obligation to do so, and the currency is discovered, there is no question that a violation of the Act has occurred. The individual has clearly transported the currency into the United States without filing a report, and the Customs inspector clearly had the authority to search his baggage. This violation can easily be expanded through investigation by Customs agents to determine whether the funds were transported in furtherance of a violation of another Federal law. This is the easy case.

Imagine, however, a private airstrip in Florida, where a small private jet has taxied out on the runway as an impeccably dressed man, carrying an attache case, walks out to meet the plane. A Customs officer, on the scene only because he had just received an anonymous phone call that someone was leaving for South America from that airport with $250,000 in cash, stops the well-dressed man and asks where he is going. After the man indicates that he is going to Colombia, the Customs officer asks if he is carrying more than $5,000 in currency or monetary instruments, and if so, states that a report must be filed. The man responds in the negative, at which time the Customs officer opens the attache case and discovers that it is filled with $50 bills. This individual could very well escape prosecution.

In this situation, the individual had not yet departed from the United States when the Customs officer stopped him. Although there is little doubt that within the next five minutes he would have been airborne, on a southerly course, transporting the $250,000 without having filed the required report, and beyond the reach of Federal law enforcement authorites, some courts have held that it is not a violation of the Act <u>to attempt</u> to transport currency out of the United States without filing the report and/or the actual violation does not occur until the individual has left the United States and is therefore beyond our jurisdiction.

This incident also dramatizes the limitation on the scope of the Customs authority to verify the individual's negative response by opening the attache case. In this instance, the facts leading to the search very likely do not constitute probable cause, the search standard in the Act. Thus, even if there is a violation of the Act, the evidence may be suppressed. It is evident that under existing statutes the Customs inspector has much greater authority to examine an incoming individual's luggage, which gives him a good opportunity to discover a violation of the reporting requirement. Customs is, however, virtually powerless to enforce the Act with respect to departing travellers.

Another problem is providing coverage at the place of departure. Customs personnel are not generally stationed at smaller airports or even major departure ports, as they are at points of entry. There is no routine screening of individuals as they leave the United States. Therefore, to a very large degree we must rely on prior information to alert us to future departures. In this case, the officer had received a phone call which proved to be reliable. However, with our present resources, we must be selective and thus may not always be able to respond to every anonymous tip. We must develop sources of information concerning the financial operations of organized narcotics traffickers. To encourage people who have this sensitive information to contact the law enforcement community, it is, unfortunately, necessary to offer something valuable in return. Without this, the potential informant will have little motivation to come forward, particularly considering the dangers involved for those who do. The reward provisions in H.R. 4071 would be valuable in meeting this need.

In sum, we believe that the problems we are currently facing in enforcing the Act with respect to departing travellers would be greatly alleviated if H.R. 4071, 4072 and 4073 were enacted.

Case Examples

I would also like to take this opportunity to tell you about some of the successes we have recently achieved in the implementation of the Act. Beginning in 1977, the Treasury Department began to collect and correlate the reports required under the Act in a systematized way. Initially, the Customs Service entered the data from the Forms 4790 into the Treasury Enforcement Communications System (TECS). In 1978, Customs was formally delegated the responsibility to consolidate the data from all three reports into one center - the Reports Analysis Unit. During 1978 and 1979, the program design was completed and the system was built; and by September, the mammoth task of computerizing all three forms was completed.

Treasury has established three methods to be used by the Reports Analysis Unit in disseminating the financial reports to interested Federal law enforcement and regulatory agencies. First, the data is analyzed together with other computerized indices such as TECS and NADDIS to discern what particular pieces of information would be of value to the Federal law enforcement community for use in their investigations of narcotics trafficking, tax evasion, corruption, and organized crime. Second, the Unit prepares responses to specific requests from these agencies. Finally, the Unit cooperates with these agencies to develop criteria to be used in selecting reports for referral to them.

We have also formally alerted all interested Federal agencies of the Reports Analysis Unit's capabilities and its potential for assisting them with their enforcement or regulatory functions. As a result, the Narcotics Section of the Department of Justice has begun holding seminars for U.S. Attorneys to educate them not only about the Act and how it may be utilized in narcotics investigations, but also to advise them of the services and information which the Reports Analysis Unit can provide. In Fiscal Year 1979, 64 specific requests involving 2,650 names were processed. These requests have come from DEA, FBI, Justice, SEC, Secret Service, and the Office of Foreign Assets Control.

As one example of how the Bank Secrecy Act and the information it generates can be extremely useful to a successful and broad-ranging Federal investigation and prosecution, I would like to briefly discuss a recent case involving a large Mexican heroin smuggling organization.

The case was initiated by a Customs Investigations field office in Southern California following the receipt and analysis of a number of IRS Forms 4789 in 1977 which reflected frequent cash deposits between $200,000 and $800,000 each in a local bank. The investigation quickly revealed that a bank account in a fictitious name was being used to conceal the true depositors. The account served as a conduit to funnel proceeds from the sale of narcotics to secret bank accounts in Mexico. The key figures were ultimately identified as Mexican nationals residing in the United States and Mexico. It is believed that the organization, headed by Jaime Araujo-Avila, was responsible for the importation and distribution of approximately 300 pounds of heroin per month with monthly proceeds of approximately $1 million.

The organization used two methods to transmit their narcotics proceeds, each involving the conversion of the currency to monetary instruments and the use of one domestic and two foreign banks. By the first method, a bank account was opened in a fictitious name at a domestic bank close to the Mexican border. A courier then retrieved the currency from the storage location and made deposits into the domestic account. On the date of the deposit, prior to the next retrieval, the courier entered the United States from Mexico with personal checks drawn against the domestic account. These checks were normally in excess of $100,000 and, in a further effort to conceal identities of members, the checks were made payable to "Cash" or "Bearer". The courier presented these checks to the domestic bank and used them to purchase cashier's checks which were then transported back to Mexico and deposited into accounts maintained under the control of the violators. By way of illustration, 39 currency deposits were made to the U.S. bank account during a 19-month period totaling approximately $15.5 million.

By the second method, the group would transport the funds by vehicle from Los Angeles across the international border and into the Mexican bank accounts controlled by the violator. An additional $16 million was deposited directly to the Mexican bank accounts during a 3-year period. Thus, over this 3-year period, transactions involving a total of $31.5 million occurred.

Based on this 2-year investigation, a Federal Grand Jury indicted 21 members of the criminal enterprise. Of these violators, 16, incuding the 5 key ranking members, were charged with felony currency conspiracy (31 U.S.C. 1059 and 18 U.S.C. 371). Other charges included narcotics trafficking (21 U.S.C. 846), RICO (18 U.S.C. 1962) and tax evasion (26 U.S.C. 7201).

Just last week, the organization's leader Jaime Araujo-Avila, was sentenced to 35 years' imprisonment for currency and income tax violations as well as a concurrent 15-year sentence for narcotic violations, and assessed $1.2 million in fines. Six other individuals have been sentenced already, and two others are scheduled for sentencing next week. Forfeiture actions against various properties and businesses purchased with the proceeds are pending.

This investigation and prosecution is an exemplary illustration of the results that can be achieved from the proper utilization of the Bank Secrecy Act and a combined Federal law enforcement effort.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 566-2041
00175

FOR IMMEDIATE RELEASE November 28, 1979

RESULTS OF TREASURY'S 143-DAY CASH MANAGEMENT BILL AUCTION

Tenders for $3,000 million of 143-day Treasury bills to be issued on December 3, 1979, and to mature April 24, 1980, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	95.405	11.568%	12.33%
Low -	95.357	11.689%	12.46%
Average -	95.374	11.646%	12.41%

Tenders at the low price were alloted 45%.

TOTAL TENDERS RECEIVED AND ACCEPTED
(In thousands)

Location	Received	Accepted
Boston	$ 12,685	$ 7,685
New York	4,664,510	2,694,260
Philadelphia	210	210
Cleveland	10,365	365
Richmond	10,390	390
Atlanta	175	175
Chicago	649,960	167,960
St. Louis	2,310	310
Minneapolis	10,135	8,035
Kansas City	180	180
Dallas	30	30
San Francisco	270,575	120,575
Treasury	185	185
TOTAL	$5,631,710	$3,000,360
Type		
Competitive	$5,125,100	$2,493,750
Noncompetitive	6,610	6,610
Subtotal, Public	$5,131,710	$2,500,360
Foreign Official Institutions	500,000	500,000
TOTALS	$5,631,710	$3,000,360

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

FOR RELEASE AT 4:00 P.M. November 29, 1979

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $4,030 million, of 359-day Treasury bills to be dated December 11, 1979, and to mature December 4, 1980 (CUSIP No. 912793 4S 2). This issue will not provide new cash for the Treasury as the maturing issue is outstanding in the amount of $4,029 million.

The bills will be issued for cash and in exchange for Treasury bills maturing December 11, 1979. The public holds $1,575 million of the maturing issue and $2,454 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 Standard time, Wednesday, December 5, 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 December 11, 1979, in cash or other immediately available funds or in Treasury bills maturing December 11, 1979. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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

FOR IMMEDIATE RELEASE
November 29, 1979

Contact: Everard Munsey
202/566-8191

TREASURY ISSUES ADDITIONAL REGULATIONS ON IRANIAN ASSETS

The Treasury Department today announced additional regulations implementing the freeze on Iranian assets and a policy of issuing licenses for payment in hardship cases to small exporters to Iran.

The new regulations:

1. Provide for specific licenses allowing payments out of blocked funds to U.S. exporters who held unconfirmed letters of credit issued before the freeze and who shipped their goods to Iran before the freeze. Payments under this provision are limited to $500,000 for any single exporter. The regulations already permit payment out of blocked funds to exporters holding letters of credit that were issued and confirmed by a U.S. bank prior to the freeze.

2. Allow U.S. businesses with standby letters of credit or performance bonds in favor of an Iranian entity to apply for a license to establish a blocked account on their own books in the name of the Iranian entity, within five days after demand is made for payment. Without such license, the bank issuing or confirming the letter of credit would pay into a blocked Iranian account and be reimbursed by the U.S. company, resulting in a shift of funds from the company to the blocked Iranian account.

3. Authorize banks to make payments they are obligated to make on letters of credit and accepted drafts drawn on Iranian entities and in favor of non-Iranians, but not out of blocked funds. Payments made under this provision result in the bank, rather than the beneficiary of the letter of credit, holding a claim on Iran. The regulation prohibits the bank from setting off the claim against any Iranian deposits it may hold.

4. Answer various questions involving letter of credit in favor of Iranian entities.

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In addition, the Treasury today licensed the Iranian Bank Melli in New York, to bring in $20 million in unblocked funds for payments to Iranian students in the United States. Treasury's intention to take this action had been announced previously as had the licensing of $7 million in Iranian Embassy funds for use, in part, to pay students.

# # #

Title 31 - MONEY AND FINANCE: Treasury

Chapter V - Foreign Assets Control

Department of the Treasury

Part 535 - Iranian Assets Control Regulations

AGENCY: Office of Foreign Assets Control

ACTION: Final Rule

SUMMARY: The Office of Foreign Assets Control is amending the Iranian Assets Control Regulations. The purpose of the amendments is to clarify the effect of the Regulations on various types of letters of credit in which Iran or an Iranian entity has an interest. The need for the amendments is to set forth interpretations and licensing policies with respect to letter of credit problems. The effect of the amendment will be that there will be available to interested parties an explanation of the effect of the Regulations on letters of credit in which Iran or an Iranian entity has an interest and the licensing policies of the Office with respect to various letter of credit problems.

EFFECTIVE DATE: November 28, 1979

FOR FURTHER INFORMATION CONTACT:

Dennis M. O'Connell
Chief Counsel
Office of Foreign Assets Control
Department of the Treasury
Washington, D.C. 20220

(202) 376-0236

SUPPLEMENTARY INFORMATION: Since the regulations involve a foreign affairs function, the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rule making, opportunity for public participation and delay in effective date are inapplicable.

31 CFR, Part 535 is amended as follows:

§535.416 Letters of credit.

(a) Q Prior to the effective date, a bank subject to the jurisdiction of the United States has issued or confirmed a documentary letter of credit for a non-Iranian account party in favor of an Iranian entity. Can payment be made upon presentation of documentary drafts?

A Yes, provided payment is made into a blocked account in a domestic bank.

(b) Q Prior to the effective date, a domestic branch of a bank organized or incorporated under the laws of the United States has issued or confirmed a documentary letter of credit for a non-Iranian account party in favor of an Iranian entity. Payment is to be made through a foreign branch of the bank. Can payment be made upon presentation of documentary drafts?

A Yes, provided payment is made into a blocked account in a domestic bank.

(c) Q Prior to the effective date, a foreign bank confirms a documentary letter of credit issued by its U.S. agency or branch for a non-Iranian account party in favor of an Iranian entity. Can the U.S. agency or branch of the foreign bank transfer funds to the foreign bank in connection with that foreign bank's payment under the letter of credit?

A No, the U.S. agency's payment is blocked, unless the foreign bank made payment to the Iranian entity prior to the effective date.

(d) Q. Prior to the effective date, a bank subject to the jurisdiction of the United States has issued or confirmed a documentary letter of credit for a non-Iranian account party in favor of an Iranian entity. The Iranian entity presents documentary drafts which are deficient in some detail. May the non-Iranian account party waive the documentary deficiency and make payment?

A. Yes, provided payment is made into a blocked account in a domestic bank. However, the non-Iranian account party is not obligated by these Regulations to exercise a waiver of documentary deficiencies. In cases where such a waiver is not exercised, the amount of the payment held by the account party is blocked.

(e) Q If the facts are the same as in the preceding question except that the Iranian entity permits the letter of credit to expire, does the bank hold a blocked asset?

A No, but depending on the facts, the account party ay hold a blocked obligation to the Iranian entity.

(f) Q A bank subject to the jurisdiction of the United States has issued a letter of credit for a U.S. account party in favor of an Iranian entity. The letter of credit is confirmed by a foreign bank. Prior to or after the effective date, the Iranian entity presents documents to the U.S. issuing bank. Payment is deferred. After the effective date, the

Iranian entity requests that the issuing bank either return the documents to the Iranian entity or transfer them to the confirming bank. Can the issuing bank do so?

A No. The U.S. issuing bank can neither return nor transfer the documents without a license. The documents constitute blocked property under the Regulations.

§535.417 Payment of Accepted Drafts and Other Obligations

(a) A banking institution as its own obligation may make payment to the beneficiary of a letter of credit issued by it or on a draft accepted by it, which letter of credit or draft is in favor of a non-Iranian person subject to the jurisdiction of the United States and which was issued on behalf of Iran or an Iranian entity or was accepted prior to the effective date provided that notwithstanding the provisions of §535.902, no blocked account may at any time be debited in connection with such a payment.

(b) A payment under paragraph (a) shall give the banking institution making payment no special priority or other right to blocked accounts it holds in the event that such blocked accounts are vested or otherwise lawfully used in connection with a settlement of claims.

(c) Nothing in this section prevents payment being made to the beneficiary of any draft or letter of credit or to any banking institution pursuant to §535.904.

§535.567 Payments under Advised Letters of Credit

Specific licenses may be issued for presentation, acceptance, or payment of documentary drafts under a letter of credit opened by an Iranian entity and advised by a domestic bank, Provided, that:

(a) The letter of credit was advised prior to the effective date;

(b) The property which is the subject of the payment under the letter of credit was not in the possession or control of the exporter on or after the effective date;

(c) The beneficiary is a person subject to the jurisdiction of the United States.

As a general matter, licenses will not be issued if the amount to be paid to a single payee exceeds $500,000.

§535.568 <u>Certain Standby Letters of Credit and Performance Bonds</u>

(a) Notwithstanding the provisions of §535.508, an issuing or confirming bank may not make payment into a blocked account in a domestic bank under a standby letter of credit in favor of an Iranian entity if a specific license has been issued pursuant to the provisions of paragraph (b) hereof.

(b) Whenever an issuing or confirming bank shall receive such demand for payment under a standby letter of credit, it shall promptly notify the person for whose account the credit was opened. Such person may then apply within 5 days for a specific license authorizing the account party to establish a blocked account on its books in the name of the Iranian entity in the amount payable under the credit, in lieu of payment by the issuing or confirming bank into a blocked account and reimbursement therefor by the account party.

(c) If necessary to assure the availability of the funds blocked, the Secretary may at any time require the payment of the amounts due under any letter of credit described in paragraph (a) into a blocked account in a domestic bank or the supplying of any form of security deemed necessary.

(d) Nothing in this section precludes any person for whose account a standby letter of credit was opened or any other person from at any time contesting the legality of the demand from the Iranian entity or from raising any other legal defense to payment under the standby letter of credit.

(e) This section does not affect the obligations of the various parties to the instruments covered by this section if the instruments and payments thereunder are subsequently unblocked.

(f) For the purposes of this section, the term "standby letter of credit" shall mean a letter of credit securing performance of, or repayment of, any advance payments or deposits, under a contract with Iran or an Iranian entity, or any similar obligation in the nature of a performance bond.

(g) The regulations do not authorize any person subject to the jurisdiction of the United States to reimburse a non-U.S. bank for payment to Iran or an Iranian entity under a standby letter of credit, except by payment into a blocked account in accordance with Section 535.508 or paragraph (b) of this section.

Dated: NOV 28 1979

Stanley L. Sommerfield
Director
Foreign Assets Control

Approved: Richard J. Davis
Assistant Secretary

[AUTHORITY: Secs. 201-207, 91 Stat. 1626; 50U.S.C. 1701 - 1706; E.O. No. 12170, 44 FR 65729.]

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

RELEASE ON DELIVERY
Expected 8:30 p.m. EST

REMARKS OF THE HONORABLE
G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE NEW ENGLAND COUNCIL
AT THE NEW ENGLANDER OF THE YEAR AWARDS DINNER
BOSTON, MASSACHUSETTS
NOVEMBER 29, 1979

It is a special honor for me to receive the Council's New Englander of the Year Award. In my many years as a New England businessman, I was always an admirer and supporter of the New England Council. The Council has a distinguished history of service, promoting New England's economic development. You have also been an important force in developing an understanding of how national economic policies affect this area. In the energy field, for example, the Council was one of the first organizations to look carefully at the issue of natural gas pricing and to demonstrate that deregulation was to New England's economic advantage.

Also, by the turn of fortune, it is very special circumstances that bring me here tonight. I have just returned from visiting Saudi Arabia, the United Arab Emirates, and Kuwait. It is appropriate that Boston be my first stop upon returning home. No section of the country relies more on petroleum than New England. No region is more affected by changes in the price and availability of oil.

Energy and inflation are the dominant economic issues of our time. It is absolutely vital that we develop a broader public understanding of what must be done with respect to these crucial matters.

In order to bring about a lasting reduction in inflation it is essential that we have effective programs for diminishing our dependence on imported oil. My discussions with the leaders of the Arabian Gulf oil producing nations have reinforced my conviction that we must continue to move ahead forcefully on this score if we are to avoid highly unfavorable impacts on our economy. This evening I would like to talk about our programs to accomplish this.

M-221

Our problems with energy and inflation did not develop overnight, nor will they be solved quickly or easily. Inflation has built up over the past 15 years and has now become deeply embedded in our economic structure.

The Administration has, therefore, been marshalling a broad range of policies to deal with inflation's fundamental causes, not just its symptoms. We have already put into place a comprehensive anti-inflation program including monetary and fiscal restraint, voluntary price and pay moderation, balance in international payments, stability for the dollar, and major redirection of energy policies.

Taken together, these policies made up a sound strategy for defeating inflation. However, just as this strategy was becoming effective, it was overtaken by events in the energy area. The dramatic increase in energy prices following the cutback in Iran's oil production earlier this year is a primary cause of the current acceleration in inflation.

THE IMPACT OF ENERGY ON INFLATION

Energy has been accounting directly for about 3-1/2 percentage points in our present 13 percent inflation rate. Its indirect impact may be another 1 or 2 percent. The energy component of the CPI has increased at an annual rate of 43 percent so far this year. Since December, gasoline prices have risen at a 57 percent annual rate; fuel oil, so important to New England, has increased at a 67 percent annual rate. Fortunately, there was some indication last month that the rate of increase in energy prices had begun to slow.

While it is essential that we have in place all of our other programs to defeat inflation, they cannot be successful over the long run if we remain vulnerable to continued shocks from dramatic increases in oil prices. Over the longer run, the war against inflation will be won or lost on the energy issue. The danger is that another round of sharp increases in oil prices, or shortfalls in oil supply could bring higher unemployment, higher inflation and a possible world-wide recession. For these reasons, it is of the utmost urgency that we take all steps necessary now to diminish our dependence on imported oil.

RESTORING ORDER TO WORLD OIL MARKETS

The reduction in world oil production of 2 million barrels per day caused by events in Iran earlier this year was followed by speculative purchases and inventory building. This combination of events left world oil markets in perilously close balance. As a result, producers have been able to increase prices almost at will. In some cases they have done this by abrogating long-term contracts and selling a larger proportion of output in the spot market where prices have sometimes reach $45 per barrel.

In the absence of effective efforts to conserve on energy usage, the outlook is for oil markets to remain tight next year. Free world demand for oil could still be about 51 million barrels a day in 1980. Most experts expect supply to be very close to this level. This forecast leaves little margin for comfort. A significant cutback in production by any of the major oil exporting countries would result in serious economic disruptions. We do not expect this to happen. But as events of recent weeks indicate we must be prepared for the unexpected.

Returning order to world energy markets will require sacrifice on the part of both consumers and producers. We have already made a start. In the International Energy Agency (IEA), and at the Tokyo Summit, the major oil consuming nations made commitments to control consumption and reduce oil imports. However, much more must be done. In the IEA, we are now working on an accelerated timetable to develop new and stronger commitments for increased reductions by member countries. If we are prepared to make the necessary sacrifices to achieve a significant reduction in oil use, the principal Arabian Gulf oil producing countries have indicated that they are prepared to respond by producing a stable oil supply. By much cooperation between consuming countries and producing countries, we should be able to restore order to the world oil market.

The United States has made more progress than most countries in cutting back on oil imports. So far this year, we have reduced our total oil consumption by about 2.4 percent from the same period of 1978. The extent of this reduction has increased in each quarter, reaching 4.4 percent in the third quarter, despite the resumption of positive growth in our economy. Moreover, we have cut our consumption of imported oil by about 5 percent over the same period in 1978. Since the oil boycott in 1973, we have reduced by 7-1/2 percent the amount of energy used to produce a unit of national output. While our progress to date has been good, we must do more.

<u>HOW WE BECAME DEPENDENT ON IMPORTED OIL</u>

While the U.S. produces 22 percent of world economic output and has only 5 percent of world population, we account for 29 percent of world energy consumption. Not only do we consume too much energy, we also consume the wrong mix of energy. Ten years ago, oil provided about 44 percent of all of our energy. Now it provides about 50 percent. Furthermore, an increasing share of the petroleum we use is imported. In 1969, we used about 14 million barrels a day of oil, of which about one-fifth was imported. In 1973, we were using about 17 million barrels a day, of which about a third was imported. This year we will use about 19 million barrels a day, of which more than 40 percent will be imported.

