

ANNUAL REPORT



of the Secretary of the Treasury
on the State of the Finances

FOR THE FISCAL YEAR ENDED JUNE 30, 1972

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ANNUAL REPORT

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on the State of the Finances



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DEPARTMENT OF THE TREASURY

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The statistical tables to this Annual Report will be published in a separate
STATISTICAL APPENDIX.

CONTENTS

	Page
Statement by the Secretary.....	xvii

REVIEW OF TREASURY OPERATIONS

Financial Operations.....	3
Summary.....	3
Receipts.....	4
Outlays.....	6
Cash and monetary assets.....	6
Corporations and other business-type activities of the Federal Government.....	7
Government-wide financial management.....	8
Emergency Loan Guarantee Board.....	8
Domestic Economic Policy.....	11
Federal Debt Management.....	12
Enforcement, Tariff and Trade Affairs, and Operations.....	28
Taxation Developments.....	36
International Financial Affairs.....	44

ADMINISTRATIVE REPORTS

Administrative Management.....	75
Comptroller of the Currency, Office of the.....	80
Consolidated Federal Law Enforcement Training Center.....	85
Customs, Bureau of.....	87
Director of Practice, Office of.....	99
Domestic Gold and Silver Operations, Office of.....	101
Engraving and Printing, Bureau of.....	102
Equal Opportunity Program, Office of.....	108
Fiscal Service:	
Accounts, Bureau of.....	111
Public Debt, Bureau of the.....	119
Treasurer of the United States, Office of the.....	123
Foreign Assets Control, Office of.....	130
Internal Revenue Service.....	132
Mint, Bureau of the.....	147
U.S. Savings Bonds Division.....	152
U.S. Secret Service.....	157

EXHIBITS

PUBLIC DEBT OPERATIONS, REGULATIONS, AND LEGISLATION

1. Treasury notes.....	167
2. Treasury bonds.....	173
3. Treasury bills.....	179

Regulations

4. Department Circular No. 300, December 23, 1964, Third Revision, Amendment No. 5, general regulations with respect to United States securities.....	188
5. Department Circular No. 653, December 12, 1969, Eighth Revision, Supplement, offering of United States savings bonds, Series E.....	189

	Page
6. Department Circular No. 530, December 23, 1964, Ninth Revision, Amendment No. 4, regulations governing United States savings bonds.....	191
7. Department Circular No. 1036, December 7, 1971, First Revision, United States savings bonds, Series H, exchange offering.....	191
8. Department Circular No. 653, Eighth Revision, Supplement No. 2, offering of United States savings bonds, Series E.....	194
9. Department Circular No. 905, December 12, 1969, Fifth Revision, Supplement No. 1, offering of United States savings bonds, Series H.....	203
10. Department Circular No. 300, December 23, 1964, Third Revision, Sixth Amendment, general regulations with respect to United States securities.....	208
11. Department Circular No. 3-72, May 22, 1972, regulations governing United States Treasury certificates of indebtedness—State and local government series, and United States Treasury notes—State and local government series.....	214
12. Department Circular 3-67, June 19, 1968, Supplement, offering of United States savings notes.....	216

Legislation

13. An act to provide for a temporary increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act.....	217
---	-----

ECONOMIC AND FINANCIAL POLICY

14. Address by President Nixon, August 15, 1971, on "The Challenge of Peace".....	217
15. Executive order, August 15, 1971, providing for stabilization of prices, rents, wages, and salaries.....	220
16. Proclamation by President Nixon, August 15, 1971, on the imposition of supplemental duty for balance of payments purposes.....	222
17. White House press release, August 15, 1971, containing explanatory material on the President's economic program.....	223
18. Statement by Secretary Connally, August 16, 1971, at the opening of a news conference on the President's economic program.....	230
19. Statement by Under Secretary for Monetary Affairs Volcker, September 13, 1971, before the Subcommittee on International Trade of the Senate Finance Committee.....	230
20. Remarks by Secretary Connally, November 16, 1971, before the Economic Club of New York.....	232
21. Statement by Secretary Connally, February 16, 1972, before the Joint Economic Committee.....	236
22. Excerpt from statement by General Counsel Pierce, September 24, 1971, before the Commonwealth Club of California, San Francisco, Calif., on "The Lockheed Story".....	240
23. Excerpt from statement by General Counsel Pierce, November 3, 1971, before the Labor Law Committee of the Federal Bar Council, New York, N. Y., on Phase II of the President's anti-inflation program.....	242
24. Statement by General Counsel Pierce, February 23, 1972, before the Senate Committee on the District of Columbia on S. 2196, a bill to establish a District of Columbia Development Bank.....	243
25. Remarks of Assistant Secretary Fiedler, April 27, 1972, before the Mid-Year Economic Outlook Conference of the Conference Board, San Francisco, Calif.....	245
26. Other Treasury testimony published in hearings before congressional committees, July 1, 1971-June 30, 1972.....	250

FEDERAL DEBT MANAGEMENT

27. Statement by Secretary Connally, January 31, 1972, before the House Ways and Means Committee on the public debt limit.....	251
28. Statement by Secretary Connally, February 28, 1972, before the Senate Finance Committee on the public debt limit.....	262
29. Statement by Secretary Shultz, June 28, 1972, before the Senate Finance Committee on the public debt limit.....	263

	Page
30. Statement by Acting Secretary Walker, June 5, 1972, before the House Ways and Means Committee on the public debt limit.....	265
31. Remarks by Under Secretary for Monetary Affairs Volcker, March 7, 1972, before the Money Marketeers at the Bankers Club, New York, N.Y., on "A New Look at Debt Management".....	270
32. Remarks by Special Assistant to the Secretary Adams, January 27, 1972, before the U.S. savings bonds campaign meeting on the savings bonds program.....	274
33. Remarks by Special Assistant to the Secretary Adams, March 8, 1972, before the Conference of the Mid-Continental District Securities Industry Association on Federal debt management.....	276

LAW ENFORCEMENT DEVELOPMENTS

34. Statement by Assistant Secretary Rossides, August 5, 1971, before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations on joint efforts by the United States and Vietnam to halt illegal financial activities.....	281
35. Statement by Assistant Secretary Rossides, September 10, 1971, before the House Committee on the Judiciary, Subcommittee No. 4, on H.R. 9223, a bill to increase the limit on dues for U.S. membership in the International Criminal Police Organization.....	290
36. Statement by Assistant Secretary Rossides, September 14, 1971, before the Senate Subcommittee to Investigate Juvenile Delinquency on legislation to amend the Gun Control Act of 1968.....	291
37. Remarks of Assistant Secretary Rossides, December 13, 1971, before the National Narcotics and Dangerous Drugs Enforcement Association, Washington, D.C., on the administration's action to combat drug abuse.....	293
38. Remarks of Assistant Secretary Rossides, January 25, 1972, before the New York City Chamber of Commerce, New York, N.Y., concerning the Department of the Treasury's program to stop theft of international cargo.....	298
39. Remarks of Assistant Secretary Rossides, March 2, 1972, before the All Directors' Congress of the American Footwear Industries Association, La Costa, Calif., on the Antidumping Act, 1921—3 years of rejuvenation.....	301
40. Remarks of General Counsel Pierce, March 31, 1972, upon the issuance of regulations on financial recordkeeping and reporting of currency and foreign transactions.....	305

TAXATION DEVELOPMENTS

41. Remarks by Assistant Secretary Cohen, July 15, 1971, before the Tax Section of the American Bar Association, London, England, regarding the formulation of tax policy in the United States.....	314
42. Statement by Secretary Connally, September 8, 1971, before the House Committee on Ways and Means on tax proposals embodied in President Nixon's new economic policy.....	320
43. Statement by Secretary Connally, October 7, 1971, before the Senate Finance Committee regarding enactment of H.R. 10947, the Revenue Act of 1971.....	326
44. Letter from General Counsel Pierce, October 20, 1971, to Senator William Proxmire, as a reply to a suggestion by the Senator that public hearings be held before any revenue ruling is issued in matters involving a potential loss of \$5 million or more in tax revenue.....	334
45. Letter from Acting Secretary Walker to the Chairman of the Senate Finance Committee, November 12, 1971, concerning the financial accounting treatment of the 7 percent job development credit.....	336
46. Address by General Counsel Pierce, November 23, 1971, before the 32d annual dinner of the Federal Tax Forum, New York, N.Y., on "Highlights of the Revenue Act of 1971".....	337
47. Statement by Assistant Secretary Cohen, April 29, 1972, before the Federal Tax Institute of New England, Boston, Mass., on "efforts to make the tax system fair and equitable and to make it best serve the economic well-being of the Nation".....	341

	Page
48. Statement by Assistant Secretary Cohen, May 1, 1972, before the House Committee on Ways and Means on the tax treatment of married couples and single persons.....	348
49. Statement by Assistant Secretary Cohen, May 3, 1972, before the House Committee on Ways and Means on H.R. 13720, a bill to "amend the Internal Revenue Code of 1954 with respect to lobbying by certain types of exempt organizations".....	356
50. Statement by Assistant Secretary Cohen, May 8, 1972, before the House Committee on Ways and Means in support of H.R. 12272, the Individual Retirement Benefits Act of 1971.....	359
INTERNATIONAL FINANCIAL AND MONETARY DEVELOPMENTS	
51. Remarks by Secretary Connally as Governor for the United States, September 30, 1971, at the joint annual discussion of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates.....	365
52. Communique of the Ministerial Meeting of the Group of Ten, December 17-18, 1971, Washington, D.C.....	369
53. Proclamation by President Nixon, December 20, 1971, terminating additional duty for balance of payments purposes.....	370
54. Press release, February 11, 1972, announcing the results of recent trade negotiations between the United States and the European Community, and a joint statement on international economic relations issued jointly February 9, 1972, by the United States and Japan on results of recent trade negotiations between the two countries.....	371
55. An act to provide for a modification in the par value of the dollar, and for other purposes.....	380
56. Background material on legislation modifying the par value of the dollar.....	381
57. Statement by Secretary Connally, March 1, 1972, before the House Banking and Currency Committee.....	408
58. Remarks by Secretary Connally, March 15, 1972, before the Council on Foreign Relations, New York City.....	411
59. Statement by Under Secretary Walker, July 6, 1971, before the Subcommittee on International Finance of the House Banking and Currency Committee in support of H. R. 8750 to authorize further U.S. contributions to the International Development Association.....	416
60. Statement by Under Secretary Walker, October 26, 1971, before the Subcommittee on International Finance of the House Banking and Currency Committee in support of H.R. 5013 and H.R. 5014 to authorize U.S. contributions to the Asian Development Bank and the Inter-American Development Bank.....	420
61. Remarks by Under Secretary Walker as Temporary Alternate Governor for the United States, April 21, 1972, before the Board of Governors of the Asian Development Bank, Vienna, Austria.....	422
62. Statement by Under Secretary for Monetary Affairs Volcker, September 21, 1971, before the Subcommittee on Foreign Economic Policy of the House Foreign Affairs Committee.....	425
63. Remarks by Under Secretary for Monetary Affairs Volcker, October 28, 1971, at the National Economists Club Seminar on Phase II, at the Mayflower Hotel, Washington, D.C., on "President Nixon's New Economic Program—International Policies and Issues".....	427
64. Remarks by Under Secretary for Monetary Affairs Volcker, November 11, 1971, at the second meeting of the World Economy Study Group, the Adlai Stevenson Institute of International Affairs, Chicago, Ill., on "International Aspects of the New Economic Program—the First 90 Days".....	431
65. Statement by Under Secretary for Monetary Affairs Volcker, January 27, 1972, before the House Committee on Appropriations on "The International Financial Situation in Light of the Smithsonian Agreement".....	434
66. Remarks by Under Secretary for Monetary Affairs Volcker, May 12, 1972, at the 1972 International Monetary Conference at Le Chateau Champlain, Montreal, Canada.....	436

CONTENTS

VII

Page

67. Statement by Under Secretary for Monetary Affairs Volcker, May 25, 1972, to the Organization for Economic Cooperation and Development Council meeting, Paris, France.....	440
68. Remarks by Under Secretary Volcker, May 30, 1972, at the Conference Board's Third International Conference on the Financial Outlook, Geneva, Switzerland, on "Realism in International Monetary Reform".....	444
69. Statement by Under Secretary for Monetary Affairs Volcker, June 22, 1972, before the Subcommittee on International Finance of the House Committee on Banking and Currency.....	449
70. Statement by Acting Assistant Secretary Hennessy as Temporary Alternate Governor for the United States, May 9, 1972, before the 13th annual meeting of the Inter-American Development Bank, Quito, Ecuador.....	453
71. Statement by Deputy Under Secretary for Monetary Affairs Bennett, January 24, 1972, before the Subcommittee on International Commerce and Tourism of the Senate Commerce Committee on the proposed Export Expansion Act of 1971.....	456
72. Remarks by Deputy Under Secretary for Monetary Affairs Bennett, February 9, 1972, to the Conference on International Money and Capital, London, England, on "A View from the U.S. Treasury".....	458
73. Remarks of Assistant Secretary Rossides, May 11, 1972, before the 54th annual meeting of the American Ordnance Association, Washington, D.C., on "The U.S. Position in International Trade".....	462
74. White House press release, January 19, 1972, policy statement on economic assistance and investment security in developing nations.....	467
75. Press release, August 6, 1971, announcing drawing of \$862 million in foreign currencies from the International Monetary Fund.....	470
76. Press release, August 17, 1971, announcing repayment of Eurodollar certificates.....	470
77. Press release, August 24, 1971, announcing repayment of \$500 million of Eurodollar certificates.....	470
78. Press release, September 7, 1971, announcing repayment of \$516 million of Eurodollar certificates.....	470
79. Press release, September 22, 1971, announcing repayment of \$551 million of Eurodollar certificates.....	471
80. Press release, October 4, 1971, announcing repayment of \$551 million of Eurodollar certificates.....	471
81. Press release, October 18, 1971, announcing repayment of \$551 million of Eurodollar certificates.....	471
82. Press release, February 10, 1972, announcing Treasury has requested the International Monetary Fund to withdraw \$544 million in gold.....	471
83. Press release, April 7, 1972, announcing special securities arrangement with German Bundesbank.....	472
84. Press release, April 19, 1972, announcing agreement on text of a memorandum of understanding between Paris Club and Chilean Delegation concerning rescheduling of the Chilean external debt.....	472
85. Press release, April 27, 1972, announcing U.S. drawing from the International Monetary Fund.....	473
86. Press release, May 5, 1972, United States formally notifies the International Monetary Fund of dollar devaluation.....	473
87. Press release, June 23, 1972, statement concerning floating of British pound sterling.....	473
88. Other Treasury testimony in hearings before congressional committees, July 1, 1971-June 30, 1972.....	473

MINT OPERATIONS

89. An act to provide for the striking of medals in commemoration of the bicentennial of the American Revolution.....	474
90. An act to provide for the striking of medals in commemoration of the First United States International Transportation Exposition.....	475
91. White House announcement, March 23, 1972, concerning the transfer of the old San Francisco Mint from GSA to the Department of the Treasury for restoration by the Bureau of the Mint.....	475
92. Press release, April 27, 1972, announcing new White House medal.....	475

ORGANIZATION AND PROCEDURE

93. Treasury Department orders relating to organization and procedure..	Page 476
---	-------------

ADVISORY COMMITTEES

94. Advisory committees utilized by the Department of the Treasury under Executive Order 11007, superseded by Executive Order 11671, dated June 5, 1972.....	481
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INDEX.....	501
------------	-----

STATISTICAL APPENDIX

The tables to this Annual Report will be published in the separate Statistical Appendix.

NOTE.—Details of figures may not add to totals because of rounding.

Secretaries, Deputy Secretaries, Under Secretaries, General Counsels, Assistant Secretaries, and Deputy Under Secretaries for Monetary Affairs, serving in the Department of the Treasury from January 21, 1969, through June 30, 1972.¹

Term of service		Officials
From	To	
Jan. 22, 1969	Feb. 10, 1971	Secretaries of the Treasury: David M. Kennedy, Illinois.
Feb. 11, 1971	June 12, 1972	John B. Connally, Texas.
June 12, 1972	-----	George P. Shultz, New York.
June 12, 1972	-----	Deputy Secretary: Charles E. Walker, Texas.
Jan. 27, 1969	June 12, 1972	Under Secretaries: Charles E. Walker, Texas.
June 12, 1972	-----	Edwin S. Cohen, Virginia.
Jan. 27, 1969	-----	Under Secretary for Monetary Affairs: Paul A. Volcker, New Jersey.
Apr. 1, 1969	Mar. 20, 1970	General Counsels Paul W. Eggers, Texas.
July 1, 1970	-----	Samuel R. Pierce, Jr., New York.
May 15, 1968	Feb. 25, 1972	Assistant Secretaries: John R. Petty, New York.
June 12, 1972	-----	John M. Hennessy, Massachusetts.
Mar. 11, 1969	June 12, 1972	Edwin S. Cohen, Virginia.
Apr. 1, 1969	-----	Eugene T. Rossides, New York.
June 23, 1969	Aug. 13, 1971	Murray L. Weidenbaum, Missouri.
Dec. 9, 1971	-----	Edgar R. Fiedler, Wisconsin.
Feb. 12, 1968	Mar. 31, 1969	Deputy Under Secretaries of the Treasury for Monetary Affairs Frank W. Schiff, New York.
Apr. 1, 1969	June 30, 1971	Bruce K. MacLaury, New Jersey.
Sept. 23, 1971	-----	Jack F. Bennett, Georgia.
June 15, 1962	-----	Fiscal Assistant Secretary: John K. Carlock, Arizona.
Sept. 14, 1959	Oct. 24, 1970	Assistant Secretaries for Administration: A. E. Weatherbee, Maine.
Oct. 25, 1970	Jan. 7, 1972	Ernest C. Betts, Jr., Wisconsin.
Apr. 11, 1972	-----	Warren F. Brecht, Michigan.

¹ For officials from Sept. 11, 1979, to Jan. 20, 1969, see 1969 Annual Report, pp. 382-390.

PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS OF THE DEPARTMENT OF THE TREASURY AS OF JUNE 30, 1972

Secretary of the Treasury-----	George P. Shultz
Deputy Secretary of the Treasury-----	Charles E. Walker
Under Secretary for Monetary Affairs-----	Paul A. Volcker
Under Secretary-----	Edwin S. Cohen
General Counsel-----	Samuel R. Pierce, Jr.
Office, Secretary of the Treasury :	
Executive Assistant to the Secretary-----	Ronald B. Brooks
Deputy Assistant to the Secretary and Director, Executive Secretariat-----	Douglas C. Frechtling
Confidential Assistant to the Secretary-----	Barbara M. Otis
Office, Under Secretary :	
Special Assistant-----	Gerald L. Parsky
Office, Deputy Secretary of the Treasury :	
Assistant to the Deputy Secretary-----	Edward J. Gannon
Assistant to the Deputy Secretary-----	Wm. Howard Beasley
	III
Office, General Counsel :	
Deputy General Counsel-----	Roy T. Englert
Assistant General Counsel and Chief Counsel, IRS-----	Lee H. Henkel, Jr.
Assistant General Counsel-----	Charlotte Tuttle Lloyd
Assistant General Counsel-----	Michael Bradford
Assistant General Counsel-----	Hugo A. Ranta
Assistant General Counsel-----	Donald L. E. Ritger
Special Assistant to the General Counsel-----	Elting Arnold
Director of Practice-----	William H. Sager
Director, Office of Equal Opportunity Program-----	David A. Sawyer
Assistant Secretary (Tax Policy)-----	Frederic W. Hickman (acting)
Deputy Assistant Secretary (Tax Legislation)-----	Frederic W. Hickman
Deputy Assistant Secretary and Director, Office of Tax Analysis-----	Martin J. Bailey (Vacancy)
Associate Director, Office of Tax Analysis-----	John C. Richardson
Tax Legislative Counsel-----	(acting)
Deputy Tax Legislative Counsel-----	John C. Richardson
Associate Tax Legislative Counsel-----	Jerry L. Oppenheimer
International Tax Counsel-----	Robert T. Cole
Deputy International Tax Counsel-----	Robert J. Patrick, Jr.
Assistant Secretary (Enforcement, Tariff and Trade Af- fairs, and Operations)-----	Eugene T. Rossides
Deputy Assistant Secretary-----	William L. Dickey
Director, Office of Law Enforcement-----	Martin R. Pollner
Chief, INTERPOL (National Central Bureau)-----	Kenneth S. Giannoulas
Director, Office of Operations-----	William F. Hausman
Director, Office of Tariff and Trade Affairs-----	Matthew J. Marks
Special Assistant to the Assistant Secretary (Cus- toms Cooperation Council Representative)-----	Robert V. McIntyre

Assistant Secretary for Administration-----	Warren F. Brecht
Deputy Assistant Secretary and Director, Office of Management and Organization-----	J. Elton Greenlee
Director, Office of Administrative Programs-----	Robert R. Fredlund
Director, Office of Audit-----	Wilbur R. DeZerne
Director, Office of Budget and Finance-----	Edward J. Widmayer (acting)
Director, Office of Central Services-----	Norman J. McKenzie
Director, Office of Personnel-----	Amos N. Latham, Jr.
Special Assistant to the Secretary (Congressional Relations)-----	James E. Smith
Deputy Special Assistant to the Secretary-----	Gene A. Knorr
Special Assistant to the Secretary (National Security Affairs)-----	John J. McGinnis
Deputy Special Assistant to the Secretary-----	Gerald W. Nensel
Director, Office of Foreign Assets Control-----	Stanley L. Sommerfield (acting)
Special Assistant to the Secretary (Public Affairs)-----	James W. Donley
Deputy Special Assistant to the Secretary-----	Alan B. Wade
Senior Consultant-----	Henry C. Wallich
Office, Under Secretary for Monetary Affairs:	
Deputy Under Secretary for Monetary Affairs-----	Jack F. Bennett
Special Assistant to the Secretary (Debt Management)-----	Richard V. Adams
Director, Office of Debt Analysis-----	Edward P. Snyder
Fiscal Assistant Secretary-----	John K. Carlock
Deputy Fiscal Assistant Secretary-----	Sidney S. Sokol
Assistant Fiscal Assistant Secretary-----	Sidney Cox
Director, Operations Planning and Research-----	Lester W. Plumly
Assistant Secretary (International Affairs)-----	John M. Hennessy
Deputy Assistant Secretary for Industrial Nations Finance-----	William C. Cates
Deputy Assistant Secretary for Development Finance-----	(Vacancy)
Deputy Assistant Secretary for Trade and Investment Policy-----	Howard L. Worthington
Deputy Assistant Secretary for Research-----	Wilson E. Schmidt
Deputy to the Assistant Secretary for International Monetary Affairs-----	George H. Willis
Inspector General for International Finance-----	Ralph Hirschtritt
Assistant Secretary (Economic Policy)-----	Edgar R. Fiedler
Deputy to the Assistant Secretary-----	Jay N. Woodworth
Director, Office of Domestic Gold and Silver Operations-----	Thomas W. Wolfe
Director, Office of Financial Analysis-----	John H. Auten

BUREAU OF ACCOUNTS

Commissioner-----	David Mosso
Comptroller-----	Steve L. Comings
Chief Disbursing Officer-----	James C. Abbott (acting)
Director, Government Financial Operations-----	Gerald Murphy
Director, Division of Cash Management-----	Sebastian Fama

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS¹

Director-----	Rex D. Davis (acting)
Deputy Director-----	John L. West (acting)

¹ Effective July 1, 1972.

BUREAU OF CUSTOMS

Commissioner of Customs	Vernon D. Acree
Deputy Commissioner of Customs	Edwin F. Rains
Assistant Commissioner, Office of Administration	Glenn R. Dickerson
Assistant Commissioner, Office of Investigations	Harold F. Smith
Assistant Commissioner, Office of Operations	Raymond N. Marra (acting)
Assistant Commissioner, Office of Regulations and Rulings	Leonard Lehman
Assistant Commissioner, Office of Security and Audit	William A. Magee, Jr.
Chief Counsel	Saul Slomiak (acting)

BUREAU OF ENGRAVING AND PRINTING

Director	James A. Conlon
Deputy Director	Donald C. Tolson

BUREAU OF THE MINT

Director	Mrs. Mary T. Brooks
Deputy Director	Frank H. MacDonald
Assistant Director (Administration)	Sidney F. Carwile
Assistant Director (Public Services)	Roy C. Cahoon
Assistant Director (Production)	George G. Ambrose
Assistant Director (Technology)	Alan J. Goldman

BUREAU OF THE PUBLIC DEBT

Commissioner	H. J. Hintgen
Deputy Commissioner	J. J. Lubeley
Assistant Commissioner	M. E. McGeoghegan
Chief Counsel	Thomas J. Winston, Jr.

INTERNAL REVENUE SERVICE

Commissioner	Johnnie M. Walters
Deputy Commissioner	Raymond F. Harless
Assistant Commissioner (Administration)	Alvin M. Kelley (act- ing)
Assistant Commissioner (Inspection)	Francis I. Geibel (act- ing)
Assistant Commissioner (Compliance)	John F. Hanlon
Assistant Commissioner (Accounts, Collection, and Tax- payer Service)	Dean J. Barron
Assistant Commissioner (Stabilization)	Edward F. Preston
Assistant Commissioner (Planning and Research)	Lancelot W. Armstrong (acting)
Assistant Commissioner (Technical)	Peter P. Weidenbruch
Chief Counsel	Lee H. Henkel, Jr.

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Comptroller of the Currency	William B. Camp
First Deputy Comptroller	Justin T. Watson
Administrative Assistant to the Comptroller	W. A. Howland, Jr.
Deputy Comptroller	Thomas G. DeShazo
Deputy Comptroller	John D. Gwin
Deputy Comptroller for Economics	David C. Motter
Chief National Bank Examiner	Kenneth W. Leaf
Deputy Comptroller (Mergers and Branches)	R. J. Blanchard
Deputy Comptroller (Trusts)	Dean E. Miller
Deputy Comptroller (FDIC Affairs)	Albert J. Faulstich
Chief Counsel	Robert Bloom

OFFICE OF THE TREASURER OF THE UNITED STATES

Treasurer of the United States.....	Mrs. Romana Acosta Banuelos
Deputy Treasurer.....	Dario A. Pagliai (acting)
Assistant Deputy Treasurer.....	(Vacancy)

UNITED STATES SAVINGS BONDS DIVISION

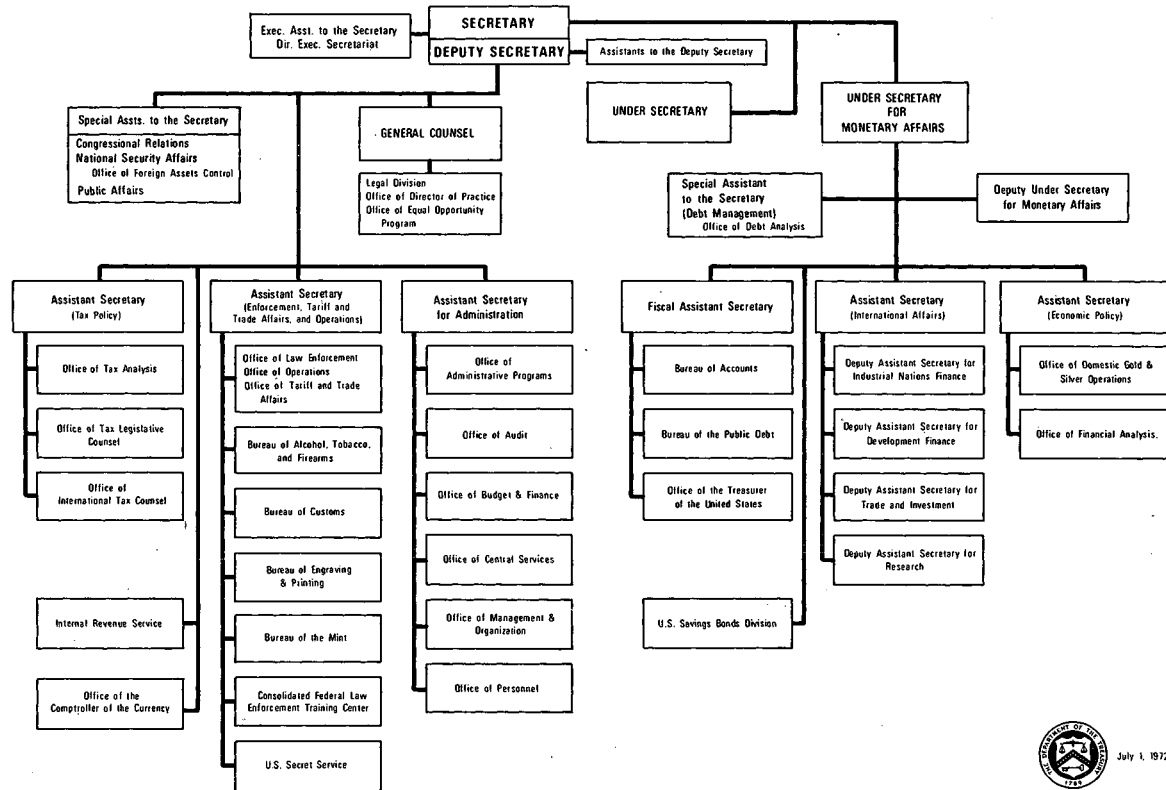
National Director.....	Jesse L. Adams, Jr. (acting)
Deputy National Director.....	Jesse L. Adams, Jr.
Director of Marketing.....	Walter P. Johnson
Director of Advertising and Promotion.....	Edmund J. Linehan

UNITED STATES SECRET SERVICE

Director	James J. Rowley
Deputy Director.....	Lilburn E. Boggs
Assistant Director (Administration).....	H. Stuart Knight
Assistant Director (Inspection).....	Jackson N. Krill
Assistant Director (Investigations).....	Burrill A. Peterson
Assistant Director (Protective Forces).....	Clinton J. Hill
Assistant Director (Protective Intelligence).....	Thomas J. Kelley



ORGANIZATION OF THE DEPARTMENT OF THE TREASURY



ANNUAL REPORT ON THE FINANCES

DEPARTMENT OF THE TREASURY,
Washington, November 1, 1972.

SIRS: In accordance with 31 U.S.C. 1027, I submit the following annual report on the finances of the Federal Government for fiscal year 1972. This brief introductory statement reviews major developments during the year and comments upon emerging trends. The main text of the report describes in some detail the major operating and administrative activities of the Department of the Treasury during fiscal year 1972. Further information is provided in a separate Statistical Appendix.

The New Economic Programs

Economic and financial events of fiscal 1972 seemed to turn on a single date—August 15, 1971. On that day, new economic policies were undertaken to cope with problems, both domestic and international, whose origins go back to the mid-1960's and earlier. Within the space of a few months, domestic economic confidence improved sharply and the first important steps were taken to reshape the international monetary system. By the end of the fiscal year, the economy was expanding strongly, and the domestic outlook was increasingly favorable.

The comprehensive new economic program that was announced by President Nixon at mid-August 1971 was designed to deal more effectively with an interrelated set of problems: Inflation, unemployment, sluggish economic expansion, and a chronic balance of payments deficit. Even before the new program was developed, the domestic economic situation was showing signs of improvement. Both the rate of unemployment and the rate of inflation had stopped rising, and the pace of inflation had even eased a bit. The administration's domestic economic objectives, however, were not being achieved rapidly enough. Additional actions were required to speed up the pace of economic recovery and to reinforce the efforts being made against inflation.

On the international side, there was an even more immediate need for a new policy approach. By mid-August, speculative pressures against the dollar were mounting rapidly, and prompt action was essential. Moreover, prospects for an early correction of the U.S.

balance of payments deficit appeared increasingly uncertain in the absence of new policies.

A coordinated set of measures was required to deal with these domestic and international problems. Isolated steps to achieve any one objective would have threatened to impede the attainment of others. For example, application of much stronger fiscal and monetary stimulus alone might temporarily have stimulated the economy and have speeded the decline of unemployment, but only at the cost of more inflation and a weaker balance of payments. On the other hand, conventional measures to control inflation might have stifled the domestic expansion. Finally, exclusive concentration upon balance of payments objectives would have run the risk of sacrificing important domestic objectives altogether.

In recognition of these interrelationships, the economic program announced on August 15 proposed a set of coordinated steps covering both domestic and international areas. Domestically, the main elements were a wage-price program and fiscal action. In the wage-price field, a 90-day freeze was imposed to break the inflationary momentum. The freeze was to be followed by a second phase in which markets would operate more normally. The fiscal action consisted of proposed tax legislation to stimulate the economic expansion and reductions in Federal expenditures to minimize budgetary strains. Taken together, these domestic measures were aimed at insuring further reduction in the rate of inflation while simultaneously encouraging a higher rate of growth in real output and employment.

Domestic Economic Expansion

The pace of economic expansion quickened during the fiscal year. Between the second quarters of calendar years 1971 and 1972, gross national product in current prices rose by \$96 billion. By mid-1972, prospects were already good that the gain of about \$100 billion in gross national product during calendar 1972 projected in the February 1972 Economic Report of the President would be reached or exceeded.

The 9.2-percent rise in gross national product during fiscal year 1972 was moderately greater than the 7.3-percent gain achieved in the previous fiscal year. In terms of major expenditure categories, the largest dollar rise came in consumption expenditures. Other leading sectors were business fixed investment (which was stimulated by tax policy changes) and residential construction (where a housing boom continued). On the less expansive side, business inventory policy remained cautious and the foreign sector exerted a negative influence because of the increasing trade deficit.

Much more of the rise in the value of national output was due to

real growth than in previous years. Real output climbed by a healthy 6 percent in fiscal 1972. Furthermore, growth showed an upward trend with real output rising at a 4.5-percent annual rate in the first half of the fiscal year but at a 7.9-percent annual rate in the second half.

This strong rise in real output was accompanied by very rapid gains in employment. Between the second quarters of calendar years 1971 and 1972, total civilian employment rose by 2.4 million persons. Ordinarily, the sharp rise in employment that occurred in fiscal 1972 would have been associated with a substantial fall in the rate of unemployment. However, in response to improving business conditions, the civilian labor force expanded by 2.3 million persons, a gain almost as large as that in employment. This unusual increase in the labor force kept the total rate of unemployment in the neighborhood of 6 percent during the early part of the year, but the decline to 5.7 percent in the second quarter of calendar 1972 and to 5.5 percent in June should be a signal of lower rates to come.

The administration's progress on the inflation front during this and the preceding fiscal year is well illustrated by the following table which shows the rate of change of the GNP implicit price deflator for the private sector:

<i>Annual rate of change, seasonally adjusted</i>	
Period:	Percent
1970-III to 1971-I.....	6.1
1971-I to 1971-III.....	3.6
----- New Economic Policy -----	
1971-III to 1972-I.....	3.3
Latest quarter, 1972-II.....	1.8

Thus, although certain commodities, notably meat and other farm products, rose sharply in price during early 1972, the overall picture at the end of the fiscal year is most encouraging.

Fiscal Measures

Fiscal action was an integral part of the August 15, 1971 program. The major objective of the fiscal proposals was to stimulate the economy and create jobs in the private sector. To that end, the following recommendations were presented to the Congress in early September: Acceleration of individual income tax reductions from 1973 to 1972, repeal of the 7-percent excise tax on sales of new automobiles, enactment of a 10-percent job development credit (5 percent after August 15, 1972), and the Domestic International Sales Corporation (DISC) legislation to stimulate exports. (A full discussion of taxation developments in fiscal 1972 appears on pp. 36-44.)

In addition, it was proposed to balance the loss of revenues from the tax changes with reductions in Federal budget outlays. This was viewed as essential in order to maintain basic discipline in the budget, to contain inflationary pressures, and to avoid undue pressure on the financial markets.

Congressional review and modification of these proposals was achieved in timely fashion and legislation was signed into law on December 10, 1971 (Public Law 92-178). The end product incorporated the administration's major recommendations but included some congressional modifications and extensions. A permanent job development credit of 7 percent was enacted rather than the proposed 10-percent-5-percent plan. The so-called first year convention in the administrative liberalization of depreciation announced earlier in the year was modified as was the DISC proposal to defer taxes on profits from exports. In each case, however, the main thrust of the President's proposal was acted upon.

Congress went beyond the administration requests by increasing personal exemptions and the minimum standard deduction, making a Federal pay raise effective on January 1, 1972, and providing a new deduction for child care and household help. Additionally, in a congressional step which was almost unnoticed at the time, the personal income tax withholding schedules were modified in an effort to reduce underwithholding of Federal taxes for families with more than one wage earner or above-average incomes. This was accomplished successfully but has unfortunately also resulted in overwithholding of taxes for families with one wage earner and average deductions.

The net effect of the tax legislation—aside from the unintentional overwithholding which in the aggregate may have done little more than to affect seasonal financial patterns—was additional fiscal stimulus during fiscal 1972. In January 1972, it was estimated that the full employment budget would move from a surplus of \$4.9 billion in fiscal 1971 to a deficit of \$8.1 billion in fiscal 1972. But by the end of fiscal 1972, the full employment deficit for fiscal 1972 was reestimated at \$3.6 billion, primarily because of delay in the passage of the administration's revenue sharing legislation.

From all indications, fiscal stimulus from the December 1971 legislation was a significant factor in the stronger economic expansion and the more rapid gains in employment that developed during the fiscal year. However, the tendency for the fiscal 1973 budget to move out of full employment balance was another matter. With the economy moving ahead rapidly and inflation still a threat, the fiscal influence needed to move toward neutrality.

Actual budget deficits continued to be sizable because the level of

economic activity remained below full employment. The deficit for fiscal year 1972 amounted to \$23.2 billion, with receipts of \$208.6 billion and outlays of \$231.9 billion. The fiscal year 1973 budget deficit was estimated in June 1972 at \$27 billion, with receipts of \$223 billion and outlays of \$250 billion. By the end of fiscal year 1972, it was apparent that a special effort would be required in order to hold down this prospective deficit.

Sizable budget deficits make good economic sense while the economy remains below full employment. But, looking to the immediate future, expenditure restraint will be vital. On the basis of existing expenditure programs, Federal revenues at full employment are already committed several years into the future. This is why, for fiscal 1973, the administration vigorously advocates a rigid ceiling on Federal expenditures. If set at \$250 billion, such a ceiling would approximate full employment revenues and conform to the principle of full employment balance.

There is general agreement that the period just prior to national elections is hardly the occasion on which to attempt any major reform of the Federal tax structure. But there is a strong case for attempting without delay to make the tax system fairer and simpler. The administration proposed and supported tax reform legislation in 1969 and remains committed to further efforts in that direction.

Revenue Sharing

During the fiscal year, the President's legislative proposals for general revenue sharing moved closer to final action by the Congress. On June 22, 1972, the House of Representatives completed action on the State and Local Financial Assistance Act of 1972 (H.R. 14730). While this legislation differed in some respects from the administration's original proposals, the similarities far outweighed the differences. By the end of the fiscal year, the Senate Finance Committee had begun its own hearings on general revenue sharing, and the prospects for eventual passage seemed favorable. In its present form, the legislation calls for the distribution of \$29.8 billion in Federal revenues over a 5-year period to State and local governments and an accompanying simplification of the existing maze of special Federal grant programs.

Financial Developments

Federal Reserve monetary policy was moderately expansive during the fiscal year. The money supply (currency and demand deposits) rose by 5 percent, compared to 7.7 percent in fiscal 1971. Monetary expansion was modest during the second half of 1971, picked up ap-

preciably in the early months of calendar year 1972, and tapered back to about a 5½-percent rate of growth during the final 3 months.

The money and capital markets reacted very favorably to the new economic program. Short-term interest rates had been rising rather sharply during the spring and early summer of 1971, and long-term interest rates also had turned up. By the beginning of the fiscal year, the 3-month Treasury bill rate was once again above 5 percent, and new long-term corporates were yielding more than 8 percent. Rates declined a bit during July and early August and then fell sharply in reaction to the new program.

By the end of fiscal year 1972, the rate on 3-month Treasury bills was slightly above 4 percent, down more than a full percentage point from the level of mid-August 1971. Treasury coupon issues showed declines through the range of maturities of from ½ to a full percentage point. New Aa corporate and new municipal bond issues were down about ½ percentage point, and new home conventional mortgages were down about ¼ percentage point.

These interest rate declines occurred against a background of record flows of funds through the credit markets. During fiscal year 1972, about \$160 billion of new funds were raised 25 percent more than during fiscal year 1971. Reduced expectations of inflation helped make possible larger credit flow at lower rates of interest.

The very large volume of savings flowing to commercial banks and thrift institutions during the fiscal year was reflected in a strong rise in new mortgage credit and a vigorous pace of residential construction activity. Corporate capital requirements continued to be sizable, but an improving cash flow gradually helped to reduce some of the pressure on the corporate bond market. The volume of State and local borrowing also eased back somewhat from earlier levels.

Federal financing requirements were accommodated comfortably during the 1972 fiscal year. The budget deficit of \$23.2 billion on the unified basis was about the same size as that for fiscal 1971, but the resilience of the financial markets had improved greatly. At the time of the January 1972 budget estimates, total borrowing from the public during the fiscal year was expected to be \$39.5 billion on the basis of a \$38.8 billion budget deficit. During the first half of the fiscal year, total borrowing from the public was \$21.6 billion, up from \$16.3 billion in the comparable period of fiscal 1971. This seemed to imply a large second-half financing requirement.

Borrowing from the public in the second half of the fiscal year was reduced by \$2.4 billion bringing the total for the fiscal year down to \$19.4 billion. The improved fiscal position resulted mainly from the larger than expected tax receipts in the second half, principally due to the overwithholding of personal income taxes arising from the

December 1971 tax legislation. The strong Treasury cash position was reflected in decisions to pay down \$700 million at the May refinancing and to retire, rather than refund, \$1.226 billion of June 15 maturities.

At the close of the fiscal year, the total interest-bearing public debt amounted to \$425.4 billion, an increase of \$29.1 billion during the year. The computed annual interest rate at the close of the year was 5.09 percent, down from 5.14 percent at the end of fiscal 1971 and from 5.56 percent at the end of fiscal 1970. The average length of the marketable interest-bearing public debt shortened to 3 years 3 months from 3 years 6 months at the close of fiscal 1971. (For a detailed discussion of Treasury financing operations during fiscal year 1972, see pp. 20–28.)

Federal Financing Bank

During the fiscal year, the Senate approved legislation providing for a Federal Financing Bank. In recent years, there has been an extremely rapid growth in the number and volume of federally assisted credit activities. For example, the combined net market demands of Federal and federally assisted borrowers are expected to total \$58 billion in fiscal year 1973. In fact, direct Federal borrowing from the public is expected to be actually outweighed by Government sponsored and guaranteed borrowing—most of it by non-Federal borrowers. This proliferation of uncoordinated borrowing associated with the expansion of federally assisted credit activities is inefficient and costly. The resulting market congestion increases interest rates for all borrowers.

In order to meet this problem, the administration has proposed that a Federal Financing Bank be established. The Bank would neither add to nor subtract from existing Federal credit assistance programs. First, it would centralize debt management functions that are now being performed by a very large number of credit agencies. Second, it would provide for coordination by the Secretary of the Treasury of Federal agency financing plans. And third, it would provide for submission to the President of budget plans for loan guarantee programs.

Law Enforcement Operations

During fiscal 1972, Treasury continued to strengthen its enforcement activities at every level. Treasury obtained a budget supplemental at the close of fiscal 1971 of \$15 million to enable the Bureau of Customs to increase its forces combatting illicit drug importations. This move resulted in a new record for seizures during fiscal year 1972 of drugs and arrests of smugglers directly by U.S. Customs and contributed to a number of major international seizures by foreign authorities.

Treasury also obtained at the close of fiscal 1971 a \$7.5 million supplemental appropriation for the Internal Revenue Service for tax investigations of middle and upper level distributors and financiers known to be engaged in narcotics trafficking. This Treasury program yielded spectacular results during fiscal 1972, its first year of operation, with 793 major traffickers under investigation, \$54 million in taxes and penalties assessed, and \$8½ million collected; six major traffickers were convicted on criminal tax charges, and at the end of the year 15 were awaiting trial and 35 other cases were recommended for prosecution. This program holds great promise for taking the profit out of the drug traffic and incarcerating many of its principal directors.

In March of 1972, Treasury published regulations to implement Public Law 91-508 by requiring recordkeeping and re-reporting in connection with certain financial transactions. These measures, which became effective July 1, 1972, were designed to prevent the use of secret bank accounts in foreign countries by organized and white collar crime and currency manipulators to conceal illegal activities and evade payment of U.S. income taxes. They are being administered by eight different agencies and offices of the U.S. Government under the coordination of Treasury's Office of Operations.

Treasury's program to reduce and prevent the theft of cargo from international commerce at ports of entry achieved substantial results through the efforts of its Bureau of Customs.

Tariff and Trade Enforcement Operations

During fiscal 1972, Treasury gave increased attention to measures to prevent unfair price discrimination, subsidies and other practices affecting importations into the United States.

By accelerating the processing of complaints under the antidumping statute and tightening the application of the countervailing duty statute, Treasury made both laws more effective instruments in defending the United States against unfair competition. In fiscal 1972, the number of antidumping investigations initiated increased by 70 percent, the number of Treasury decisions by 57 percent, and the number of dumping findings by 157 percent.

On April 19, 1972, Treasury published for comment new antidumping regulations designed to clarify and further tighten the procedures of the Antidumping Act. The comments received are now being considered, and amended regulations will be issued shortly.

Considerable emphasis has also been focussed on classification, value and marking determinations, quota administration, coastwise trade exemptions, and monitoring voluntary restraint agreements.

International Affairs

In the international monetary and financial sphere, the fiscal year was in many respects the most noteworthy 12-month period in the past two decades.

Following an already very large deficit on the official reserve transactions basis in calendar year 1970, the U.S. payments picture darkened at an accelerating pace in the first half of calendar year 1971. The payments deficit was reflected in both a trade balance deterioration beginning in the second quarter of 1971 and in heavy outflows of short-term capital. The official transactions deficit reached an unprecedented figure of about \$12 billion during the first half of 1971.

Speculative pressures led to the abandonment of fixed parities for the German mark and the Dutch guilder in May, and both currencies floated upward. The Swiss franc and Austrian schilling were revalued to new and higher fixed rates. The outrush of dollars resumed in the early months of the fiscal year under review, especially into yen. In the third quarter of 1971, the U.S. official reserve transactions deficit reached \$11.9 billion, due primarily to transactions which occurred prior to the President's announcement of a new economic policy on August 15. Gross reserves fell from \$13½ billion at the end of June 1971 to just over \$12 billion at mid-August.

As an element of his new economic policy, the President suspended the convertibility of the dollar into gold and other reserve assets as of August 15, 1971. This decision, supplemented by the imposition of a temporary import surcharge, brought to a close a long period during which the U.S. balance of payments position had been unsustainable.