The principal reason that we adopted this pattern of energy consumption is that domestic oil was cheap relative to other energy forms. For example, between 1967 and 1972 the real price of gasoline decreased by about 13 percent.

Another factor behind oil's increased share in our total energy consumption is that there were price controls on interstate sales of natural gas until they were removed last year by enactment of the Natural Gas Act. Price controls diminished the incentives for new exploration and production of natural gas. New supplies of natural gas were increasingly reserved for the unregulated intrastate market. As a result, natural gas declined from one third of U.S. energy use in 1970 to one quarter in 1978.

The oil embargo in 1973 and the subsequent quadrupling of the price of oil signaled the end of the era of cheap energy. This should have served as a warning of the necessity of reducing our dependence on foreign oil. Instead, we failed to respond adequately to our changed circumstances. Since the oil shock of 1973/74, two American presidents chose to impose arbitrary price controls to keep domestic oil prices below world levels. This action has helped give the American people the false impression that oil is still plentiful and inexpensive. It is neither. While President Carter has faced the issue courageously and squarely, there are still those who fail to understand this economic reality.

Price controls encouraged the wasteful consumption of energy. They subsidized the use of domestic oil. Controls also diminished the incentive to develop domestic oil or alternate sources of energy. As a result, our total oil imports increased dramatically from 5 million barrels a day in 1973 to 8.5 million barrels a day in 1977. We have now been able to turn the tide so that in 1979 we expect to import 8 million or less barrels a day -- bettering the target set by President Carter on July 15 and coming in well under the commitment made at the Tokyo Summit. But we must do even more if we are to reduce our vulnerability to interruptions in the availability of foreign oil with all its implications.

Removing price controls will mean somewhat higher energy prices in the short run. However, over the longer run, pricing energy at its replacement value is essential if we are to regain control of our own destiny. That is why President Carter made the courageous decision to implement phased decontrol of domestic crude prices.

We must face economic reality. Anyone who advocates reimposing controls, and implies that we can have cheap oil, will be misleading the American people. He will simply be ignoring the consequences and the inevitable increased reliance on imported oil. Reimposing price controls on oil would place us once more on a dangerous road.

Decontrol must be an essential part of any program for U.S. energy security; but it is only a part.

The Administration has proposed a comprehensive program to enable us to have less dependence on imported oil. It will require sacrifice and some change in our life style, but it must be done if we are to avoid even greater difficulties in the years ahead.

The Administration's program entails more vigorous conservation, and increased development of conventional energy, renewable energy sources and synthetic fuels. Without this program, which we have been putting in place since 1977, we estimate that the United States would have needed to import about 14 million barrels a day of oil by 1990. Measures already adopted have cut that estimate to 8-9 million barrels a day.

When the President's latest proposals are enacted and implemented, we will need to import between 4 and 5 million barrels a day in 1990 -- about half our current level.

<u>CONSERVATION</u>

Conservation is the first priority in our national energy program. Conservation is the surest, cleanest, cheapest way to reduce our reliance on imported oil.

Higher oil prices in themselves will encourage more efficient use of energy. In addition, we have a wide ranging array of tax credits, grants, financing subsidies and other incentives to promote energy saving investments. While some of these are just being proposed, others are already in place. The Internal Revenue Service has calculated that about 6 million 1978 tax returns claimed residential energy conservation credits totaling $596 million.

One area in which we must do more to promote conservation is gasoline use. Forty percent of our petroleum consumption is for motor gasoline. We have established statutory requirements requiring new cars to be more fuel efficient. We are also undertaking ambitious research programs to develop more fuel efficient automobiles. In addition, we have proposed expanded assistance for public transit.

We hope that these efforts, along with voluntary conservation by the American people, will result in a significant reduction in gasoline usage. If gasoline consumption does not decline significantly, we may have to consider new, more forceful action.

INCREASED DEVELOPMENT OF CONVENTIONAL ENERGY

The second priority of our energy program is increased development of domestic sources of conventional energy. The Natural Gas Act enacted last year provided for the phased removal of controls on the wellhead price of natural gas. That action in combination with oil decontrol has substantially increased the incentive for domestic exploration and production of oil and gas.

Coal is one form of energy we have in great abundance. We are actively promoting its industrial and utility use. The National Energy Act of 1978 prohibits the use of gas or oil in new electric utility generating facilities or new industrial boilers. We are also setting targets for reduced use of oil and gas by utilities already using these fuels. We have proposed grants to help utilities make these conversions.

New England utilities, traditionally the most dependent on imported oil, are leading the way in converting to coal. Just last week the New England Electric Company announced the conversion of its Somerset, Massachusetts plant to coal. Major coal conversions are also being considered for plants in Salem and Mt. Tom. Boston Edison is also exploring the possibility of building a new, 800 megawatt coal-fired plant in Weymouth, Massachusetts.

Nuclear energy is, of course, another highly important energy source for many of our utilities, particularly in New England. The incident at Three Mile Island has demonstrated the potential perils associated with nuclear power. However, at this point, it would be unwise for us to forego the opportunities offered by the safe use of nuclear energy. The Kemeny Commission has just made important recommendations as to how nuclear energy can be made safer through more effective supervision and better training.

RENEWABLE ENERGY SOURCES

The first stage of our country's industrial development began in New England powered not by fossil fuels, but by water, wind and wood. The third priority in our energy program is increased reliance on such renewable energy sources, including solar, biomass, and alcohol. While none of these sources by itself is likely to account immediately for a substantial share of our energy, together they can begin to play a very significant role today and they will be even more important in the future. Unlike fossil fuels, renewable sources will always be available and will not pose threats to human safety or to our environment.

Gasohol, produced by mixing methanol or alcohol with gasoline, could enable us to reduce consumption of gasoline significantly. We have proposed tax incentives for alcohol used in the production of gasohol.

One of the most promising sources of energy for the future is the sun. We are funding ambitious research efforts to develop more efficient solar devices. We also have an extensive set of incentives to encourage greater use of solar energy now, including financial assistance for the large front end investments that are sometimes required. In addition, we also have programs to encourage the use of low head hydro electric power. Here again, New England is a leader and already has a number of projects underway.

SYNTHETIC FUELS

While the United States is running short of inexpensive, conventional oil and gas, we do have tremendous untapped resources in shale oil, unconventional natural gas and coal. Much of this energy, however, is not in a form that can be readily used. The fourth priority in our energy program is the development of synthetic fuels from these resources.

Over time the United States has become heavily dependent on conventional liquid fuels for transportation, heat, and power generation. However, we can no longer be sure how long we can rely on overseas suppliers to meet our needs for this form of energy. Synthetic fuels are essential as the long term safety net to protect our economy from interruptions in the supply of imported oil.

The development of synthetic fuels will take time and require enormous financial resources. In many cases, the financial commitments required and the risks involved are greater than most private firms could assume on their own. For this reason, we have proposed an Energy Security Corporation to work with the private sector in the development of synthetic fuels. To enable it to operate with the flexibility and efficiency which this task will require, the ESC will be an independent government agency.

THE ENERGY MOBILIZATION BOARD

The regulatory requirements of Federal, state and local governments have sometimes delayed or even acted as a deterent to the development of important new energy sources. We cannot afford unnecessary delays in our efforts to achieve energy security. We have, therefore, proposed an Energy Mobilization Board to help shorten the time required to obtain permits for new energy projects. The Energy Mobilization Board will work with state and local governments and other regulatory parties to expedite projects that are in our common interest.

THE WINDFALL PROFITS TAX

The dramatic increases in world oil prices have already led to substantial increases in oil company earnings, particularly for those companies who have access to Saudi Arabian oil which has been priced at $18 per barrel -- below other OPEC oil, and far below prevailing spot prices. This lower price has not been passed on to U.S. consumers. Decontrol will generate further increases in oil company earnings. Much of this is a pure windfall, and not the result of any new economic activity on the part of the oil companies.

The windfall profits tax would use an equitable portion of the increase in oil company earnings to finance many of the energy programs so essential to our nation's future. The tax is also essential to help pay for financial assistance to those least able to bear the burden of higher energy costs. The tax is carefully designed so that oil companies will be left with ample funds and ample incentive for the exploration and development of new energy.

The House has already passed a responsible windfall profits tax bill which meets the President's objectives and the nation's needs. The Senate Finance Committee bill, now on the Senate floor, provides the appropriate framework, but needs to be further strengthened.

However, the Senate in action this week has further weakened the windfall profits tax by providing that each independent oil producer can exempt up to $11 million of annual production from the tax. This exemption will cost about $10 billion over the next ten years while having very little impact on production.

CONCLUSION

Recent events dramatically demonstrate the importance of immediately implementing President Carter's energy program. We must understand that time is running out. Continued reliance on imported oil leaves us vulnerable to serious economic disruptions and threatens our freedom.

We must also understand that the current levels of production are not considered by OPEC nations to be in their own self-interest. Thus, they are looking to us to exercise the discipline and self-control necessary to implement our own energy policies. If we do, I believe that we can count on their continued cooperation and constructive policies.

The greatest danger is that we do too little. We must undertake an ambitious program now. If there should be a favorable change in circumstances in the future, we can always scale back our efforts. If we proceed too timidly, we may loose forever the opportunity to reestablish American energy security.

Once the American people understand the issues involved, I am confident they will have the will to curtail dramatically their use of imported oil. The last few weeks have been frustrating and anguishing for most Americans. The most important message we can send the world right now is that we are willing to bear whatever burden, and accept whatever sacrifice is necessary to recapture control of our own destiny.

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

IMMEDIATE RELEASE
November 30, 1979

CONTACT: Everard Munsey
202/566-8191

TREASURY ISSUES ADDITIONAL REGULATION ON IRANIAN ASSETS

The Treasury Department today announced a regulation that would allow it to prevent the attachment of Iranian assets which are free from blocking because of special licenses issued under the Iranian Asset Control Regulations.

Suits to attach Iranian property in the United States are permitted under the Iranian Asset Control Regulations, but no judgment can be entered for payment under an attachment from any blocked asset.

This regulation authorizes the inclusion in special licenses of a provision that the money being unblocked is not subject to attachment.

# # #

M-222

Title 31 - MONEY AND FINANCE: Treasury

Chapter V - Foreign Assets Control

Department of the Treasury

Part 535 - Iranian Assets Control Regulations

AGENCY: Office of Foreign Assets Control

ACTION: Final Rule

SUMMARY: The Office of Foreign Assets Control is amending the Iranian Assets Control Regulations. The purpose of the amendment is to add new paragraph (d) to §535.504. That section authorizes certain judicial proceedings with respect to property of Iran or Iranian entities. The need for the amendment is to exclude from that authorization any pre-judgment attachment of certain types of property of Iran and Iranian entities brought into the United States under specific license from the Office of Foreign Assets Control. The effective of the amendment is that attachments are not authorized with respect to such specifically licensed Iranian property.

EFFECTIVE DATE: November 29, 1979

FOR FURTHER INFORMATION CONTACT:

Dennis M. O'Connell
Chief Counsel
Office of Foreign Assets Control
Department of the Treasury
Washington, D.C. 20220

(202) 376-0236

SUPPLEMENTARY INFORMATION: Since the regulations involve a foreign affairs function, the provisions of the Administrative Procedure Act, 5 U.S.C. 553, requiring notice of proposed rule making, opportunity for public participation and delay in effective date are inapplicable.

31 CFR, Part 535 is amended by the addition of paragraph (d) to §535.504, as follows:

§535.504 Certain judicial proceedings with respect to property of Iran or Iranian entities.

* * * *

(d) Property transferred into or held in the United States by Iran or an Iranian entity under a specific license which by its terms withdraws the authorization for pre-judgment attachment with respect to such property is excluded from the privileges of paragraph (a) hereof.

* * * *

Dated: NOV 29 1979

Stanley L. Sommerfield
Director

Approved: Richard J. Davis
Assistant Secretary

[AUTHORITY: Secs. 201-207, 91 Stat. 1626; 50 U.S.C. 1701-1706; E.O. No. 12170, 44 FR 65729]

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

FOR IMMEDIATE RELEASE December 3, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,201 million of 13-week bills and for $3,200 million of 26-week bills, both to be issued on December 6, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 6, 1980			26-week bills maturing June 5, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	97.014 a/	11.813%	12.38%	94.080	11.710%	12.65%
Low	96.966	12.003%	12.58%	94.037	11.795%	12.75%
Average	96.985	11.927%	12.50%	94.051	11.767%	12.72%

a/ Excepting 2 tenders totaling $865,000

Tenders at the low price for the 13-week bills were allotted 35%.
Tenders at the low price for the 26-week bills were allotted 49%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 41,030	$ 41,030	$ 30,765	$ 30,765
New York	3,997,860	2,484,100	3,849,750	2,656,975
Philadelphia	32,555	32,555	12,750	12,750
Cleveland	54,235	54,235	53,980	43,880
Richmond	28,400	28,400	56,825	41,225
Atlanta	38,020	38,020	39,415	24,415
Chicago	344,855	219,855	535,415	203,915
St. Louis	39,270	16,970	36,230	13,230
Minneapolis	6,315	6,315	13,820	4,820
Kansas City	28,300	28,290	23,710	23,710
Dallas	14,635	14,635	9,840	8,840
San Francisco	289,175	199,175	232,325	73,825
Treasury	37,900	37,900	61,920	61,920
TOTALS	$4,952,550	$3,201,480	$4,956,745	$3,200,270
Type				
Competitive	$3,325,225	$1,574,155	$3,305,185	$1,548,710
Noncompetitive	465,185	465,185	401,960	401,960
Subtotal, Public	$3,790,410	$2,039,340	$3,707,145	$1,950,670
Federal Reserve and Foreign Official Institutions	$1,162,140	$1,162,140	$1,249,600	$1,249,600
TOTALS	$4,952,550	$3,201,480	$4,956,745	$3,200,270

1/Equivalent coupon-issue yield.

31 CFR, Part 535 is amended by the addition of paragraph (d) to §535.504, as follows:

§535.504 Certain judicial proceedings with respect to property of Iran or Iranian entities.

* * * *

(d) Property transferred into or held in the United States by Iran or an Iranian entity under a specific license which by its terms withdraws the authorization for pre-judgment attachment with respect to such property is excluded from the privileges of paragraph (a) hereof.

* * * *

Dated: NOV 29 1979

Stanley L. Sommerfield
Director

Approved: Richard J. Davis
Assistant Secretary

[AUTHORITY: Secs. 201-207, 91 Stat. 1626; 50 U.S.C. 1701-1706; E.O. No. 12170, 44 FR 65729]

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

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December 3, 1979

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Average	96.985	11.927%	12.50%	94.051	11.767%	12.72%

a/ Excepting 2 tenders totaling $865,000

Tenders at the low price for the 13-week bills were allotted 35%.
Tenders at the low price for the 26-week bills were allotted 49%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received
Boston	$ 41,030
New York	3,997,860
Philadelphia	32,555
Cleveland	54,235
Richmond	28,400
Atlanta	38,020
Chicago	344,855
St. Louis	39,270
Minneapolis	6,315
Kansas City	28,300
Dallas	14,635
San Francisco	289,175
Treasury	37,900
TOTALS	$4,952,550
Type	
Competitive	$3,325,225
Noncompetitive	465,185
Subtotal, Public	$3,790,410
Federal Reserve and Foreign Official Institutions	$1,162,140
TOTALS	$4,952,550

DATE: December 3, 1979

		13-WEEK	26-WEEK
TODAY:		11.927%	11.767%
LAST WEEK:		11.018%	11.022%
HIGHEST SINCE:	11/19/79	11.944%	12.035%
LOWEST SINCE:			

1/Equivalent coupon-issue yield.

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

FOR RELEASE AT 12:00 NOON December 3, 1979

TREASURY OFFERS $2,000 MILLION OF 157-DAY CASH MANAGEMENT BILLS

The Department of the Treasury, by this public notice, invites tenders for approximately $2,000 million of 157-day Treasury bills to be issued December 10, 1979, representing an additional amount of bills dated November 15, 1979, maturing May 15, 1980 (CUSIP No. 912793 4E 3). Additional amounts of the bills may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

Competitive tenders will be received at all Federal Reserve Banks and Branches up to 1:30 p.m., Eastern Standard time, Thursday, December 6, 1979. Wire and telephone tenders may be received at the discretion of each Federal Reserve Bank or Branch. Each tender for the issue must be for a minimum amount of $1,000,000. Tenders over $1,000,000 must be in multiples of $1,000,000. The price on tenders offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Noncompetitive tenders from the public will not be accepted. Tenders will not be received at the Department of the Treasury, Washington.

The bills will be issued on a discount basis under competitive bidding, and at maturity their par amount will be payable without interest. The bills will be issued entirely in book-entry form in a minimum denomination of $10,000 and in any higher $5,000 multiple, on the records of the Federal Reserve Banks and Branches.

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

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"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.

No deposit need accompany tenders from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. A deposit of 2 percent of the par amount of the bills applied for must accompany tenders for such bills from others, unless an express guaranty of payment by an incorporated bank or trust company accompanies the tenders.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting tenders 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. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately available funds on Monday, December 10, 1979.

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 on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, No. 418 (current revision), Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars may be obtained from any Federal Reserve Bank or Branch.

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

FOR RELEASE AT 4:00 P.M. December 4, 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 $6,400 million, to be issued December 13, 1979. This offering will provide $400 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $6,020 million, including $827 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $1,780 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,200 million, representing an additional amount of bills dated September 13, 1979, and to mature March 13, 1980 (CUSIP No. 912793 3V 6), originally issued in the amount of $3,132 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated December 13, 1979, and to mature June 12, 1980 (CUSIP No. 912793 4J 2).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 13, 1979. Tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the weighted average prices 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, December 10, 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 December 13, 1979, in cash or other immediately available funds or in Treasury bills maturing December 13, 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.

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

FOR IMMEDIATE RELEASE

December 5, 1979

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $4,033 million of 52-week bills to be issued December 11, 1979, and to mature December 4, 1980, were accepted today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $665,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-issue Yield)
High -	89.258	10.772%	11.92%
Low -	89.198	10.832%	11.99%
Average -	89.212	10.818%	11.98%

Tenders at the low price were allotted 84%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted
Boston	$ 31,045	$ 8,545
New York	6,628,265	3,490,185
Philadelphia	45,770	15,770
Cleveland	88,970	12,380
Richmond	148,995	137,995
Atlanta	44,415	19,415
Chicago	488,830	155,530
St. Louis	53,100	9,940
Minneapolis	26,975	26,975
Kansas City	13,200	13,200
Dallas	3,710	2,710
San Francisco	519,750	128,750
Treasury	11,655	11,655
TOTALS	$8,104,680	$4,033,050
Type		
Competitive	$5,548,045	$1,476,415
Noncompetitive	152,100	152,100
Subtotal, Public	$5,700,145	$1,628,515
Federal Reserve and Foreign Official Institutions	2,404,535	2,404,535
TOTALS	$8,104,680	$4,033,050

An additional $ 91 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

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

FOR IMMEDIATE RELEASE December 5, 1979

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New York	6,628,265	3,490,185
Philadelphia	45,770	15,770
Cleveland	88,970	12,380
Richmond	148,995	137,995
Atlanta	44,415	19,415
Chicago	488,830	155,530
St. Louis	53,100	9,940
Minneapolis	26,975	26,975
Kansas City	13,200	13,200
Dallas		
San Francisco		
Treasury		
TOTALS		
Type		
Competitive		
Noncompetitive		
Subtotal, Pub		
Federal Reserve a		
Foreign Officia Institutions		
TOTALS		

52-WEEK BILL RATES

DATE: December 5, 1979

HIGHEST SINCE	LAST MONTH
	11.810%
LOWEST SINCE 9/18/79	TODAY
9.893%	10.818%

An additional $ 91 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

M-227

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

FOR IMMEDIATE RELEASE
December 6, 1979

REMARKS BY JOHN R. KARLIK, DEPUTY ASSISTANT SECRETARY
OF THE TREASURY FOR INTERNATIONAL ECONOMIC ANALYSIS
BEFORE THE
CONFERENCE BOARD, NEW YORK CITY
DECEMBER 6, 1979

TRENDS IN U.S. INTERNATIONAL ECONOMIC POLICY

The last month of 1979 offers a good vantage point from which to review changes in U.S. international economic policy during the 1970s and to anticipate problems decision makers are likely to be confronting during the 1980s. Even fleeting reflection on this subject immediately brings to mind several major shifts to policy that have occurred over the past decade. I shall attempt to review the more important of these changes systematically, if briefly. As one would expect, some of these trends are encouraging, and even gratifying, considering the circumstances. Others are disturbing in that no national consensus has been achieved regarding problems that will continue in the 1980s.

In surveying international economic policy trends one can review the spectrum along functional lines, such as monetary, trade, investment, and aid policy, or geographically in terms of U.S. relations with specific countries or groups of nations. I shall do some of both, but concentrate primarily on money, trade, and investment policies, since these are apparently the chief interests of this audience.

Having indicated this framework, I'd like to emphasize initially as the context for all of my remarks that increasingly the distinction between U.S. international and domestic economic policies is artificial. During the past year it has become dramatically evident that whenever the Federal Reserve resolves to pursue a particular monetary policy, the Executive a specific budgetary and fiscal policy, or the Treasury a given approach to a financially beleaguered municipality or manufacturing corporation, these decisions have major international economic consequences.

Indeed, at times the pressure of international economic problems has forced modification of what a decade ago would generally have been viewed as exclusively domestic economic policies -- policies to be determined solely according to the internal condition of U.S. economy. I am, of course, referring to the increases in Federal Reserve discount rates introduced on November 1, 1978 and October 6, 1979. Only a few years ago a mild suggestion in an IMF Annual Report that monetary policy in the U.S. should be somewhat tighter brought howls from Capitol Hill protesting such interventionism. Another example is the extent to which concern over relative international standings in terms of productivity growth, efficiency of energy use, savings and investment rates, technological innovation, and living standards are stimulating a thorough review of all U.S. economic policies. The object of this review, which is being conducted simultaneously in government, board rooms, union halls, and in the financial press, is to evaluate the appropriateness of these policies for the 1980s.

The growth of pressures to lay aside nationalism in the formulation of virtually all U.S. economic policy is the most fundamental change that has occurred in the 1970s, and a trend that is sure to intensify during the 1980s. Domestic and international economic policy formulation are now inextricably intertwined.

Let me now turn to some of the specific ways U.S. international economic policy has changed during the 1970s and to a few trends that we can anticipate for the 1980s.

Exchange Rate and Monetary Policy

The world entered the 1970s with the adjustable peg exchange rate system established at Bretton Woods. Admittedly, the system had shown occasional strains for almost a decade, but official institutions were keeping their flag nailed to the fixed rate mast. Canada, in May 1970, was the first major country to adopt, in this case once again, a flexible exchange rate determined essentially by the interaction of market supply and demand. Germany was next, about a year later, and the United States followed in August 1971. There was an attempt to return to fixed rates resulting from the December 1971 Smithsonian monetary agreement, but this collapsed in February 1973.

Agreement on amending the IMF Articles to give members latitude of choice in selecting the exchange rate regime each desired to follow was reached at the January 1976 Jamaica meeting. These amendments were finally ratified a little more than two years later. Since the collapse of the Bretton Woods system, numerous smaller countries have chosen to peg their currencies to that of a major trading partner or to basket of foreign monies. Nevertheless, today less than 20 percent of global trade moves across pegged exchanges.

But these are global developments, and my concern is chiefly with U.S. economic policy. Changes in U. S. policy attitudes on monetary issues have occurred regarding three important questions: the nth country problem, the appropriate amount of official intervention, and relations with the IMF.

The nth country problem arises because, for example, if in a world of a hundred countries, 99 decide individually their dollar exchange rate, then the value of the dollar in terms of all other currencies is fully determined. The United States has no latitude for maneuver, whether or not that exchange rate structure seems appropriate from the U.S. point of view. The most enthusiastic early advocates of a shift to flexible exchange rates believed that if the reserve-currency system, under which all other IMF members pegged to the United States and only the dollar was convertible into gold, were dissolved by suspending gold convertibility, the United States would gain the freedom to let an over-valued dollar depreciate. The advocates believed furthermore that after an initial period of learning about and adjusting to the changed regime, the markets would establish and would efficiently and relatively smoothly maintain an exchange rate structure leading to balance-of-payments equilibrium among the countries primarily responsible for international trade and investment.

The dollar did depreciate, and appropriately so, but chiefly between May 1970 and March 1973. With respect to a trade-weighted average of the other OECD currencies, as of the end of November 1979 the value of the dollar was virtually the same as in March 1973, but 17 percent below its May 1970 level. Of course, the dollar has fluctuated since March 1973; it appreciated until September 1977, then depreciated through 1978, and in 1979 has appreciated.

From March 1973 through most of 1977, U.S. intervention in exchange markets was minimal. But exchange markets have not demonstrated a capacity to maintain equilibrium exchange rates through smooth changes and without over-shooting or excessive volatility. Thus, intervention is required. In the last two years there has been a gradual shift in U.S. official attitudes toward more intervention -- a shift sustained by a similar change in attitudes within the academic community regarding the stability of exchange markets and the utility of official intervention. There is no disposition on the part of U.S. monetary authorities to return to a par value for the dollar or to hold the dollar within a specified range of values with respect to a given standard. It is also recognized that exchange rates must change in response to differences among countries in rates of inflation and in the growth of productivity and output.

The 1970s demonstrated that the United States cannot escape the nth country constraint simply by leaving the determination of exchange rates to the unalloyed workings of the market. Formerly this constraint was believed to stem largely from the dollar's link to gold and, hence, its reserve-asset function. But flexible rates have brought no diminution in the dollar's reserve-asset role. In fact, the proportion of dollars in total reserve has remained at about 80 percent. Given the tripling of global reserves in the 1970s, from 79 billion SDR in 1969 to over 280 billion SDR this year, as opposed to the 38 percent increase in the 1960s -- an acceleration of reserve growth that was not supposed to have occurred with flexible exchange rates -- the virtually constant proportion accounted for by dollars implied a huge absolute increase in dollar reserves.

From these developments it is evident that the U.S. role in the international monetary system stems from this country's size and its integration into the structure of international trade and investment, rather than from the particulars of how exchange rates are determined and managed. Also from these realities stems the determination on the part of U.S. authorities, articulated initially on November 1, 1978, and since reiterated, to have available and to use as necessary a substantially increased volume of resources for intervention in exchange markets to maintain order and resist excessive fluctuations.

The amendments to the IMF Articles I referred to previously charged the Fund with responsibility for exercising surveillance over the policies of members that affect their international payments positions and exchange rates.

IMF surveillance embodies a major opportunity for closer coordination of economic policies among the leading industrial nations towards mutually agreed goals. Certainly disagreement will occur occasionally between the IMF staff and U.S. policy makers, and these differences should be resolved at the Board level. But if disparities in analytical approaches and in policy recommendations did not occur occasionally, the surveillance exercise would be useless. The United States strongly endorses an expansion of IMF surveillance activities in the 1980s.

This country has proposed several steps to strengthen IMF surveillance. These include procedures for measuring individual country performance against agreed global standards; requiring countries with large imbalances, surplus or deficit, to submit for IMF review an analysis of how they propose to deal with the imbalances; a more active role for the IMF Managing Director in initiating consultations with members; and establishment of a Governors Council with decision-making powers to replace the advisory Interim Committee. These steps could be an important start in developing an effective IMF role in managing the balance-of-payments adjustment process.

The recent amendments also committed the Fund membership to working towards establishment of the Special Drawing Right, or SDR, as the chief international reserve asset. A number of important steps have been taken to promote the SDR. It has replaced gold as the central unit for the IMF, serving as the numeraire for the system and the unit of account and vehicle for many IMF transactions. Allocations of SDR's have been resumed, with SDR 4 billion being distributed annually during the 1979-81 period. The interest rate on the SDR has been brought more in line with market rates and the number of transactions in which SDR may be used have been expanded, thus improving the SDR's ability to compete with other reserve assets.

The IMF is now considering the establishment of a substitution account under which dollars and possibly other currencies could be exchanged for SDR-denominated assets. The Interim Committee, at its recent meeting in Belgrade, concluded that a properly designed account could contribute to improving the system and promoting the role of the SDR, and requested a further report from the Fund's Executive Board next April.

The United States believes that the development of a substitution account could offer a number of attractions for the international community in general. The SDR is a diversified instrument, inherently involving less exchange risk than holdings of a single national currency. A substitution account could provide an internationally sanctioned, non-disruptive means for countries to achieve a desired reserve portfolio composition without having to hold a number of national currencies. Implementation of an account would constitute a significant step toward wider use of the SDR and to its longer term development as the principal reserve asset.

There are, however, many difficult questions in the construction of such an account and on sharing the costs associated with operating it. For example, questions must be answered concerning the interest rate and liquidity of the assets issued by the account, the investment of the dollar deposits and the amount and use of interest earnings, and measures to maintain the capital position of the account. These are exceedingly complex issues, and we cannot be certain when, or whether, satisfactory answers will be found. Nevertheless, the United States considers the effort worthwhile and is participating in a cooperative, constructive fashion.

Capital Flows and Investment

During the 1960s the concern about chronic payment deficits, calculated first on a liquidity and later on an official settlements basis, led to the introduction of a phalanx of restrictions on capital outflows. At the beginning of this decade in place were the Office of Foreign Direct Investment in the Commerce Department, charged with assuring that direct investment abroad by U.S. firms was financed in foreign capital markets, the Voluntary Credit Restraint Program administered by the Federal Reserve, which attempted to insure that bank lending to foreigners was for the purpose of financing U.S. exports, and the Interest Equalization Tax, designed to raise the cost to foreigners of borrowing in the United States sufficiently to eliminate any differential between the lower interest rates here and those abroad.

All of these constraints have been eliminated. Moreover, at the beginning of this Administration a review of U.S. policy towards both inward and outward investment produced a reiteration of the traditional U.S. stance of not inhibiting international capital flows in either direction, and of neither encouraging nor discouraging investment by Americans abroad and by foreigners in the United States. Throughout the vicissitudes of the dollar since September 1977, the Treasury position has consistently been that any deviation from freedom of international capital flows would be counterproductive and injurious to the economic interests of the United States.

The benefits of freedom of capital flows have, in my opinion, demonstrated during the last decade the soundness of this policy. The fears of 1974 that OPEC would buy out the New York Stock Exchange have proved groundless. Instead, banks in the United States, Europe and Japan have provided an essential service towards maintaining global economic growth by recycling OPEC deposits to countries with temporary balance-of-payments financing needs. In addition, partly as a consequence of the depreciation of the dollar since mid-1977 with respect to the German mark and the Japanese yen, but also attracted by growth and stability in the U.S. economy, annual foreign direct investment inflows have grown from $1.5 billion in 1970, and less in 1971 and 1972, to $6.3 billion in 1978. Such direct investment tends to bolster the dollar in exchange markets and brings the benefits of additional employment, modern technology, and managerial innovations to the United States.

The rapid growth of the Euro-currency market and the international credit flows it has financed have been a subject of concern to officials for several years, and will continue to be such in the future. The question here is not one of introducing controls over international flows of liquid assets; rather the issue is whether authorities should and can regulate the growth of credit provided by the Euro-currency market through the introduction of reserve requirements, mandatory asset-to-capital ratios, or much closer coordination of monetary policy.

The Euro-currency banks played a critical role in assisting small OECD and developing nations in adjusting to the sharp 1973-74 increases in oil prices. But it is also possible, even though the precise extent of the impact is virtually impossible to determine, that more recent expansion of Euro-currency lending to non-bank borrowers has aggravated inflation throughout the world. Research into the impact of the Eurocurrency markets will continue, as well as discussions among monetary authorities about the likely feasibility and consequences of various methods that have been proposed for regulating the growth of Euro-currency lending.

International Trade

The premier achievements during the 1970s in the area of trade policy were the successful avoidance of the restrictions that would have been imposed by the legislation Representative Burke and Senator Hartke sponsored at the beginning of the decade, the introduction of the Generalized System of Preferences to open the U.S. market to selected imports from developing countries, and the successful conclusion of the Tokyo Round of multilateral trade negotiations.

You may be thinking that there is nothing particularly new in U.S. trade liberalization, since this was a policy course we have been following since the mid-1930s. In response I would suggest comparison with the U.S. reaction to similar strains in the early 1930s. At no time in this century, at least, has the United States persisted in reducing tariffs and removing other obstacles to trade in the face of such massive obstacles -- the sharpest and deepest recession since the Great Depression and successive multiplication of oil prices. The depreciation of the dollar through 1973 and the resulting strengthening of the U.S. international competitive position contributed importantly to the defeat of the Burke-Hartke initiative. Successful recycling of OPEC revenues and the relatively rapid rebound in the United States from the 1974-75 recession helped avoid the retreat into protectionism that could have overwhelmed the multilateral trade negotiations.

The substance of trade liberalization has also changed significantly since the 1960s. Tariffs for most industrial products have been reduced to such a low level that they are generally no longer significant obstacles to trade. Thus, there was a major shift in emphasis during this last round of negotiations toward attempts to eliminate non-tariff impediments to trade. The new codes on subsidies and countervailing duties, government procurement, standards, customs valuation and licensing represent major steps forward in regulating government intervention in these important areas of trade. More work has yet to be done, especially in the related areas of official export credits, where the current International Arrangement needs to be further strengthened, and in governments' use of investment incentives and performance requirements, which can directly affect both the location of production and flow of trade. Without improved international agreements in these areas, competition among governments, to our mutual disadvantage, is bound to increase. We also need to reach a common understanding regulating the use of safeguard actions to pro ect domestic industries from rapid surges in imports, i.e., "protection against protectionism."

The relative competitive position of the United States is likely to be a focus of concern during the next decade, for at least three reasons. First, as a consequence of rising energy prices and, hence, slow growth in the industrial world, competition for export markets is likely to intensify generally. Competition for sales to OPEC is likely to be particularly intense. Second, the advanced developing countries -- Brazil, Mexico, Singapore, Hong Kong, Taiwan and South Korea are the prime examples -- made great strides in the 1970s, including adjustment to high energy costs. In the 1980s they can be expected to maintain above average rates of productivity growth, as well as to expand further into the export of sophisticated products designed for the huge U.S. market. Of course, these countries will also be growing markets for imports of machinery and other capital goods. But again, competition among industrial countries for export sales will be intense. Third, the United States has relied heavily during the 1970s on relative price changes via dollar depreciation to bolster its sagging international competitive position. But the adverse consequences of dollar depreciation in terms of boosting domestic inflation and impairing Americans' real incomes, both relatively and absolutely, are progressively becoming more evident.

Difficult choices face the United States, choices that our democratic processes have only begun to struggle with. Some other societies, partly as a consequence of closer cooperation than in the United States among government, industry and labor, are manifestly out-performing this country in improving the life styles of their populations and in adjusting to traumas of international economic reality. There is widespread domestic dissatisfaction with our productivity growth relative both to other countries and to our own performance in the 1960s. Among the pains of combating inflation by maintaining restrictive fiscal and monetary policies, in addition to unemployment, is also the negative impact on investment and productivity.

There are fears that the United States is ad hoc slipping into a policy of retrenchment when a conscious unified effort to select the evolution of our economy would produce a far more preferable outcome. Government, industry, and labor in the United States do not readily accept the inevitability of change as an opportunity to be used advantageously. Clinging to past successes has led to present weaknesses in, for example, steel and autos. The degree of mistrust and even overt hostility among government, industry and labor in the United States is in marked contrast both to the ability of Japan to agree upon and realize its national goals and to the participation of German labor in the management of that country's largest firms.

Certainly there are major enduring differences between the United States and Germany and Japan due both to geography and to political and economic history. But failure to develop more effective communication and cooperation among government, industry and labor in the 1980s would mean further impairment of the relative U.S. position. Only with general agreement on the need to bolster U.S. global economic leadership can incentives to save and invest, to generate product innovations, to shift employment into growth industries, and to export, yield maximum benefits.

International Energy Policy

The external aspects of U.S. energy policy are the outgrowth of domestic decisions, even though the need to restructure domestic energy policy is the direct consequence of higher OPEC petroleum prices and reduced availability. The principal dimensions of U.S. energy policy -- the 8.5 mb/day maximum import quota, gradual price decontrol, production of alternative synthetic fuels, and windfall profits tax -- are all familiar to you, and I will not attempt to discuss them further. The need to adjust will continue into the 1980s and beyond. The United States is making good progress, after a delayed start, towards this restructuring of our economy. Indeed, during 1979 the United States is the only one of the major industrial countries that has reduced its petroleum consumption.

Geographical Shifts in the Emphasis of U.S. Policy

While in no way ignoring Europe, and while wishing the European Communities every success in deepening integration among their national economies and in establishing the European Monetary System, during the 1970s the attention of American economic policy makers expanded to take account of Japan's emergence as the second largest market economy and to acknowledge the growing importance of the Pacific Basin more generally. It is the area of most dynamic economic growth and one to which the United States will be obliged to devote increasing attention as we move into the '80s. Some of the Pacific advanced developing countries may even graduate to industrial status during the next decade. They, in turn, as well as Brazil and Mexico, will provide both examples and markets for the less developed countries in that group's continuing upward striving.

While reducing its relative role in the multilateral development banks, the United States remains the largest contributor and should continue to do so throughout the 1980s. Research in Treasury indicates that participation in the multilateral development banks is not only a sound investment in future global prosperity and reduced political conflict, but participation also brings important benefits to the United States. For every dollar the U.S. contributes to the banks, our exports increase between $2 and $3. Thus, it is vitally important that we maintain our funding at internationally acceptable levels.

United States International Economic Leadership

During the last decade the United States helped stabilize the world and insure an environment in which economic growth could occur by bearing major responsibilities for the mutual defense of the market economies. These expenses are hardly trivial, especially if viewed in terms of what contribution an equivalent amount of investment in modern industry could make towards improving U.S. efficiency and our international competitive position.

Following the 1973/74 oil price shock, the United Stated helped stabilize the global economy by encouraging commercial bank recycling of OPEC revenues and by promoting a rapid recovery from our sharp recession.

In recent years U.S. monetary authorities have moved to acquire an expanded volume of resources and use them as necessary for stabilizing exchange markets. In addition, we look to surveillance by the IMF as a major initiative in promoting macroeconomic policy coordination among the leading industrial countries.

The United States maintained and expanded the course of trade liberalization and eliminated restraints on international capital flows. We intend to adhere to both of these policy directions.

To deal with high energy prices and questionable availability of petroleum in the 1980s, the United States has introduced an import quota, is freeing energy prices, and in the current year has cut petroleum consumption.

While the United States is sometimes faulted for dilatory and inconstant leadership, we can be proud of this record.

In looking forward to the '80s, our main tasks are to bring inflation under control, to continue the shift to domestically produced fossil, synthetic, and renewable energy resources, and to gird the U.S. international competitive position with higher rates of savings and investment, aggressive innovation, and a willigness on the part of all aspects of American society to work together towards maintaining the economic primacy that is essential to our military and political leadership.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR IMMEDIATE RELEASE December 6, 1979

RESULTS OF TREASURY'S 157-DAY BILL AUCTION

Tenders for $2,005 million of 157-day Treasury bills to be issued on December 10, 1979, and to mature May 15, 1980, were accepted at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.885	11.729%	12.57%
Low -	94.872	11.758%	12.60%
Average -	94.881	11.738%	12.58%

Tenders at the low price were allotted 19%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

Location	Received	Accepted
Boston	$ ---	$ ---
New York	4,805,000,000	1,712,100,000
Philadelphia	---	---
Cleveland	55,000,000	5,700,000
Richmond	29,000,000	3,800,000
Atlanta	25,000,000	5,000,000
Chicago	680,000,000	69,500,000
St. Louis	23,000,000	---
Minneapolis	16,000,000	---
Kansas City	---	---
Dallas	---	---
San Francisco	633,000,000	208,800,000
TOTAL	$6,266,000,000	$2,004,900,000

An additional $320 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

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

FOR IMMEDIATE RELEASE
December 7, 1979

CONTACT: Charles Arnold
202/566-2041

STATEMENT BY TREASURY SECRETARY G. WILLIAM MILLER
ON CHRYSLER CORPORATION LEGISLATION

Secretary of the Treasury G. William Miller today expressed his strong conviction that the Chrysler legislation in the form reported by the Senate Banking Committee last week is "unworkable."

Secretary Miller stated: "Under the proposed bill efforts to aid Chrysler would fail, because the conditions of the bill simply could not be met. The terms of the bill would substantially impair the operations of the Chrysler Corporation, risk loss to the company of many of its most able employees, and seriously damage the morale and productivity of the workers essential to the company's future success.

"In addition, the bill reported by the Senate Banking Committee imposes a disproportionate financing burden on the workers of the company. It asks them to provide approximately half of the unguaranteed financing needed by the company, while financial institutions, State and local governments, dealers and suppliers all make much smaller contributions."

Secretary Miller added:

"The Administration has always maintained that all interested parties, including labor, must make substantial concessions and contributions if the Chrysler Corporation is to survive. We feel strongly, however, that these efforts must be shared fairly among all parties."

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

FOR IMMEDIATE RELEASE December 10, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,203 million of 13-week bills and for $3,201 million of 26-week bills, both to be issued on December 13, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 13, 1980			:	26-week bills maturing June 12, 1980		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.958 a/	12.034%	12.62%	:	94.065	11.740%	12.69%
Low	96.951	12.062%	12.65%	:	94.041	11.787%	12.74%
Average	96.953	12.054%	12.64%	:	94.050	11.769%	12.72%

a/ Excepting 1 tender of $700,000

Tenders at the low price for the 13-week bills were allotted 72%.
Tenders at the low price for the 26-week bills were allotted 93%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 47,740	$ 34,140	:	$ 32,990	$ 32,990
New York	5,581,300	2,726,075	:	4,421,490	2,685,490
Philadelphia	26,635	24,475	:	4,170	4,170
Cleveland	65,080	37,550	:	75,895	65,885
Richmond	49,980	27,925	:	83,910	73,910
Atlanta	40,160	38,845	:	29,775	28,565
Chicago	418,960	43,460	:	378,685	37,185
St. Louis	65,290	35,890	:	37,790	13,790
Minneapolis	5,630	5,630	:	7,325	7,325
Kansas City	60,725	49,795	:	27,205	25,425
Dallas	16,930	16,930	:	10,995	10,995
San Francisco	308,280	109,615	:	263,350	151,650
Treasury	52,200	52,200	:	63,540	63,540
TOTALS	$6,738,910	$3,202,530	:	$5,437,120	$3,200,920
Type					
Competitive	$5,010,890	$1,474,510	:	$3,541,555	$1,305,355
Noncompetitive	593,860	593,860	:	419,905	419,905
Subtotal, Public	$5,604,750	$2,068,370	:	$3,961,460	$1,725,260
Federal Reserve	890,000	890,000		888,760	888,760
Foreign Official Institutions	$ 244,160	$ 244,160	:	$ 586,900	$ 586,900
TOTALS	$6,738,910	$3,202,530	:	$5,437,120	$3,200,920

1/Equivalent coupon-issue yield.

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a/ Excepting 1 tender of $700,000

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Tenders at the low price for the 26-week bills were allotted 93%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Rece
Boston	$ 4
New York	5,58
Philadelphia	2
Cleveland	6
Richmond	4
Atlanta	4
Chicago	41
St. Louis	6
Minneapolis	
Kansas City	6
Dallas	1
San Francisco	30
Treasury	5
TOTALS	$6,73
Type	
Competitive	$5,01
Noncompetitive	59
Subtotal, Public	$5,6(
Federal Reserve	8
Foreign Official Institutions	$ 2
TOTALS	$6,7

DATE: December 10, 1979

	13-WEEK	26-WEEK
TODAY:	12.054%	11.769%
LAST WEEK:	11.927%	11.767%

HIGHEST SINCE:

11/19/79		12.035%
11/9/79	12.026%	

LOWEST SINCE:

1/Equivalent coupon-issue yield.

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

FOR RELEASE ON DELIVERY
December 11, 1979
Expected at 9:00 A.M.

STATEMENT OF THE HONORABLE RICHARD J. DAVIS
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT AND OPERATIONS)
BEFORE THE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

Mr. Chairman and Members of the Subcommittee,

I appreciate this opportunity to testify during these hearings on the profits of the illegal drug traffic and impediments to their investigation. My statement will be concerned principally with the Treasury Department's implementation of the (Foreign) Bank Secrecy Act and certain of Customs' activities related to drug enforcement. We believe that the Act has been playing an increasingly important role in drug enforcement as well as in other Federal investigations. First, however, I would like to review some of the history of the Act.

The Bank Secrecy Act

The Bank Secrecy Act was introduced in 1969 after law enforcement officials expressed concern about the difficulties in investigating and documenting the financial aspects of transnational crimes. During extensive hearings in both the House and Senate, witnesses described how foreign accounts are used in tax evasion, bribery, securities violations, black marketing, and drug violations. One of the more illustrative cases cited was a drug investigation that involved the use of a Latin American shell company, a European bank, a New York bank, two New York foreign exchange firms, and a South American brokerage firm in a complex scheme to make drug related payments totalling $950,000.

The Act was designed to make such transactions easier to detect and document. There are two types of provisions to help law enforcement officials investigate the financial aspects of crime. The Act provides for recordkeeping standards for banks, savings and loan associations, and a wide variety of other financial institutions. Congress recognized that many major criminals use legitimate financial institutions to conduct their business transactions. In addition, the Act requires reports of certain types of financial transactions. They include reports of foreign financial accounts, reports of unusual currency transactions, and reports of the international transportation of monetary instruments.