Immediately after the suspension of dollar convertibility, the exchange rates of most major currencies were permitted to "float" away from their former parities although there were varying degrees of foreign governmental restriction and intervention. However, many foreign monetary authorities expressed their desire for an early return to fixed parities.

Of immediate concern to the United States was its serious trade position, which failed to cover U.S. programs of economic assistance and normal net exports of capital to the developing countries. U.S. negotiators sought substantial exchange rate changes, as well as reduced obstacles to U.S. exports. In many instances, however, foreign authorities were reluctant to reduce their trade surplus positions. The United States was even urged by some to resume convertibility obligations.

These considerations were intensively examined at meetings of the Ministers and Governors of the Group of Ten in London on September 15-16, 1971, in Rome on November 30-December 1, 1971, and in

Washington on December 17–18, 1971. Agreement was reached in Washington on December 18 on a new pattern of exchange rates which had the effect of devaluating the dollar in terms of other major currencies by an average of approximately 12 percent (based on individual rate changes weighed by the importance of our trade with each major country, excluding Canada). The Government of Canada allowed the Canadian dollar to continue to float. Taking a longer view, the Ministers also agreed to cooperate in reforming the international monetary system. The import surcharge was rescinded by the United States, and short-term trade negotiations were pursued bilaterally with Japan, Canada, and the European Community, looking toward removal of some irritants in foreign trade practices.

Secretary Connally accompanied President Nixon when he met with French President Pompidou and Finance Minister Giscard d'Estaing in the Azores on December 13–14, 1971—one of a series of meetings between President Nixon and several heads of governments. The French and American Presidents agreed to work toward a prompt realignment of exchange rates, thus helping to clear the way for the decisions taken at the Smithsonian in Washington on December 18.

The realignment of December 18 called for a change in the parity of the U.S. dollar by 8.57 percent, resulting in a new official monetary price of gold of \$38 per ounce. Upon completion of the legislation needed to put this new par value into effect, and to implement maintenance-of-value obligations under the charters of the International Monetary Fund, the World Bank, and other international lending bodies, the United States officially notified the International Monetary Fund of the change in the parity of the dollar, effective May 8, 1972.

The Smithsonian agreement also established wider margins for fluctuations in exchange rates on either side of par values. Whereas under the previous IMF system, spot exchange rates were not allowed to vary by more than 1 percent on either side of parity, under the Smithsonian agreement these margins were raised to 2¼ percent on either side of parity. The new margins were intended to reduce speculative incentives and to permit a wider divergence in short-term interest rates among countries without encouraging large international flows of funds. This would permit a greater degree of independence in the pursuit of domestic monetary policies by different countries.

However, within the European Community, in a move toward regional monetary unification, the spread between any two exchange rates of the participating European group at any one time was narrowed on July 1, 1972, to a maximum of 2¼ percent. This produced a situation popularly described as the “snake in the tunnel,” where the European Community currencies, along with sterling, were all constrained within a narrow band while this narrow band could move

over time within a range of fluctuation against the dollar of $4\frac{1}{2}$ percent.

Toward the close of the fiscal year, the relative calm in the exchange markets achieved by mid-March was disturbed by a sudden burst of speculation against the pound sterling in the third week of June. On June 23, the British authorities announced that the pound sterling would be allowed to float for a time until it proved feasible to re-establish a pegged rate, thus breaking out of both the snake and the tunnel. Exchange markets in Europe were closed for several days, but the major European Finance Ministers decided on June 26 to maintain their exchange rates when the markets reopened. By early July, the exchange markets appeared to have calmed appreciably.

It was not to be expected that the new economic policy and the exchange rate realignment would restore the U.S. payments deficit immediately; indeed, during the period from January to June 1972, the United States incurred a merchandise trade deficit of \$3.6 billion while the official reserve transactions deficit was around \$4 to $\$4\frac{1}{2}$ billion.

Between December and June, progress was made along two fronts in preparing for full-scale negotiations on the reform of the international monetary system and other related issues. From the earliest discussions, the United States took the position that a stable and durable monetary and payments system for the future could not be established by a simple return to familiar policies and practices. The system must be based upon a strengthening of the U.S. balance of payments position, of sufficient magnitude to restore a full market confidence in the dollar. This view implied, of course, that other industrial countries could no longer accumulate large surpluses at the rate to which they had become accustomed.

While the validity of this view was generally accepted in principle, concrete actions to this end proved more difficult, and some foreign countries apparently felt the needed adjustment could be made through more or less permanent exercise by the United States of strong administrative control over its capital exports. For its part, the United States argued that negotiations on long-term reform should be broad enough to cover trade and investment practices which affect competitive conditions. That is, the negotiations should not be limited exclusively to purely monetary arrangements and mechanisms. The U.S. view on the need for a comprehensive approach to reform was accepted in principle by the Executive Board of the International Monetary Fund, and by the Organization for Economic Cooperation and Development at its Ministerial meeting in May 1972.

Progress was also made in establishing more effective arrangements for global negotiations on long-term reform of the monetary and

payments position. Under the strong urging of the United States, preliminary agreement was reached to establish a new "Committee of Twenty" Governors in the International Monetary Fund, representing all the members of the Fund, to undertake a leading role in the negotiations. Each member of the Committee would represent a constituency that appoints or elects an Executive Director. This was expected to lead to a rough balance in numbers between Governors from the industrial nations and those from the rest of the world.

The Committee, when formally established by vote of the IMF Governors, will, as urged by the United States, give full attention to the interrelationship between proposals to amend the Articles of the Fund and existing or prospective arrangements among countries—including those that involve international trade, the flow of capital, investment, or development assistance—that could affect attainment of the purposes of the Fund under the present or amended Articles. The title of this group will be the "Committee of the Board of Governors on Reform of the International Monetary System and Related Issues." It is expected that a good deal of preparatory work will be done in meetings of Deputies to the Governors.

The work of this Committee will be supplemented by other international organizations which are in a position to make contributions to the whole endeavor.

One of the "related issues" of the greatest importance concerns the rules and practices of industrial countries with respect to competitive trade and investment practices and preferential arrangements that impede competitive adjustments. These practices can exert a strong effect on the trade position of the United States and other countries and can impede or reinforce the process of adjusting surpluses and deficits which is a key aspect of the international monetary and trading system. Accordingly, the United States places a heavy emphasis on a thorough reexamination of the equity and economic justification for many of these practices.

The Smithsonian agreement of December 18, 1971, stipulated that trade arrangements were "a relevant factor in assuring a new and lasting equilibrium." Bilateral trade negotiations between the United States and the European Community and Japan entered an intensive phase following this agreement. As a result, in February 1972, the European Community and Japan agreed to lower or eliminate certain barriers to U.S. exports, and joined the United States in a declaration to initiate and actively support multilateral and comprehensive trade negotiations beginning in 1973. This commitment was later supported in the GATT Council by all other industrialized nations.

The GATT, OECD, and UNCTAD were also the scenes of intensive

work during the fiscal year. Of particular interest was the creation of a group of high-level experts in the OECD to consider how best to deal with world trade problems.

In addition to efforts in international forums, special attention was given to domestic industries suffering from serious injury due to accelerating import competition. Voluntary restraint agreements were negotiated with Japan, the Republic of China, Korea, and Hong Kong limiting their exports to the United States of manmade and woolen textiles; and with European and Japanese steel producers limiting exports of steel mill products through 1974.

While cushioning the impact of import competition, the United States also undertook measures to support the expansion of exports. The Revenue Act of 1971, through authorization of DISC's for limited tax deferral of income from export sales, removed one drag on the position of our exporters vis-a-vis many of their competitors abroad. In addition, the programs of the Export-Import Bank were implemented with vigor. Progress toward expanding trade with Communist countries was made at the Moscow summit in May 1972 and also by the liberalization of domestic regulations governing trade with the People's Republic of China.

Finally, the publication of the "Report of the President's Commission on International Trade and Investment Policy" and the work program of the recently established Council on International Economic Policy (CIEP) represented important progress in the formulation and management of future U.S. foreign economic policy.

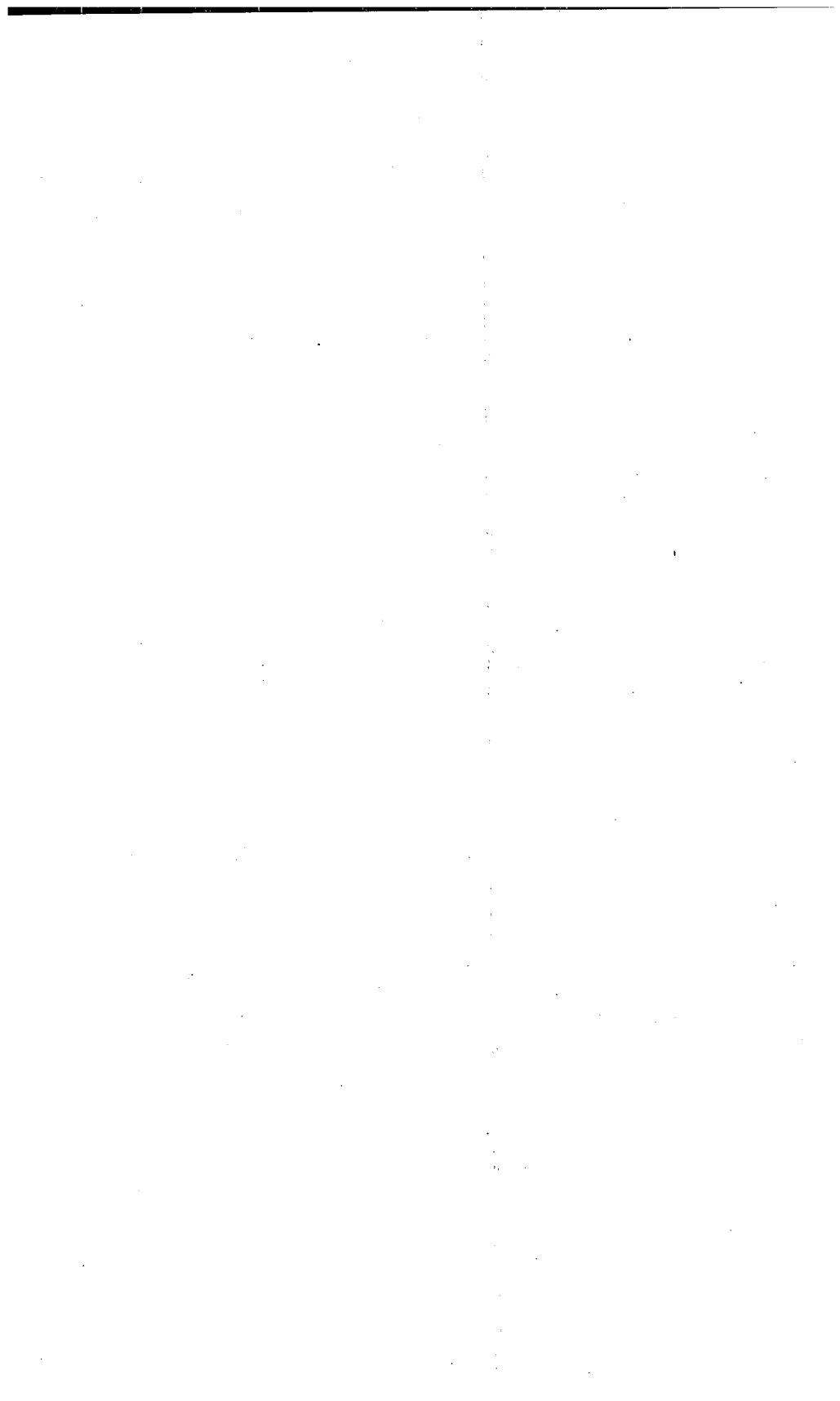
Conclusion

Fiscal year 1972 has been an unusually eventful one. The new economic policies initiated early in the year have led to strong domestic growth and achieved further substantial progress in reducing the rate of inflation. Federal spending must continue to be held within the revenues that can be generated by a fully employed economy. In the area of international economics and finance, this is a time of great change. This country stands ready to work cooperatively with others in the reshaping of international monetary and trading arrangements.

GEORGE P. SHULTZ,
Secretary of the Treasury.

TO THE PRESIDENT OF THE SENATE.

TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.



REVIEW OF TREASURY OPERATIONS



Financial Operations

Summary

On the unified budget basis the deficit for fiscal 1972 was \$23.2 billion. Net receipts for fiscal 1972 amounted to \$208.6 billion (\$20.3 billion over 1971) and outlays totaled \$231.9 billion (\$20.5 billion over 1971).

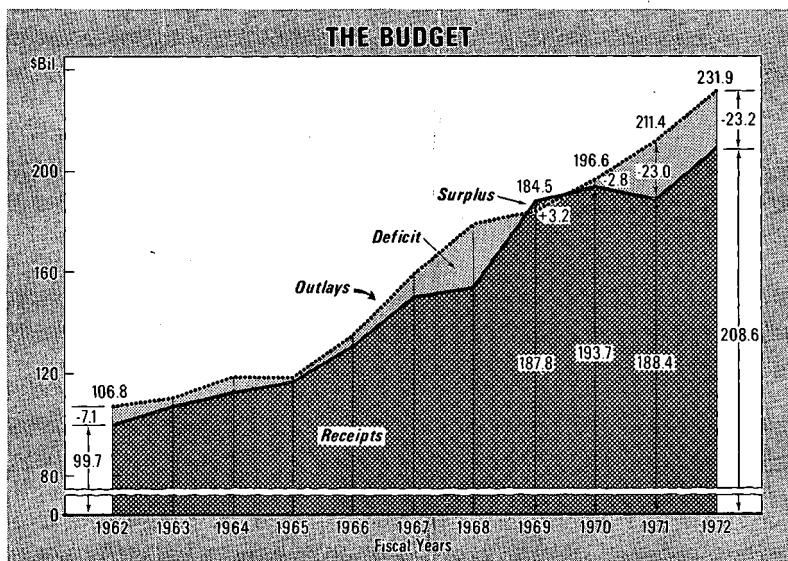
Borrowing from the public amounted to \$19.4 billion. Increases in deposit fund and other liabilities of \$5.3 billion, decreases in cash and monetary assets of \$2.5 billion, increases in seigniorage of \$0.6 billion, increment on gold of \$0.9 billion, and decreases in all other financing of \$0.5 billion provided the rest of the financing for the \$23.2 billion deficit. As of June 30, 1972, Federal securities outstanding totaled \$438 billion, comprised of \$427 billion in public debt securities and \$11 billion in agency securities. Of the \$438 billion, \$324 billion represented borrowing from the public. The Government's fiscal operations in fiscal years 1971-72 are summarized as follows:

[In billions of dollars]

	1971	1972
Budget receipts and outlays:		
Receipts-----	188.4	208.6
Outlays-----	211.4	231.9
Budget surplus, or deficit (—)-----	-23.0	-23.2
Means of financing:		
Borrowing from the public—increase, or decrease (—)-----	19.4	19.4
Reduction of cash and monetary assets—increase (—), or decrease-----	(*)	-2.5
Other means-----	3.6	6.3
Total budget financing-----	23.0	23.2

*Less than \$50 million.

NOTE: The expenditure and loan account distinction for budgetary results was discontinued with final figures for June 30, 1972.



Receipts

Total receipts rose sharply in fiscal 1972, reaching \$208.6 billion, an increase over fiscal 1971 of \$20.3 billion or over 10 percent. The rise was in part occasioned by rising incomes but also was bolstered by a substantial bunching of receipts in 1972 caused by a new withholding system for individuals. The increase was dampened by declines in excise taxes and miscellaneous receipts.

A comparison of net budget receipts by major sources for fiscal years 1971 and 1972 is shown below.

[In millions of dollars]

	1971	1972	Increase or decrease (—)
Individual income taxes.....	86,230	94,737	8,507
Corporation income taxes.....	26,785	32,166	5,381
Employment taxes and contributions.....	41,699	46,120	4,421
Unemployment insurance.....	3,674	4,357	683
Contributions for other insurance and retirement.....	3,205	3,437	232
Excise taxes.....	16,614	15,477	-1,137
Estate and gift taxes.....	3,735	5,436	1,701
Customs duties.....	2,591	3,287	696
Miscellaneous receipts.....	3,868	3,633	-225
Total budget receipts.....	188,392	208,649	20,257

Projected estimates of receipts, required of the Secretary of the Treasury, are shown and explained in the President's budget.

Individual income taxes.—Individual income taxes amounted to \$94.7 billion in fiscal 1972, \$8.5 billion above the 1971 figure. The in-

crease is attributable to rising incomes but is also due in substantial measure to failure of individual taxpayers to adjust to the new withholding system early in calendar year 1972. As a result, overwithholding against wages and salaries in the first six months of calendar year 1972 has swollen fiscal year 1972 receipts. Payments in excess of liabilities will not be refunded until after tax returns are filed in 1973.

Corporation income taxes.—Corporation income taxes increased substantially in fiscal 1972, totaling \$32.2 billion or \$5.4 billion above the figure for 1971. The rise reflected a sharp rise in profits from the low level of 1970, offset in part by the 1971 legislation permitting a new investment credit. In addition, corporation income taxes were also affected by a bunching of receipts in fiscal 1972.

Employment taxes.—Employment taxes totaled \$46.1 billion in fiscal 1972, \$4.4 billion above such receipts in 1971. The rise reflected expanding payrolls and number of people employed, as well as the effect of an increase in the social security wage base effective January 1, 1972.

Unemployment insurance.—Receipts from unemployment insurance amounted to \$4.4 billion in fiscal 1972, \$0.7 billion above the 1971 figure.

Contributions for other insurance and retirement.—Such contributions and premiums amounted to \$3.4 billion in fiscal 1972, \$0.2 billion above receipts in fiscal 1971. These receipts are mainly composed of medical insurance premiums for the aged, and Federal employees retirement deductions. Receipts from each increased in fiscal 1972.

Excise taxes.—Excise tax receipts are detailed in the following table.

[In millions of dollars]

	1971	1972	Increase or decrease (—)
Alcohol taxes.....	4,800	5,110	310
Tobacco taxes.....	2,207	2,207	-----
Documents.....	(*)	(*)	(*)
Manufacturers excise taxes.....	6,684	5,729	-955
Retailers excise taxes (repealed).....	282	327	45
Miscellaneous excise taxes.....	2,488	2,695	207
Unclassified collections.....	410	779	369
Gross excise taxes.....	16,872	16,847	-25
Less refund of receipts.....	258	1,370	1,112
Net excise taxes.....	16,614	15,477	-1,137

* Revised.

*Less than \$500,000.

Excise taxes dropped from \$16.6 billion in fiscal 1971 to \$15.5 billion in fiscal 1972. The decrease in fiscal 1972 is wholly due to the termination in 1971 of the automobile and truck excises within the manu-

facturers excise taxes category. Other excises showed significant rises, notably the alcohol, tobacco, and miscellaneous categories.

Estate and gift taxes.—Estate and gift tax receipts amounted to \$5.4 billion in fiscal 1972, an increase of \$1.7 billion. The bulk of this increase is due to an administrative speedup of collections.

Customs.—Customs duties reached \$3.3 billion in fiscal 1972, an advance of \$0.7 billion. The normal increase in these taxes was substantially enlarged by an import surcharge which has been discontinued.

Miscellaneous receipts.—Miscellaneous receipts amounted to \$3.6 billion in fiscal 1972, falling \$0.2 billion from the 1971 level. The decrease was due to lower deposits of earnings by Federal Reserve banks.

Outlays

Total outlays in fiscal 1972 were \$231.9 billion (compared with \$211.4 billion for 1971). Outlays for fiscal 1972, by major agency, are compared to those of 1971 in the following table. For details see the Statistical Appendix.

[In millions of dollars]

	1971	1972	Increase or decrease (—)
Funds appropriated to the President.....	4,540	4,269	—271
Agriculture Department.....	8,560	10,943	2,383
Defense Department.....	75,922	76,679	757
Health, Education, and Welfare Department.....	61,866	71,779	9,913
Housing and Urban Development Department.....	2,890	3,642	752
Labor Department.....	7,923	10,033	2,111
Transportation Department.....	7,248	7,531	284
Treasury Department.....	20,990	22,124	1,134
Atomic Energy Commission.....	2,275	2,392	117
National Aeronautics and Space Administration.....	3,381	3,422	41
Veterans Administration.....	9,756	10,710	955
Other.....	13,451	16,208	2,757
Undistributed intrabudgetary transactions.....	—7,376	—7,858	—481
Total outlays.....	211,425	231,876	20,451

Cash and monetary assets

On June 30, 1972, cash and monetary assets amounted to \$17,546 million, an increase of \$2,470 million over fiscal 1971. The balance consisted of \$11,310 million in the general account of the Treasurer of the United States (\$1,193 million more than June 30, 1971); \$5,721 million with other Government officers (\$2,059 million more than 1971); and \$516 million with the International Monetary Fund (\$988 million less than 1971). For a discussion of the assets and liabilities in the Treasurer's general account see page 115. The transactions affecting the account in fiscal 1972 follow:

Transactions affecting the account of the Treasurer of the United States, fiscal 1972

[In millions of dollars]

Balance June 30, 1971.....		10, 117
Less: In transit at June 30, 1971.....		206
Excess of deposits, or withdrawals (—), budget, trust, and other accounts:		
Deposits.....	228, 285	
Withdrawals (—).....	244, 880	— 16, 594
Excess of deposits, or withdrawals (—), public debt accounts:		
Increase in gross public debt.....	29, 131	
Deduct:		
Excess of Government agencies' investments in public debt issues.....	8, 986	
Accruals on savings and retirement plan securities and Treasury bills (included in increase in gross public debt above).....	6, 661	
Less certain public debt redemptions (included above in withdrawals, budget, trust, and other accounts).....	5, 463	
Net deductions.....	10, 184	18, 947
Excess of sales of Government agencies' securities in the market.....		4, 679
Net transactions in clearing accounts (documents not received or classified by the Office of the Treasurer).....		— 5, 632
Net transactions in transit.....		476
Balance June 30, 1972.....		11, 785

Corporations and other business-type activities of the Federal Government

The business-type programs which Government corporations and agencies administer are financed by various means: Appropriations (made available directly or in exchange for capital stock), borrowings from either the U.S. Treasury or the public, or by revenues derived from their own operations.

Corporations or agencies having legislative authority to borrow from the Treasury issue their formal securities to the Secretary of the Treasury. Amounts so borrowed are reported in the periodic financial statements of the Government corporations and agencies as part of the Government's net investment in the enterprise. In fiscal 1972, borrowings from the Treasury, exclusive of refinancing transactions, totaled \$11,673 million, repayments were \$9,678 million and outstanding loans on June 30, 1972, totaled \$33,939 million.

Those agencies having legislative authority to borrow from the public must either consult with the Secretary of the Treasury regarding the proposed offering, or have the terms of the securities to be offered approved by the Secretary.

During fiscal 1972, Congress granted new authority to borrow from the Treasury in the total amount of \$1,141 million, and reduced existing authority by \$233 million, a net increase of \$908 million. The status of borrowing authority and the amount of corporation and

agency securities outstanding as of June 30, 1972, are shown in the Statistical Appendix.

Unless otherwise specifically fixed by law, the Treasury determines interest rates on its loans to agencies by considering the Government's cost for its borrowings in the current market, as reflected by prevailing market yields on Government securities which have maturities comparable with the Treasury loans to the agencies. A description of the Federal agencies' securities held by the Treasury on June 30, 1972, is shown in the Statistical Appendix.

During fiscal 1972, the Treasury received from agencies a total of \$1,378 million in interest, dividends, and similar payments. (See the Statistical Appendix.)

Quarterly statements of financial condition, income and expense, and source and application of funds are submitted to the Treasury by Government corporations and business-type agencies. Annual statements of commitments and contingencies are also submitted. These statements serve as the basis for the combined financial statements compiled by the Treasury which, together with the individual statements, are published periodically in the Treasury Bulletin. Summary statements of the financial condition of Government corporations and other business-type activities, as of June 30, 1972, are shown in the Statistical Appendix.

Government-wide financial management

Accrual Budget Concepts.—Treasury staff continued participation in joint efforts with the Office of Management and Budget and the General Accounting Office to develop reliable financial information on the accrual basis for ultimate use in stating budget results. On July 12, 1971, the heads of the central financial agencies met to discuss actions needed to press forward with accrual accounting development in agencies for Government-wide purposes and for internal management use. The meeting followed an OMB announcement in June 1971 that the fiscal 1973 budget would remain on the cash basis.

As requested at the July meeting, the Staff Steering Committee on Budget Concepts conducted a study and submitted a report entitled "The Future of Accrual Accounting Development in the Government." The report is in three parts and outlines proposals involving, (1) managerial accounting and the accrual system, (2) the national income and product accounts and (3) accruals in the budget totals. A specific target date has not been established for conversion of the budget totals to the accrual basis. However, OMB will continue to emphasize the use of accrual and cost accounting as tools of agency financial management.

The Department of Commerce (Bureau of Economic Analysis) com-

pleted its study of corporate tax accruals and submitted a final report to Treasury in March 1972. The report proposed a system of limited corporate reporting for use under a statistical sampling approach. The system would provide accrual information for stating budget results and improve existing NIA data. The proposal and related cost estimates are being assessed.

Legislative Reorganization Act of 1970.—The Legislative Reorganization Act of 1970 (Public Law 91-510) deals primarily with operations of the legislative branch of the Federal Government but also places several new requirements upon the executive branch. Title II of the act directs the Secretary of the Treasury and the Director of the Office of Management and Budget in cooperation with the Comptroller General, to: (1) Develop a standardized information and data processing system for budgetary and fiscal data; (2) develop a standardized classification structure for programs, activities, receipts and expenditures of Federal agencies; and (3) determine the location, nature, and availability to Congress of budgetary, fiscal and related data in the various Federal agencies.

The first annual progress report to the Congress, submitted August 30, 1971, described the use of a task group approach for separate projects. Task groups were formed as follows: (1) Organization Structure; (2) Fund Structure; (3) Program Structure; and (4) Analytical Structure. Task group reports on fund structure and organization structure were transmitted to agency representatives on April 18, 1972, for comment. The program structure report will be delivered to agency representatives early in fiscal 1973. The remaining task group assignment is a longer range effort. The Joint Committee on Government Operations held hearings on March 1 and April 25 of this year on the standard classifications and related information systems called for in the act. The hearings were supplemented with a series of written questions to the Office of Management and Budget, the Department of the Treasury, and the General Accounting Office.

Joint Financial Management Improvement Program.—Continuing its liaison with agency financial management personnel, the steering committee for the JFMIP met with agencies and bureaus throughout the year. These meetings were described as lending "powerful internal moral support to the agencies in their day-to-day endeavor to achieve optimum results with limited resources." The second State-Federal Financial Management Conference, sponsored by the JFMIP, was held in February 1972 and centered on the topic, "Simplification and Coordination of Federally Assisted Programs." The first annual Maurice H. Stans Awards for Distinguished Federal Financial Management were presented in March at the Annual Financial Management Conference sponsored by the JFMIP. The conference is held

to emphasize opportunities for improved financial management in the Federal Government. On June 3, members of the Executive Officers Group met with the Comptroller General and central agency representatives to discuss how the JFMIP can more effectively assist agencies in strengthening their financial management systems and the organization and staffing of the joint program.

During the year, Treasury spearheaded the JFMIP proposal to eliminate all statutory requirements for bonding Federal civilian employees and military personnel who are charged with accountability for public funds or public property and permit the Government to be "self-insured" against fidelity losses. It is estimated that the proposal, enacted as Public Law 92-310, will produce savings of over \$100,000 a year for the Government through self-insurance.

A series of studies led by OMB and GAO to improve grant administration were concluded. These included efforts to bring about simplification and greater uniformity in the administrative and financial requirements imposed on grantees and the development of audit standards. Implementing OMB instructions aimed at selected types of grantees are being issued.

A study on payroll concluded that it would be impractical to develop a centralized pay system to handle payrolling for all Federal civilian employees. It recommended, however, that improvements be made in standardization of forms, data elements and codes, and computer language programs. The report also recommended that OMB exercise leadership in establishing central guidance to provide a uniform approach to payroll systems development.

At yearend, projects underway included (1) proposed legislation to expand the use of statistical sampling in the audit of vouchers, (2) compilation of a glossary of financial management terminology, (3) identification of ways to encourage the use of accrual data by Federal managers, (4) development of a questionnaire on auditing practices and problems, (5) a proposal for single annual appropriation accounts, and (6) a proposal for a Federal financial management intern program.

Emergency Loan Guarantee Board

On August 9, 1971, the President signed the Emergency Loan Guarantee Act (Public Law 92-70) which created a three-man Emergency Loan Guarantee Board composed of the Secretary of the Treasury as Chairman, Chairman of the Board of Governors of the Federal Reserve System, and Chairman of the Securities and Exchange Commission. The Board is granted broad discretion to guarantee private loans to major business enterprises which meet the criteria specified in the act. In September 1971, the Guarantee Board approved the applica-

tion of Lockheed Aircraft Corporation for a guaranteed loan in the amount of up to \$250 million, the limit permitted under the statute.¹

The term of the guaranteed loan is for 5 years and under the act it may be renewed for an additional 3 years. The Board's authority to enter any new guarantee agreement terminates in December 1973, but this does not affect the carrying out of agreements entered prior to that date.

The Guarantee Board determines the interest rate payable to the lending banks on a guaranteed loan and prescribes the guarantee fee payable to the Government. An Emergency Loan Guarantee Fund is established in the Treasury in which guarantee fees are deposited and from which the Board's administrative expenses are paid.

In August 1971, the Board designated Samuel R. Pierce, Jr., General Counsel of the Treasury, to serve as its Executive Director and General Counsel, and Timothy G. Greene, Special Assistant to the General Counsel of the Treasury, to serve as its Secretary.

Domestic Economic Policy

The Secretary of the Treasury is the chief Government adviser to the President on fiscal and financial affairs and thus plays a key role in the formulation and execution of domestic economic policy. In discharging these responsibilities, the Secretary obtains primary assistance from the Assistant Secretary for Economic Policy.

The Assistant Secretary for Economic Policy informs the Secretary and other top policy officials of current and prospective economic developments and assists in determination of appropriate economic policies. In addition to his own immediate staff, the Assistant Secretary calls on the services of several Treasury offices including the Office of Financial Analysis and the Office of Domestic Gold and Silver Operations, which are under his direct supervision, as well as the Offices of Debt Analysis and Tax Analysis.

The Assistant Secretary for Economic Policy participates with the Secretary in the "Troika" which develops the official economic projections and advises the President on alternative courses of action. Other Troika members are the Council of Economic Advisers and the Office of Management and Budget. Within Treasury, the staff support for Troika activities in the general economic area is provided by the Office of Financial Analysis and in the tax area by the Office of Tax Analysis.

The economic projection for calendar 1972 developed within the Troika and described in the January 1972 Economic Report of the President calls for a rise in gross national product of about \$100 billion over the 1971 level. This would amount to an increase of 9½

¹ See exhibit 22.

percent, of which around 6 percent would represent growth in the physical volume of activity and about $3\frac{1}{4}$ percent would represent inflation. By the end of fiscal 1972, the prospects seemed excellent that the official projection would be reached or exceeded.

Treasury officials participated closely in the formulation and execution of the new economic and financial policies announced on August 15, 1971.¹ The Treasury took primary responsibility for the fiscal and international financial aspects of the new economic program. In addition, the Secretary of the Treasury served as Chairman of the Cost of Living Council, which has primary responsibility within the administration for wage-price policy under the economic stabilization program.

The Assistant Secretary for Economic Policy participated in the determination of Cost of Living Council policies through its Senior Review Group and other committees formed to consider stabilization program issues. Also, the Internal Revenue Service was a primary operational unit of the Cost of Living Council in carrying out informational and enforcement activities through its field offices. The interim goal of the program is to reduce inflation to a rate below 3 percent by the end of 1972, and as of the end of the fiscal year the prospects are good that this objective will be met.

The Assistant Secretary for Economic Policy, or his delegate, regularly represents the Treasury on a variety of interagency groups and occasionally at meetings of the Organization for Economic Cooperation and Development in Paris, supervises the analysis within Treasury of economic and financial trends, and participates in the decision-making process on Treasury debt management operations.

There are two offices under the direct supervision of the Assistant Secretary for Economic Policy. The Office of Financial Analysis is responsible for the review and analysis of current and prospective developments in the economy and financial markets and undertakes a range of special projects. The Office of Domestic Gold and Silver Operations participates in the formulation, execution, and coordination of policies and programs relating to gold and silver in both their monetary and commercial aspects. (A review of the activities of the Office of Domestic Gold and Silver Operations during the fiscal year appears in the section on Administrative Reports at pp. 101-2.)

Federal Debt Management

Fiscal year 1972 was largely dominated by the events set in motion by the announcement by President Nixon on August 15, 1971, of a far-

¹ See exhibit 14 et seq.

reaching new program of U.S. domestic and international economic policies. In addition to the suspension of the international gold convertibility of the dollar and a major program of tax changes aimed at stimulating economic activity, the President's program included the temporary imposition of a domestic wage-price freeze, followed by a broad incomes policy later in the fall, both designed to short-circuit the pervasive inflationary pressures and expectations which were adversely affecting the domestic and international position of the U.S. economy.

In the early weeks of the fiscal year, prior to the President's announcements, U.S. security markets weakened as pessimistic factors outweighed encouraging developments. While there had clearly been progress toward economic recovery, excessively high unemployment persisted and price increases continued. In addition, there were rapidly increasing international pressures on the dollar and on the U.S. reserve position. As a consequence, interest rates on Treasury obligations, and on other securities as well, pushed higher after having declined briefly in mid-June.

Financial markets responded enthusiastically to the President's new programs, and interest rates declined significantly in all maturities, but especially on short-term securities. As the third quarter of calendar 1971 came to a close, however, confidence wavered in the securities markets, but after a temporary break in the downward trend of rates yields resumed their move to lower levels with only brief interruptions throughout the fall and winter months.

The 1973 budget, released on January 24, 1972, projected a \$39 billion deficit for fiscal 1972. This forecast had only a passing effect on security markets, however, and as events unfolded it became clear that the budgetary deficit for the fiscal year would not be as large as originally expected. Expenditures were running less than projected, but perhaps of more importance tax receipts were considerably above expectations in part because individuals apparently did not adjust their withholding to the new tax law.

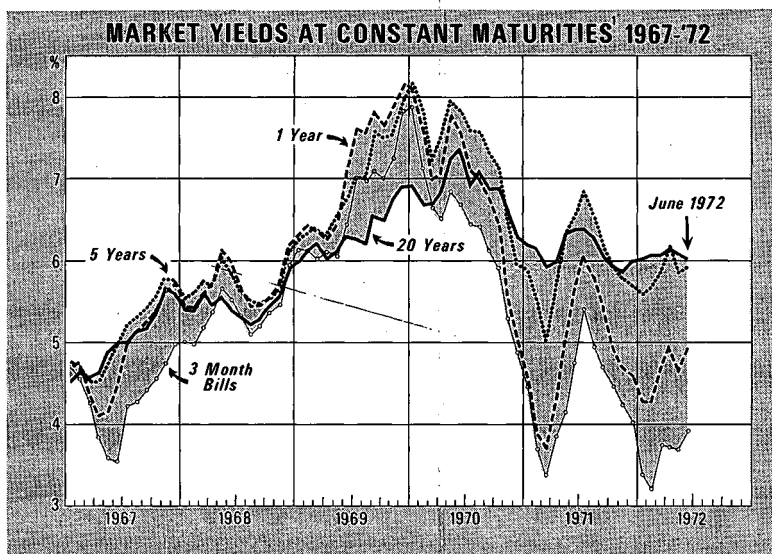
Despite these favorable developments, rates once again began to creep higher in the late spring. Concern was expressed that the fiscal 1973 budget might overstimulate the economy, and the fear of renewed inflation was further fueled by a rapid growth in the money supply. At the end of June, however, interest rate levels were still significantly below year-earlier levels.

The Federal budget deficit for fiscal 1972 turned out to be \$23.2 billion, \$0.2 billion higher than the deficit in the previous year, but considerably below the \$39 billion deficit projected midway through the year. In addition to financing this relatively sizable deficit, the task of debt management during the year included the need to re-

finance \$74.8 billion of the publicly held marketable Federal debt which matured over the course of the fiscal year. Of this debt, outstanding at the beginning of the fiscal year, \$57.8 billion represented regular weekly and monthly Treasury bills, while the remaining \$17 billion was in the form of Treasury notes and bonds which for the most part would mature on the regular quarterly refunding dates.

Treasury debt management activities in the area of marketable securities continued the innovative program begun in fiscal 1970 with the auction of coupon issues. The use of the competitive auctions was extended to longer maturities, including a nearly-10-year maturity. Also in fiscal 1972, and for the first time since 1965, the Treasury included an offering of long-term bonds in each of its quarterly refunding operations. As reported in the Annual Report for 1971, the authority for the Treasury to issue up to \$10 billion of such bonds without regard to the $4\frac{1}{4}$ -percent interest rate limitation specified in the Second Liberty Bond Act had been granted in March 1971. Over the course of the year, a total of \$4.7 billion of such securities were issued, \$3.1 billion of which were purchased by private investors.

The volume of nonmarketable special issues sold to foreigners rose sharply during the year, reflecting both speculative pressures on the dollar prior to the President's announcement in mid-August, and the investment in special issues of subsequent dollar accumulations by foreign monetary authorities over the remainder of the year. The volume of these special issues outstanding rose by \$7.7 billion over the year to a total of \$20.5 billion at the end of June. In addition, savings bonds sales continued to grow for the second year in a row.



¹ Monthly averages of daily market yields of public debt securities. Bank discount rates of Treasury bills.

Despite the increased volume of long-term securities issued over the course of the year and the very substantial volume of nonmarketable securities taken by foreign monetary authorities, the Treasury still found it necessary to rely heavily on the short-term market for its financing needs. Thus, some \$8 billion of cash was raised through additions to regular bill offerings over the course of the year; and tax anticipation bill offerings, dated to mature just after each of the regular corporate and individual tax dates, totaled \$8.8 billion.

CHANGES IN FEDERAL SECURITIES

In addition to the marketable and nonmarketable obligations of the Treasury, which form what is termed the "public debt," Federal securities also include securities issued by the Government agencies, which appear as part of the unified Federal budget and in which there

Federal debt and Government-sponsored agency debt

[In billions of dollars]

Class of debt	June 30, 1970	June 30, 1971	June 30, 1972	Increase, or decrease (-)
Public debt securities:				
Marketable public issues by maturity class:				
Within 1 year.....	105.5	112.8	121.9	9.2
1 to 5 years.....	89.6	89.1	89.0	-.1
5 to 20 years.....	26.4	33.0	36.2	3.2
Over 20 years.....	11.0	10.7	10.1	-.6
Total marketable issues.....	232.6	245.5	257.2	11.7
Nonmarketable public issues:				
Series E and H savings bonds.....	51.3	53.0	55.9	2.9
U.S. savings notes ¹.....	.7	.6	.6	(*)
Investment series bonds.....	2.4	2.3	2.3	(*)
Foreign series securities.....	3.4	7.6	16.9	9.3
Foreign currency securities.....	1.4	1.7	2.1	.4
Treasury certificates, Eurodollar series ²		2.0		-2.0
Other nonmarketable debt.....	.9	.8	.8	(*)
Total nonmarketable public issues.....	60.1	68.0	78.6	10.5
Special issues to Government accounts (nonmarketable).....	76.3	82.8	89.6	6.8
Non-interest-bearing debt.....	1.9	1.8	1.9	.1
Total gross public debt.....	370.9	398.1	427.3	29.1
Federal agency securities:				
Government National Mortgage Association.....	7.3	6.0	4.9	-1.1
Export-Import Bank.....	1.9	2.6	1.8	-.8
Tennessee Valley Authority.....	1.0	1.4	1.9	.5
Defense family housing.....	1.8	1.7	1.6	-.1
Other.....	.5	.5	.8	.3
Total Federal agency debt.....	12.5	12.2	10.9	-1.3
Total Federal debt.....	383.4	410.3	438.2	27.9
Government-sponsored agency securities:				
Federal home loan banks.....	9.9	7.7	7.8	.2
Federal National Mortgage Association.....	13.2	15.0	18.6	3.6
Federal land banks.....	6.2	6.8	7.5	.7
Federal intermediate credit banks.....	4.9	5.7	6.1	.5
Banks for cooperatives.....	1.5	1.8	1.8	(*)
Government-sponsored debt.....	35.7	36.9	41.9	5.0

¹ U.S. savings notes first offered in May 1967; sales discontinued after June 30, 1970.

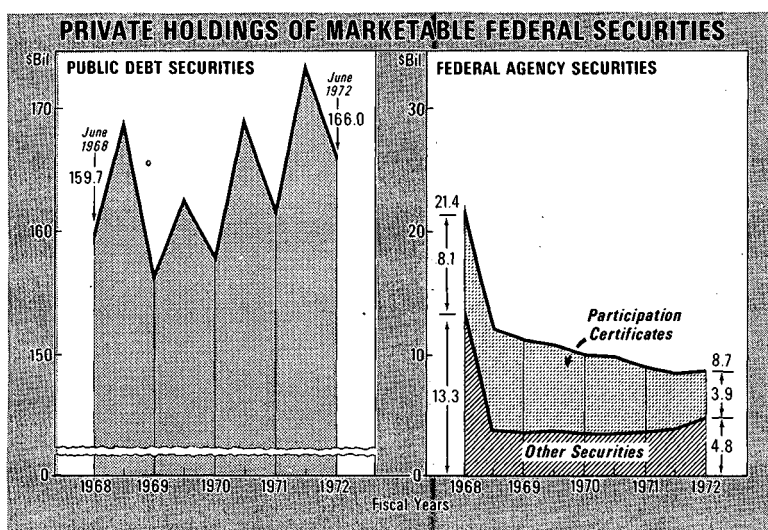
² Treasury certificates, Eurodollar series, first offered to foreign branches of American commercial banks in April 1971.

* Less than \$50 million.

is an element of Federal ownership. These principally are: The participation certificates of the Government National Mortgage Association, the debt issues of the Export-Import Bank and the Tennessee Valley Authority, Postal Service bonds, Defense family housing mortgages, and the various guaranteed issues of the Federal Housing Administration. At the end of fiscal 1972, outstanding public debt securities totaled \$427.3 billion, an increase of \$29.1 billion from end of fiscal 1971. Federal agency securities showed a decline of \$1.3 billion over the year to \$10.9 billion outstanding at the fiscal yearend. Thus, all Federal securities outstanding totaled \$438.2 billion at the end of the fiscal year.

The marketable public debt rose by \$11.7 billion in fiscal 1972 to a total of \$257.2 billion on June 30; \$8 billion of this new cash borrowing represented additions to the volume of outstanding Treasury bills. Of the remaining increase in marketable issues, nearly \$2.1 billion took the form of Treasury notes and bonds maturing in over 5 years. Despite the sale of these issues and the refunding of another \$11.5 billion of maturing securities into over-5-year maturities, the average maturity of the interest-bearing marketable public debt declined by 3 months over the course of the fiscal year and on June 30 stood at 3 years 3 months.

As noted already, \$7.7 billion of the increase in public debt securities in fiscal 1972 represented sales of nonmarketable special securities to foreign authorities. The increase in U.S. savings bonds over the year totalled \$2.9 billion, more than accounting for the remainder of the \$10.5 billion rise in total nonmarketable public debt issues over the fiscal year.



Ownership

Of the total Federal debt issues outstanding at the end of fiscal 1972, \$185.0 billion or 42.2 percent of the total was held by Federal Reserve banks and Government accounts; private holdings were \$253.2 billion. Federally sponsored agency securities held by private investors totalled \$40.9 billion while \$1.0 billion was held by the Federal Reserve and Government accounts.

Borrowing from the public, including the Federal Reserve System and foreign investors, in fiscal 1972 was \$19.4 billion, about the same as in fiscal 1971; \$5.9 billion of these obligations were acquired by the Federal Reserve System while net acquisition of Federal securities by private investors, including foreigners, amounted to \$13.5 billion. Foreign investors taken alone increased their holdings by \$17.4 billion during the year, thereby accounting for more than the total increase in the privately held Federal debt; and private domestic holdings declined by \$3.8 billion.

Private holdings of Government-sponsored agency securities increased \$4.0 billion in fiscal 1972; \$0.6 billion of this amount represented net foreign investor purchases.

Individuals.—Individuals continued to reduce their holdings of marketable Federal securities as relatively high contractual rates attracted funds from market instruments into savings institutions; and on June 30, individual holdings of marketable issues were \$18.0 billion a decline of \$5.0 billion over the year. Outstanding Series E and H savings bonds increased \$2.9 billion to \$55.9 billion, while matured savings bonds and holdings of savings notes dropped nearly \$0.1 billion to a level of \$0.6 billion. Thus, with allowance for other minor changes, at the end of the fiscal year individuals held \$74.0 billion of public debt securities, representing a decrease of \$2.1 billion during the year. Individuals also reduced their holdings of Federal agency securities by \$0.3 billion to a level of \$1.0 billion.

Insurance companies.—Insurance companies reduced their overall holdings of public debt securities by \$0.4 billion to \$6.2 billion and their holdings of Federal agency issues to a little less than \$0.5 billion. At fiscal yearend, their holdings of Government-sponsored agency issues showed little change and amounted to slightly less than \$0.6 billion.

Savings institutions.—At the end of fiscal 1972, mutual savings banks held \$2.7 billion of public debt securities, a decrease of almost \$0.2 billion from the previous year. Their holdings of Federal agency securities remained at \$0.5 billion at the end of the year. However, savings banks acquired almost \$0.7 billion of securities issued by Federally sponsored agencies, thereby raising their holdings of those securities to \$2.4 billion.

Ownership of public debt securities on selected dates 1962-72

(Dollar amounts in billions)

	June 30, 1962	June 30, 1970 ¹	June 30, 1971	June 30, 1972	Change during fiscal 1972
Estimated ownership by:					
Private nonbank investors:					
Individuals:¹					
Series E and H savings bonds.....	44.6	50.8	52.5	55.4	2.9
U.S. savings notes ²	21.0	31.0	23.0	18.0	-5.0
Other securities.....					
Total individuals.....	65.7	82.5	76.2	74.0	-2.1
Insurance companies.....	11.3	6.8	6.6	6.2	-.4
Mutual savings banks.....	6.2	2.9	2.9	2.7	-.2
Savings and loan associations.....	5.4	7.2	6.4	5.7	-.7
State and local governments.....	20.1	26.4	25.5	25.9	.4
Foreign and international.....	14.1	14.8	32.7	50.0	17.3
Corporations.....	18.2	10.0	10.1	10.3	.2
Miscellaneous investors ³	8.2	14.9	8.4	9.8	1.4
Total private nonbank investors.....	149.2	165.5	168.7	184.6	15.8
Commercial banks.....	65.1	52.6	61.0	59.9	-1.1
Federal Reserve banks.....	29.7	57.7	65.5	71.4	5.8
Government accounts.....	64.3	95.2	102.9	111.5	8.6
Total gross debt outstanding.....	298.2	370.9	398.1	427.3	29.1
Percent					
Percent owned by:					
Individuals.....					
Other private nonbank investors.....	22	22	19	17	-----
Commercial banks.....	28	22	21	26	-----
Federal Reserve banks.....	22	14	15	14	-----
Government accounts.....	10	16	16	17	-----
	18	26	26	26	-----
Total gross debt outstanding.....	100	100	100	100	-----

¹ Revised.² Including partnerships and personal trust accounts.³ U.S. savings notes first offered in May 1967; sales discontinued after June 30, 1970.⁴ Includes nonprofit institutions, corporate pension trust funds, nonbank Government security dealers and Federal oriented agencies not included in Government accounts.