The reports were intended to serve two purposes. First, to provide leads and intelligence as to possible violations of law and, second, to provide added criminal sanctions for, and thereby, an additional deterrent to illegal activity. This intent is clear in the following quote from the Senate report on the bill:

> "Reports are not a foolproof method of preventing organized crime from sending currency out of the country. Obviously, a criminal who is already breaking the law could just as easily ignore the reporting requirement. The significance of requiring reports is that it provides the Justice Department with another means of obtaining a conviction. The mere failure to file a report would constitute a criminal violation much easier to establish compared to proving the funds transported were illegally acquired or were to be used for an illegal purpose. Those who fail to report would be subject to a criminal penalty of a year in prison, a $1,000 fine, or both. If the failure to report was committed in furtherance of the commission of any other violation of Federal law, or as part of a pattern of illegal activity involving transactions exceeding $100,000 a year, the person who fails to file a report is subject to a much stiffer criminal penalty - 5 years in jail or a $500,000 fine, or both. Finally, any unreported currency is subject to seizure and forfeiture to the United States and those who fail to make required reports are liable for a civil penalty equal to the amount of currency transported less any amount already seized and forfeited."
>
> "It is believed that these penalties will constitute a significant deterrent to organized crime. At the same time, the Secretary has broad discretionary authority to return seized currency or waive the civil penalties which he could use to prevent ordinary citizens or businessmen from being unduly penalized for an inadvertent violation."

The reporting requirements authorized by the Act are interrelated. They complement each other. For example, if banks were not required to report currency transactions, there would be little need for criminals to smuggle money out of the country. Currency simply could be taken into a bank and the funds transferred abroad to a secret bank account without disclosing the identities of the persons directing the transfer or receiving the funds. Conversely, without reports of the import or export of currency, the requirement that banks report large currency transactions would be much less meaningful.

<u>Implementing Regulations</u>

The Act gives the Secretary wide discretion in its implementation; however, the stated purpose of the Act is that only records and reports that "have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings" should be required. With that background, in 1972, the Treasury Department issued regulations which require banks to maintain certain basic records, including the following:

-- cancelled checks and debits over $100

-- signature cards

-- statements of account

-- extensions of credit in excess of $5,000

-- records of international transfers of more than $10,000

The regulations also provide for the following reports:

-- IRS Form 4789 (Report of Currency Transactions). All financial institutions are required to report to the IRS any unusual currency transaction in excess of $10,000. Although this is only a modification of a similar requirement that was in effect for more than 25 years, this requirement was challenged in the courts. The Secretary was prohibited from enforcing it until May, 1974, after the U.S. Supreme Court upheld the constitutionality of the Bank Secrecy Act and the implementing regulations.

-- Customs Form 4790 (Report of the International Transportation of Currency or Other Monetary Instruments). Except for certain shipments made by banks, the international transportation of currency and certain other monetary instruments in excess of $5,000 are required to be reported to the Customs Service. As a result of the litigation previously referred to, Treasury was prohibited from enforcing this provision until October, 1972.

-- Treasury Department Form 90-22.1 (Report of Foreign Bank and Financial Accounts). The Act provides specific legal authority to require reports of foreign bank accounts. The IRS, however, put the foreign bank account question on the income tax returns for 1970 and issued IRS Form 4683, the predecessor of Form 90-22.1, on the basis of its authority under the Internal Revenue Code. Consequently, the first reports of foreign financial accounts were filed with the IRS in 1971 even before the Treasury regulations requiring such reports were issued in 1972. The disclosure that a Form 4683 had been filed was, in effect, a disclosure of the fact that an income tax return had been filed. There was thus concern, with the passage of the Tax Reform Act of 1976, that dissemination of these reports outside IRS was prohibited. Therefore, in 1977, we decided to separate the foreign bank account report from the tax return and to have it filed directly with the Office of the Secretary. The change was made to permit the information to be made available to other agencies as the Bank Secrecy Act intended. At that time, the form was changed to Treasury Department Form 90-22.1.

Monitoring Financial Institutions Compliance

In accordance with the intent of the Act, the Treasury Department's implementing regulations delegated responsibility for assuring compliance with the regulations to existing Federal bank supervisory agencies to the extent that was feasible. The delegation is as follows:

(1) To the Comptroller of the Currency, with respect to national banks and banks in the District of Columbia;

(2) To the Board of Governors of the Federal Reserve System, with respect to State bank members of the Federal Reserve System;

(3) To the Federal Home Loan Bank Board, with respect to insured building and loan associations, insured savings and loan associations, and insured institutions as defined in Section 401 of the National Housing Act;

(4) To the Administrator of the National Credit Union Administration, with respect to Federal credit unions;

(5) To the Federal Deposit Insurance Corporation, with respect to all other banks except agents of foreign banks which agents are not supervised by State or Federal bank supervisory authorities. The exception pertains to persons who represent foreign banks in this country but do so surreptitiously or in such a manner that they are not regulated by State or Federal authorities. Responsibility for this group has been delegated to the IRS.

(6) To the Securities and Exchange Commission, with respect to brokers and dealers in securities;

(7) To the Commissioner of Customs with respect to reports of the transportation of currency or monetary instruments. The regulations give him the authority to seize currency and monetary instruments which have not been properly reported.

(8) To the Commissioner of Internal Revenue except as otherwise specified in this section.

Overall responsibility for coordinating the procedures and efforts of the agencies listed above and for administering the regulations was delegated to the Office of the Assistant Secretary (Enforcement and Operations).

In 1973 the bank supervisory agencies generally began to check the compliance of the banks that they would normally examine. They used a uniform examiners' check sheet and operated under uniform guidelines which were developed with Treasury's assistance. In 1978, however, my office in cooperation with the Federal bank supervisory agencies, developed additional, more detailed guidelines, to be used by bank examiners in checking for compliance with the currency transaction requirement. And, earlier this year, we also recommended a uniform examination procedure which would result in an even more rigorous review of the banking industry's compliance with the reporting requirements. Our recommendation currently is being reviewed by the Federal Financial Institutions Examination Council, and we hope that it will be adopted in the near future. We have also conducted a review of the training given to bank examiners, which we expect will bring about substantial improvement in bank examiners' knowledge of the regulations.

One area to which we have devoted substantial attention is the compliance of uninsured foreign banks operating in the United States. These are among the most important banks whose compliance should be monitored, yet at one time, because no Federal banking agency had general jurisdiction over them, their activities in this area were not being inspected. To correct this, we made arrangements with the Federal Deposit Insurance Corporation to inspect the uninsured foreign banks operating in the U.S. in order to ensure their compliance with both the reporting and recordkeeping requirements of the Act. In this regard, we sent letters to approximately 300 of these institutions informing them that the FDIC would inspect them for compliance with the requirements of the Bank Secrecy Act. These inspections are largely completed.

In addition, since 1978 we have required the bank supervisory agencies to provide us with the name of every bank that is not complying with the currency reporting provisions of the regulations and not just statistical summaries. In many of these cases we now ask the reported institution to provide us with a list of depositors whose transactions it has exempted from the reporting requirements. By receiving the specific names of institutions where there has been some non-compliance, we can request the bank supervisory agencies to provide additional information about repeat violators and to make recommendations concerning possible civil penalties.

One reason that we began to insist on the names of non-complying banks is that we had not been receiving recommendations for penalties. While this may be because in the cases involved the violations were committed by employees who were unfamiliar with the regulations and involved a relatively limited number of transactions, we intend to monitor this situation closely. Obviously it is most important to make certain that the lack of compliance does not appear to be related to other violations of law.

In addition, the IRS has independently identified instances of non-compliance and requested authority to initiate the necessary investigation in cooperation with a Federal prosecutor. The Chemical Bank case, which was concluded in 1977, was the most publicized of the IRS cases. It included allegations that a number of bank employees were involved in laundering drug money by exchanging small bills for $50s and $100s. This year there were two more convictions. One involved the United Americas Bank in New York City, and the other a senior official of the Ridglea State Bank in Texas.

In the United Americas Bank case the bank pled guilty to 12 counts of the failure to file the required currency transaction reports (Forms 4789). It entered into a consent decree with the Government and was fined $12,000.

In the Ridglea State Bank case, the official was convicted of failing to report the disbursement of $45,000 in currency in connection with a loan he made to a cocaine dealer. The banker was aware that he was financing a drug transaction. The principal witness was the cocaine dealer. The judge imposed a sizeable fine, as well as a prison sentence, and commented on the serious nature of the offense.

There are currently a number of other IRS investigations focusing on the failure of banks to file the required currency transaction reports. Since, to our knowledge, they are active, we are unable to make any further comment regarding them.

The IRS has also recommended civil penalties in several cases involving secondary financial institutions. Some of those recommendations are still under consideration; for the most part, however, the cases involve relatively small amounts of money and isolated instances of non-compliance rather than generalized attempts to conceal questionable transactions.

Dissemination

In 1977, we took action to establish an analysis unit to act as a focal point for the computerization, analysis and dissemination of data obtained from all the reports required to be filed in compliance with the Bank Secrecy Act. That unit has been fully operational since July, 1978. Initially, this unit was located in my office and included Treasury, Customs and IRS personnel. To provide the unit with a permanent home, we transferred it to the Customs Service in 1978 where it could obtain needed resources, including data processing support. This change was consistent with the fact that Customs already had important enforcement responsibilities under the Act. An IRS agent is still, however, participating in the unit and my office continues to actively work with it.

To date the Unit has developed computerized indices for both the currency transaction reports and the reports of foreign financial accounts. The new indices are similar to those that Customs established for the Forms 4790 in 1976. For the first time, the Department is able to identify all of the reports pertaining to a specific person or entity in a matter of seconds. This has greatly improved our ability to analyze the reports and to service requests from the Congress and Federal law enforcement agencies. This information is, of course, readily available to other Treasury bureaus.

Since May, 1977, we have provided DEA, alone, with more than 3,000 currency transaction reports totalling more than $400 million. Nearly 2,100 of those currency transaction reports reflecting bank transactions totalling $228 million were provided in Fiscal Year 1979 alone. Several hundred reports of international transportation of currency have also been supplied to them. DEA has acknowledged that some major investigations have been initiated, in part, as a result of information provided by the reports. Similarly, these reports have been used in various Congressional and Justice Department investigations.

In addition, to improve utilization of these reports:

- Arrangements have been formalized for the dissemination of material to the Department of Justice including the Federal Bureau of Investigation and the Drug Enforcement Administration, the SEC, as well as other agencies.

- Letters were sent to senior officials of appropriate Federal departments and agencies to make them aware of the data available to them pursuant to the Bank Secrecy Act.

- Formal guidelines and safeguards for the utilization of report information by user agencies have been established in order to provide appropriate safeguards for the privacy of individuals.

The Bank Secrecy Act directs the Secretary to make any information contained in the reports filed pursuant to the Act available to other Federal departments or agencies upon request by the head of a department or agency. We have implemented that provision by requiring the head of the agency or department to write to the Secretary requesting such information and designating a small number of high level officials of his agency or department to make requests on a specific name basis, and to establish criteria for the selection and referral of report information likely to pertain to activities under the jurisdiction of the agency or department. In addition, information will be volunteered to other agencies where it appears relevant to violations within their jurisdiction. This procedure is designed to facilitate the dissemination of information to the agencies that need it while at the same time protecting the privacy of law-abiding members of the public.

Cash Flow Study

As part of our continuing efforts to improve the implementation of the Bank Secrecy Act, this year the Treasury Department initiated a study of currency transactions at Federal Reserve offices throughout the United States. As the recent report of our findings indicates, it was undertaken "to gather information which would be useful in assessing the effectiveness of the existing reporting requirements and in identifying areas that appear to merit further study or investigation." The data covered the period 1970 through 1978 and showed a constantly increasing supply of currency in circulation. In 1978, for example, an additional $10.2 billion was placed into circulation. Our analysis of the data highlighted at least two patterns which we believe warrant additional investigation.

One of them, related to the currency transactions in Florida, would appear to be especially pertinent to the subject of these hearings. The Federal Reserve offices in Florida have consistently received more currency in deposits than they have placed into circulation, contrary to the national pattern. Since the end of 1974, however, there has been a startling acceleration in the amount of this surplus. The net receipts (surplus) has grown from $921 million in 1974 to $3.3 billion in 1978. It is almost certain to exceed $4.5 billion this year.

Although a variety of factors have contributed to this surplus, it is clear that a substantial amount is related to the trafficking of marijuana, cocaine and other drugs in Florida. Information received from Customs, DEA, and other Government sources also indicates that there has been a tremendous influx of drug money in Florida.

A second pattern warranting more attention involves the increase in $100 bills in circulation. During the 1970 to 1978 period, $100 bills have accounted for an increasingly large part of the annual increase in the nation's supply of currency. In 1978, $5.4 billion, more than 50% of the additional currency in circulation, was in $100s. This represents a 410% increase over the $1 billion added to circulation in 1970. Our analysis shows that the New York Federal Reserve office has accounted for a large part of the additional $100s that are being put into circulation. This has been particularly noticeable since 1974. In 1978, for example, when the increase in $100s was about $5.4 billion, New York was responsible for almost half of it, $2.6 billion. These figures are especially significant because some analysts believe that the increase in $100s may be related to the growth of the subterranean economy.

We are currently working with Federal Reserve officials to obtain additional information about the situations in New York and Florida. All banks in Florida have been requested to provide us with lists of the customers whose currency transactions they have exempted from the reporting requirements. Appropriate follow-up investigations will be conducted.

Regulatory Changes

Regulatory changes have also been initiated to strengthen compliance with the Act. The proposed amendments, which were published in September, would:

(1) Require that the report be filed within 15 days after the day on which a transaction occurred instead of 45 days under the current regulations.

(2) Require financial institutions to retain a copy of each Currency Transaction Report for a period of five years -- while it is our understanding that many banks routinely retain copies of the reports, the requirement would ensure that copies would be available for the use of the bank supervisory agencies that have the responsibility for examining financial institutions for compliance with the reporting requirement.

(3) Refine the requirements for the identification of a customer for whose account currency transaction is to be effected, and of his agent in such transactions, to specify the documents that will be acceptable for identification of aliens and citizens and require that the method of identification used be included in the report.

(4) Require banks to report transactions with, or originated by, financial institutions or foreign banks -- Such transactions are currently exempt from the reporting requirement. The revision would limit this exemption to transactions with other domestic banks. Banks would be required to report large currency transactions with securities dealers, foreign banks, and miscellaneous financial institutions, such as exchange dealers, persons in the business of transferring funds for others, and money order

issuers. The additional information concerning the currency transactions with foreign banks and non-bank financial institutions will substantially improve the Treasury Department's ability to obtain overall compliance with the regulations and alert the Department to unusual transnational movements of currency.

Since Treasury presently does not receive reports of currency transactions between domestic and foreign banks, it is not possible to identify unusual movements of currency involving particular institutions or classes of institutions which might provide insights into possible criminal activities. The proposed requirement would correct this deficiency.

The proposed requirement that banks report transactions with securities brokers/dealers and other miscellaneous financial institutions would also provide an effective and badly needed check on the compliance of such institutions with the regulations. Such institutions -- particularly those in the "miscellaneous" category -- are much more difficult to recognize and catalogue than are banks. Therefore, it is not surprising that there are indications that many of them have not been identified or inspected for compliance. By requiring banks to report large currency transactions with such firms, the opportunity to identify those that are dealing in significant amounts of currency will be greatly increased. Once identified, they can be scheduled for compliance checks.

(5) Formalize the procedure for exempting other transactions from the reporting requirements -- Banks are currently exempted from the reporting of currency transactions with an established customer maintaining a deposit relationship with the bank, in amounts which the bank may reasonably conclude do not exceed amounts commensurate with the customary conduct of the business, industry or profession of the customer concerned. This requires the bank to exercise its professional judgment in determining whether or not a currency transaction report should be filed. The proposed revision would require a record of the exemption to be made at the time it is granted and would limit the exemption to an established customer who operates a retail type of establishment within the United States. If the customer is located in a contiguous or neighboring country, or if the business is not a retail establishment, a currency transaction report would be required.

The exemption would be limited to businesses, that would normally generate large amounts of currency, such as a finance company, a race track, a department store, a theater, a supermarket, sports arena, etc.

(6) Provide additional assurance that this exemption is judiciously employed by the bank -- A report listing the customers whose currency transactions are not reported because of the exemption is now required to be made to the Secretary of the Treasury or his delegate upon demand. The

revision would: (1) specify that such report shall include the name, street address, nature of the business, taxpayer identification number, and deposit account number of the customer whose transactions have been exempted under this provision; (2) elaborate on the Secretary's authority to require the filing of the Form 4789 reports for any customer listed and (3) require the report to be submitted within 15 days following receipt of the demand for the report. These proposed amendments would provide the information Treasury needs in order to review the exemptions to ensure that they are appropriate.

The proposed changes relating to exemptions are particularly important. Obviously, exemptions are necessary to eliminate the reporting of legitimate business transactions that would be of little or no interest to law enforcement officials. Banks were given this authority because it was thought that due to their knowledge of their customers' financial activities, they would be able to identify such transactions without difficulty.

We have already asked over 600 banks in Florida, New York, California, and Illinois to provide us with their exemption lists. Our review of the lists of exempted customers that we have received from those banks confirm our previous view that there has been a great lack of understanding of the purpose of the exemption provision and of how it should be used. Bank officials have exempted foreign nationals and other individuals from the reporting requirements solely on the basis that they have customarily brought in large amounts of currency. The bankers frequently had no knowledge of how that currency was accumulated. Our proposed amendments are designed to deal with this problem.

Customs Enforcement

The Customs Service, which has the responsibility for enforcing compliance with the requirement to report the international transportation of currency or monetary instruments in excess of $5,000, has greatly expanded its activities in this area in recent years. To emphasize the importance of currency reporting investigations, in 1977, Customs created the Currency Investigations Division. We believe that the wisdom of this action is reflected in their enforcement statistics. In Fiscal Year 1979, there were 1,173 currency seizures involving $19,830,000 as compared with Fiscal Year 1977 when there were 462 seizures involving $7,353,000. There were also 44 convictions resulting from criminal investigations conducted by Customs agents. Some of this activity was directly related to drug traffic and was undertaken in cooperation with DEA and other enforcement agencies.

Although I understand that other witnesses have testified regarding the Araujo case, I would like to cite it as an outstanding example of how the Bank Secrecy Act should be used in drug investigations.

The case was initiated by a Customs Investigations field office in Southern California following the receipt and analysis of a number of IRS Forms 4789 in 1977 which reflected frequent cash deposits between $200,000 and $800,000 each in a local bank. The investigation quickly revealed that a bank account in a fictitious name was being used to conceal the true depositors. The account served as a conduit to funnel proceeds from the sale of narcotics to secret bank accounts in Mexico. The key figures were ultimately identified as Mexican nationals residing in the United States and Mexico. It is believed that the organization, headed by Jaime Araujo-Avila, was responsible for the importation and distribution of approximately 300 pounds of heroin per month with monthly proceeds of approximately $1 million.

The organization used two methods to transmit their narcotics proceeds, each involving the conversion of the currency to monetary instruments and the use of one domestic and two foreign banks. By the first method, a bank account was opened in a fictitious name at a domestic bank close to the Mexican border. A courier then retrieved the currency from the storage location and made deposits into the domestic account. On the date of the deposit, the courier entered the United States from Mexico with personal checks drawn against the domestic account. These checks were normally in excess of $100,000 and, in a further effort to conceal identities of members, the checks were made payable to "Cash" or "Bearer". The courier presented these checks to the domestic bank and used them to purchase cashier's checks which were then transported back to Mexico and deposited into accounts maintained under the control of the violators. The investigation disclosed that 39 currency deposits totalling approximately $15.5 million were made to the U.S. bank account during a 19-month period.

By the second method, the group would transport the funds by vehicle from Los Angeles across the international border and into the Mexican bank accounts controlled by the violator. An additional $16 million was deposited directly to the Mexican bank accounts during a 3-year period. Thus, over this 3-year period, transactions involving a total of $31.5 million occurred.

Based on this 2-year investigation, a Federal Grand Jury indicted 21 members of the criminal enterprise. Of these violators, 16, including the 5 key ranking members, were charged with felony currency conspiracy (31 U.S.C. 1059 and 18 U.S.C. 371). Other charges included narcotics trafficking (21 U.S.C. 846), RICO (18 U.S.C. 1962) and tax evasion (26 U.S.C. 7201).

Just last month, the organization's leader Jaime Araujo-Avila, was sentenced to 35 years' imprisonment for currency and income tax violations as well as a concurrent 15-year sentence for narcotic violations, and assessed $1.2 million in fines. Six other individuals have been sentenced already, and two others are scheduled for sentencing. Forfeiture actions against various properties and businesses purchased with the proceeds are pending.

This investigation and prosecution is an exemplary illustration of the results that can be achieved from the proper utilization of the Bank Secrecy Act and a combined Federal law enforcement effort.

Remedial Legislation Needed

Certain statutory changes in the Bank Secrecy Act, however, are needed to improve Customs' effectiveness in combatting the unreported international transportation of currency by drug traffickers and other criminals. H.R. 5961, which was introduced November 27, 1979, combines the provisions of H.R. 4071, 4072, and 4073 and contains the necessary changes. It would:

-- amend Section 231(a) of the Act to make it illegal to attempt to transport currency into or out of the United States without filing the required report.

-- amend Section 235 of the Act to authorize a Customs officer to search for currency at the border when he has reasonable suspicion (the same search standard generally observed in enforcing the Customs laws) that an amount in excess of $5,000 is being transported into or out of the United States and thereby remove inhibitions in enforcing this statute which are not constitutionally required.

-- add a new section to the Act to authorize the payment to an informant of a 25% share of any seizure or penalties when the amount exceeds $50,000. The informant's payment in any event would not exceed $250,000.

Although we have good reason to believe that, at a minimum, hundreds of millions of dollars were carried or shipped out of the United States during Fiscal Year 1979 to purchase illegal drugs, our records indicate that only $46 million has been reported to us as the amount of currency that left the United states in that same period. While one can never expect that all who are transporting currency will file reports, it is obvious that we are not receiving all the reports that should be filed. These amendments are needed to deal with this problem.

Customs Interdiction

Although I have emphasized Customs efforts to enforce the Bank Secrecy Act and support to Federal drug enforcement activities, we cannot, of course, overlook Customs interdiction activities which also obviously affect drug profits. These activities include land, air and sea patrol. During Fiscal Year 1979, the Customs Service made more than 20,000 seizures involving drugs valued at almost $3 billion. The details are as follows:

NARCOTICS SEIZURES - FY 1979

Heroin	Number of Seizures	173
	Quantity Seized (Lbs)	123
	Value	$75,386,700

Cocaine	Number of Seizures	1,259
	Quantity Seized (Lbs)	1,438
	Value	$424,353,800
Hashish	Number of Seizures	4,379
	Quantity Seized (Lbs)	50,849
	Value	$198,056,855
Marijuana	Number of Seizures	12,323
	Quantity Seized (Lbs)	3,583,556
	Value	$2,164,467,824
Other Drugs, Barbiturates and LSD	Number of Seizures	3,130
	Quantity Seized (Tablets)	15,912,218
	Value	$44,235,966

Through interdiction efforts and continued use of the Bank Secrecy Act, Treasury is determined to continue its support of the fight against major drug trafficking. This completes my testimony. I will be happy to answer any questions you may have.