Savings and loan associations reduced their holdings of public debt securities in fiscal 1972 by \$0.7 billion to \$5.7 billion, and their investments in Federal agency securities by \$0.1 billion, to a level of \$0.5 billion. Their holdings of securities issued by Government-sponsored agencies increased, however, by \$0.7 billion to a total of \$5.6 billion.

State and local governments.—State and local governments added to their holdings of public debt issues by \$0.4 billion, bringing the total to \$25.9 billion. Their holdings of Government agency securities decreased from \$3.4 billion to \$3.1 billion, and they also reduced their Government-sponsored credit agency issues by \$0.2 billion to \$3.6 billion.

Foreign and international.—As already noted, the principal net buyers of public debt issues in 1972 were foreign official accounts. Total holdings of public debt securities by foreign investors increased by \$17.3 billion to a level of \$50.0 billion—\$7.7 billion of these increased

holdings were in the form of special nonmarketable issues. The balance largely represented acquisitions of short-term bills, although there was increased, but still quite small, interest by some foreign official buyers in longer term Treasury issues and Federal agency securities.

Nonfinancial corporations.—Corporate holdings of public debt and agency issues were little changed during fiscal 1972. At the end of this period, they held \$9.9 billion of public debt issues, \$0.1 billion of Federal agency issues, and \$0.6 billion of other agency issues.

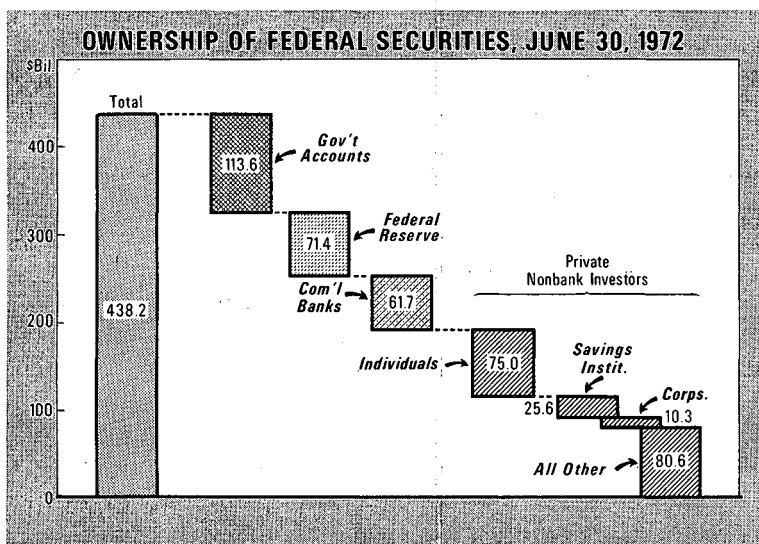
Other private nonbank investors.—After decreasing by \$6.5 billion in fiscal 1971, holdings of public debt issues by these investors increased \$1.4 billion in fiscal 1972 and amounted to \$9.8 billion at the end of the year.

Commercial banks.—After acquiring \$8.4 billion of public debt securities in fiscal 1971, commercial banks reduced their holdings by \$1.1 billion in the last year to \$59.9 billion, as their interest turned increasingly to tax-exempt State and local government securities. Banks also reduced their holdings of Federal agency issues by \$0.2 billion, but acquired \$3.4 billion in securities of Government-sponsored agencies.

Federal Reserve System.—Net acquisition of Treasury securities by the Federal Reserve System in 1972 amounted to \$5.8 billion, compared with \$7.8 billion acquired in the previous year; and total Federal Reserve holdings amounted to \$71.4 billion at the end of the year, or 17 percent of public debt securities, up from 16 percent in the 2 previous years.

On September 16, 1971, the Federal Open Market Committee announced that it had authorized the outright purchase and sale of Federal agency securities by the Federal Reserve Bank of New York for the System Open Market Account. Previously, transactions of this kind could be made only through temporary credit arrangements known as repurchase agreements. As a result of this change in Federal Reserve policy regarding securities eligible for its portfolio, holdings of Federal agency securities, including Government-sponsored agency issues increased substantially in fiscal 1972. At the end of the year, Federal Reserve banks held \$1.1 billion of agency securities.

Government accounts.—Government accounts added \$8.6 billion to their holdings of public debt securities in fiscal 1972. Most of this gain, however, reflected a \$6.8 billion rise in nonmarketable special issues which amounted to \$89.6 billion at fiscal yearend. The percentage of the public debt held by Government accounts remained constant for the third year at 26 percent.



FINANCING OPERATIONS

At the beginning of the fiscal year, the Treasury's cash position was a relatively high \$8.6 billion, in part because of the sale at auction of \$2.3 billion of 16½-month, 6-percent notes for payment on June 29. Even with this anticipatory financing, remaining July cash needs loomed large, so at the same time as the note auction announcement two other financing operations were announced for payment in the early part of the fiscal year. First, it was announced that the \$100 million increases in the regular weekly 3-month bill auctions would be continued. Second, it was announced that, on June 29, \$1¾ billion of September tax anticipation bills would be auctioned for payment on July 6. In the tax bill auction, tenders totalling \$3.9 billion were submitted. The average bank discount rate set in the auction was 5.04 percent.

In addition to the proceeds of the foregoing late-June and July financing operations, the Treasury also received \$1.8 billion of new cash from the sale of special nonmarketable securities to foreign accounts in the early weeks of the fiscal year. Altogether, these funds proved sufficient to cover the Treasury's cash needs up to the time of the regular August quarterly financing.

In early August, it was announced that the Treasury would further increase the size of the weekly bill auctions to a total of \$3.9 billion, \$2.3 billion of the 3-month issue and \$1.6 billion of 6-month bills. These increases ranged from \$100 to \$300 million a week until December 16, 1971, raising \$3.8 billion of new money over the 6-month period.

The terms of the August refunding were announced on July 21. Holders of the \$2.8 billion of 4-percent bonds and \$2.3 billion of 8¼-percent notes were given the option of exchanging their maturing issues for a 4-year 3-month 7-percent note priced at 99.80 to yield 7.06 percent or a 10-year 7-percent bond priced at 99.20 to yield 7.11 percent, the first bond offering outside of the 4¼-percent statutory ceiling under the \$10 billion March 1971 authority for such sales. The bond was also offered for cash subscriptions to individuals in amounts not to exceed \$10,000 for any one person. It was also announced that, following the exchange operation, the Treasury would offer an 18-month note at auction for payment on August 16, the settlement date for the exchange operation. The auctioned note would be used to cover the unexchanged portion of the maturing issues and to raise a moderate amount of cash for late-August needs.

Of the \$2.2 billion publicly held maturing bonds and \$1.9 billion maturing notes, \$2.5 billion were exchanged for the November 1975 7-percent note and \$0.3 billion for the 7-percent bond of August 1981, an attrition of \$1.4 billion, or 34 percent; \$195 million of the 7-percent bonds were sold to individuals for cash.

In line with the previous announcements, the Treasury announced on July 30 that on August 5 it would auction \$2.5 billion of 18-month 6-percent notes. These proceeds would cover the \$1.4 billion attrition in the exchange operation and raise about \$1 billion new cash. Commercial banks were allowed 50 percent tax and loan credit in paying for the issue. Total subscriptions amounted to \$4.1 billion. Bidding in the auction ranged from yield-equivalent prices of 6.59 percent to 6.44 percent with an average yield of 6.54 percent.

In the improved market following the President's August 15 announcements, which still permitted occasional uncertainties about rate levels, the Treasury made use of the note auction technique in its cash operations between mid-August and the November quarterly financing. On August 25, the Treasury announced an auction of \$1.25 billion of 5-year 2-month notes on August 31 with payment September 8. Given the setting of rapid and uncertain interest rate changes, the announcement of the 6¼-percent coupon against which bidding would take place was delayed until Friday, August 27. Banks were permitted full tax and loan account privileges for amounts allotted to them for themselves and their customers. Bidding for the notes was strong. Tenders of \$3.4 billion were received; and yields on accepted competitive tenders ranged from 5.92 percent to 6.02 percent, with an average yield of approximately 5.98 percent, all notably below the coupon rate on the issue.

A second cash note auction for \$2.0 billion of 5⅞-percent, 3-year

4-month notes was announced on October 12 for October 15 with payment October 22. Again banks were allowed full tax and loan account privileges for both their own and for their customers' accounts. Since market yields had resumed their downward trend after some uncertainty and slight upward adjustments in September, bidding on the issue was again very active. Tenders totalling \$4.6 billion were received for the notes, and bids ranged from a yield of 5.46 percent to 5.61 percent with an average of 5.58 percent, some 40 basis points below the August 31 auction average.

As the time for the November refunding announcement approached, security markets continued to strengthen and bank prime lending rates dropped toward $5\frac{1}{2}$ percent from the 6 percent early October level, with a few of the major banks abandoning a set prime rate in favor of a floating rate formula. In this favorable market atmosphere the Treasury announced on October 27 that the refunding of the $5\frac{3}{8}$ - and $7\frac{3}{4}$ -percent notes and the $3\frac{7}{8}$ -percent bond maturing in November would include a 15-year bond and would also anticipate a portion of 1972 refinancing requirements by prerefunding the four May and August 1972 maturities.

Specifically, holders of the \$7.9 billion of maturing November securities and the \$13.4 billion of May and August issues were offered an exchange into two new issues—a 7-year 6-percent note at 99.75 to yield 6.04 percent and a 15-year $6\frac{1}{8}$ -percent bond dated November 15, 1971, due November 15, 1986, at 99.75 to yield 6.15 percent. The bonds, which were the Treasury's longest issue since 1965, were also offered for cash subscription to individuals in amounts not to exceed \$10,000 for any one person. As had been done in connection with the August financing, the Treasury announced at the same time that a short-term security would be auctioned for cash payment on November 15, as soon as the results of the exchange were known.

After the preliminary results of the offering were known, the Treasury announced the auction on November 9 of approximately \$2 $\frac{3}{4}$ billion of $4\frac{7}{8}$ -percent 15-month notes with payment on November 15. This was to provide cash to meet the \$1.3 billion, 34 percent attrition on the November 15 maturities and to raise about \$1.5 billion of new cash. Of the \$4.0 billion of tenders received from the public for the 15-month note \$2.8 were accepted at yields ranging from 4.79 percent to 4.96 percent with an average yield at 4.91 percent. In addition to the amount allotted to the public, \$1.5 billion of the notes were allotted to Federal Reserve banks and Government accounts at the average price, in exchange for their remaining November 15 maturities.

Expected December cash needs indicated that additional borrowing would be needed early in the month or at the end of November. Per-

haps of more importance for debt management planning, however, was the very large overhang of foreign official holdings of Treasury securities which the market felt might be liquidated rapidly if there were a large reflux of the speculative funds that had moved from the United States in the summer and early fall months. Thus, in part to reassure the market against sudden Treasury demand for cash as the result of heavy liquidations of these foreign officially held securities, the Treasury advanced a sizable portion of its cash borrowings into December.

The first of these late fourth-quarter cash operations was announced on November 18, when tenders were invited on November 24 for \$2.5 billion April tax anticipation bills, with payment on December 1; 50 percent tax and loan credit was again allowed in payment for commercial bank-submitted tenders. At the same time, it was announced that a smaller amount of June tax anticipation bills would be auctioned in the first week in December.

In the first auction, bids totalling \$4.8 billion were received and \$2.5 billion was accepted. An average rate of 4.56 percent resulted in the auction. The subsequent, December 8, auction offered \$2.0 billion of June 21, 1972, tax anticipation bills with payment on December 13. Fifty percent tax and loan credit was again allowed to commercial banks. Total bids in this auction were \$4.4 billion. An average rate of 4.27 percent was set.

On December 16, the Treasury announced its intention to reopen the April and June tax bills for an additional \$2.5 billion of cash. The new offering consisted of \$1.5 billion of the April bills and \$1.0 billion of June bills and would be auctioned on December 22 for payment December 31. Total bids amounted to \$3.6 billion for the April bills and \$2.7 billion for the June bills. The average accepted bid on the April tax bill was 3.85 percent and on the June bill 4.05 percent, down from 4.56 percent and 4.27 percent, respectively, in the preceding auctions. In this financing, commercial banks were allowed full tax and loan credit.

These end-of-year cash financing operations resulted in an increase of some \$7.0 billion in the Treasury's operating balance between the end of November and the close of the calendar year. At the end of the year the operating balance stood at \$11.2 billion, the highest end-of-December balance since the end of World War II.

As predicted by Treasury spokesmen, the massive reflux of speculative funds expected by the market did not take place, and the general downward trend of interest rates temporarily gave way to more erratic movements. At the same time, the large end-of-year balance allowed the Treasury to avoid raising cash in the market in January.

On January 26, the Treasury announced the terms of the regular

February financing. In form, this operation closely resembled the November refunding. A long-term bond was included among the new issues, and once again holders of future maturities—this time the February and May 1974 maturing issues—were made eligible for exchange into the new securities. At the same time, the Treasury indicated that although the current cash position was relatively comfortable it would likely announce a cash financing in the near future, in all probability in the form of a bill financing.

The February 15 maturities totalled \$4.5 billion: \$0.8 billion of 4¾-percent notes, \$2.7 billion of 7½-percent notes and \$1.0 billion of 4-percent bonds; \$3.8 billion of this total was privately held. A total of \$14.3 billion of 1974 maturities were eligible for the advance refunding: \$3.1 billion of 7¾-percent notes and \$3.1 billion of 4½-percent bonds, maturing in February 1974, and \$4.5 billion of 7½-percent notes and \$3.6 billion of 4¼-percent bonds, maturing in May. Private investors held \$11.6 billion of these issues.

Holders of the February 1972 maturities were offered the option of exchange for either a 4-year 3-month, 5¾-percent note or a 10-year, 6¾-percent bond, both priced at par. The holders of the securities maturing in February and May 1974 were offered an exchange only into the 6¾-percent bonds. As in previous offerings of long-term issues, the 6¾-percent bonds were also offered for individual cash subscriptions up to \$10,000 per person.

In the regular refunding, \$2.6 billion of the February maturities were exchanged by private holders for \$2.3 billion of the 5¾-percent notes and \$0.2 billion of the long bonds. Of the balance of the February maturities, \$1.2 billion or 32 percent of the privately held rights were not exchanged. In the advance refunding, which was the first such operation since 1965, private investors exchanged \$1.3 billion of their holdings for the new 6¾-percent bonds. Including the amounts exchanged by the Federal Reserve and Government accounts, a total of \$2.8 billion of the 5¾-percent notes and \$2.1 billion of the 6¾-percent bonds were issued in the two exchanges. An additional \$66 million of the 6¾-percent bonds were sold to individuals for cash.

As a result of a relatively successful exchange and continued higher than projected cash receipts, the cash balance remained strong in early February. Thus, the need for cash financing was delayed until the middle of February by which time continued strong demands for bills had led to sharp declines in bill rates, despite a temporary market deterioration in response to the announcement of a \$38.8 billion projected budget deficit for fiscal 1972.

The first of two financings in the bill market came with the announcement on February 8 that, beginning with the auction on Febru-

ary 14, the Treasury would add \$300 million to the weekly auctions, \$100 million to the 3-month bill, and \$200 million to the 6-month issue. These increases continued through the auction of March 23 and raised a total of \$1.8 billion in new money. On February 24, the Treasury announced that it would auction on March 1 for settlement on March 6 a \$3.0 billion strip of bills having average maturity of 73 days and consisting of \$200 million additions to each of the fifteen outstanding weekly bills dated March 30 through July 6. Total tenders for the strip amounted to \$6.4 billion of which \$3.1 billion were accepted. The average rate of accepted bids was 3.41 percent.

Reflecting larger-than-anticipated receipts and lagging expenditures, the Treasury's cash needs in the latter part of the first quarter were significantly less than had been projected. Thus, on March 21, the Treasury announced that a borrowing of $\$1\frac{3}{4}$ billion would be sufficient to meet its cash needs through the May quarterly financing. The $\$1\frac{3}{4}$ billion was to be raised through an auction on March 28, with payment April 3, of a 3-year $1\frac{1}{2}$ -month $5\frac{7}{8}$ -percent note maturing May 15, 1975. Tenders amounted to \$3.8 billion of which \$1.8 billion were accepted. Yields on accepted bids ranged from 5.69 to 5.80 percent with an average yield of approximately 5.78 percent.

The improvement in the market was short lived as investors continued to be concerned about the firmer money market and other developments including announced advances in consumer prices that pointed toward continued inflationary pressures. Consequently, by the end of March Treasury rates were again on the rise and several of the large commercial banks had announced prime rate increases from $4\frac{3}{4}$ to 5 percent.

However, continued higher-than-expected revenues generated both by the expanded economy and the overwithholding of personal income taxes continued to strengthen the Treasury cash position and provided the opportunity to pay down near-term maturities beginning with the May quarterly financing.

Interest rate levels moved generally higher over the spring months, as criticism of the efficacy of wage and price controls intensified and as monetary policy firmed to counteract excessive growth in the money supply. However, the budget picture, and consequently the Treasury's cash requirements, continued to improve. As a result, in the announcement on April 26 of the terms of the mid-May financing, the Treasury said that it would only partially refund the maturing issues and would use \$700 million of its available cash to pay off a portion of these maturities. The financing would consist of auctions on May 2 of $\$1\frac{1}{4}$ billion of 1-year notes with a $4\frac{3}{4}$ -percent coupon and up to an additional \$500 million of the outstanding 9-year 9-month $6\frac{3}{8}$ -percent

bonds. For the first time since August 1968, holders of the \$5.0 billion of maturing issues, \$2.5 billion of which were in public hands, were not given preemptory rights to any of the new offerings. And unlike on many previous occasions the 2½-percent bonds maturing within the quarter (June 15) were not prerefunded in the quarterly financing.

Offerings of marketable Treasury securities excluding refunding of regular bills, fiscal 1972

(In millions of dollars)

Date	Description	Cash offerings		Exchange offerings		Total
		For new money	For refunding	For maturing issues	In advance refunding	
1971						
BONDS AND NOTES						
Apr. 1.....	1½-percent exchange note, Apr. 1, 1976 ¹			24		24
Aug. 15.....	7-percent note, Nov. 15, 1975.....			3,115		3,115
Aug. 15.....	7-percent bond, Aug. 15, 1981.....		195	612		807
Aug. 16.....	6½-percent note, Feb. 15, 1973 ²	1,129	1,385			2,514
Sept. 8.....	6¼-percent note, Nov. 15, 1976 ³	1,283				1,283
Oct. 1.....	1½-percent note, Oct. 1, 1976 ⁴			11		11
Oct. 22.....	5½-percent note, Feb. 15, 1975 ⁴	2,045				2,045
Nov. 15.....	6-percent note, Nov. 15, 1978.....			4,251	3,956	8,207
Nov. 15.....	6½-percent bond, Nov. 15, 1986.....		24	853	339	1,216
Nov. 15.....	4½-percent note, Feb. 15, 1973 ⁵	1,493	1,275	1,500		4,268
1972						
Feb. 15.....	5¾-percent note, Feb. 15, 1976.....			2,802		2,802
Feb. 15.....	6¾-percent bond, Feb. 15, 1982.....		66	402	1,729	2,197
Apr. 3.....	5½-percent note, May 15, 1975 ⁶	1,776				1,776
Apr. 1.....	1½-percent note, Apr. 1, 1977 ¹				3	3
May 15.....	4¾-percent note, May 15, 1973 ⁷		1,279	2,513		3,792
May 15.....	6½-percent bond, Feb. 15, 1982 ⁸ additional.....		505			505
Total bonds and notes.....		7,726	4,729	16,083	6,027	34,565
BILLS (MATURITY VALUE)						
Increase in offerings of regular bills:						
1971						
	July-September.....	1,967				1,967
	October-December.....	1,801				1,801
1972						
	January-March.....	4,867				4,867
	April-June.....	-664				-664
Total increase in regular bills.....		7,971				7,971
1971						
Tax anticipation bill offerings:						
July 6.....	5.033-percent 77-day maturing Sept. 21, 1971.....	1,752				1,752
Dec. 1.....	4.558-percent 142-day maturing Apr. 21, 1972.....	2,506				2,506
Dec. 13.....	4.273-percent 191-day maturing June 21, 1972.....	2,010				2,010
Dec. 29.....	3.846-percent 114-day maturing Apr. 21, 1972, additional.....	1,526				1,526
Dec. 29.....	4.056-percent 175-day maturing June 21, 1972, additional.....	1,016				1,016
Total tax anticipation offerings.....		8,810				8,810
Total offerings.....		24,507	4,729	16,083	6,027	51,346

¹ Issued on demand in exchange for 2¾-percent Treasury bonds, investment series B-1975-80.

² Offered for cash as part of the Aug. 15 refunding. Auctioned at an average yield of 6.54 percent.

³ Auctioned at an average yield of 5.98 percent.

⁴ Auctioned at an average yield of 5.58 percent.

⁵ Offered for cash as part of the November refunding. Auctioned at an average yield of 4.91 percent. \$1.5 billion was allotted to the Federal Reserve System and Government accounts at the average price in exchange for maturing securities.

⁶ Auctioned at an average yield of 5.78 percent.

⁷ Offered for cash as part of May 15 refunding at an average yield of 4.44 percent. \$2.5 billion was allotted to the Federal Reserve System and Government accounts at the average price in exchange for maturing securities.

⁸ Offered for cash as part of May 15 refunding at an average yield of 6.29 percent.

Disposition of marketable Treasury securities excluding regular bills, fiscal 1972

(In millions of dollars)

Date of refunding or retirement	Securities		Redeemed for cash or carried to matured debt	Exchanged for new issue		Total
	Description and maturing date	Issue date		At maturity	In advance refunding	
1971						
BONDS AND NOTES						
Aug. 15.....	4-percent bond, Aug. 15, 1971.....	Mar. 1, 1962	687	2, 119		2, 806
Aug. 15.....	8½-percent note, Aug. 15, 1971.....	Feb. 15, 1970	649	1, 608		2, 257
Oct. 1.....	1½-percent note, Oct. 1, 1971.....	Oct. 1, 1966	72			72
Nov. 15.....	3½-percent bond, Nov. 15, 1971.....	May 15, 1962	304	777		1, 081
Nov. 15.....	5½-percent note, Nov. 15, 1971.....	Nov. 15, 1966	237	730		967
Nov. 15.....	7½-percent note, Nov. 15, 1971.....	May 15, 1970	740	5, 096		5, 836
Nov. 15.....	4½-percent note, May 15, 1972.....	May 15, 1967			1, 633	1, 633
Nov. 15.....	6½-percent note, May 15, 1972.....	Nov. 16, 1970			1, 660	1, 660
Nov. 15.....	4-percent bond, Aug. 15, 1972.....	Sept. 15, 1962			1, 125	1, 125
Nov. 15.....	5-percent note, Aug. 15, 1972.....	May 15, 1971			1, 877	1, 877
1972						
Feb. 15.....	4¾-percent note, Feb. 15, 1972.....	Feb. 15, 1967	231	569		800
Feb. 15.....	7½-percent note, Feb. 15, 1972.....	Aug. 17, 1970	723	1, 967		2, 690
Feb. 15.....	4-percent bond, Feb. 15, 1972.....	Nov. 15, 1962	310	670		980
Feb. 15.....	7½-percent note, Feb. 15, 1974.....	Aug. 16, 1970			179	179
Feb. 15.....	4¾-percent bond, Feb. 15, 1974.....	Jan. 15, 1965			657	657
Feb. 15.....	7½-percent note, May 15, 1974.....	Nov. 15, 1970			172	172
Feb. 15.....	4¾-percent bond, May 15, 1974.....	May 15, 1964			721	721
Apr. 1.....	1½-percent note, Apr. 1, 1972.....	Apr. 1, 1967	34			34
May 15.....	4¾-percent note, May 15, 1972.....	May 15, 1967	1, 294	2, 382		3, 676
May 15.....	6½-percent note, May 15, 1972.....	Nov. 16, 1970	1, 245	132		1, 377
June 15.....	2½-percent bond, June 15, 1972.....	June 1, 1945	1, 226			1, 226
Total coupon securities.....			7, 752	16, 050	6, 024	29, 826
1971						
TAX ANTICIPATION BILLS ¹						
Sept. 21.....	5.033-percent (tax anticipation).....	July 6, 1971	1, 752			1, 752
1972						
Apr. 21.....	4.558-percent (tax anticipation).....	Dec. 1, 1971	2, 506			2, 506
Apr. 21.....	3.846-percent (tax anticipation).....	Dec. 29, 1971	1, 526			1, 526
June 21.....	4.273-percent bill, June 21, 1972.....	Dec. 13, 1971	2, 010			2, 010
June 21.....	4.056-percent bill, June 21, 1972.....	Dec. 29, 1971	1, 016			1, 016
Total tax anticipation bills.....			8, 810			8, 810
Total securities.....			16, 562	16, 050	6, 024	38, 636

¹ Included in November 1971 refunding.² Included in February 1972 refunding.³ See footnote 7 of "Offerings" table.⁴ Including tax anticipation issues redeemed for taxes in the amounts of \$899 million in September 1971, \$1,023 million in April 1972, and \$1,934 million in June 1972.

The offering was well received and produced total tenders of \$3.3 billion for the note and \$1.3 billion for the bond. Individuals and other small investors were allowed to submit noncompetitive tenders up to \$200,000 for the notes and up to \$50,000 for the bonds. These bids were accepted in full at the average price, and amounted to \$267 million and \$49 million, respectively. Yields on the accepted competitive tenders ranged from 4.23 to 4.47 percent for the note and from 6.23 to 6.32 percent for the bond, with average rates of 4.44 percent and 6.29 percent. \$2.5 billion of the notes were allotted to the Federal Reserve Board and Government accounts at the average price to replace their portion of the maturing securities.

Following the May refinancing and with the budget deficit still running well below expectations, the Treasury continued to use its large cash holdings to reduce the amount of outstanding marketable debt. The weekly bill auctions were reduced by \$100 million for the 6 weeks between May 18 and June 22, and at the end of May it was announced that the \$1.2 billion of 2½-percent bonds maturing June 15 would be paid off. The outstanding debt was further reduced by the turn-in and maturity of the \$3.0 billion of June tax anticipation bills. Even with these debt reductions, the Treasury ended the fiscal year with a very sizable operating cash balance totalling \$10.1 billion.

The accompanying tables summarize the Treasury's major financing operations during the fiscal year. Additional material is available in the Statistical Appendix, Treasury Bulletin, offering circulars and other public announcements on debt management.

Enforcement, Tariff and Trade Affairs, and Operations

The programs and operations of six bureaus of the Department of the Treasury are grouped under one Assistant Secretary who utilizes three staff offices (Offices of Law Enforcement, Tariff and Trade Affairs, and Operations) to supervise them. The bureaus are Customs, Engraving and Printing, Mint, Secret Service, Consolidated Federal Law Enforcement Training Center, and, effective July 1, 1972, the new Bureau of Alcohol, Tobacco and Firearms.¹ Enforcement aspects of the responsibilities of the Internal Revenue Service also receive the Assistant Secretary's coordinating supervision. During fiscal 1972, all activities in these areas were greatly expanded and intensified.

LAW ENFORCEMENT AND OPERATIONS

The Director, Office of Law Enforcement, develops and reviews the policy and strategy of Treasury law enforcement activities, with particular attention to application of new concepts, technology, and tactics; coordination between bureaus; interaction of strategy with other departments, agencies, and governments; and impact on public affairs. Increased staffing of this Office during the year permitted it to provide more effective overall leadership and coordination for Treasury and interdepartmental law enforcement efforts.

The Director, Office of Operations, oversees bureau activities for effective design and execution of programs, efficiency of management and organization, and economy of operations, with particular attention to coordination of personnel and logistics aspects of ongoing programs within Treasury and with other departments, review of

¹ See exhibit 93.

senior personnel appointments, development and review of management information reports and budget proposals, and, for nonenforcement activities, adequacy of long-range planning.

Antinarcotics program

During fiscal 1972, Treasury continued to give primary emphasis to carrying forward President Nixon's high-priority program to combat illegal drug trafficking.¹ Highlights of Treasury's drug enforcement efforts included the initiation of a narcotics traffickers program by IRS and increased funding for the anti-drug smuggling efforts of the Bureau of Customs.

A budget supplement of \$7.5 million for IRS permitted it to initiate a program of systematic, nationally coordinated tax investigations of middle and upper echelon distributors and financiers involved in narcotics trafficking. The objective is to disrupt the narcotics distribution system by prosecuting those guilty of criminal tax violations and drastically reducing their profits. This program, under the day-to-day supervision of the Director, Office of Law Enforcement, is being conducted in cooperation with the Bureau of Customs, Justice Department, Bureau of Narcotics and Dangerous Drugs, Office of Drug Abuse Law Enforcement, and with State and local authorities.

During fiscal 1972, the first year of operation, 793 major narcotics traffickers, smugglers, and financiers were identified and placed under intensive tax investigation; another 565 lesser traffickers were under tax scrutiny. As a result, \$54.2 million in taxes and penalties was assessed, of which more than \$8.5 million was collected. Also as part of this program, six major narcotics traffickers were indicted and convicted on criminal tax charges; 15 other traffickers were indicted and awaiting trial in Federal District Courts in New York, Miami, Detroit, Los Angeles, San Francisco, Indianapolis, Baltimore, and Washington, D.C. Criminal tax investigations were completed with respect to another 35 major drug distributors. In each of these cases prosecution has been recommended.

It is anticipated that during fiscal 1973, IRS will have an ongoing program subjecting 1,200 significant narcotics traffickers to full-scale IRS investigation.

A budget supplemental of \$15 million was granted Treasury for the Bureau of Customs to increase its personnel and conduct an intensive campaign against illicit drug importations. These increases in personnel continued to yield high dividends during fiscal 1972. Customs seized over 1,300 pounds of hard narcotics, including 635 pounds of heroin, 51 pounds of opium, and 379 pounds of cocaine. In the case

¹ See exhibit 37.

of marijuana, 7,889 seizures, totalling 291,887 pounds, represented an increase of 65 percent over fiscal 1971. Customs efforts also contributed substantially to a number of major international seizures.

Customs successes during the year were principally attributable to increases in resources, benefits from earlier reorientation of Customs activities to place greater emphasis on law enforcement, and improved intelligence and inspection programs.

Organized crime

The National Council on Organized Crime provides interagency direction to the drive against organized crime. The Office of Law Enforcement actively participates in the work of several staff committees of the Council as well as various narcotics task forces.

Treasury agencies continue to provide major contributions of manpower and resources to the joint strike force program, operating against organized crime in 18 major cities throughout the country. In addition, the organized crime drive is supported by Treasury's own programs such as:

- (1) narcotics programs of IRS and Customs;
- (2) action against major counterfeiting and bond forgery operations by the Secret Service;
- (3) the cargo security program of Customs; and
- (4) the attack on illicit liquor traffic and the suppression of illegal use of firearms and explosives by the Bureau of Alcohol, Tobacco and Firearms.

Air security program

At the close of fiscal 1972, Treasury, through the Bureau of Customs, was providing the bulk of the Federal Government forces engaged in the civil aviation security (anti-skyjacking) program. Recruiting and training of the customs security officer corps having been completed in March of 1972, these CSO's (commonly called "sky marshals") at the end of the year numbered 1,160.

Initially, CSO's were employed two-thirds of their time as sky marshals aboard airliners in flight. However, it was always recognized that preembarkation inspection to prevent skyjackers from boarding aircraft was more effective and efficient. As participation in preembarkation screening became mandatory for airlines in the final quarter of fiscal 1972, CSO's were shifted to ground duty only, except for special request flights. As of June 30, 1972, CSO's were assigned to 28 major airports throughout the United States.

The number of skyjackings increased 26 percent between fiscal 1971 and fiscal 1972. However, successful skyjackings decreased and a much

larger number of potential skyjackings was prevented. Arrests by CSO's of persons threatening skyjacking or sabotage increased eight-fold.

For the fiscal year ended June 30, 1972, CSO's had arrested 1,196 persons attempting to board or who had boarded the aircraft—196 for possession of weapons and making hijack or sabotage threats, 22 for causes involving safety of the aircraft, 372 for possession of narcotics, 599 illegal aliens and seven for other causes. Seizures and detentions were 100 for hard narcotics, 383 for marijuana and dangerous drugs, and 930 for weapons. In addition, 44,442 weapons or dangerous articles were detained prior to takeoff and returned to passengers at their destination.

Counterfeiting

Continuing a trend evident during the past decade, there were more counterfeit bills produced, distributed, and passed in fiscal 1972 than ever before. The Secret Service seized \$22.9 million of this output before the money could be placed into circulation. Losses to the public reached \$4.8 million, a 39-percent increase over the past fiscal year.

Customs automated intelligence network (CADPIN)

Approximately 160 additional CADPIN terminals were authorized for the Bureau of Customs in fiscal 1972 at Canadian border stations, Customs Agency Service offices, and airports of entry. When these installations are completed during the early fall of 1972, the number of terminals on the network will have been doubled.

Customs five sector intelligence units are in the process of obtaining on-line visual display devices to improve CADPIN data presentation and file maintenance.

Commencing in fiscal 1972, the CADPIN system also provided significant narcotics intelligence support to the Justice Department's Office of Drug Abuse Law Enforcement.

Presidential, major candidate, and foreign dignitary protection

The Presidential protective effort of the U.S. Secret Service in fiscal 1972 was highlighted by President Nixon's historic visits to Mainland China, Poland, and the Soviet Union. These security missions, performed under extraordinary circumstances, were conducted without incident.

Major candidate protection requirements in fiscal 1972 exceeded all previous manpower estimates. Through June 30, a total of 1,212 trips were made by the five candidates then authorized protection by the Secretary of the Treasury and a congressional advisory committee,

with 320,000 man-hours expended by the Secret Service, augmented by agents from the Bureaus of Customs and Alcohol, Tobacco and Firearms, and from IRS.

Responsibilities of the Secret Service for the protection of foreign dignitaries also increased significantly. In fiscal 1972, protection was provided to 57 heads of state or government, an increase of 60 percent; 126,000 man-hours were expended.

INTERPOL¹

In fiscal 1972, INTERPOL processed a total of 2,316 cases, representing a 30-percent increase over fiscal 1971 and a 112-percent increase over fiscal 1969, when additional emphasis and support was placed on the activities and potential of our participation in this 114-member country organization.

The increases in the total number of cases originating from U.S. enforcement agencies including local, State, other Federal, and Treasury are attributed to the growing awareness of the services available through INTERPOL. During fiscal 1972, INTERPOL Washington processed 695 cases for U.S. enforcement agencies, representing 30 percent of the caseload of the Bureau as compared with 12 percent in 1969 when INTERPOL was virtually unknown in the U.S. enforcement community.

In October 1971, the Treasury Department led the U.S. delegation to the 39th INTERPOL General Assembly in Ottawa, Canada, where six substantive resolutions on curbing drug abuse were adopted with strong U.S. support. The Department also chaired the U.S. delegation at the American continental meeting in Caracas, Venezuela, in March, where areas of mutual police cooperation in this hemisphere were discussed.

A case which illustrates INTERPOL cooperation occurred in October 1971, when INTERPOL Beirut routinely reported the seizure of 600 pounds of hashish in Beirut concealed in a Volkswagen camper bearing California license plates. On the basis of this information, U.S. customs agents determined that the vehicle was associated with several other California Volkswagen campers, all registered to a post office box in New Mexico. Continued investigation resulted in the seizure of 1,330 pounds of hashish in Portland, Oreg., on January 7, 1972, which constituted the largest hashish seizure in the history of the United States to that date. Subsequent associated hashish seizures were made by Canadian authorities in Vancouver, also based on the initial INTERPOL information.

In February of this year, INTERPOL Damascus, Syria, broadcast

¹ See exhibit 35.

an INTERPOL radio all points bulletin for two officers of the Syrian Army who had been accused of stealing 2 million Syrian pounds (a half million U.S. dollars). Investigation by the Immigration and Naturalization Service located the two fugitives in the United States where they had hoped to find a haven inasmuch as the Syrian Government had previously broken diplomatic relations with the United States and there is no extradition treaty between the two nations. Immigration authorities determined that both subjects were in violation of the immigration laws, and funds in excess of two hundred thousand dollars, representing the stolen monies, were accounted for in various banks in the United States and Canada. One of the subjects was subsequently deported and escorted by INTERPOL Washington agents to Syria, and the other is currently undergoing deportation proceedings. The Syrian Government has initiated measures to recover the funds on deposit in American and Canadian banks through legal procedures.

Cargo security program

Early in this administration, President Nixon directed an intensive campaign against drug smuggling and organized crime.² These became Treasury's highest priorities in the area of law enforcement. It rapidly became evident that the long-neglected problem of cargo theft fell into both these priority areas. Treasury, therefore, developed and charged the Bureau of Customs with implementing an action program to reduce and prevent theft of international cargo. For this, the Bureau of Customs created a Cargo Security Branch and designated regional, district, and port security coordinators.

Treasury prepared and promulgated "Standards for Cargo Security" (T.D. 72-56), containing suggested physical and procedural standards for all terminals and transport firms handling import and export cargo, which was nationally distributed (over 10,000 copies) and well received by industry and law enforcement agencies. Cargo theft warning posters were also designed and posted in all international cargo areas.

Detailed security surveys for preventing theft were conducted as pilot projects in cooperation with industry. Specific recommendations for improvements contained in these reports were implemented by many terminal operators with dramatic improvement in theft prevention.

In conjunction with the cargo security program, an automated quantity control program for reporting cargo discrepancies was developed and refined to provide a more sophisticated control over inter-

² See exhibit 38.

national cargo. Various statistics relating to value and number of instances of theft can now be printed out to readily identify exact location and types of cargo being stolen at each port.

These intensified enforcement efforts resulted in many arrests, some involving organized crime operations, and recovery of thousands of dollars worth of merchandise. Several substantial narcotics seizures were directly attributable to increased cargo security activity by customs officers.

Automated merchandise processing system (AMPS)

The AMPS program, begun in April 1971 by the Bureau of Customs to automate the examination, classification, and appraisal by Customs of all commodities entering U.S. commerce, proceeded into the system design and pilot program phases in fiscal 1972. Seattle was selected for the field test site because its land, sea, and air border points are in close proximity and its volume of business is not too large for good testing procedures. Specifications for the first hardware selection were finalized and the prospective procurements advertised.

Operational systems design is expected to be finalized by fiscal 1975. At that time, hardware procurement for the nationwide system will proceed as rapidly as budget limitations allow.

Financial recordkeeping

In April 1972, Treasury promulgated regulations to implement Public Law 91-508, the Currency and Foreign Transactions Reporting Act of 1970.³ This law was designed to assist enforcement personnel in their efforts to frustrate organized and white collar criminal elements who use secret foreign accounts to conceal substantive violations of drug smuggling, securities and gambling laws, as well as the untaxed income generated from these and other illegal activities. The regulations required the maintenance and retention of certain financial records and reports of specific types of unusual currency transactions, and were designed to benefit both foreign-related and domestic enforcement efforts without burdening legitimate commerce.

TARIFF AND TRADE AFFAIRS

The Office of Tariff and Trade Affairs is primarily concerned with policy direction and review of the Bureau of Customs administration of the antidumping and countervailing duty statutes and of classification, value, marking, and quota regulations. During the year, Treasury adhered to a policy of strict administration of both the antidumping and countervailing duty statutes, aimed at making both

³ See exhibit 40.

laws more effective instruments in defending the United States against unfair international trade practices.¹

The supplemental appropriation authorized by Congress during fiscal 1971 provided for additional staff both to speed the processing of dumping complaints and handle the increased caseload, which more than doubled from 1968 to 1972. The number of professional personnel assigned to process antidumping and countervailing duty complaints in the Bureau of Customs increased from five to 40 during the past 3 years, and an increase to 60 professionals is planned.

The Office of Tariff and Trade Affairs likewise expanded to handle the increased caseload and added a trade analysis capability to aid in developing new policies relating to overall U.S. trade objectives. The new trade analysis unit undertook studies of the economic impact of the Office's various programs and policies, such as examining the effect of the 10-percent surcharge on revenue collections and on the volume of U.S. imports and exports.

Additional manpower enabled the Department to process the average dumping case within 1 year from date of presentation, as contrasted with 2 or 3 years formerly. For the coming year, changes in handling procedures, both in the Bureau and in offices abroad, will normally permit processing by Treasury within 9 months. Other measures proposed as revisions to the Antidumping Regulations are aimed at ensuring more effective administration of the Antidumping Act.

As a result of these changes, the number of official decisions published by the Treasury over the past year increased by 57 percent and the number of cases initiated by 70 percent. Dumping findings increased by 157 percent over the same period.

Steps were also initiated to tighten application of the countervailing duty statute. Allegations of subsidization of exports to the United States resulted in the initiation of several important investigations. With added manpower, the Treasury is now in a position to analyze many of the complex issues required to be resolved in processing countervailing duty complaints. This long-neglected statute is now becoming an important instrument toward the achievement of a fair and equal trading position for the United States in its dealings with major trading powers.

A liberal trade policy can have no meaning unless it consists of "fair" trade principles. The desirable and long overdue policy of strengthening the administration of the antidumping and countervailing duty laws is a healthy step in the development of a liberal trade policy.

¹ See exhibit 37.

New initiatives were undertaken in the Office of Tariff and Trade Affairs outside the areas of dumping and countervailing duties. Classification and value cases are being given careful review in terms of their overall trade impact. The same is true for country-of-origin marking cases, the administration of mandatory quota restrictions, and requests for exemption from the coastwise trade laws. In conjunction with the recent voluntary restraint arrangement on steel products, Treasury initiated procedures for the close monitoring of steel imports to achieve more current reporting on adherence to this arrangement. The Office was also actively involved in the development of a study to adopt the system of Brussels Tariff Nomenclature for classification of imported merchandise.

Taxation Developments

Presidential tax recommendations¹

As part of his new economic policy, announced on August 15, 1971, the President asked the Congress to give first priority to enactment of tax changes included in his proposed Job Development Act of 1971.

The President proposed the enactment of the following: A job development credit to encourage investment in new equipment, to raise productivity and increase economic growth, to make U.S. goods more competitive, and to provide other shortrun benefits for the economy; repeal of the 7-percent excise tax on automobiles, to lower the cost of purchase of new cars to stimulate automobile demand, and to increase jobs; acceleration of the higher personal exemption scheduled for January 1, 1973, to January 1, 1972, to increase purchasing power and to provide a strong boost to the economy.

By Executive order, the President also imposed a temporary surcharge of 10 percent on imported goods under the authority of the Trade Expansion Act of 1962, to protect the dollar, to improve the balance of payments, and to increase U.S. jobs.¹

Business taxation

The President proposed on August 15 that a tax credit generally be provided equal to 10 percent of the cost of new machinery and equipment produced in the United States and placed into service on or after August 16, 1971. The credit would be reduced to 5 percent after August 15, 1972.

Public Law 92-178 signed December 10, 1971, entitled the "Revenue Act of 1971"² provided a 7-percent credit (4 percent in the case of

¹ See exhibit 42.

² See exhibits 43 and 46.

certain public utility property) for eligible machinery and equipment ordered after March 31, 1971, or acquired after August 15, 1971. The legislation provided that the credit would not be available for acquisition of foreign investment goods so long as the temporary import surcharge of 10 percent remained in effect. This restriction on the use of credit was removed in December 1971 when the 10-percent surcharge was eliminated. Application of the credit to eligible investment in used property was limited to \$50,000 per year. The credit was not applicable to property which was being amortized under special 5-year amortization provisions. The new law provided that credits arising before 1971 (under the previously enacted credit) be absorbed first, followed by current-year credits. The law permitted carryovers and carrybacks arising from post-1970 years. Certain recapture rules were provided on property disposed of prior to the end of the useful life of the asset.

The Revenue Act of 1971 also codified the Asset Depreciation Range (ADR) system which was adopted under regulatory authority on June 23, 1971. A Class Life System replaced the ADR and the guideline lives for years after 1970. The three-quarter convention provided for in the ADR regulations was eliminated and a half-year convention was adopted. Buildings and certain other real property were excluded from ADR under the 1971 regulations, but the act included these properties in the class life system.

The 1971 Act also permitted the election of 5-year amortization of capital expenditures in acquiring, constructing, reconstructing, or rehabilitating on-the-job training facilities and child care facilities. The rapid amortization applies to expenditures made after December 31, 1971, and before January 1, 1977.

In addition, the 1971 Act provided employers with a tax credit equal to 20 percent of wages paid to individuals hired in a trade or business under the Work Incentive Program.

As of the end of fiscal 1972, no legislative action had been taken on the administration's bill (S. 544) submitted to the Congress on February 1, 1971, to provide tax relief and incentives for small business.

Personal taxation

The Revenue Act of 1971 increased the personal exemption for tax year 1971 from \$650 to \$675, and for tax year 1972 from \$700 to \$750.

The percentage standard deduction at 13 percent of adjusted gross income with a \$1,500 limitation was, beginning in 1972, increased under the act to 15 percent of adjusted gross income with a limit of \$2,000.

The low-income allowance (minimum standard deduction) which was \$1,050 for 1971 was increased under the act to \$1,300 for 1972 and thereafter.

The act also liberalized the child care (or dependent's care) deduction. Working couples or eligible working heads-of-household were permitted a deduction (on joint return only in the case of the couple) for employment-related expenses beginning in 1972 of up to \$400 a month for in-home help and care of eligible invalids or dependents under the age of 15. The maximum \$400 deduction included also outside care of children limited to \$200 a month for one child, \$300 for two, and \$400 for three or more. The allowable deduction per child is reduced if adjusted gross income exceeds \$18,000. The reduction is 50 cents for every dollar of income above \$18,000 with a complete phase-out if the income is \$27,000 or more. The deduction is permitted only if the taxpayer itemizes.

The act prevents the use of the percentage standard deduction on the low-income allowance against unearned income received by beneficiaries of short-term trusts. In addition, excess investment interest became subject to the 10-percent minimum tax on tax preferences in 1972. To reduce the abuse of hobby losses, it is presumed that an activity has a profit objective if the taxpayer realizes a profit, generally in two of the last 5 years. In addition, the tax advantage of farm losses was restricted for Subchapter S corporations.