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

FOR RELEASE AT 4:00 P.M. December 11, 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 $6,400 million, to be issued December 20, 1979. This offering will provide $500 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,924 million, including $684 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $2,018 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,200 million, representing an additional amount of bills dated September 20, 1979, and to mature March 20, 1980 (CUSIP No. 912793 3W 4), originally issued in the amount of $3,129 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated December 20, 1979, and to mature June 19, 1980 (CUSIP No. 912793 4K 9).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 20, 1979. Tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the weighted average prices 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, December 17, 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 December 20, 1979, in cash or other immediately available funds or in Treasury bills maturing December 20, 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.

The past year's oil price increases have also had a dramatic effect on global payments patterns. Even with no further increase in the real price of oil during the next year, the OPEC countries are likely to have an aggregate current account surplus substantially higher than the $60 billion or so they will experience in 1979, and in striking contrast to the near balance they recorded in 1978. Nearly all non-OPEC countries are likely to be in current account deficit in 1980. The OECD nations as a group will experience a deficit of perhaps $30 billion in 1979, following a surplus of some $8 billion in 1978. The LDC group will also record a deficit of about $30 billion, after official transfers, representing a deterioration of about $10 billion. There is likely to be further deterioration in both areas in 1980.

There has, however, been a significant improvement of current account patterns within the OECD group in 1979. Despite an increase of $17 billion in oil imports, the U.S. will be in approximate balance, following a $14 billion current account deficit in 1978. The large Japanese surplus, $17 billion in 1978, has disappeared, and Japan is now in substantial deficit. Germany is in near balance, in contrast to a surplus of about $8 bilion in 1978. Although the position of the OECD group as a whole has deteriorated sharply, much of that change has taken place in countries that have experienced large surpluses in recent years, and the improved pattern among the major countries should be a source of greater exchange market stability in the period ahead.

Similarly, the deterioration in the position of the non-oil LDC group -- perhaps $20-25 billion in total over 1979 and 1980 -- is likely to be highly concentrated in a few relatively advanced countries, most having access to private capital and relatively comfortable reserve positions. For the great majority of developing countries -- those relying on official financing -- the current account deterioration will be comparable to anticipated increases in official financing. Nonetheless, the real effects of the deterioration in the non-oil LDC position will be serious. In large part, they will be paying for higher priced oil instead of needed capital imports. This will mortgage future growth and development prospects, and will be of no help in expanding their future debt service capacity.

This outlook is not happy. It assumes sustained oil production at roughly present levels and relative moderation in pricing decisions by the OPEC nations. These are major uncertainties. We do not know what production and pricing decisions OPEC will reach next week, nor do we know whether any decision will hold for long. But we do know that -- whatever the decision -- our future economic security will depend in large part on the ability of major countries, especially the U.S., to restrain oil imports, to become more energy efficient, and to increase alternative supplies of energy. It has become increasingly clear that developments in the supply and price of oil will be a -- if not <u>the</u> -- dominant factor in determining both the growth of the world economy and the severity of inflation over the next few years. We must all move as rapidly as possible to reduce our dependence on foreign sources of oil.

The Iranian situation is a forceful reminder of our vulnerability to production and price decisions by the oil producers. A half a decade ago, actions by a single producer could be countered fairly easily by other producers. But in today's energy market, the balance between demand and potential supply is very delicate. Sudden shifts in either the demand for or supply of oil are reflected quickly in sharp price movements.

<u>Blocking of Iranian Government Assets</u>

Your letter asked about United States blocking of deposits in the overseas branches and subsidiaries of United States banks. The blocking action was taken pursuant to the International Emergency Economic Powers Act, which authorizes the President, in a national emergency, to regulate or prohibit transfers of the assets of a foreign country such as Iran "by any person... subject to the jurisdiction of the United States." Foreign branches and subsidiaries of U.S. banks have traditionally been viewed as persons subject to the jurisdiction of the United States.

As the Committee knows, litigation has been commenced in London seeking to test whether the British courts will give effect to the blocking order as it applies to branches of United States banks there. There is similar litigation in France relating to the subsidiary of a United States bank. In light of that litigation I think it would be inappropriate for me to comment on the substantive issues which will ultimately be addressed in those cases.

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

FOR RELEASE UPON DELIVERY
(Approximately 10:00 A.M.)
December 12, 1979

STATEMENT OF THE HONORABLE ANTHONY M. SOLOMON
UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE COMMITTEE ON
BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

Mr. Chairman, it is a pleasure to appear again before your Subcommittee. These hearings raise a broad range of general issues -- the Euro-markets, international debt, the economic effects of oil price increases and the evolution of the international monetary system -- which can be usefully addressed in the framework of the current world economic environment and outlook, and which I will cover in my statement today. Supplementary responses to a number of the more specific questions raised in your letter inviting me to testify are being submitted for the record.

Global Economic Outlook

Mr. Chairman, the world economic situation is sobering. It is heavily influenced by recent oil developments, and decisions on oil production and pricing to be taken shortly will have a critical bearing on the future. When we last met here in early May, I noted that oil price increases -- which had amounted to some 24 percent during the early months of 1979 -- would create additional inflationary pressures and some slowing of growth, and would increase external payments imbalances. At that time we did not expect that oil prices would end 1979 dramatically above the level of last December. Nor did we anticipate the major uncertainties about oil supply that now face the world. Within the next week we will know the results of OPEC's December meeting, as it affects oil pricing and production policies for 1980, policies that will significantly affect confidence and economic performance in the oil importing countries during the next year and beyond.

Oil prices have moved up very rapidly this past year. The average official price for OPEC crude oil is now about $21.50, in comparison to $12.93 last December -- an increase of 66 percent. In addition, spot market prices remain substantially above official prices, and significant amounts of oil are moving through the spot markets. On average, we estimate that prices actually being paid for oil from all sources are now more than 80 percent above levels of last December.

Even with the major increase in oil prices that has taken place this year, real growth in the developed countries has remained stronger than many expected, and will probably amount to about 3 percent for the OECD group as a whole. A slowing of U.S. growth to the two percent range has been compensated by strong German and Japanese domestic expansion, and growth outside the U.S. has been faster than anticipated, averaging around 4 percent.

If further large increases in oil prices are avoided, the OECD countries should record growth on the order of one percent in 1980 -- not good, but still on the positive side. Outside the U.S., the figure for real growth in the OECD could be in the 2-3 percent range. Provided external finance is available, growth in the non-oil exporting LDCs may stay near the 5 percent range.

Inflation remains a very serious problem. Cost of living increases in the developed countries accelerated sharply during the six month period ending in September, spurred significantly by energy price increases. For the industrial countries as a whole, we now expect cost of living increases of around 9 percent in 1980, slightly more than the increase for the full year 1979. This will occur even though economic growth will be less than in 1979. Inflationary expectations have become more entrenched, consumers and investors less confident about the basic ability of governments to control inflation. This year's sharp upturn in inflation rates in almost all OECD countries has eroded earlier gains in reducing inflation and in rebuilding consumer and business confidence.

Your letter also asked whether our blocking regulations allow United States banks to use blocked Iranian assets to offset loans to the Iranian government. Section 535.902 of the blocking regulations licenses branches and subsidiaries in foreign countries to offset claims against the government of Iran or entities controlled by it against assets held by them for those entities. The effectiveness of such offsets are not governed by the blocking regulation but by the usual laws applicable to offsets (which could be state law or the law of a foreign country). The validity of such offsets will likely also be tested in the litigation to which I have referred.

The U.S. action to block the assets of the Iranian government and controlled entities was taken in the context actions which put at grave risk the personal safety of U.S. citizens and the lawful claims of U.S. citizens and entities against the Government of Iran, and which constitute an extraordinary threat to the national security and foreign policy of the United States. In the absence of action by the United States, U.S. institutions would have been left with a large exposure to losses on claims to Iran, given the hostility and unpredictability of the present Iranian regime. The reasons for the U.S. action appear to have been understood generally, and with the exception of Iran itself, there have been no indications of efforts to shift investment portfolios. The increase in international tension growing out of the Iranian situation has led to caution and some nervousness in the foreign exchange market. The dollar trended downward for several days, but then strengthened significantly. We are, of course, continuing to consult with the authorities of other major countries to ensure a cooperative response if pressure should develop.

External Financing and Debt

The large payments imbalances in prospect will create substantial demands for external financing by oil importing countries. Total net external financing requirements of countries in current account deficit averaged roughly $77 billion per year from 1974 to 1978. In the absence of the 1979 oil price increases, total world financing needs would have fallen sharply, with greater balance among major industrial countries. But it now appears that the figure will rise to about $85 billion in 1979 and substantially more in 1980.

External debt burdens have risen sharply in nominal terms over the past several years. Although world wide data on international debt are sketchy at best, the fact that aggregate current account deficits totalled $385 billion between 1974 and 1978 is indicative of the global trend. For the non-OPEC developing countries, the growth in foreign debt has been much more rapid than in earlier periods. Specifically, the external public debt of 79 of these countries which have borrowed from the IBRD rose from about $50 billion at the end of 1972 to more than $175 billion at the end of 1978 -- an average annual increase of 18 percent over this six-year period.

While total debt service requirements have increased since 1972, the export earnings of these countries increased rapidly, and the debt service burden has remained manageable in aggregate terms. The aggregate "debt-service ratio" for the non-OPEC developing countries was somewhat higher at the end of 1978 than at the end of 1972. However, the distribution of the debt suggests that it is falling most heavily on those countries that have the greatest capacity to bear it. Since 1972, only eleven of the non-OPEC developing countries have had to obtain debt relief through multilateral negotiations with their official creditors, a record that compares favorably with earlier periods. Even so, with the large deficits expected in the years ahead, debt burdens could cause problems for some countries.

Financing Needs and IMF Quotas

At the Annual Meeting of the IMF and IBRD in 1978, the IMF's Interim Committee agreed to recommend a 50 percent general increase in quotas, raising total quotas from about SDR 39 billion (or $50 billion) to about SDR 58 billion (or $75 billion). A resolution proposing this increase was adopted formally by the IMF Board of Governors last December.

At the time of that decision, the world financing outlook was becoming somewhat brighter, as a result of steep reduction in the OPEC surplus and improvement of payments patterns among the major industrial countries. The size of the IMF, and its capacity to meet balance of payments financing needs, had nonetheless fallen sharply in terms of world economic aggregates and the scale of international transactions. Despite quota increases on four occasions during the IMF's history, quotas had fallen to roughly 4 percent of world imports, in comparison to 10-14 percent during the first decade of IMF operations. And it had become clear from the experience of the 1970's that the size and pattern of world payments imbalances could change abruptly, leading to heavy demands on the IMF. These general considerations argued strongly for a substantial increase in quotas, to ensure that the IMF would remain capable of meeting demands for financing and fulfilling its responsibilities for promoting world monetary stability. The quota increase ultimately recommended would do little more than maintain the relative size of the IMF over the next five years, the period until the next regular review of quotas.

Developments since the IMF decision to recommend the quota increase have sharply altered the world balance of payments situation and outlook. Even in the absence of further major oil price increases, it must now be anticipated that payments imbalances and consequent financing needs during the next several years will be much larger than expected earlier. Moreover, countries' efforts to adjust their imbalances will be made more difficult by a world environment of slower growth, continued inflationary pressures, and energy supply constraints. It is critically important to the health of the world economy that the system as a whole be able to meet financing needs; and that the IMF be adequately equipped to help members implement orderly and cooperative programs to deal with their payments problems.

Private financial markets provided the bulk of global financing required in the wake of the 1973-74 oil price increases, and the private markets will again be required to meet the bulk of expanded financing demands in the period ahead. It is expected that flows of official development assistance will continue to rise, helping to offset the deterioration in current account position for a large number of developing countries. But, particularly in light of the very large amounts of financing provided in the last several years, it must be anticipated that some individual countries -- developed and developing -- will encounter difficulties in obtaining needed financing from traditional sources in adequate amounts and on acceptable terms, and will need to undertake efforts to restore stability to their domestic economies and bring their external positions into line with sustainable flows of financing. By providing official financing in support of deliberate and appropriately phased programs of balance of payments adjustment, the IMF can play a key role in maintaining the health and stability not only of the individual economies concerned but of the world economy as a whole. The United States, with a major role in -- and dependence on -- the international economic and financial system has a large, direct interest in assuring that the IMF remains capable of fulfilling its responsibilities.

The quota increase proposed for the United States amounts to SDR 4,202.5 million, raising the U.S. quota from SDR 8,405 million to SDR 12,607.5 million, an increase of 50 percent. This maintains the U.S. share of quotas intact at about 21-1/2 percent of the total. The IMF is unique in that members seek to maximize rather than minimize their share of the total. They do so because quotas determine voting power and important rights in the IMF -- including the right to obtain financing when in need -- as well as obligations to provide financing to others. Also, members recognize that when they do provide financing to the IMF, they receive a liquid monetary asset that can be included in their monetary reserves.

Pursuant to the Board of Governors resolution, quotas are to become effective not later than November 1, 1980, provided that members having 75 percent of total quotas have consented to their increases by that time.

Prior Congressional approval for an increase in the U.S. quota is required by the Bretton Woods Agreements Act, as amended. On November 21, the Treasury Department transmitted to the Congress proposed authorizing legislation for U.S. consent to its quota increase. The bill would authorize the U.S. Governor of the Fund to consent to the proposed increase in the U.S. quota, to such extent or in such amounts as are provided in appropriations acts. This language, which would submit the quota increase to the appropriations process, is designed to provide the Administration and the Congress flexibility in determining the appropriate budget and appropriations treatment for these transactions with the IMF. We have been working closely with interested committees at staff level to develop an acceptable approach, and we hope this effort can be completed shortly.

A report of the National Advisory Committee on International Monetary and Financial Policies, providing further detail and background on the proposed quota increase, has been transmitted to the Subcommittee. The Subcommittee is fully aware of the central role of the IMF in U.S. policies to maintain a strong, open and cooperative world economic and monetary system, and that the United States itself has drawn on the IMF a number of times, most recently when we obtained $3 billion of German marks and Japanese yen in connection with the program of operations to stabilize exchange markets announced on November 1, 1978.

The resources of the IMF have not kept pace with the expansion of the world economy and global financing requirements. Very large balance of payments financing needs are in prospect and the world economy is undergoing a period of pronounced uncertainty and change. It is essential that the IMF remain in a position to meet the official balance of payments financing requirements that may arise, and to provide confidence that the official underpinnings of the system are strong. When the IMF quota legislation comes before you, Mr. Chairman, I urge that the Subcommittee report the bill promptly and favorably.

IMF Surveillance

The IMF's efforts to promote a sound world economy have in the past focused most directly on countries using the Fund's resources via the policy conditions associated with IMF financing. The proposed quota increase will ensure the Fund's ability to continue to meet the needs of countries in deficit. But the new IMF Articles of Agreement also provide the Fund with enhanced authority and responsibility for surveillance over all members' exchange rate policies and the balance of payments adjustment process. The surveillance provisions increase the ability of the IMF to advise not only countries in balance of payments deficit, but also those in surplus, on the international implications of their policies and on the approaches they might appropriately follow to correct their payments imbalances.

In the one and one-half years since the amended Articles took effect, the IMF has made progress in implementing its new surveillance responsibilities, adopting principles for the guidance of members in conducting exchange rate policy, and implementing procedures and criteria for assessing those policies. The guidelines, and IMF practice, reflect the new orientation of the Fund's exchange rate provisions that exchange rate stability can be achieved only by directing economic and financial policies toward fostering orderly economic growth with reasonable price stability. Consequently, the Fund's examination goes beyond narrowly defined exchange rate policy to encompass the broad range of economic policies affecting balance of payments adjustment.

The IMF has begun to implement the new surveillance arrangements in a cautious and prudent manner. Consultations under the new surveillance provisions of the IMF articles have been conducted with 137 countries, including special consultations with the United States following the November 1, 1978 program. These consultations have provided a useful foundation, by giving the Fund and members experience under the new procedures and by beginning the development of case history that will guide the future development of surveillance.

With this foundation of recent experience, we believe the time has come for the IMF to take more vigorous action in advancing its surveillance role. At the IMF annual meetings in Belgrade, the United States proposed consideration of several steps to strengthen the process of surveillance. These include procedures for measuring individual country performance against agreed global standards; requiring countries with large payments imbalances, surplus or deficit, to submit for IMF review an analysis of how they propose to deal with the imbalances; a more active role for the IMF Managing Director in initiating consultations with members; and establishment of a Governors Council with decision-making powers to replace the advisory Interim Committee. While these proposals are largely procedural in nature, they could play an important role in making the Fund a stronger force for encouraging member nations to follow sound and internationally responsible policies and ensuring a sound monetary system.

International Liquidity

Mr. Chairman, you have asked for comments on a number of questions in the area of international liquidity -- the Euromarkets, reserve diversification, the substitution account, SDRs, gold and the EMS. Complementing efforts to strengthen IMF surveillance procedures to improve the functioning of the adjustment process, there has also been a renewal of interest in achieving greater official influence over international liquidity and reserves. This interest has centered on two main areas -- the Euro-markets and the role of the SDR in the international monetary system.

As indicated above, world financing requirements will remain very large in the period ahead, and the international banking system will continue to play a major role in meeting financing needs. The bulk of international bank lending continues to take place in Euro-currencies, funded by Euro-currency deposits which may pass through several banks before settling in the bank which lends them to an end-user. The lending occurs through these markets rather than through national markets because they have competitive advantages which permit them to operate more efficiently than national markets. National monetary authorities have limited control over their operations, and this has led to a variety of concerns.

The major concern for the U.S. is the way in which these markets complicate the task of the Federal Reserve in managing the growth of money and credit in the U.S. The central banks of the leading countries are conducting an examination of whether measures are needed to control the growth of these markets and, if so, what measures might be taken. The possibility of reserve requirements on Euro-currency deposits is being given special study. This work is still underway. The Federal Reserve is actively involved in this effort, with our full support.

At the same time, there has been a renewal of interest in promoting the role of the Special Drawing Right in the international monetary system. With the development of greater economic interdependence among nations has also come development of a greater balance in economic size and capacity to play a role in international finance. In many respects, a larger role for other countries and markets in the provision of international credit would be not only appropriate but welcome. At the same time, it is widely felt that the stability of the system would be well served by increasing reliance on a single, internationally created and managed, reserve asset, in preference to a full scale multiple currency system. It is impossible to know in advance all of the implications of movement toward a single reserve asset. But the pressures of the past few years are reminders of the problems that can be caused if there are substantial shifts among various reserve currencies -- not only in terms of the exchange markets but also in terms of domestic monetary and economic circumstances in the countries concerned.

With the existence of large international financing needs and in the absence of practical alternatives, the scale of reserve holdings in the form of currencies has grown enormously. There is little reason to expect that situation to change unless conscious steps are taken to make it change. An increasing role for the SDR, holding potential for more active management of international liquidity through the IMF over the longer-term, would be an important complement to enhanced IMF influence over balance of payments adjustment through its surveillance provisions.

The objective of making the SDR the world's principal reserve asset was incorporated into the amendment of the IMF Articles of Agreement that took effect last year. That amendment also established the SDR as the IMF's unit of account in place of gold, and enhanced the use of the SDR both in transactions with the IMF and between members. Since the amendment, additional steps have been taken to expand the role of the SDR. We have agreed to resume allocations; have taken action to bring the SDR interest rate more closely into line with market interest rates; and have increased in a number of ways the uses that may be made of SDR's. Most recently, the IMF has been examining the possibility of establishing a Substitution Account, which could accept deposits of dollars and perhaps other currencies in exchange for SDR-denominated claims on the Account.

The Interim Committee, at its recent meeting in Belgrade, concluded that a properly designed account could contribute to an improvement of the system and promote the role of the SDR, and identified a number of main characteristics of such an account. The Committee is to receive a further report from the IMF Executive Board at its meeting next April. The United States supports this examination by the Fund, and is participating actively in the effort. We believe that such an account, appropriately designed, could offer a number of attractions for the international community in general. The SDR is a diversified instrument, involving less exchange risk than holdings of any national currency. The existence of a Substitution Account would thus provide an internationally sanctioned, non-disruptive means for countries to achieve a more diversified and stable reserve position without having to hold a number of international currencies. Implementation of an account could give important direction for the future as a concrete move toward reliance on a fully international asset -- the SDR -- and away from an unregulated multiple currency system.

Designing an account that meets these objectives and incorporates an equitable sharing of any costs is not easy. There are difficult and complex questions regarding the yield and liquidity of the SDR claims on the Account, the investment of the Account's assets, and the Account's capital value. We can not be certain when or whether a satisfactory resolution of these issues will be found. But we feel that the effort is well worthwhile, and we will maintain an active and constructive role as these discussions progress.

On related points, your letter asked about the future role of gold in the international monetary system and about the implications of the European Monetary System for the dollar and the SDR. Gold remains a significant part of the reserves of many central banks, available for use in times of balance of payments need. This is likely to continue to be the case for the foreseeable future. But the more important features of gold's former role in the system -- use of gold as common denominator and unit of account, gold convertibility, and the central role of gold in the IMF -- have all been effectively eliminated. It seems very unlikely that they will reemerge in the future.

The EMS is an integral part of European efforts to achieve economic unification and, in the context of closer harmonization of European economic policies and performance, achieve greater exchange rate stability among European currencies. This effort can contribute to greater stability for the system as a whole, and we wish the EC every success. How the operations of the EMS will specifically affect the dollar and the SDR is not possible to predict. At this early stage, greater emphasis is being placed on the use of European currencies for intra-EC intervention purposes, a step that could in some circumstances help avoid movements in dollar exchange markets that are unrelated to developments in the U.S. external position.

For the longer term, the second phase of the EMS envisages the institutionalization of the ECU as the key instrument in intra-EC settlements. It is clear that the ECU can strengthen and help solidify the European regional arrangement, but there is a question whether the EMS participants will permit, and perhaps encourage, a wider role for the ECU. Many have sought to discourage a reserve role for their own national currencies. The ECU may provide an alternative that could facilitate a greater

European role in meeting world credit needs without at the same time moving the reserve system toward still greater reliance on national currencies. Although such a development could constitute a forward step, it would not, of course, provide like the SDR a full answer to the ultimate goal of establishing a single international reserve asset, subject to decisions of the international community as a whole.

Conclusion

Mr. Chairman, the world faces difficult economic problems, major uncertainties and potential financial strains We must insure that our international system is able to meet demands placed upon it. The proposed increase in IMF quotas is an important and immediate part of that effort. Surveillance over the system and the balance of payments adjustment process, and work in the IMF and in other bodies to improve the international liquidity and reserve system, are important longer range efforts to help assure monetary stability. These efforts must be pursued. But the critical lesson -- the lesson we must acknowledge and act on -- is the overriding need to reduce our dependence on imported oil. That dependence is the basic source of the world's economic problems today. Our efforts in the monetary area can help ameliorate the effects of those problems. But the "system" cannot cure them. Only we can do that.

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

FOR RELEASE AT 4:00 P.M. December 12, 1979

TREASURY TO AUCTION 2-YEAR AND 4-YEAR NOTES
TOTALING $6,000 MILLION

The Department of the Treasury will auction $3,500 million of 2-year notes and $2,500 million of 4-year notes to refund $5,199 million of notes maturing December 31, 1979, and to raise $801 million new cash. The $5,199 million of maturing notes are those held by the public, including $806 million of maturing 2-year notes and $235 million of maturing 4-year notes 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 $727 million of the maturing notes that may be refunded by issuing additional amounts of the new notes at the average prices of accepted competitive tenders. Additional amounts of the new securities may also be issued at the average prices to Federal Reserve Banks, as agents for foreign and international monetary authorities, to the extent that their aggregate tenders for each of the new notes exceed their aggregate holdings of each of the maturing notes.

Details about the new securities are given in the attached highlights of the offering and in the official offering circulars.

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Attachment

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M-236

HIGHLIGHTS OF TREASURY
OFFERINGS TO THE PUBLIC
OF 2-YEAR AND 4-YEAR NOTES
TO BE ISSUED DECEMBER 31, 1979

		December 12, 1979
Amount Offered:		
To the public	$3,500 million	$2,500 million
Description of Security:		
Term and type of security	2-year notes	4-year notes
Series and CUSIP designation	Series AB-1981 (CUSIP No. 912827 KF 8)	Series H-1983 (CUSIP No. 912827 KG 6)
Maturity date	December 31, 1981	December 31, 1983
Call date	No provision	No provision
Interest coupon rate	To be determined based on the average of accepted bids	To be determined based on the average of accepted bids
Investment yield	To be determined at auction	To be determined at auction
Premium or discount	To be determined after auction	To be determined after aucti
Interest payment dates	June 30 and December 31	June 30 and December 31
Minimum denomination available	$5,000	$1,000
Terms of Sale:		
Method of sale	Yield Auction	Yield Auction
Accrued interest payable by investor	None	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less	Noncompetitive bid for $1,000,000 or less
Deposit requirement	5% of face amount	5% of face amount
Deposit guarantee by designated institutions	Acceptable	Acceptable
Key Dates:		
Deadline for receipt of tenders	Wednesday, December 19, 1979, by 1:30 p.m., EST	Thursday, December 20, 1979, by 1:30 p.m., EST
Settlement date (final payment due)		
a) cash or Federal funds	Monday, December 31, 1979	Monday, December 31, 1979
b) check drawn on bank within FRB district where submitted	Thursday, December 27, 1979	Thursday, December 27, 1979
c) check drawn on bank outside FRB district where submitted	Thursday, December 27, 1979	Thursday, December 27, 1979
Delivery date for coupon securities	Monday, January 7, 1980	Monday, January 7, 1980

Department of the TREASURY NEWS
U.S. SAVINGS BONDS DIVISION WASH., D.C. 20226

OFFICE OF PUBLIC AFFAIRS Contact: Carolyn Johnston
(202) 634-5377

EMBARGOED FOR RELEASE
2 PM, DECEMBER 12, 1979

CHANGES IN U.S. SAVINGS BONDS ANNOUNCED

The Treasury Department today announced that the new Series EE savings bonds which go on sale effective January 1, 1980, will be called United States Energy Savings Bonds, Series EE, and will receive a 1/2 percent bonus if held to maturity.

The interest rate on U.S. Energy Savings Bonds, Series EE, will be increased from 6.5 percent to 7 percent for bonds held for the full 11 years to maturity. Series E bonds that have not finally matured and U.S. Savings Notes ("Freedom Shares") will also receive the 1/2 percent bonus if they are held for 11 years from the date of the first semiannual interest period that begins on or after January 1, 1980. Bonds and notes redeemed earlier will not receive the bonus.

The redesignation of the bonds as Energy Savings Bonds is intended to help focus attention on the national goals of reducing energy consumption and increasing domestic supplies. The bonds were known as Defense Bonds before and after World War II and as War Bonds from

1941 to 1945 reflecting the national concerns of these times. The Energy Savings Bonds will assist in financing the large Federal energy expenditure required in the coming years.

After June 30, 1980, all U.S. Savings Bonds bought through payroll savings plans will be Energy Savings Bonds, Series EE. Series H and HH Savings Bonds will not be affected by these changes.

-- USSB --

Department of the TREASURY NEWS
U.S. SAVINGS BONDS DIVISION WASH., D.C. 20226

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FOR IMMEDIATE RELEASE December 12, 1979

TREASURY SECRETARY MILLER MEETS WITH CHAIRMAN HAYNES, U.S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE. KINNEY NAMED 1980 CHAIRMAN

Members of the U.S. Industrial Payroll Savings Committee gathered in Washington, D.C. today with Treasury Secretary G. William Miller to review their 1979 program, to plan for 1980, and to hear the first announcement of the new U.S. Energy Savings Bonds, Series EE.

Harold J. Haynes, 1979 Chairman of the Industrial Payroll Savings Committee, and Chairman of the Board and CEO of Standard Oil of California, reported on the activities of his Committee and presented several awards.

Treasury Secretary Miller announced the introduction of the new U.S. Energy Savings Bonds, Series EE, on January 2, 1980. The new bond was formerly known as the U.S. Savings Bond, Series EE.

Treasury Secretary Miller presented outgoing Chairman Haynes with a gold Medal of Merit Award. Silver Medals of Merit Awards went to all members of the 1979 Committee, along with letters of appreciation from Secretary Miller.

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The Committee also installed Mr. E. Robert Kinney as the 1980 chairman. Mr. Kinney is Chairman of the Board and Chief Executive Officer of General Mills, Minneapolis, Mn. His Committee includes approximately 60 distinguished business, industrial or community leaders from across the nation.

The U.S. Industrial Payroll Savings Committee has held annual meetings since 1963. The 1980 members come from 18 major marketing areas and represent 28 major industries. They encourage the concept of individual savings through the promotion of savings bonds in payroll savings programs.

-- USSB --

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

FOR IMMEDIATE RELEASE December 13, 1979

JOEL RABINOVITZ APPOINTED DEPUTY INTERNATIONAL TAX COUNSEL

Secretary of the Treasury G. William Miller today announced the appointment of Joel Rabinovitz as Deputy International Tax Counsel and Deputy Director of the Office of International Tax Affairs, effective December 4, 1979.

Mr. Rabinovitz, who will also serve as Special Assistant to the Assistant Secretary for Tax Policy, has been associated with the Treasury Office of Tax Policy since May 1979. He is on leave of absence from the University of California, Los Angeles, where he is Professor of Law.

As Deputy International Tax Counsel, Mr. Rabinovitz will assist the International Tax Counsel, H. David Rosenbloom, in advising the Assistant Secretary for Tax Policy on the development of policy, legislation, and regulations on international tax matters.

As Deputy Director of the Office of International Tax Affairs, Mr. Rabinovitz will share responsibility for the Treasury Department's income and estate tax treaty programs and for the participation of the Treasury Department in the activities of the Committee on Fiscal Affairs of the Organization for Economic Cooperation and Development (OECD).

Mr. Rabinovitz is author of articles on taxation and has been a frequent lecturer on tax matters. A native of New York City, Mr. Rabinovitz, 40, was graduated from Cornell University in 1960, and from Harvard Law School in 1963. He is a member of the New York bar. Mr. Rabinovitz and his wife, the former Gayle M. Grimsrud of Milwaukee, Wisconsin, reside in the District of Columbia.

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M-237

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

FOR RELEASE AT 12:00 NOON December 14, 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 $6,400 million, to be issued December 27, 1979. This offering will provide $500 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,918 million, including $722 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $1,782 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,200 million, representing an additional amount of bills dated September 27, 1979, and to mature March 27, 1980 (CUSIP No. 912793 3X 2), originally issued in the amount of $3,020 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated December 27, 1979, and to mature June 26, 1980 (CUSIP No. 912793 4L 7).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing December 27, 1979. Tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the weighted average prices 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Friday, December 21, 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 December 27, 1979, in cash or other immediately available funds or in Treasury bills maturing December 27, 1979. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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

FOR IMMEDIATE RELEASE
December 14, 1979

DEPUTY TREASURY SECRETARY CARSWELL
EN ROUTE TO TOKYO FOR IRAN TALKS

Robert Carswell, Deputy Secretary of the Treasury, is leaving Saturday for Tokyo to meet with senior Japanese officials for further consultations in connection with the U.S. blocking of Iranian government assets and other international economic and financial matters.

The trip is a continuation of the consultations conducted in Europe the past week, when Deputy Secretary Carswell, together with Richard Cooper, Under Secretary of State for Economic Affairs, met with Japanese Foreign Affairs Minister Saburo Okita in Paris last Sunday. Secretary of State Cyrus Vance also met with Minister Okita this week.

Over the past 10 days, the President has sent special emissaries to consult with senior officials of various countries about the situation in Iran, and Deputy Secretary Carswell's trip is a part of this process. He is expected to return to Washington on Tuesday.

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

IMMEDIATE RELEASE
December 14, 1979

STATEMENT BY THE TREASURY DEPARTMENT

The Treasury supports the actions taken by the bank regulatory authorities to provide a new and more attractive savings instrument for the small saver and, at the same time, a new source of funds for depository institutions.

Treasury hopes the Congress will approve early next year the President's proposal for an orderly phase out of Regulation Q. Today's action by the regulators illustrates the continuing need for that legislation.

* * *

M-240

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

FOR IMMEDIATE RELEASE December 17, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,200 million of 13-week bills and for $3,200 million of 26-week bills, both to be issued on December 20, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 20, 1980			:	26-week bills maturing June 19, 1980		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.931	12.141%	12.73%	:	93.953	11.961%	12.94%
Low	96.900	12.264%	12.87%	:	93.919	12.028%	13.02%
Average	96.909	12.228%	12.83%	:	93.934	11.999%	12.99%

Tenders at the low price for the 13-week bills were allotted 42%.
Tenders at the low price for the 26-week bills were allotted 59%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Receiv
Boston	$ 46,
New York	4,232,
Philadelphia	28,
Cleveland	50,
Richmond	29,
Atlanta	37,
Chicago	475,
St. Louis	43,
Minneapolis	6,
Kansas City	28,
Dallas	15,
San Francisco	215,
Treasury	51,
TOTALS	$5,264,1
Type	
Competitive	$3,460,0
Noncompetitive	548,2
Subtotal, Public	$4,008,3
Federal Reserve	$1,030,0
Foreign Official Institutions	225,7
TOTALS	5,264,1

DATE: December 17, 1979

	13-WEEK	26-WEEK
TODAY:	12.228%	[illegible] %
LAST WEEK:	12.054%	11.76 %

HIGHEST SINCE:

11/19/[illegible]		12.035 %
10/29/79	12.256%	

LOWEST SINCE:

1/Equivalent coupon-issue yield.

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

FOR IMMEDIATE RELEASE December 17, 1979

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Average	96.909	12.228%	12.83%	93.934	11.999%	12.99%

Tenders at the low price for the 13-week bills were allotted 42%.
Tenders at the low price for the 26-week bills were allotted 59%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 46,600	$ 46,600	$ 26,640	$ 26,640
New York	4,232,755	2,576,055	4,389,770	2,486,270
Philadelphia	28,355	28,355	11,755	11,755
Cleveland	50,990	40,990	48,620	48,620
Richmond	29,735	29,735	32,020	24,020
Atlanta	37,860	37,860	37,425	32,425
Chicago	475,645	245,645	628,915	374,815
St. Louis	43,725	21,725	37,025	13,205
Minneapolis	6,915	6,915	5,880	5,880
Kansas City	28,675	28,675	24,235	24,235
Dallas	15,770	15,770	10,910	10,910
San Francisco	215,450	70,450	245,930	95,930
Treasury	51,655	51,655	45,650	45,650
TOTALS	$5,264,130	$3,200,430	$5,544,775	$3,200,355
Type				
Competitive	$3,460,090	$1,396,390	$3,840,060	$1,495,640
Noncompetitive	548,280	548,280	348,450	348,450
Subtotal, Public	$4,008,370	$1,944,670	$4,188,510	$1,844,090
Federal Reserve	$1,030,000	$1,030,000	$1,031,765	$1,031,765
Foreign Official Institutions	225,760	225,760	324,500	324,500
TOTALS	5,264,130	3,200,430	$5,544,775	$3,200,355

1/Equivalent coupon-issue yield.

M-~~241~~

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

IMMEDIATE RELEASE
December 17, 1979

CONTACT: Everard Munsey
202/566-8191

TREASURY REVOKES PROHIBITIONS ON
TRANSACTIONS WITH RHODESIA

In keeping with President Carter's Executive Order terminating U.S. sanctions against Rhodesia, the Treasury today revoked all prohibitions on transactions with Rhodesia under the Rhodesian Sanctions Regulations. Sections of the regulations related to recordkeeping, reporting and penalties remain in effect. Today's revocation has no effect on any violations that occurred while the Regulations were in force.

* * *

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

FOR IMMEDIATE RELEASE
December 18, 1979

Contact: George G. Ross
202/566-2356

TREASURY ANNOUNCES CHANGE IN REPAIR ALLOWANCE FOR RAILROAD MACHINERY AND EQUIPMENT

The Treasury Department today announced a change in the annual asset guideline repair allowance percentage for Class Life Asset Depreciation Range (CLADR) System assets in Asset Guideline Class (AGC) 40.1, Railroad Machinery and Equipment.

The effect of the change will be to increase the annual assets guideline repair allowance.

The change in the percentage from 10.5 to 16.5 is incorporated in Revenue Procedure 79-64, to be published in the Internal Revenue Bulletin No. 1979-53 of December 31, 1979, and it will be effective for taxable years ending on or after December 31, 1979. The AGC 40.1 description of assets included, asset guideline period, and asset depreciation range remain unchanged.

The change in the repair allowance percentage is the result of a Treasury study of increasing repair ratios in the class. The study found that the industry is experiencing increases in repair costs due to rising real costs as well as the impact of inflation.

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

FOR IMMEDIATE RELEASE
December 18, 1979

Contact: George G. Ross
202/566-2356

TREASURY ANNOUNCES DEPRECIATION CHANGES FOR
ELECTRICAL, ELECTRONIC, AND INSTRUMENTATION INDUSTRIES

The Treasury Department today announced revisions in the classification, asset guideline periods, asset depreciation ranges, and annual repair allowance percentages, relating to three types of property: assets used in plants making (1) electrical and non-electrical machinery and other mechanical products; (2) electronic components, products and systems; and (3) instruments, medical and dental equipment, appliances and supplies, photographic equipment, and watches and clocks.

The effect of the changes generally will be to shorten most asset guideline periods, except those in special tools classes which will be lengthened. In addition, the annual asset guideline repair allowance percentages will be increased.

The changes are incorporated in a new Revenue Procedure 79-65, to be published in the Internal Revenue Bulletin No. 1979-53 of December 31, 1979, and are to be effective for assets placed in service during a taxpayer's first taxable year ending on or after December 31, 1979.

The new Revenue Procedure 79-65 modifies and revises related material published in Revenue Procedure 77-10 (1977-1 C.B. 548), Revenue Procedure 78-4 (1978-1 C.B. 555), and Revenue Procedure 79-35 (1979-29 I.R.B. 13), as follows:

-- Asset Guideline Classes 35.0, Manufacture of Machinery; 36.1, Manufacture of Electrical Equipment; 36.11 Manufacture of Electrical Equipment-Special Tools; 36.2, Manufacture of Electronic Products; and 38.0, Manufacture of Professional, Scientific, and Controlling Instruments, are all deleted.

-- A new Asset Guideline Class 35.0, Manufacture of Electrical and non-Electrical Machinery and Other Mechanical Products is prescribed--which includes assets used to manufacture machinery formerly included in class 35, assets used to manufacture electrical equipment formerly included in class 36.1 and 36.11, and assets used to manufacture instruments, medical and dental equipment and appliances, photographic equipment, and ophthalmic goods formerly included in class 38.0.

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-- A new Asset Guideline Class 36, Manufacture of Electronic Components, Products and Systems, is prescribed--which includes assets used to manufacture electronic products, components and accessories formerly included in classes 36.1 and 36.11, electronic products formerly included in class 36.2, and electronic instruments, watches and clocks formerly included in class 38.0.

-- Asset Guideline Class 22.3, Manufacture of Carpets, and Dyeing, Finishing and Packaging of Textile Products, is revised to include assets used to manufacture medical and dental supplies.

The asset guideline periods and the annual guideline repair allowance percentages for the property affected have been changed as follows:

Type of Property	Asset Guideline Classes		Asset Guideline Period (Years)			Annual Asset Guideline Repair Allowance Percentage (Percent)		
	OLD	NEW	OLD	NEW	EFFECT	OLD	NEW	EFFECT
Machinery Plants	35.0	35.0	10	10	No Change	11	11	No Change
Electrical Equipment Plants	36.1	35.0	12	10	Shorter	5.5	11	Increased
Electronic Components & Accessories Assembled From Purchased Components	36.1	36.0	12	6	Shorter	5.5	8	Increased
Special Tools (Subclass of 36.1):								
--Electrical Equipment	36.11	35.0	5	10	Longer	0	11	Increased
--Electronic Components and Accessories Assembled from Purchased Components	36.11	36.0	5	6	Longer	0	8	Increased
Electronic Products Plants	36.2	36.0	8	6	Shorter	7.5	8	Increased
Mechanical and Electrical Instruments, Medical and Dental Equipment & Appliances, Photographic Equipment, Ophthalmic Goods, and Watches & Clocks Plants	38.0	35.0	12	10	Shorter	5.5	11	Increased
Electronic Instruments and Watches and Clocks Plants	38.0	36.0	12	6	Shorter	5.5	8	Increased
Medical and Dental Supplies Plants	38.0	22.3	12	9	Shorter	5.5	15	Increased

The changes are the result of a continuing program of study and updating of the classes and depreciation guidelines under the Class Life Asset Depreciation Range (CLADR) System. The CLADR System classes affected by these changes are attached.

set guide- line class	Description of Assets Included	Asset Depreciation Range (in years) Lower Limit	Asset Guideline Period	Upper Limit	Annual Asset Guideline Repair Allowance Percentage
.3	Manufacture of Carpets, and Dyeing, Finishing, and Packaging of Textile Products and Manufacture of Medical and Dental Supplies. Includes assets used in the production of carpets, rugs, mats, woven carpet backing, chenille, and other tufted products, and assets used in the joining together of backing with carpet yarn or fabric. Includes assets used in washing, scouring, bleaching, dyeing, printing, drying, and similar finishing processes applied to textile fabrics, yarns, threads, and other textile goods. Includes assets used in the production and packaging of textile products, other than apparel, by creasing, forming, trimming, cutting, and sewing, such as the preparation of carpet and fabric samples, or similar joining together processes (other than the production of scrim reinforced paper products and laminated paper products) such as the sewing and folding of hosiery and panty hose, and the creasing, folding, trimming, and cutting of fabrics to produce nonwoven products, such as disposable diapers and sanitary products. Also includes assets used in the production of medical and dental supplies other than drugs and medicines. Assets used in the manufacture of nonwoven carpet backing, and hard surface floor covering such as tile, rubber, and cork, are elsewhere classified.	7	9	11	15

Asset Guide-line Class	Description of Assets Included	Asset Depreciation Range (in years) Lower Limit	Asset Guide-line Period	Upper Limit	Annual Asset Guideline Repair Allowance Percentage

35.0 Manufacture of Electrical and Non-Electrical Machinery and Other Mechanical Products:

Includes assets used to manufacture or rebuild finished machinery and equipment and replacement parts thereof such as machine tools, general industrial and special industry machinery, electrical power generation, transmission, and distribution systems, space heating, cooling, and refrigeration systems, commercial and home appliances, farm and garden machinery, construction machinery, mining and oil field machinery, internal combustion engines (except those elsewhere classified), turbines (except those that power airborne vehicles), batteries, lamps and lighting fixtures, carbon and graphite products, and electromechanical and mechanical products including business machines, instruments, watches and clocks, vending and amusement machines, photographic equipment, medical and dental equipment and appliances, and ophthalmic goods. Includes assets used by manufacturers or rebuilders of such finished machinery and equipment in activities elsewhere classified such as the manufacture of castings, forgings, rubber and plastic products, electronic subassemblies or other manufacturing activities if the interim products are used by the same manufacturer primarily in the manufacture, assembly, or rebuilding of such finished machinery and equipment. Does not include assets used in mining, assets used in the manufacture of primary ferrous and non-ferrous metals, assets included in guideline class 00.11 through

et de- e ss	Description of Assets Included	Asset Depreciation Range (in years) Lower Limit	Asset Guide- line Period	Upper Limit	Annual Asset Guideline Repair Allowance Percentage
.0	Manufacture of Electronic Components, Products, and Systems: Includes assets used in the manufacture of electronic communication, computation, instrumentation and control systems, including airborne applications; also includes assets used in the manufacture of electronic products such as frequency and amplitude modulated transmitters and receivers, electronic switching stations, television cameras, video recorders, record players and tape recorders, computers and computer peripheral machines, and electronic instruments, watches, and clocks; also includes assets used in the manufacture of components, provided their primary use is in products and systems defined above such as semiconductors, electron tubes, capacitors, coils, resistors, printed circuit substrates, switches, harness cables, lasers, fiber optic devices, and magnetic media devices. Specifically excludes assets used to manufacture electronic products and components, photocopiers, typewriters, postage meters and other electromechanical and mechanical business machines and instruments that are elsewhere classified.	5	6	7	8

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

IMMEDIATE RELEASE
December 17, 1979

CONTACT: Everard Munsey
202/566-8191

TREASURY LICENSES ADDITIONAL FUNDS FOR IRANIAN STUDENTS

The Treasury Department today announced the issuance of licenses allowing two Iranian banks to bring in new funds for payments to Iranian students in the United States.

The licenses allow Bank Sepah in New York to bring in $20 million and Bank Melli (San Francisco) to bring in $10 million. The funds may not be attached by U.S. creditors of Iran.

Previously Treasury had licensed Bank Melli (New York) to bring in $20 million in new funds for payments to Iranian students and had unblocked four accounts of the Iranian Embassy, totalling $7 million, to be used in part for continuing payments to students that had been made from Embassy funds.

Remittances to students from Iran can also be made through Iranian correspondent accounts in non-American banks in lieu of payment through Iranian correspondent accounts in American banks which remain blocked.