The 1971 Act allowed a tax deduction for political contributions limited to \$50 (\$100 on a joint return) or alternatively a tax credit of one-half of the political contributions up to \$12.50 (\$25 on a joint return). Eligible contributions are for Federal, State or local elections beginning in 1972. In 1973, an individual may elect to apply \$1 (\$2 for a joint return) of his Federal income tax liability to the presidential election campaign fund for candidates generally.

The gross income test for filing 1972 individual income tax returns (and subsequent year returns) was increased under the 1971 Act to \$2,050 for a single person, \$2,800 for a married couple, \$3,550 for a married couple where one spouse is 65 or over, and \$4,300 where both spouses are 65 or over.

Under the 1971 Act, new withholding rates and exemptions became effective for wages paid after January 15, 1972. The minimum amount of income other than wages requiring estimated tax payments was increased from \$200 to \$500 effective in 1972, and the minimum salary level was generally increased to \$20,000.

Excise taxation

The Revenue Act of 1971 repealed the 7-percent manufacturers excise tax on passenger automobiles as of December 11, 1971. The

act also exempted from the 10-percent tax on trucks, trucks and trailers with a gross vehicle weight of 10,000 pounds or less. Provision was made for refund (through the manufacturer or importer) of the taxes levied on items exempted from tax when held by dealers on December 11, 1971, or purchased by consumers between August 16, 1971, and December 10, 1971, in the case of passenger cars, or between September 23, 1971, and December 10, 1971, in the case of light-duty trucks and trailers.

The 1971 Act also provided for a credit against the annual Federal tax on coin-operated gaming devices of any similar State tax, not, however, to exceed 80 percent of the Federal tax.

Environmental taxation

The proposal for a charge on atmospheric emissions of sulphur oxides referred to by the President in his 1971 environmental message was transmitted to the Congress on February 8, 1972. The proposal would levy a tax of 15 cents a pound on sulphur emitted into the atmosphere, with a reduced rate of 10 cents, or no tax, depending on the air quality in a region. No administration bill was introduced as of the end of fiscal 1972.

In accordance with proposals in the President's 1971 and 1972 environmental messages, there was transmitted to the Congress on February 24, 1972, a draft bill designed to encourage the restoration of historic buildings and the rehabilitation of older buildings, to preserve coastal wetlands, and to encourage gifts of land to be used for conservation purposes. Tax measures incorporated in the draft bill are: Accelerated depreciation methods for the building restoration proposals; reduction of tax benefits related to investments and improvements in coastal wetlands; and treatment as a charitable contribution of certain gifts of partial interests in land to be used for conservation purposes. This proposal was introduced as H.R. 14669.

Pension reform

President Nixon forwarded to the Congress on December 8, 1971, legislation on pension reform. The legislation, H.R. 12272, known as the Individual Retirement Benefits Act of 1971, would assist workers not covered by employer-sponsored retirement plans and improve the retirement security of workers who are covered by such plans.¹

To assist workers not covered by employer-sponsored retirement plans, the bill provides a limited tax deduction for individual retirement savings. Workers not covered by plans would be permitted to establish qualified individual retirement plans and make annual, tax-

¹ See exhibit 50.

deductible contributions to them up to the limit of the lesser of 20 percent of earned income or \$1,500. Workers already covered by employer-sponsored plans could also take advantage of the proposal but their deduction limit would be reduced by the amount of employer contributions made on their behalf.

The bill also provides that the rules governing retirement plans of the self-employed be liberalized. The current limits on deductible retirement contributions by the self-employed would be raised from the lesser of 10 percent of earned income of \$2,500 to the lesser of 15 percent of earned income or \$7,500.

In addition, the bill provides that employer-sponsored retirement plans be required to adopt the minimum vesting standard known as the "Rule of 50" as a condition of qualification for tax exempt status. Under the Rule of 50, a worker would be 50 percent vested in his accrued retirement benefits when the sum of his age plus years of plan participation totals 50 and would receive an additional 10 percent vesting each year thereafter until 100 percent vesting is achieved 5 years later.

Public hearings on pension reform were held in May 1972 by the House Ways and Means Committee. At the fiscal yearend, the bill was waiting action by the Committee.

The President in his pension reform message on December 8, 1971, directed the Treasury and Labor Departments to conduct a 1-year study of the nature and extent of benefit losses resulting from pension plan terminations. Results of the study will be used to formulate appropriate Federal policy to resolve this problem.

Property tax

The President indicated in his state of the Union message that the administration is studying the problem of the property tax. He asked the Advisory Commission on Intergovernmental Relations to study the property tax and to investigate the use of other sources of revenue including the value-added tax for the purpose of financing public school education.

Social security

Public Law 92-336, approved July 1, 1972, an act to provide for a 4-month extension of the present temporary level in the public debt limitation, included several amendments to the Social Security Act. The legislation authorized a 20-percent increase in cash retirement and disability benefits effective September 1972. The benefit increase is financed by an increase in the limit on the taxable earnings base from \$9,000 to \$10,000 effective January 1, 1973, and a further increase

to \$12,000 effective January 1, 1974. The employee and employer social security taxes are each increased from 5.2 percent to 5.5 percent effective January 1, 1973.

The law also provided for automatic increases in benefits and the taxable earnings base. Benefits would be automatically increased if the Consumer Price Index increased by at least 3 percent during a year and no legislative benefit increases had been enacted or become effective in the previous year. In any year in which an automatic benefit increase becomes effective, the taxable earnings base would be automatically increased according to the rise in the average wages covered under social security. Automatic increases are effective only after 1974.

Basic social security revisions were receiving legislative consideration at the end of fiscal 1972. The bill H.R. 1, known as the Social Security Amendments of 1971 had received House approval on June 22, 1971. As of June 30, 1972 the bill was still under consideration by the Senate Finance Committee.

Unemployment insurance

On December 29, 1971, President Nixon signed into law H.R. 6065 (Public Law 92-224). Under a provision known as the Emergency Unemployment Compensation Act of 1971, the Secretary of Labor is authorized to enter into arrangements with any State having at least a 6.5-percent rate of unemployment, by which the State receives Federal funds to pay emergency unemployment compensation to individuals who have exhausted the overall limitation of 39 weeks for regular and extended benefits. This limitation had been provided in the permanent program of extended benefits authorized by the Employment Security Amendments of 1970. Public Law 92-224 allowed up to 13 additional weeks. The extension is temporary with eligibility for emergency extended benefits terminating after June 30, 1972.

The financing of additional extended benefits are to be paid from the Federal extended unemployment compensation account established in the 1970 amendments. No taxes are earmarked to cover the cost of benefits. Appropriations from the general revenues are authorized as repayable advances (without interest) to the extended unemployment compensation account. The repayment of advances will occur only if there is to be a distribution of State accounts of excess Federal tax collections from the loan funds established under 1954 legislation (Reed Act) to aid States with depleted reserves. Such distributions are authorized when all Federal accounts in the unemployment trust funds are at a statutory ceiling.

Public Law 92-329, approved on June 20, 1972, provided a 6-month extension of the emergency unemployment compensation program and

to pay for the cost by an increase in the Federal unemployment tax. The law extended the termination of eligibility for emergency extended benefits after December 31, 1972. To pay for emergency extended benefits paid after June 30, 1972, the law provides a temporary increase in the net Federal unemployment tax from 0.5 percent to 0.58 percent for calendar year 1973 only.

Administration, interpretation, and clarification of tax laws

The Department of the Treasury, during fiscal year 1972, issued 46 final regulations, 11 temporary regulations, and 64 notices of proposed rule making relating to matters other than alcohol, tobacco, and firearms taxes. Of the above, 22 of the final regulations, three of the temporary regulations, and 39 notices of proposed rule making covered projects under the Tax Reform Act of 1969. Four of the temporary regulations and three notices of proposed rule making covered projects under the Revenue Act of 1971. In addition to the above, there were six final regulations and four notices of proposed rule making relating to alcohol, tobacco, and firearms taxes.

Among the subjects dealt with in Treasury decisions and notices of proposed rule making published during the fiscal year were the treatment of corporations qualified as a DISC, automatic extensions of time for filing the individual income tax return (Form 1040), amortization of certain coal mine safety equipment, the 50-percent maximum rate on earned income, reserves for losses on mutual savings banks, industrial development bonds, capital losses, multiple corporations, investment credit, and charitable remainder trusts.

International tax matters

Legislation, regulations and administrative procedures.—The Treasury proposal for legislation authorizing the formation of DISC's (see 1971 Annual Report, page 37) was considered by the Congress and passed with certain amendments as part of the Revenue Act of 1971. This legislation, which permits deferral of income taxation on a portion of the income of domestic corporations engaged in exporting, became effective on January 1, 1972. In January 1972, the Department of the Treasury published a "Handbook for Exporters" describing the principal provisions of the DISC legislation and serving as initial guidance to taxpayers seeking to comply with the new law. In addition, Treasury representatives spoke before some 10,000 persons attending seminars on the DISC program in cities throughout the United States. In the first 6 months following enactment, approximately 2,500 DISC elections were filed with the Internal Revenue Service.

A number of changes were enacted in the Revenue Act of 1971, which affect the taxation of U.S. citizens and corporations abroad and foreign investors in the United States. These include amendments relating to the treatment of Virgin Islands corporations seeking to be treated as Western Hemisphere trade corporations, the taxation of dividend distributions in the form of property to foreign corporations, the treatment of original issue discount from U.S. sources derived by foreigners, and a change in the source of the income rules for income from the lease of ships or aircrafts produced in the United States (which will operate to make additional financing available for such production).

The Treasury developed regulations under previously enacted tax laws, including proposed regulations under sections 871 and 881 of the Internal Revenue Code, relating to foreign investors in the United States, and other provisions relating to controlled foreign corporations and the foreign tax credit.

Tax treaties.—Instruments ratifying an income tax treaty with Japan to replace the 1955 treaty were exchanged on June 9, 1972. The treaty will take effect in calendar year 1973.

A protocol to the 1968 income tax treaty with France was approved by the U.S. Senate on November 29, 1971, and instruments of ratification were exchanged on January 21, 1972. It is effective for dividends declared on or after January 1, 1970. The protocol provides for the extension by France to U.S. portfolio investors in French companies of the credit now given to French shareholders for one-half of the 50-percent French corporate tax.

The new income tax treaty with Belgium was ratified by Belgium on May 18, 1972, and the instruments of ratification were subsequently exchanged on September 13, 1972.

Preliminary talks were held in February with representatives of Indonesia, Malaysia, and Singapore on prospective income tax treaties with those countries. Income tax treaty negotiations were also held with Denmark, Kenya, Cyprus, and Jamaica during the year.

Discussions of an estate tax treaty were held with representatives of Denmark and Germany.

International organizations.—Treasury representatives participated in the work of the Committee on Fiscal Affairs of the Organization for Economic Cooperation and Development (OECD). Treasury representatives were members of working parties on double taxation, classification of taxes, and company taxation. A Treasury representative is presently chairman of the Committee.

Treasury representatives also participated in a meeting of the United Nations Group of Experts on Tax Treaties between developed

and developing countries which continue to work on designing appropriate provisions for treaties between developed and developing countries.

Other tax developments

Public Law 92-138, approved October 14, 1971, extended the excise tax on sugar from June 30, 1972, to June 30, 1975.

Public Law 92-174, approved November 27, 1971, deleted maintenance and operation of the Federal airway system from the list of functions to be financed from the Airport and Airway Trust Fund.

Public Law 92-279, approved April 26, 1972, excludes from gross income the entire compensation of members of the Armed Forces and of civilian employees who are prisoners of war, missing in action, or in a detained status during the Vietnam conflict.

Public Law 92-336, approved July 1, 1972, an act to increase the temporary debt limit, included a provision which allowed losses attributable to a disaster which occurred during the first 6 months after a taxable year to be claimed as a casualty loss deduction beginning in taxable year 1971.

Six Public Laws were enacted during fiscal 1972 which exempted from Federal income tax, amounts received by individuals under judgment payments to Indian tribes: 92-59 approved July 29, 1971; 92-164 approved November 23, 1971; 92-206 approved December 18, 1971; 92-244 approved March 9, 1972; 92-253 approved March 17, 1972; 92-254 approved March 18, 1972.

International Financial Affairs

International monetary developments

Introduction.—Fiscal year 1972 encompassed the most far-reaching developments of the post-war period in the international monetary sphere and set the stage for negotiations on basic reforms of the international economic system over the longer term. The period was highlighted by a rapid and severe deterioration of the international payments situation and of the U.S. external position to a critical point; intensive currency speculation and a consequent massive expansion of international liquidity in the form of foreign official dollar balances; implementation of a bold and comprehensive economic program by the United States, including suspension of official convertibility of the dollar; a protracted period of currency floats; negotiation of the first multilateral exchange rate realignment in history; and substantial progress on setting the organizational and

substantive framework for essential negotiations on monetary reform over the longer term.

The international monetary crisis of 1971.—The closing months of the previous fiscal year had witnessed extensive speculation on the possibility of exchange rate changes. Very large movements of liquid capital out of the United States in calendar 1970 and the early months of 1971 had been attributable primarily to the existence of much more attractive interest rate conditions abroad than in the United States as foreign countries attempted to restrain inflationary pressures and the United States implemented expansionary policies. As large flows continued, and were concentrated in movements into a few countries, particularly Germany, interest rate considerations were increasingly accompanied by speculation that some currencies might be appreciated against the dollar. Speculative factors became dominant in late April and early May 1971, and unprecedented liquid capital inflows led on the morning of May 5 to the closing of exchange markets in Germany, followed immediately by similar action throughout Europe and in Canada and Japan. When markets were reopened on May 9 and 10, the German mark and the Dutch guilder were allowed to float. The Swiss and Austrian authorities decided to revalue their currencies by 7.07 percent and 5.05 percent respectively, and exchange rate practices, controls, or both were modified in a number of other countries in an effort to moderate further inflows. These limited measures succeeded in dampening speculative sentiment somewhat through the end of fiscal 1971 although the markets continued to be marked by uncertainty.

It became increasingly evident during the first two quarters of calendar 1971 that the improvement of the U.S. trade and current account position which occurred in 1970 was attributable to highly favorable cyclical conditions, that the strengthening was only temporary, and that cyclical factors aside, the basic external economic position of the United States was deteriorating precipitously.

The United States had in almost every year of the past two decades recorded deficits in its "basic" balance of payments (current and long-term capital accounts combined). But for most of this period, these net deficits had been relatively small and had occurred against the backdrop of stronger U.S. trade and foreign reserve positions. Moreover, as the monetary system developed, these U.S. deficits had afforded foreign countries the only practical means of earning badly needed funds with which to rebuild their war-damaged economies and depleted foreign reserves; and U.S. deficits, the counterpart of their surpluses, were warmly welcomed in the earlier years of the period.

As the U.S. balance of payments continued in deficit, the U.S. foreign

reserves shrank gradually; and liquid liabilities to foreign official agencies, regarded and used abroad as official reserves, increased. The system became dependent on continued U.S. deficits as a means of expanding international liquidity. Yet at the same time, the process began to undermine the reserve position of the United States and the stability of the dollar, which had become essential foundations of the system. Economic realities—the relative economic strengths, capabilities, and competitive positions of nations—had changed enormously since the brief period of almost complete U.S. economic predominance immediately following the war, but the operation of the system and the behavior of countries within it failed to adapt to the changing underlying economic conditions. Nations failed to recognize their growing economic and financial strength and to assume responsibilities in the areas of trade and capital liberalization, defense financing arrangements, or exchange rate policies, commensurate with that strength. And the United States continued to bear a proportion of the mutual burdens in these areas that was becoming increasingly difficult to sustain.

In the early sixties, the United States enjoyed an improving trade position related to cyclical expansion abroad and slack here (which was, however, never fully adequate to cover essential military and foreign aid expenditures and net private capital flows abroad). The U.S. trade surplus reached a high point in 1964, though it was only 1.1 percent of GNP—a small figure by comparison with many countries today. Thereafter, massive expansion of competitive foreign productive capacity, failures to liberalize as quickly as was appropriate, and relatively high costs in the United States—all abetted by the tendency to regard U.S. capacity to sustain payments deficits as inexhaustible—combined to produce a severe and lasting deterioration in the U.S. trade position. At the same time, net outflows of long-term capital also declined as they were now subject to controls and restricted for the most part to Canada and less developed countries. Thus, the basic balance did not fully reflect the serious weakening of the structure of the U.S. position.

As noted, the U.S. trade position rebounded temporarily in 1970, but its underlying deterioration reasserted itself in the last quarter of 1970 and even more aggressively in the first two quarters of 1971. By mid-1971, the secular deterioration in the underlying position of the United States and the exacerbating factor of massive shifts of liquid capital had converged, bringing the international payments system and the position of the United States to a critical point.

Shortly after the beginning of fiscal 1972, the Treasury conducted a thorough reassessment of the payments position and prospects. As

of mid-1971, the U.S. balance of payments was in deficit at an annual rate of nearly \$23 billion on the official settlements basis in the first half of the year. Even more disturbing than this unprecedented figure was the strong evidence that the persistent deterioration in our basic payments accounts, and particularly in our trade position, had accelerated. Internal forecasts suggested the strong probability (later confirmed) of a record deficit in the basic balance for the second half of 1971, and the 1972 outlook was for further deterioration. The merchandise trade account was expected to be in deficit at an annual rate of over \$2 billion in the second half of 1971 and to deepen further in 1972 to some \$3 to \$4 billion—the first substantial U.S. trade deficits in this century.

Cyclical variations in economic conditions in the U.S. and other industrial economies can produce sizable swings in our payments position. Thus the actual data for any one period of time may not reflect the true state of the underlying position. As noted, in 1970 the U.S. trade balance had improved considerably over the preceding year, from a surplus of \$0.7 billion to one of \$2.1 billion. In fact, however, the recorded trade surplus, when adjusted for cyclical factors, became a *deficit* of \$1 billion. The comparable estimate for 1971 was a deficit of about \$3½ billion.

In an effort to measure the extent of the deterioration in our position, this cyclical adjustment technique was used to project our position for 1972. On the hypothetical assumption that the United States and other major countries would experience “normal” or satisfactory high employment levels of economic activity, the projections pointed to a trade deficit of \$5 billion. This corroborated earlier evidence that the underlying U.S. trade position was undergoing a steady, sizable deterioration, year in and year out, at least since the middle 1960’s. The projections also made it clear that unless the trade position improved substantially, interest payments on our liabilities to foreigners would rise almost as rapidly as income from U.S. investments abroad, so that we could not look to investment income as a substitute for a trade surplus. On a net basis, services (including military expenditures) and private remittances could not be expected to provide a surplus of much more than \$1 billion annually.

Furthermore, Government grants and capital outflows must be expected to continue at a rate of more than \$4 billion, if the United States is to maintain the minimum necessary contribution to economic development. Rather substantial outflows of long-term funds for private investment in less developed countries and such areas as Australia, New Zealand, and South Africa seemed likely to continue, while flows of long-term foreign capital from Europe to the United States

could not be expected to reach a level which would more than offset direct and portfolio investment by Americans in Europe, Canada, and Japan—even if there were to be a realignment of exchange rates which made the United States a substantially more attractive place to locate production.

Thus, in view of this Nation's responsibilities in providing assistance to developing nations and its economic role as a moderate supplier of private investment capital to the less developed world, net outflows of long-term capital and Government grants could not reasonably be expected to fall below \$6 billion annually. In addition, the United States expected to continue to experience net payments of more than \$1 billion annually in current account and long-term capital transactions, which cannot be specifically identified, and in nominally short-term capital flows of a long-term nature, such as trade credits.

This assessment of the world payments situation made it clear that a very sizable swing in the U.S. position—and corresponding changes in the positions of others—would be required to restore reasonable international payments balance.

Balance in the U.S. basic accounts would require a current account surplus large enough to cover long-term capital outflows and Government grant aid. Nearly the whole of that surplus would have to be found in the trade account, at least for a number of years to come. The difference between the needed surplus and the deficit in prospect if no action was taken would be massive. Drastic action was required, even to restore the U.S. position to near-balance.

These international considerations coincided with the appearance of evidence that domestic recovery and the fight against inflation were not proceeding satisfactorily. Decisive action, then, was called for by both domestic and international conditions. A strong domestic economy would be essential to an improvement in the international position, and improvement in the balance of payments would aid the recovery of confidence and domestic economic activity.

On August 15, 1971, President Nixon announced an integrated, comprehensive program aimed at restoring domestic and international equilibrium to the U.S. economy. The program had three major and closely related objectives: To solve the U.S. inflation problem and break the inflation psychology, to stimulate the economy and improve efficiency and competitiveness, and to strengthen the U.S. position in the world economy and improve the international monetary and trading system.

The most important international measures announced by the President were the suspension of dollar convertibility into gold and other reserve assets and the imposition of a temporary surcharge on dutiable

imports. Important as they were, these measures in themselves were not intended or expected to correct the U.S. payments position, but were to signal that comprehensive and effective changes were needed, both in the more immediate world payments situation and in the more basic operating characteristics of the system.

Activity in the remainder of 1971 and part of 1972 was devoted largely to an international search for a solution to the more immediate problems. The United States believed that an adequate solution would require a substantial realignment of currency values and that supporting measures to reduce unfair barriers to U.S. exports and improve defense financing arrangements should be set in train.

The actions on August 15 were followed immediately by currency floats initiated by most major countries, and by intensive consultations between the United States and its trading partners to explain fully the U.S. view of the situation and the extent of the correction considered necessary. While the need for a currency realignment—and a strengthening of the U.S. trade and current account positions—was widely accepted by this Nation's partners, it became evident immediately that views differed sharply on the extent of the changes needed. As discussions progressed bilaterally and in various international forums, countries continued to intervene on the exchange markets and to impose exchange control devices preventing the value of their currencies from floating "freely"; i.e., primarily in response to market forces.

The first intensive, multilateral negotiations on the adjustments required were held September 15 and 16, 1971, at a meeting of the Ministers and Governors of the Group of Ten in London.¹ This meeting served primarily to clarify national positions and to demonstrate that the gap between positions on the adjustments needed was wide indeed. Further discussions were held at the time of the IMF annual meetings in Washington in late September, and considerable progress was made toward an acceptable and adequate currency realignment at another meeting of the Ministers and Governors of the Group of Ten in Rome, November 30–December 1, 1971.

During the latter part of 1971, President Nixon met with the leaders of several major foreign countries. The President, accompanied by Secretary Connally, met with French President Pompidou and Finance Minister Giscard d'Estaing in the Azores on December 13–14, 1971. In a joint statement issued following those meetings, President Nixon and President Pompidou agreed, *inter alia*, to work toward a prompt re-

¹ The Group of Ten consists of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. Switzerland is associated with the Group.

alignment of exchange rates through a devaluation of the dollar and revaluation of some other currencies.

This series of negotiations and the period of exchange rate floats (with various degrees of official interference) culminated in a final meeting of the Group of Ten on December 17–18, 1971, at the Smithsonian Institution in Washington. At that meeting, agreement was reached on a series of interrelated measures designed to help resolve balance of payments problems, to restore more settled conditions to the exchange markets, and to provide a framework from which longer term monetary reform could evolve. It was agreed that discussions should be promptly undertaken on measures for reform, and several areas to which attention should be directed were identified.

The agreement¹ on “near-term” issues comprised:

- a new pattern of basic exchange rate relationships among the countries concerned;
- provisional arrangements permitting up to 2¼-percent margins of exchange rate fluctuation above and below the new exchange rates;
- recognition that trade arrangements are a relevant factor in assuring lasting equilibrium in the international economy;
- agreement by the United States to propose to the Congress a suitable means for devaluing the dollar in terms of gold as soon as a related set of short-term trade expansion measures were available for congressional scrutiny; and
- agreement by the United States to suppress immediately the 10-percent import surcharge and related provisions of the job development credit.