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M-245

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

FOR IMMEDIATE RELEASE December 19, 1979

RESULTS OF AUCTION OF 2-YEAR NOTES

The Department of the Treasury has accepted $3,509 million of $8,204 million of tenders received from the public for the 2-year notes, Series AB-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	11.42%
Highest yield	11.44%
Average yield	11.43%

The interest rate on the notes will be 11-3/8%. At the 11-3/8% rate, the above yields result in the following prices:

Low-yield price	99.922
High-yield price	99.887
Average-yield price	99.904

The $3,509 million of accepted tenders includes $ 864 million of noncompetitive tenders and $1,864 million of competitive tenders from private investors, including 68% of the amount of notes bid for at the high yield. It also includes $781 million of tenders at the average price from Federal Reserve Banks as agents of foreign and international monetary authorities in exchange for maturing securities.

In addition to the $3,509 million of tenders accepted in the auction process, $571 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing December 31, 1979, and $134 million of tenders were accepted at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash.

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

FOR IMMEDIATE RELEASE December 19, 1979

RESULTS OF AUCTION OF 2-YEAR NOTES

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In addition t
auction process, $
price from Governm
account in exchang
$134 million of
Federal Reserve Ba
authorities for ne

11 3/8 % TREASURY NOTES OF SERIES AB-1981

DATE: Dec. 19, 1979

HIGHEST SINCE:

LAST ISSUE:
12 1/8 % 11/31/79
Average rate 12.24

LOWEST SINCE:
10 1/8 % 10/3/79
Average rate 10.21%

TODAY:
11 3/8 %
Average rate 11.43%

M-246

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

For Release Upon Delivery
December 19, 1979 9:00 AM EST

Statement of John Copeland, Treasury Department
Office of Tax Policy
On S. 1913 before the Subcommittee on Taxation
and Debt Management of the Senate Finance Committee

December 19, 1979

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity of presenting the Treasury Department's views on S.1913.

S.1913 would amend a provision relating to the tax on distilled spirits which was enacted as part of the Distilled Spirits Tax Revision Act of 1979. This in turn, is part of the Trade Agreements Act of 1979. The Department sent a report on the bill to the Committee on Finance on December 6. The report opposed enactment of the bill because it would be contrary to what we consider a desirable reform in the method of taxing distilled spirits. We also pointed out a number of administrative problems.

While we customarily speak of the tax on distilled spirits products as being $10.50 a proof gallon, this was not exactly the case under prior law. Tax-paid wine and alcoholic flavoring materials could be added to tax-paid domestic distilled spirits within specified limits. The mixing was subject to a rectification tax of 30 cents a proof gallon, but the net result was that the product, even though sold as distilled spirits, bore a lower tax than $10.50 a proof gallon. Some domestic cordials and liqueurs containing a large amount of table wine thus had an effective tax rate as low as $6.50 a proof gallon.

Imported distilled spirits products were taxed solely on their proof content, or wine gallonage if below 100 proof. If below proof, the tax was greater than $10.50 a proof gallon.

The recent legislation equalized excise taxation for both domestic and imported distilled spirits products. Irrespective of wine or flavoring content, or proof in the case of imports, the tax is to be $10.50 a proof gallon of the final product as of January 1, 1980. The 30 cent rectification tax is repealed.

It must be emphasized that the change in the law did not change the low rate of tax on wine sold as wine.

We believe the change is only fair and reasonable. All products, domestic and imported, will be taxed on their alcoholic content at the same rate without regard to whether the alcohol is derived from grain or grapes. Consumers of liqueurs, cordials, and so-called specialities no longer will obtain the alcohol at a lesser tax rate than highball consumers. Of course the tax will cause some increase in prices of products formerly taxed at less than $10.50 a proof gallon, but this is a necessary result of the desired objective.

S. 1913 seeks to reverse the change to a straight proof gallon tax for distilled spirits products when wine is used in the product by allowing a credit to the distilled spirits producer (or importer) for the excess of $10.50 over the tax that would be levied on the wine if it were taxed as wine. In the case of table wine which is taxed at 17 cents per wine gallon, the credit for wine of 14 percent of alcohol by volume would be $2.77 a wine gallon. As noted, the credit also would be available for imported products in keeping with the trade agreement.

The significance of the changes in the law for the domestic wine industry would seem to be de minimus. Wine is not used in distilled products merely to save on the excise tax. Many products contain wine as a basic flavoring ingredient. If the producers do not want to have to educate their customers to a new taste, they will continue to use the same, or approximately the same, amount of wine. There are some products, of course, where wine is heavily used to minimize tax. These formulas might well be changed somewhat under the new law. But whatever the change, it can hardly loom large for the wine industry. Furthermore, since wine consumption is growing, any such decrease in use would merely be a very minor temporary slowing of such growth.

According to the statistics of the Bureau of Alcohol, Tobacco and Firearms, only 831,000 proof gallons of wines and vermouth were used in domestic distilled spirits plants in the fiscal year 1978. But 243,000 proof gallons of this imput were merely further processed in a fashion that left the final product classified as a wine or vermouth. This processing took a form that was considered rectification which under prior law could be carried out only in a distilled spirits plant. Under the new law, this "rectification" can be carried out in a bonded wine celler.

The net amount of 588,000 proof gallons of wines and vermouth that was used in distilled spirits products represented slightly more than 2 million wine gallons. In the same 1978 fiscal year, withdrawals of domestic still wine, both taxable and tax-free, were 375 million gallons. Use of wines in distilled spirits products thus was less than six tenths of 1 percent of total withdrawals.

The proposel of S.1913 does not represent a great deal of revenue when measured against distilled tax receipts of over $3.5 billion. We do not have an estimate of how much the revenue loss would be for imported products. As for domestic products, the revenue loss appears to be about $6 million based on past practice of the industry. Our objection to the bill goes beyond the particular revenue figure. The change in the law that resulted in the taxation of distilled spirits products containing wine on a proof gallon basis also equalized the tax on domestic products containing alcoholic flavoring materials and products imported at below 100 proof. We consider this equalization as a major step forward. The return to an unequal level of taxation as proposed by S.1913 would represent a step, pehaps the first step, back to a system that was less than equitable.

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

IMMEDIATE RELEASE
December 18, 1979

CONTACT: Everard Munsey
202/566-8191

TREASURY ISSUES TECHNICAL AMENDMENTS TO IRANIAN ASSET CONTROL REGULATIONS

The Treasury today issued a series of technical and clarifying amendments to the Iranian Asset Control Regulations and extended the period for payment of certain checks and drafts issued before the November 14 freeze of Iranian official assets until January 14, 1980.

The amendments also raise the limit on the amount of prefreeze checks that may be paid from blocked funds from $500 to $3000. Checks of up to $50,000 in process of collection before the freeze can be paid from blocked funds through January 14, 1980. However any payment to Iran or an Iranian entity must be into a blocked account.

Other amendments:

*Give notice that applications for licenses for payments under irrevocable letters of credit issued or confirmed before the freeze will be considered on a case by case basis, without commitment, if submitted before January 10, 1980. General authority for payments under irrevocable letters of credit confirmed by a domestic bank before the freeze expired December 14.

*Give notice that Treasury will consider, without commitment, applications submitted prior to January 10, 1980 for payments by domestic banks under unconfirmed letters of credit to persons not subject to the jurisdiction of the United States. Previously published regulations authorized such payments to U.S. residents. Such payments must be made by a bank as its own obligation, not from blocked funds.

*Makes clear that the Asset Control Regulations do not authorize any payment or delivery of blocked property under pre-judgment attachments and that Treasury's policy is not to license such payments.

*Reiterates and makes explicit in the Regulations Treasury's intent that specific licenses for payments to U.S. exporters holding unconfirmed letters of credit will be issued only in hardship cases. The amount of such payments has been limited to $500,000 under existing regulations.

*Provides that no payment may be made under a standby letter of credit or performance bond in favor of Iran unless eight business days have passed to allow the American firm of whom payment is being demanded to apply for a license allowing it to make such payment by maintaining a blocked account on its own books.

*Clarifies certain issues related to documentation provided under letters of credit.

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

FOR IMMEDIATE RELEASE
December 19, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES FINAL DETERMINATION IN COUNTERVAILING DUTY INVESTIGATION ON DEXTRINES AND SOLUBLE OR CHEMICALLY TREATED STARCHES DERIVED FROM POTATO STARCH FROM THE EUROPEAN COMMUNITY

The Treasury Department today announced a final determination that the European Community is subsidizing exports of dextrines and soluble or chemically treated starches derived from potato starch to the United States.

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.

As a result of its investigation, Treasury found that manufacturers of this merchandise received subsidies consisting of production refund payments and export restitution payments. It was further determined that the Government of the Netherlands paid an additional benefit to Dutch producers of this merchandise.

The amount of the subsidy has been determined to be 34.4 percent ad valorem (36 percent for imports from the Netherlands).

Notice of this action appears in the Federal Register of December 19, 1979.

Imports of this merchandise in 1978 amounted to about $4.4-million, including $3.8-million from the Netherlands.

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

FOR IMMEDIATE RELEASE
December 19, 1979

Contact: Alvin M. Hattal
202/566-8381

TREASURY ANNOUNCES WITHHOLDING OF APPRAISEMENT ON SPUN ACRYLIC YARN FROM ITALY

The Treasury Department today said it has determined that spun acrylic yarn from Italy 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 Commission's decision is affirmative, dumping duties will be collected on sales found to be at less than fair value. (Sales at less than fair value generally occur when imported merchandise is sold in the United States for less than in the home market or to third countries.)

Appraisement in this case will be withheld for three months beginning December 20, 1979. The weighted-average margins of sales at less than fair value in this case were 48.05 percent.

Interested persons were offered the opportunity to present oral and written views before this determination.

Imports of spun acrylic yarn from Italy during 1978 were valued at about $3.4-million.

Under the Antidumping Act, the Secretary of the Treasury is required to withhold appraisement when he has reason to believe that sales at less than fair value are occurring. (Withholding of appraisement means that the valuation for Customs duty purposes of goods imported is suspended. This is to permit the assessment of any dumping duties as appropriately determined on those imports.)

Notice of this determination will appear in the Federal Register of December 20, 1979.

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

FOR IMMEDIATE RELEASE December 20, 1979

RESULTS OF AUCTION OF 4-YEAR NOTES

The Department of the Treasury has accepted $2,501 million of $4,118 million of tenders received from the public for the 4-year notes, Series H-1983, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	10.39%
Highest yield	10.60%
Average yield	10.52%

The interest rate on the notes will be 10-1/2%. At the 10-1/2% rate, the above yields result in the following prices:

Low-yield price	100.353
High-yield price	99.681
Average-yield price	99.936

The $2,501 million of accepted tenders includes $441 million of noncompetitive tenders and $1,980 million of competitive tenders from private investors, including 21% of the amount of notes bid for at the high yield. It a
average price from Fe
international monetar

In addition to t
auction process, $156
price from Government
account in exchange f

10 1/2 % TREASURY NOTES OF SERIES H-1983

DATE: 12-20-79

HIGHEST ~~SINCE~~ EVER:

LAST ISSUE:
9 3/4 % 10/4/79
AVERAGE YIELD 9.79%

LOWEST SINCE:

TODAY:
10 1/2 %
AVERAGE YIELD 10.53%

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

FOR IMMEDIATE RELEASE December 20, 1979

RESULTS OF AUCTION OF 4-YEAR NOTES

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The $2,501 million of accepted tenders includes $441 million of noncompetitive tenders and $1,980 million of competitive tenders from private investors, including 21% of the amount of notes bid for at the high yield. It also includes $80 million of tenders at the average price from Federal Reserve Banks as agents for foreign and international monetary authorities in exchange for maturing securities.

In addition to the $2,501 million of tenders accepted in the auction process, $156 million of tenders were accepted at the average price from Government accounts and Federal Reserve Banks for their own account in exchange for securities maturing December 31, 1979.

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

FOR IMMEDIATE RELEASE
Thursday, Dec. 20, 1979

Contact: Robert E. Nipp
202/566-5328

TREASURY ANNOUNCES CONTRACT FOR SOLAR ELECTRIC SYSTEM

The Solar Energy Research Institute today signed on behalf of the U.S.-Saudi Arabian joint solar energy program a $16.4 million contract with the Martin-Marietta Corporation to design and construct the world's largest solar powered photovoltaic electrical system. The 350 kilowatt photovoltaic system will be located between two villages about 30 miles northwest of Riyadh, the capital of Saudi Arabia.

This jointly funded project is the first of several to be initiated in the field of solar energy research under the United States-Saudi Arabian Joint Commission on Economic Cooperation. Other projects under this cooperative effort will be carried out in the United States as well as Saudi Arabia.

The U.S. Departments of Energy and Treasury and the Saudi Arabian National Center for Science and Technology and the Ministry of Finance and National Economy are parties to the five-year, $100 million agreement. Each government will make matching contributions of $50 million over the life of the program.

The photovoltaic system is to be in operation by June 1981.

The Secretary of the Treasury G. William Miller and the Minister of Finance Muhammad Abalkhail serve as the co-chairmen of the Joint Commission. The SERI serves as the operating agent for the solar energy program.

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

FOR IMMEDIATE RELEASE

December 20, 1979

STATEMENT BY SECRETARY OF THE TREASURY G. WILLIAM MILLER
ON STATEMENTS MADE BY SENATOR EDWARD M. KENNEDY
IN DOVER, NEW HAMPSHIRE

Today, Senator Kennedy's campaign rhetoric in New Hampshire went beyond the bounds of responsible comment. His statement that the Secretary of the Treasury has been "busy asking OPEC to raise prices" is an outright fabrication. The fact is that I have recently returned from a visit to Saudi Arabia, the United Arab Emirates, and Kuwait, where I strongly urged price restraint and moderation at the highest levels of Government in those countries.

What is particularly beyond understanding is Senator Kennedy's statement that the Administration is not on the firing line in the energy war. This comes from a Senator who missed more than half of the critical votes on the vital Windfall Profits Tax, which passed the Senate last Saturday, and who was not present for the most critical votes where he could have helped his President assure equitable results for the American people. The Senator's attitude is unfair to those many Senators and members of the Administration who stayed here in Washington to carry on the fight.

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M-253

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries:

FOR IMMEDIATE RELEASE December 21, 1979

FEDERAL FINANCING BANK ACTIVITY

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

Guarantee Programs

During October, FFB made 22 advances totalling $125,970,748.33 to 11 governments under the Department of Defense-guaranteed foreign military sales agreements.

Under notes guaranteed by the Rural Electrification Administration, FFB advanced a total of $230,507,000.00 to 31 rural electric and telephone cooperatives.

FFB provided Western Union Space Communications, Inc., with the following amounts during October. These advances mature October 1, 1989, with interest payable on an annual basis.

Date	Amount	Interest Rate
10/1	$1,150,000	9.942%
10/22	6,900,000	11.497%
10/24	2,175,000	11.87%

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

Date	Series	Amount	Maturity	Interest Rate
10/1	L-059	$ 179,798.79	11/15/04	9.52%
10/10	M-052	4,277,613.03	7/31/03	9.652%
10/15	L-060	350,527.82	11/15/04	10.135%
10/30	K-025	1,121,562.23	7/15/04	10.515%

On October 24, FFB purchased a total of $10,700,000.00 in debentures issued by small business investment companies. These debentures are guaranteed by the Small Business Administration, mature in 3, 5, 7 and 10 years, and carry interest rates of 12.115%, 11.575%, 11.345% and 11.135%, respectively.

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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, Mo.	10/5	$1,100,000	6/15/80	11.415%
Toledo, Ohio	10/25	450,000	7/15/80	14.064% an.
Kansas City, Mo.	12/31	450,000	6/15/80	13.405%

On October 25, FFB purchased the first note under a new program between FFB and the National Credit Union Association's Central Liquidity Facility (CLF). Note #1, in the amount of $1 million, matures November 24, 1979, and carries an interest rate of 13.454%. FFB purchased Note #2 on October 31, which is in the amount of $1.5 million, matures January 29, 1980, and carries a rate of 12.983%. CLF borrowings from FFB are for the benefit of member credit unions of the CLF and are used by the members to meet their liquidity needs.

Department of Transportation (DOT) Guarantees

FFB provided the following amounts to the National Railroad Passenger Corporation (Amtrak) under their line of credit Note #21, which matures December 31, 1979.

Date	Amount	Interest Rate
10/1	$47,000,000	10.891%
10/2	3,500,000	10.891%
10/3	5,000,000	10.930%
10/9	3,500,000	11.422%
10/10	9,000,000	12.48%
10/16	8,000,000	12.529%
10/17	7,000,000	12.512%
10/18	5,289,464	12.329%
10/19	4,500,000	12.713%
10/22	3,000,000	13.717%
10/23	5,500,000	13.717%
10/30	4,500,000	12.983%
10/31	7,500,000	12.772%

On October 1, Amtrak issued Note #22, in the amount of $350 million, to the FFB. Note #22 matures October 1, 1980 and carries a rate of 11.155%. This note refinances previous Amtrak borrowings from FFB.

FFB advanced $5 million to the Trustee of the Chicago, Milwaukee, St. Paul and Pacific Railroad under a $20 million credit guaranteed by DOT pursuant to Section 3 of the Emergency Rail Services Act. The advance carries an interest rate of 9.625% and matures September 12, 1994. This is the final advance under this agreement.

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
Missouri-Kansas-Texas Railroad	10/5	$2,323,367.00	11/15/96	9.579% qt
Trustee of The Milwaukee Road	10/10	930,150.00	11/15/91	10.48% an
Chicago & North Western 511-78-2	10/11	990,150.00	5/1/86	10.91% an
Chicago & North Western 511-78-3	10/11	1,306,589.00	11/1/90	10.447%

On October 30, the United States Railway Association refinanced principal and accrued interest totalling $410,329,606.03 that was outstanding under its Note #16 into a new Note #17, which matures April 29, 1980. Note #17 carries an interest rate of 13.335%.

Agency Issuers

During October, the Tennessee Valley Authority (TVA) sold FFB the following notes, totalling $215 million, which mature January 31, 1980.

Date	Note #	Amount	Interest Rate
10/5	109	$95,000,000	10.846%
10/15	110	45,000,000	12.126%
10/22	111	75,000,000	13.047%

TVA issued FFB a $400 million Power Bond on October 31. This bond will mature October 31, 2004, and carries an interest rate of 10.545%.

On October 31, FFB entered into a $2 billion nuclear fuel lease credit with TVA and Seven States Energy, a California corporation. Note #1 under this agreement was signed on October 31, for $490,576,575.90. This note matures January 31, 1980, and carries a rate of 12.983%.

FFB advanced $60 million to the Student Loan Marketing Association (SLMA), a federally chartered private corporation. FFB holdings of SLMA debt now totals $1,335 million.

FFB purchased two Farmers Home Administration Certificates of Beneficial Ownership during October. Interest is payable annually.

Date	Amount	Maturity	Interest Rate
10/4	$790,000,000	10/4/84	9.961%
10/24	300,000,000	10/24/84	11.995%

FFB Holdings

As of October 31, 1979, FFB holdings totalled $65.6 billion. FFB Holdings and Activity Tables are attached.

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Note: An. denotes annual interest payments and qtr. denotes quarterly interest payments. Where not noted, interest is payable semiannually.

FEDERAL FINANCING BANK HOLDINGS
(in millions of dollars)

Program	October 31, 1979	September 30, 1979	Net Change (10/1/79-10/31/79)
On-Budget Agency Debt			
Tennessee Valley Authority	$ 6,945.0	$ 7,125.0	$ -180.0
Export-Import Bank	7,952.9	7,952.9	-0-
NCUA-Central Liquidity Facility	2.5	-0-	2.5
Off-Budget Agency Debt			
U.S. Postal Service	1,587.0	1,587.0	-0-
U.S. Railway Association	455.4	445.7	9.6
Agency Assets			
Farmers Home Administration	31,670.0	31,080.0	590.0
DHEW-Health Maintenance Org. Loans	77.3	77.3	-0-
DHEW-Medical Facilities Loans	160.1	160.1	-0-
Overseas Private Investment Corp.	35.8	35.8	-0-
Rural Electrification Admin.-CBO	1,223.2	1,223.2	-0-
Small Business Administration	92.2	94.4	-2.2
Government Guaranteed Loans			
DOT-Emergency Rail Services Act	42.4	37.4	5.0
DOT-Title V, RRRR Act	98.2	92.7	5.6
DOD-Foreign Military Sales	5,367.0	5,270.9	96.2
General Services Administration	365.6	359.7	5.9
Guam Power Authority	36.0	36.0	-0-
DHUD-New Communities Admin.	33.5	38.5	-5.0
DHUD-Community Block Grant	7.4	5.4	2.0
Nat'l. Railroad Passenger Corp. (AMTRAK)	474.6	432.3	42.3
NASA	430.6	420.3	10.2
Rural Electrification Administration	6,157.0	5,926.5	230.5
Seven States Energy Corp. (TVA)	490.6	-0-	490.6
Small Business Investment Companies	343.7	336.4	7.3
Student Loan Marketing Association	1,335.0	1,275.0	60.0
Virgin Islands	21.6	21.6	-0-
WMATA	177.0	177.0	-0-
TOTALS	$65,582.5*	$64,211.0*	$1,371.5*

*totals do not add due to rounding

FEDERAL FINANCING BANK

October 1979 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
DEPARTMENT OF DEFENSE					
Thailand #6	10/1	$ 81,996.00	9/20/85	9.873%	
Philippines #4	10/2	384,482.39	9/12/83	10.131%	
Ecuador #2	10/3	67,346.14	8/25/84	9.995%	
Jordan #2	10/3	50,308.61	11/26/85	9.898%	
Thailand #2	10/3	69,294.24	6/30/83	10.159%	
Thailand #3	10/3	266,226.00	9/20/84	9.994%	
Israel #7	10/3	4,787,488.12	12/15/08	9.536%	
Colombia #2	10/4	4,607,617.60	9/20/84	10.009%	
Korea #10	10/4	404,293.09	12/31/87	9.786%	
Turkey #7	10/5	592,960.00	6/3/91	9.770%	
Colombia #3	10/15	923,134.48	9/20/85	10.860%	
Jordan #2	10/17	386,378.00	11/26/85	10.976%	
Jordan #3	10/18	71,618.40	12/31/86	10.848%	
Kenya #6	10/18	7,859,527.55	10/1/88	10.715%	
Kenya #7	10/18	2,699,999.45	6/15/89	10.642%	
Philippines #4	10/24	793,512.29	9/12/83	12.469%	
Egypt #1	10/25	97,620,426.00	9/1/09	10.577%	
Korea #10	10/25	97,200.00	12/31/87	11.523%	
Jordan #4	10/29	485,140.00	3/15/88	11.332%	
Tunisia #6	10/29	399,947.80	5/5/87	11.407%	
Jordan #3	10/30	2,587,303.25	12/31/86	11.589%	
Tunisia #5	10/31	635,548.92	6/1/86	11.542%	
FARMERS HOME ADMINISTRATION					
Certificates of Beneficial Ownership	10/4	790,000,000.00	10/4/84	9.725%	9.961% annually
	10/24	300,000,000.00	10/24/84	11.655%	11.995% annually
GENERAL SERVICES ADMINISTRATION					
Series L-059	10/1	179,798.79	11/15/04	9.520%	
Series M-052	10/10	4,277,613.03	7/31/03	9.652%	
Series L-060	10/15	350,527.82	11/15/04	10.135%	
Series K-025	10/30	1,121,562.23	7/15/04	10.515%	
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Section 108 Block Grant					
Kansas City, Missouri	10/5	1,100,000.00	6/15/80	11.415%	
Toledo, Ohio	10/25	450,000.00	7/15/80	13.745%	14.064% annually
Kansas City, Missouri	10/31	450,000.00	6/15/80	13.405%	
NATIONAL CREDIT UNION ASSOCIATION Central Liquidity Facility					
Note #1	10/25	1,000,000.00	11/24/79	13.454%	
Note #2	10/31	1,500,000.00	1/29/80	12.983%	
RURAL ELECTRIFICATION ADMINISTRATION					
Corn Belt Power #94	10/1	260,000.00	10/1/81	10.275%	10.146% quarterly
Big Rivers Electric #58	10/1	2,420,000.00	10/1/81	10.275%	10.146% "
Big Rivers Electric #91	10/1	1,236,000.00	10/1/81	10.275%	10.146% "
Big Rivers Electric #136	10/1	123,000.00	10/1/81	10.275%	10.146% "
Allegheny Electric #93	10/1	3,336,000.00	10/31/81	10.235%	10.107% "
Northern Michigan Electric #101	10/1	2,231,000.00	10/1/82	9.935%	9.815% "
Tri-State Gen. & Trans. #89	10/1	3,739,000.00	9/30/86	9.635%	9.522% "
Arkansas Electric #77	10/1	21,000.00	12/31/13	9.456%	9.347% "
Arkansas Electric #97	10/1	3,789,000.00	12/31/13	9.456%	9.347% "
Pacific Northwest Gen. #118	10/1	848,000.00	12/31/13	~~9.456%~~	~~9.347%~~ "

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
RURAL ELECTRIFICATION ADMINISTRATION (cont.)					
Hoosier Energy #107	10/2	$ 25,000,000.00	10/2/82	9.945%	9.842% quarterly
United Power Assn. #67	10/4	1,200,000.00	10/4/81	10.315%	10.185% "
United Power Assn. #129	10/4	7,500,000.00	10/4/81	10.315%	10.185% "
Florence Telephone Co. #40	10/4	464,000.00	12/31/13	9.509%	9.399% "
Corn Belt Power #55	10/5	105,000.00	10/5/81	10.515%	10.38% "
Wolverine Electric #100	10/5	1,761,000.00	10/5/81	10.515%	10.38% "
Soyland Power #105	10/5	6,900,000.00	10/5/81	10.515%	10.38% "
Sierra Telephone #59	10/9	14,000.00	10/31/81	10.515%	10.38% "
Tri-State Gen. & Trans. #37	10/9	50,000.00	9/30/86	9.845%	9.727% "
Tri-State Gen. & Trans. #79	10/9	1,579,000.00	9/30/86	9.845%	9.727% "
Wolverine Electric #100	10/10	616,000.00	10/10/81	11.295%	11.14% "
Allegheny Electric #93	10/10	4,245,000.00	10/31/81	11.235%	11.082% "
San Miguel Electric #110	10/10	17,824,000.00	10/31/81	11.235%	11.082% "
Northern Michigan Elect. #101	10/10	786,000.00	10/10/82	10.735%	10.595% "
Wabash Valley Power #104	10/10	5,015,000.00	12/31/13	9.832%	9.714% "
Cooperative Power #5	10/11	8,000,000.00	10/11/81	11.575%	11.412% "
Colorado-Ute Electric #78	10/11	356,000.00	10/11/81	11.575%	11.412% "
Sugar Land Telephone #69	10/12	942,000.00	10/12/81	11.435%	11.276% "
Gulf Telephone #50	10/12	255,000.00	12/31/13	10.003%	9.881% "
East Kentucky Power #73	10/15	7,909,000.00	10/15/81	11.345%	11.189% "
Associated Electric #132	10/18	9,600,000.00	10/18/81	11.575%	11.412% "
Western Illinois Power #99	10/19	3,201,000.00	10/19/81	11.925%	11.752% "
Big Rivers Electric #58	10/22	2,497,000.00	10/22/81	12.325%	12.141% "
Big Rivers Electric #91	10/22	5,200,000.00	10/22/81	12.325%	12.141% "
Big Rivers Electric #136	10/22	1,328,000.00	10/22/81	12.325%	12.141% "
Chugach Electric #82	10/22	1,010,000.00	12/31/13	10.324%	10.194% "
South Mississippi Elect. #3	10/24	236,000.00	10/26/81	12.805%	12.606% "
South Mississippi Elect. #90	10/24	382,000.00	10/26/81	12.805%	12.606% "
Southern Illinois Power #38	10/25	650,000.00	10/25/82	12.025%	11.849% "
Tri-State Gen. & Trans.	10/25	35,000.00	9/30/86	11.215%	11.062% "
Pacific Northwest Gen. #118	10/25	1,467,000.00	12/31/13	10.457%	10.324% "
Basin Electric Power #137	10/26	74,617,000.00	10/26/81	12.765%	12.568% "
Doniphan Telephone #14	10/26	250,000.00	12/31/13	10.569%	10.433% "
Ponderosa Telephone #35	10/29	395,000.00	10/29/82	11.635%	11.471% "
Chugach Electric #82	10/30	3,287,000.00	12/31/13	10.475%	10.341% "
Big Rivers Electric #91	10/31	8,355,000.00	10/31/81	12.295%	12.112% "
Tri-State Gen. & Trans. #89	10/31	7,603,000.00	9/30/86	11.195%	11.043% "
North West Telephone #62	10/31	1,870,000.00	12/31/13	10.437%	10.304% "
SMALL BUSINESS INVESTMENT COMPANIES					
Devonshire Capital Corp.	10/24	1,000,000.00	10/1/82	12.115%	
First Southern Capital Corp.	10/24	500,000.00	10/1/82	12.115%	
Advent Capital Corp.	10/24	2,000,000.00	10/1/84	11.575%	
Vicksburg SBIC	10/24	200,000.00	10/1/84	11.575%	
Investment Capital Inc.	10/24	1,000,000.00	10/1/86	11.345%	
Builders Capital Corp.	10/24	1,000,000.00	10/1/89	11.135%	
Fifty-Third Street Ventures, Inc.	10/24	2,000,000.00	10/1/89	11.135%	
First Texas Investment Co.	10/24	500,000.00	10/1/89	11.135%	
Florists' Capital Corp.	10/24	500,000.00	10/1/89	11.135%	
Investment Capital Corp.	10/24	1,500,000.00	10/1/89	11.135%	
Venture Cap. Corp. of New Mexico	10/24	500,000.00	10/1/89	11.135%	
STUDENT LOAN MARKETING ASSOCIATION					
Note #216	10/2	1,280,000,000.00	10/9/79	10.891%	
Note #217	10/9	1,290,000,000.00	10/16/79	11.422%	
Note #218	10/16	1,295,000,000.00	10/23/79	12.529%	
Note #219	10/23	1,310,000,000.00	10/30/79	13.717%	
Note #220	10/30	1,325,000,000.00	11/6/79	12.983%	

FEDERAL FINANCING BANK

October 1979 Activity

BORROWER	DATE	AMOUNT OF ADVANCE	MATURITY	INTEREST RATE	INTEREST PAYABLE (other than s/a)
TENNESSEE VALLEY AUTHORITY					
Power Bond	10/31	$ 400,000,000.00	10/31/04	10.545%	
Note #109	10/5	95,000,000.00	1/31/80	10.846%	
Note #110	10/15	45,000,000.00	1/31/80	12.126%	
Note #111	10/22	75,000,000.00	1/31/80	13.047%	
Seven States Energy Corporation					
Note #1	10/31	490,576,575.90	1/31/80	12.983%	
DEPARTMENT OF TRANSPORTATION					
Emergency Rail Services Act					
Trustee of The Milwaukee Road	10/4	5,000,000.00	7/12/94	9.625%	
Section 511					
Missouri-Kansas-Texas Railroad	10/5	2,323,367.00	11/15/96	9.694%	9.579% quarterly
Trustee of The Milwaukee Road	10/10	930,150.00	11/15/91	10.219%	10.48% annually
Chicago & North Western 511-78-2	10/11	990,369.00	5/1/86	10.628%	10.91% annually
Chicago & North Western 511-78-3	10/11	1,306,589.00	11/1/90	10.447%	
National Railroad Passenger Corp. (AMTRAK)					
Note #22	10/1	350,000,000.00	10/1/80	11.155%	
Note #21	10/1	47,000,000.00	12/31/79	10.891%	
Note #21	10/2	3,500,000.00	12/31/79	10.891%	
Note #21	10/3	5,000,000.00	12/31/79	10.930%	
Note #21	10/9	3,500,000.00	12/31/79	11.422%	
Note #21	10/10	9,000,000.00	12/31/79	12.48%	
Note #21	10/16	8,000,000.00	12/31/79	12.529%	
Note #21	10/17	7,000,000.00	12/31/79	12.512%	
Note #21	10/18	5,289,464.00	12/31/79	12.329%	
Note #21	10/19	4,500,000.00	12/31/79	12.713%	
Note #21	10/22	3,000,000.00	12/31/79	13.717%	
Note #21	10/23	5,500,000.00	12/31/79	13.717%	
Note #21	10/30	4,500,000.00	12/31/79	12.983%	
Note #21	10/31	7,500,000.00	12/31/79	12.772%	
UNITED STATES RAILWAY ASSOCIATION					
Note #17	10/30	410,329,606.03	4/29/80	13.335%	
WESTERN UNION SPACE COMMUNICATIONS, INC. (NASA)					
	10/1	1,150,000.00	10/1/89	9.706%	9.942% annually
	10/22	6,900,000.00	10/1/89	11.184%	11.497% "
	10/24	2,175,000.00	10/1/89	11.537%	11.87% "

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

FOR RELEASE AT 12:00 NOON December 21, 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 $6,400 million, to be issued January 3, 1980. This offering will provide $500 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,927 million, including $746 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $1,843 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,200 million, representing an additional amount of bills dated October 4, 1979, and to mature April 3, 1980 (CUSIP No. 912793 3Y 0), originally issued in the amount of $3,033 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated January 3, 1980, and to mature July 3, 1980 (CUSIP No. 912793 4U 7).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 3, 1980. Tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the weighted average prices 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Friday, December 28, 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 January 3, 1980, in cash or other immediately available funds or in Treasury bills maturing January 3, 1980. 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
THE DEPARTMENT OF THE TREASURY 1789

FOR IMMEDIATE RELEASE December 21, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,204 million of 13-week bills and for $3,201 million of 26-week bills, both to be issued on December 27, 1979, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 27, 1980			:	26-week bills maturing June 26, 1980		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	96.956	12.042%	12.63%	:	94.034	11.801%	12.76%
Low	96.939	12.109%	12.70%	:	93.984	11.900%	12.87%
Average	96.948	12.074%	12.66%	:	94.007	11.854%	12.82%

Tenders at the low price for the 13-week bills were allotted 1%.
Tenders at the low price for the 26-week bills were allotted 16%.

TENDER

Location	Receive			
Boston	$ 22,01			
New York	4,941,23			
Philadelphia	19,47			
Cleveland	29,40			
Richmond	77,47			
Atlanta	36,41			
Chicago	360,61			
St. Louis	32,82			
Minneapolis	2,92			
Kansas City	34,36			
Dallas	11,34			
San Francisco	265,02			
Treasury	32,52			
TOTALS	$5,865,61			
Type				
Competitive	$4,288,18			
Noncompetitive	447,8			
Subtotal, Public	$4,736,0			
Federal Reserve	957,9			
Foreign Official Institutions	171,6			
TOTALS	$5,865,610	$3,204,025 :	$5,019,600	$3,200,545

DATE: December 21, 1979

	13-WEEK	26-WEEK
TODAY:	12.074%	11.854%
LAST WEEK:	12.228%	11.999%
HIGHEST SINCE:		
LOWEST SINCE: 12/10/79	12.054%	11.769%

1/Equivalent coupon-issue yield.

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

FOR IMMEDIATE RELEASE December 21, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

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Average	96.948	12.074%	12.66%	:	94.007	11.854%	12.82%

Tenders at the low price for the 13-week bills were allotted 1%.
Tenders at the low price for the 26-week bills were allotted 16%.

TENDERS RECEIVED AND ACCEPTED
(In Thousands)

Location	Received	Accepted	:	Received	Accepted
Boston	$ 22,010	$ 22,010	:	$ 13,365	$ 13,365
New York	4,941,235	2,727,340	:	4,134,725	2,711,170
Philadelphia	19,470	19,470	:	8,570	8,570
Cleveland	29,405	29,405	:	34,210	29,210
Richmond	77,470	74,530	:	44,410	44,410
Atlanta	36,415	36,415	:	23,640	23,640
Chicago	360,610	115,860	:	414,575	171,075
St. Louis	32,825	23,825	:	44,505	42,505
Minneapolis	2,920	2,920	:	6,920	6,920
Kansas City	34,360	34,360	:	19,715	19,715
Dallas	11,340	11,340	:	10,070	10,070
San Francisco	265,025	74,025	:	232,580	87,580
Treasury	32,525	32,525	:	32,315	32,315
TOTALS	$5,865,610	$3,204,025	:	$5,019,600	$3,200,545
Type					
Competitive	$4,288,185	$1,626,600	:	$3,411,810	$1,592,755
Noncompetitive	447,850	447,850	:	250,690	250,690
Subtotal, Public	$4,736,035	$2,074,450	:	$3,662,500	$1,843,445
Federal Reserve	957,975	957,975		950,000	950,000
Foreign Official Institutions	171,600	171,600	:	407,100	407,100
TOTALS	$5,865,610	$3,204,025	:	$5,019,600	$3,200,545

1/Equivalent coupon-issue yield.

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

IMMEDIATE RELEASE
December 26, 1979

CONTACT: Everard Munsey
202/566-8191

TREASURY ISSUES INTERPRETATIVE REGULATIONS ON IRAN

The Treasury Department said today its Iranian Asset Control Regulations prohibit any extension of credit to Iran by banks or others subject to U.S. jurisdiction.

In an interpretative regulation, Treasury said the prohibition applies to extensions or renewals of credit after November 14 in any currency, unless they are authorized by license. This means that those subject to U.S. jurisdiction may participate in letter of credit transactions only if 100 percent collateral is received in foreign currencies or unblocked U.S. dollars.

The new regulation also makes clear that U.S. banks may transfer blocked Iranian funds from demand deposits to interest-bearing accounts at the instruction of the Iranian depositor at any time.

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

FOR IMMEDIATE RELEASE
Thursday, December 27, 1979

Contact: Jack 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 2-1/2 year Treasury yield curve rate during the five business days ending December 26 was 10.90 percent, rounded to the nearest 5 basis points.

This rate will be used by the agencies in determining the maximum interest payable in January on time certificates issued in denominations of less than $100,000 and maturities of two-and-a-half years.

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 three-quarters of one percent below the yield on the two-and-a-half-year Treasury securities. The ceiling for thrift institutions is one-half of one percent below the yield on the two-and-a-half-year securities.

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M-258

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

FOR RELEASE AT 4:00 P.M. December 27, 1979

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for approximately $4,000 million, of 360-day Treasury bills to be dated January 8, 1980, and to mature January 2, 1981 (CUSIP No. 912793 5W 2). This issue will provide about $295 million new cash for the Treasury as the maturing issue is outstanding in the amount of $3,705 million, including $650 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $852 million currently held by Federal Reserve Banks for their own account.

The bills will be issued for cash and in exchange for Treasury bills maturing January 8, 1980. Tenders from Federal Reserve Banks for themselves and as agents for 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 for 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 Standard time, Wednesday, January 2, 1980. Form PD 4632-1 should be used to submit tenders for bills to be maintained on the book-entry records of the Department of the Treasury.

Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders, the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions in and borrowings on such securities may submit tenders for account of customers, if the names of the customers and the amount for each customer are furnished. Others are only permitted to submit tenders for their own account. 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 January 8, 1980, in cash or other immediately available funds or in Treasury bills maturing January 8, 1980. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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

FOR RELEASE AT 12:00 NOON December 28, 1979

TREASURY TO AUCTION $1,500 MILLION OF 15-YEAR 1-MONTH BONDS

The Department of the Treasury will auction $1,500 million of 15-year 1-month bonds to raise new cash. Additional amounts of the bonds may be issued to Federal Reserve Banks as agents for foreign and international monetary authorities at the average price of accepted competitive tenders.

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

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Attachment

M-260

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 15-YEAR 1-MONTH BONDS
TO BE ISSUED JANUARY 10, 1980

December 28, 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 1995 (CUSIP No. 912810 CL 0)
Maturity date	February 15, 1995
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	August 15 and February 15 (first payment on August 15, 1980
Minimum denomination available	$1,000
Terms of Sale:	
Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $1,000,000 or less
Deposit requirement	5% of face amount
Deposit guarantee by designated institutions	Acceptable
Key Dates:	
Deadline for receipt of tenders	Thursday, January 3, 1980, by 1:30 p.m., EST
Settlement date (final payment due)	
a) cash or Federal funds	Thursday, January 10, 1980
b) check drawn on bank within FRB district where submitted	Tuesday, January 8, 1980
c) check drawn on bank outside FRB district where submitted	Monday, January 7, 1980
Delivery date for coupon securities.	Friday, January 18, 1980

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

FOR IMMEDIATE RELEASE December 28, 1979

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3,202 million of 13-week bills and for $3,200 million of 26-week bills, both to be issued on January 3, 1980, were accepted today.

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 3, 1980			26-week bills maturing July 3, 1980		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	96.965	12.007%	12.59%	94.015	11.838%	12.80%
Low	96.929	12.149%	12.74%	93.979	11.910%	12.88%
Average	96.940	12.105%	12.70%	93.994	11.880%	12.85%

Tenders at the low price for the 13-week bills were allotted 21%.
Tenders at the low price for the 26-week bills were allotted 94%.

TENDERS RECEIVED AND ACCEPTED (In Thousands)

Location	Received	Accepted	Received	Accepted
Boston	$ 41,850	$ 41,850	$ 20,090	$ 20,090
New York	4,337,060	2,675,560	4,631,960	2,499,965
Philadelphia	22,390	22,390	9,115	9,115
Cleveland	31,410	31,410	48,970	43,970
Richmond	21,275	21,275	17,285	17,285
Atlanta	37,990	37,990	25,480	25,480
Chicago	475,435	185,435	719,975	429,375
St. Louis	21,065	14,065	21,255	14,255
Minneapolis	8,440	8,440	4,620	4,620
Kansas City	26,920	26,920	20,590	20,590
Dallas	17,735	17,735	12,095	12,095
San Francisco	240,220	84,620	224,585	53,555
Treasury	34,285	34,285	49,605	49,605
TOTALS	$5,316,075	$3,201,975	$5,805,625	$3,200,000
Type				
Competitive	$3,690,705	$1,576,605	$4,019,235	$1,413,610
Noncompetitive	494,315	494,315	322,410	322,410
Subtotal, Public	$4,185,020	$2,070,920	$4,341,645	$1,736,020
Federal Reserve	935,000	935,000	933,905	933,905
Foreign Official Institutions	196,055	196,055	530,075	530,075
TOTALS	$5,316,075	$3,201,975	$5,805,625	$3,200,000

An additional $55,465 thousand of 13-week bills and an additional $148,725 thousan of 26-week bills will be issued to foreign official institutions for new cash.

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

FOR RELEASE AT 12:00 NOON December 31, 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 $6,400 million, to be issued January 10, 1980. This offering will provide $500 million of new cash for the Treasury as the maturing bills are outstanding in the amount of $5,890 million, including $575 million currently held by Federal Reserve Banks as agents for foreign and international monetary authorities and $1,945 million currently held by Federal Reserve Banks for their own account. The two series offered are as follows:

91-day bills (to maturity date) for approximately $3,200 million, representing an additional amount of bills dated October 11, 1979, and to mature April 10, 1980 (CUSIP No. 912793 3Z 7), originally issued in the amount of $3,036 million, the additional and original bills to be freely interchangeable.

182-day bills for approximately $3,200 million to be dated January 10, 1980, and to mature July 10, 1980 (CUSIP No. 912793 4V 5).

Both series of bills will be issued for cash and in exchange for Treasury bills maturing January 10, 1980. Tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the weighted average prices 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. Both series of bills will be issued entirely in book-entry form in a minimum amount of $10,000 and in any higher $5,000 multiple, on the records either of the Federal Reserve Banks and Branches, or of the Department of the Treasury.

Tenders will be received at Federal Reserve Banks and Branches and at the Bureau of the Public Debt, Washington, D. C. 20226, up to 1:30 p.m., Eastern Standard time, Monday, January 7, 1980. 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 January 10, 1980, in cash or other immediately available funds or in Treasury bills maturing January 10, 1980. Cash adjustments will be made for differences between the par value of the maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which these bills are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of these bills (other than life insurance companies) must include in his or her Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circulars, Public Debt Series - Nos. 26-76 and 27-76, and this notice, prescribe the terms of these Treasury bills and govern the conditions of their issue. Copies of the circulars and tender forms may be obtained from any Federal Reserve Bank or Branch, or from the Bureau of the Public Debt.

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

FOR IMMEDIATE RELEASE
December 31, 1979

CONTACT: Alvin Hattal
202/566-8381

TREASURY ANNOUNCES PRELIMINARY COUNTERVAILING DUTY ACTION ON MALLEABLE PIPE FITTINGS FROM JAPAN

The Treasury Department today announced its preliminary determination that Japan is subsidizing exports of malleable pipe fittings to the United States.

This investigation was begun after a petition was received on June 26, 1979 on behalf of the American Pipe Fittings Assn. A final determination in this case must be made by March 17, 1980.

Treasury's preliminary investigation found that the Government of Japan subsidizes manufacturers and exporters of their merchandise through (1) financing at a preferential interest rate and (2) partial tax sheltering of earnings.

The Countervailing Duty Law requires the Treasury Department to assess an additional customs duty equal to the net amount of a subsidy paid on imported merchandise.

Since a final determination will be made after the Trade Agreements Act of 1979 comes into effect, the International Trade Commission will determine if an industry in the U.S. is being injured by these imports if the final determination is affirmative. If the final determination is affirmative and the ITC finds injury, an additional duty, the countervailing duty, will be imposed.

In the interim, an estimated duty of 0.6% ad valorem will be collected in the form of cash deposits, bonds or other securities.

Notice of this action will appear in the Federal Register of January 2, 1980.

Imports of this merchandise amounted to about $10.5 million in 1978.

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