Developments since the Smithsonian agreement.—The new exchange rates agreed at the Smithsonian Institution, combined with subsequent rate changes by countries not present at the meetings, amounted to a substantial effective devaluation of the dollar in terms of the currencies of the U.S. major trading partners. The U.S. “contribution” to this realignment entailed a proposal to Congress to devalue the dollar in terms of gold from \$35 to \$38 per ounce of gold. Legislation necessary for this purpose, and to maintain the value of U.S. subscriptions to various international financial institutions, was submitted to the Congress with related explanatory and background material on February 9, 1972.² Final congressional action on legislation authorizing the United States par value change and associated maintenance of value payments was completed March 31, 1972 (Public Law 92-268), and the bill was signed into law by the President on

¹ See exhibit 52 et seq.

² See exhibits 55 and 56.

April 3, 1972. Following necessary congressional action on appropriations for the required maintenance of value payments, the United States officially notified the IMF of the change in the dollar's par value effective noon, May 8, 1972.³

The exchange rate relationships agreed upon at the Smithsonian Institution were reflected immediately in the market, as were the provisionally agreed wider margins of $2\frac{1}{4}$ percent on either side of the new rates. Exchange rate changes, accompanied by supporting improvements in the domestic economy, are expected eventually to have a powerful salutary effect on the U.S. competitive and trade positions although the full impact of exchange rate adjustments is normally not felt until after a lag of perhaps 2 years. Moreover, the initial trade effects of an exchange rate change are likely to be perverse, tending to run counter to the objective.

Some appear to have expected the U.S. trade position to improve immediately and substantially following the exchange rate realignment. The failure of such expectations to materialize, a continued positive interest rate inducement for liquid funds to move to or remain in Europe, and uncertainties about the operation of the new system of wider exchange rate margins, contributed to intermittent flurries of exchange market nervousness and activity through early March. Thereafter, the markets entered several months of calm, with little intervention by central banks. Continuing U.S. deficits on basic account were largely balanced by inflows of liquid funds.

Following this period, which extended nearly to the end of the period under review, intensive speculation developed in late June in anticipation of a change in the exchange rate of the pound sterling. Although in a fundamentally strong current account and basic balance of payments position, the United Kingdom decided to allow the pound to float temporarily, and most exchange markets were closed temporarily to adjust to this development. As the markets reopened in late June, these pressures led to speculation that the exchange rate relationships agreed upon at the Smithsonian Institution might not be defended, and this in turn caused large speculative movements against the dollar for a brief period.

Progress on longer term monetary reform.—Considerable progress was made in the latter half of fiscal 1972 on developing workable forums for reform discussions and negotiations and on focusing attention in the United States and abroad on some of the fundamental questions which must be addressed.

At fiscal yearend, the Executive Directors of the International Monetary Fund, with full U.S. support, agreed to recommend establishment

³ See exhibit 86.

of a Committee of Governors on Reform of the International Monetary System and Related Issues. This Committee can make an effective contribution to the reform effort. It will have an appropriately broad mandate, enabling it to consider trade, capital, investment and development finance matters closely related to monetary reform. It will reflect a desirable balance of national participation, and it will be capable of drawing on the expertise of a wide range of international institutions. The Committee, if approved as expected by the end of July,¹ is scheduled to hold its inaugural meeting during the week of the IMF annual meetings September 24–29, 1972.

The work of this Committee will be supplemented by other international organizations which are in a position to make contributions to the whole endeavor in conjunction with the Committee of Twenty.

A number of specific subjects in the area of monetary reform were pointed out in the communique of the Smithsonian agreement. These include: The appropriate means and division of responsibilities for defending stable exchange rates and for insuring a proper degree of convertibility for the system; the proper role of gold, of reserve currencies, and of special drawing rights in the operation of the system; the appropriate volume of liquidity; reexamination of the permissible margins of fluctuation around established exchange rates; and other measures dealing with movements of liquid capital.

As attention has turned from the more immediate issues to long-term reform of the system, the United States has felt it essential to point to fundamental issues which will underlie any specific monetary mechanisms which might be agreed upon. Monetary issues cannot be considered in a vacuum. Full account must be taken of the interrelationships with trading rules and practices, the character and magnitude of capital flows, and other questions of international economic policy.

Considerable progress was made toward the fiscal yearend in identifying some of these fundamental issues and interrelationships. For example, it is widely recognized that the "adjustment process" by which surpluses or deficits are corrected has not been working well—this is the key reason the system broke down. One main factor behind this inadequate adjustment may be that most advanced countries desire surpluses. Over the years, they have acted relatively quickly (and often are forced to act) to correct their deficits. There is no similar compulsion to correct surpluses. Yet, one country's surplus is another's deficit—and for too many years the United States had provided the residual deficit.

A persistent residual deficit for the United States was not consistent, ultimately, with past monetary arrangements. Many proposals for a

¹ The Committee was formally approved by the IMF Governors on July 26, 1972.

new system would require much more effective and rapid elimination of imbalances. In view of accumulated U.S. deficits and the erosion in U.S. reserves, the United States would need to look forward to a massive strengthening of its reserve position, the prospect of a period of surpluses in payments, and to longer term equilibrium. Similarly, other nations could not, on the average over the years, continue their accustomed surpluses.

Such a system of adjustment would appear to imply the need for strong incentives or penalties for corrective action by surplus countries as well as by deficit countries, if balance is to be achieved. A major question to be resolved relates to the willingness of countries to accept strong international disciplines. If there is no such willingness, then monetary systems that depend for their functioning on quick and effective adjustment simply will not work.

A related question is how adjustment should be made. For both practical and philosophical reasons, the United States seeks a balance of payments equilibrium that can be maintained without reliance on controls. In present and foreseeable circumstances, sustainable balance in accounts will require a strong trade and current account position. Yet, some other nations appear to argue that capital outflows lie at the heart of the balance of payments problem of the United States and that equilibrium should be forced by the indefinite use of controls on investment; or, perhaps, by efforts to raise domestic U.S. interest rates to levels equal to or above those prevailing abroad. This is clearly an issue which needs considerable discussion and examination.

This question is closely related to the degree of independence that countries seek to maintain for domestic policy. No country can exist in isolation and proceed oblivious of the effects of its actions on others. But a system which unrealistically presumes that domestic policies can practicably be tuned to each twist and turn in external circumstances would not work for long.

Some countries with particularly close trading and political links—such as those in the European Community—may perceive a greater potential for coordination of internal and external policies among themselves, an issue posed by the drive for greater monetary unity within Europe. From a global standpoint, economic and monetary union in Europe would appear to present both dangers and potential advantages. An aggressively expanding preferential trading area with highly protectionist policies in key sectors directly affects U.S. trading capabilities and has broad implications for the world trading order and the adjustment process. On the other hand, success in achieving monetary unity in Europe could help deal with one source of monetary instability in the past and permit Europe to cooperate

more effectively in building an effective world monetary system. In both aspects, trade and money, the European Community is a phenomenon that demands more thought as to how it can fit into arrangements consistent with the broader world interest.

Such a listing of issues cannot be exhaustive, but it points to the need for discussion and some common appreciation of these basic problems. These are some of the major issues which underlie the discussion on monetary mechanics, and which will form the framework of forthcoming negotiations on monetary reform.

Foreign exchange developments and operations

Exchange market disturbances in May 1971 were temporarily relieved by the decisions of Germany and the Netherlands to allow their currencies to float in the exchange markets and by the Swiss to revalue the franc. At the beginning of this fiscal year the German mark was about 4.5 percent above its parity level and the Dutch guilder about 1.5 percent above. The appreciation of these currencies in terms not only of the dollar but against those of other European countries had, however, raised apprehension about the stability of other exchange rates. The continuing balance of payments deficits of the United States, the deteriorating trade balance, the lack of visible progress in curtailing inflation and large drains on U.S. reserves also combined to renew nervousness that resulted in a further outbreak of speculation in the exchange markets in early August. During the first 2 weeks of August, about \$5 billion was purchased by central banks in Europe and Japan to maintain their exchange rates within the margins prescribed by the IMF. Only Germany and the Netherlands escaped this pressure as a result of their floating currencies, which had by that time appreciated to 7.6 percent above parity for the DM and 5.1 percent above for the Dutch guilder.

There was also a decline of about \$1.4 billion in U.S. reserve assets during the first 6 weeks of the fiscal year. This drain primarily took the form of an \$862 million drawing on the IMF by the Treasury and the sale of \$191 million in gold to France.¹ Both operations were in connection with British and French repayments to the IMF of indebtedness incurred by them in earlier years and had no direct relationship to the current activity in the exchange markets. Nevertheless, this depletion of U.S. reserves, at a time when additional claims on our reserves were rising rapidly, heightened tensions.

The inflow of funds to various European countries also called into increased play use of the swap network among the central banks. Extensive drawings were made by the Federal Reserve on swap lines

¹ See exhibit 75.

in Swiss francs, Belgian francs and sterling to provide exchange cover for dollar gains. With the Swiss franc swap lines fully utilized, the Treasury also issued a Swiss franc denominated security.

The President's August 15 announcements of inconvertibility of the dollar, a temporary 10-percent surcharge on imports, and other measures provoked a mixed response from abroad. Most of the currencies of the Group of Ten were allowed to float as the mark and the guilder had been doing since May, and the Canadian dollar since June of 1970. The French, however, established a dual rate system pursuant to which they continued to peg the commercial franc, which could be used for trade transactions and transactions closely related to trade. A financial franc for all other transactions was allowed to float. Belgium, which, for a number of years, had had a dual rate system, took measures to strengthen it but allowed both rates to float. Japan continued to peg its exchange rate for several weeks but by September had chosen also to float.

The freedom with which currencies were allowed to float varied considerably. The Swiss franc, Belgian franc, and Dutch guilder were not subjected to central bank intervention in the exchange markets between August and the setting of central rates in late December. On the other hand, the appreciation of sterling and the Japanese yen was reduced by market intervention, and at times Germany engaged in both spot and forward operations to influence the exchange rate for the DM.

The period of generally floating exchange rates came to a halt when the Smithsonian agreement was reached providing for a general realignment of exchange rates to new fixed par values or central rates. This agreement included an 8.57-percent devaluation of the dollar as well as appreciation by some other currencies. Only Canada chose to continue temporarily its floating exchange regime. It was estimated that on an average basis, weighted by trade among the countries involved, excluding Canada, the dollar had improved its competitive position by about 12 percent.

After exchange markets reopened following the general realignment of rates, the dollar traded above par against all of the major currencies, and many were near the lower of their support points which had now been widened to $2\frac{1}{4}$ percent on either side of the new parities or central rates. A reflow of funds took place, estimated at over \$2 billion, in the final days of December. Most of this reflow was out of sterling, French francs, and the Japanese yen.

Rates began to firm against the dollar in the new year and intervention, while relatively modest, shifted to dollar purchases by various European countries and Japan in January and February. By early

March doubts had arisen in the exchange markets as to the willingness of some of the European central banks to defend the rates agreed upon by the continued purchase of dollars, which remained inconvertible. There was a testing of their resolve which brought the Dutch guilder and Belgian franc, among other currencies, under pressure, but which evaporated in the course of a week as it became apparent the Smithsonian rate structure would be held.

Thereafter, relative calm prevailed in the exchange markets until mid-June, when the pound sterling came under attack. Although the pound had been trading above par against the dollar, it had been near the lower portion of the narrower band within which the currencies of the European Economic Community were allowed to trade among themselves. Because the stronger European currencies were near their upper limits against the dollar, the pound could not fall below par without triggering the need for intervention among the EEC countries in their own currencies.

The result of the attack on the pound and the EEC arrangement to keep their currencies within $2\frac{1}{4}$ percent of each other was that, while the pound rate fell lower, it could not take full advantage of its margin against the dollar, whereas the stronger EEC currencies, which encompassed most of the others except the Italian lira, were pulled below their ceilings in which circumstance they appeared to be a good buy to those having a need for or wishing to speculate in those currencies.

Although British reserves were high and had been rising and the current account as well as overall payments position was in surplus, the pound came under heavy attack. After losses, placed by British authorities at \$2.5 billion, it was announced that the pound would float and temporarily observe neither the narrower EEC band nor the wider margins agreed at the Smithsonian.¹ Denmark, another expected entrant to the EEC that had observed its narrower band, also withdrew from the EEC arrangement but continued to maintain the margins around the parity agreed at the Smithsonian.

The withdrawal of sterling from the Smithsonian rate agreement again raised questions as to whether other currencies, including the stronger ones, might not also decide to cease support at the agreed levels. There was considerable press discussion in Europe that the EEC might float as a bloc against the dollar. Predictably, when exchange markets reopened after several days of closure, the dollar came under pressure against the German mark, French franc, Dutch guilder, Belgian franc, and Swiss franc. The Italian lira, which was now the weaker currency still observing the narrower EEC band, was

¹ See exhibit 87.

under pressure from the opposite direction and was required to support the lira from falling below parity with the dollar. The pressure was not extreme in the closing days of June but became intense in July as the new fiscal year began.

The period was marked by a proliferation of exchange controls designed by other countries to curb capital inflow of dollars. A number of measures were taken during the period of floating rates prior to December 18, 1971. A moderate relaxation in a few centers followed the exchange rate realignment, but as 1972 progressed, new controls were instituted and extensive new measures were taken at the close of the fiscal year and in the opening days of July as countries continued to defend the rates fixed by the Smithsonian agreement.

Treasury exchange and stabilization agreements

There were no new exchange agreements entered into during the year or operations under existing agreements. The agreement with the Bank of Mexico for \$100 million was renewed on December 31, 1971, but the agreement with the Central Bank of Venezuela was not renewed when it expired on March 18, 1972.

International Monetary Fund¹

Large movements of liquid funds into foreign central banks' reserves, and a continued strengthening of the underlying payments positions of foreign countries during the period, enabled the major industrial countries to avoid recourse to IMF credit and facilitated the repayment of large amounts due the IMF in fiscal 1972, continuing the pattern set in the previous year.

Purchases of currency (drawings) by IMF members totaled \$1.9 billion during fiscal 1972, up slightly from drawings of \$1.5 billion in the preceding fiscal year. Drawings by the United States amounted to \$1.1 billion, more than half of the total, reflecting the serious deterioration in the balance of payments position of the United States. The drawings by the United States were within the U.S. gold tranche in the IMF and represented a use of U.S. reserves rather than credit from the Fund. The unusually wide distribution of currencies drawn reflected the broad pattern of foreign balance of payments surpluses and, consequently, relatively stronger currencies. The currencies of the major industrial countries were drawn in the following amounts (in dollar equivalents): Dutch guilders, \$447.0 million; Belgian francs, \$415.0 million; German marks, \$311.9 million; British pounds,

¹ The par value of the dollar was reduced effective May 8, 1972. The bulk of the transactions discussed in this section occurred prior to that date, and all figures reported herein are reported in predevaluation dollars in order to avoid distortions due to valuation changes.

\$254.7 million; French francs, \$157.8 million; Canadian dollars, \$135.9 million; Japanese yen, \$105.0 million; and Italian lire, \$48.9 million. The U.S. balance of payments was in serious deficit throughout the period, and no drawings were made in U.S. dollars.

Currency repurchases (repayments) totaled \$2.5 billion, consisting primarily of \$1.4 billion by the United Kingdom and \$0.6 billion by France, which fully liquidated their debts to the Fund. The balance of the British debt to the IMF, totaling \$1,150 million equivalent, was liquidated in April through repurchases in various currencies totaling \$950 million and a related U.S. drawing of \$200 million equivalent of pounds sterling, which had the effect of reducing IMF holdings of sterling and, consequently, the amount the United Kingdom had to repay. Repurchases were concentrated in the currencies of industrial European countries, Canada, and Japan, and in SDR and gold. IMF holdings of dollars exceeded 75 percent of the U.S. quota in the IMF throughout the period, and, consequently, dollars were not eligible for use in repurchases.

As of June 30, 1972, cumulative drawings from the beginning of IMF operations amounted to \$24.6 billion, of which \$7.9 billion was in U.S. dollars; cumulative repurchases amounted to \$15.2 billion, of which \$4.6 billion was in U.S. dollars.

The IMF repaid the balance of outstanding borrowings, totaling \$152 million, under the General Arrangements to Borrow (GAB), and also liquidated the remaining \$125 million of outstanding bilateral borrowings from Japan. As of June 30, 1972, amounts available under the GAB totaled the equivalent of \$5.8 billion.

The large drawings by the United States (and several small transactions of an administrative nature) resulted in a \$1,029 million reduction in the U.S. reserve position in the IMF. As of June 30, 1972, the U.S. reserve position amounted to \$400 million (in "predevaluation" dollars; \$434 million at the current valuation), consisting of the balance of the U.S. gold tranche position.

Organization for Economic Cooperation and Development

The 11th Ministerial Council meeting of the OECD in Paris May 24-26, 1972, focused much of its attention on international monetary and trade issues in preparation for the forthcoming negotiations regarding monetary reform in the IMF and on international trade in GATT. In this context, the Ministers called for further work by the Organization in the balance of payments field, with particular attention to be given to the balance of payments aims of member countries, to the respective responsibilities for balance of payments adjustment of surplus and deficit countries, and to the problems of dealing with

short-term capital flows. The Ministers also recognized that some important questions arise from the interrelationship between issues in the area of trade and international monetary reform, and agreed that the OECD has an important role to play in analyzing and consulting on international monetary, trade, investment and related economic issues, including particularly their interrelationships. Under Secretary for Monetary Affairs Volcker represented the Department of the Treasury on the U.S. Delegation to the Ministerial meeting.¹

Working Party 3 of the Economic Policy Committee on Policies for the Promotion of Better International Payments Equilibrium turned much of its attention during the year to problems related to the Smithsonian agreement on realignment of currencies. Prior to the agreement, the Working Party, at the request of the Ministers and Governors of the Group of Ten, prepared an assessment of the scale of the balance of payments adjustment required. Following the agreement, the Working Party monitored both the prospects for a more appropriate pattern of current account balances among the major industrial countries in light of the realignment, and the problems of the transitional period before the exchange rate and other measures negotiated at the Smithsonian could be expected to have their full effect. Under Secretary Volcker continued as chairman of the U.S. Delegation to this Working Party.

The Department of the Treasury continued to participate actively in other work of the OECD. Deputy Under Secretary Bennett served as the Treasury member of the U.S. Delegation to the Economic Policy Committee. Assistant Secretary Fiedler acted as Alternate Representative in the U.S. Delegation to the EPC Working Party on Costs of Production and Prices. Another EPC working party in which Treasury participates, on Policies for the Promotion of Economic Growth, completed a major work on "Expenditure Trends in OECD Countries, 1960-80." The Committee on Fiscal Affairs, of which a Treasury official was reelected chairman, began a comprehensive new program of studies in the tax policy area. The Committee on Financial Markets, in which Deputy Assistant Secretary Cates participated, approved and saw publication of the report of one of its subgroups (chaired by a Treasury official) on standard rules for mutual fund operations. The Department pursued its practice of close involvement in the work of the Development Assistance Committee, the Trade Committee (including meetings of its Group on Export Credits, to which a Treasury official leads the U.S. delegation) and the Committee for Invisible Transactions. In addition, a Treasury official served as the U.S. observer on the Managing Board of the European Monetary Agreement.

¹ See Exhibit 67.

U.S. balance of payments

Fiscal 1972 developments.—The balance on recorded current and long-term capital transactions was in deficit by \$10.6 billion in fiscal 1972 compared with a deficit of \$5.5 billion in fiscal 1971 (see table). The net liquidity balance was in deficit in fiscal 1972 by \$19.2 billion and the official reserves transactions balance by \$22.0 billion. This was a continued substantial deterioration from the preceding year when the two balances were in deficit only \$10.0 billion and \$16.9 billion, respectively.

Both the liquidity and official reserve transactions deficits in fiscal 1972 reflected unusually large unrecorded outflows of funds, as indicated by the \$7.6 billion errors and omissions figure. Although the errors and omissions figure has tended to be negative for some years and is believed to include about \$1 billion of unrecorded current and long-term capital outflows, it seems likely that the unusually large figures in the second half of fiscal 1971 and the first half of fiscal 1972 represented short-term capital outflows in anticipation of exchange rate changes.

The balance of trade deepened its slide into a deficit which reached \$5.6 billion for fiscal 1972. The decline occurred principally due to spiraling imports which grew by \$7.2 billion, while exports grew by only \$1.4 billion, even less than they did in FY 1971. The import rise was primarily in manufactured goods and oil. Serious dock strikes at Atlantic and Gulf ports in October and November, and earlier at West Coast ports, held up both exports and imports in these months but probably had little impact on the magnitude of the overall trade deficit.

The unfavorable change in the trade balance was in part due to cyclical developments here and abroad which accelerated imports. To some extent, the rise in imports may have reflected an acceleration of purchases in anticipation of trade restrictions.

The currency realignments are expected to be of benefit to the U.S. trade balance over the long run, but their initial impact was probably adverse, as anticipated.

The total balance on goods and services recorded a deficit of \$3.2 billion compared with a surplus of \$2.9 billion reported in FY 1971. Americans continued to spend more in foreign travel than foreigners did here, widening the gap in FY 1972 to a margin approaching 2 to 1.

The balance on current account posted its largest deficit ever—totaling \$7.0 billion in FY 1972 as compared with the \$0.4 billion deficit in the previous year. The deficit was particularly pronounced in the second half of the fiscal year when it averaged \$2.3 billion per quarter.

One positive area in an otherwise bleak picture was long-term capi-

*U.S. balance of payments, fiscal years 1971-72**

[In millions of dollars]

	Fiscal 1971	Fiscal 1972	Fiscal 1972	
			1st half	2d half
Trade (balance-of-payments basis) ¹	207	-5,568	-1,966	-3,602
Exports.....	42,894	44,315	21,043	23,272
Imports.....	-42,687	-49,883	-23,009	-26,874
Travel.....	-1,783	-2,061	-904	-1,157
Receipts.....	2,368	2,545	1,278	1,267
Payments.....	-4,151	-4,606	-2,182	-2,424
Military.....	-3,011	-3,325	-1,531	-1,794
Receipts.....	1,791	1,553	897	656
Payments.....	-4,802	-4,878	-2,428	-2,450
Dividends, interest and branch profits.....	5,263	5,548	2,951	2,597
Receipts.....	9,905	10,903	5,562	5,341
Payments.....	-4,642	-5,355	-2,611	-2,744
Other services.....	2,197	2,239	1,004	1,235
Balance on goods and services ²	2,873	-3,167	-446	-2,721
Private remittances, government pensions, and other transfers.....	-1,469	-1,572	-806	-766
U.S. Government economic grants.....	-1,838	-2,251	-1,132	-1,119
Balance on current account.....	-434	-6,990	-2,384	-4,606
U.S. Government capital, net ³	-1,990	-1,200	-707	-493
U.S. direct investment abroad.....	-4,459	-3,664	-2,198	-1,466
Purchases and sales of foreign securities.....	-1,558	-913	-176	-737
U.S. long-term bank and nonbank claims.....	-263	-1,117	-502	-615
Total transactions in long-term U.S. capital invested abroad.....	-8,270	-6,894	-3,583	-3,311
Total long-term foreign capital invested in the United States ⁴	3,223	3,285	869	2,416
Balance on current account and long-term capital.....	-5,481	-10,599	-5,098	-5,501
Nonliquid short-term capital ⁵	-1,028	-1,697	-1,571	-126
SDR allocation.....	792	714	358	356
Errors and omissions.....	-4,244	-7,625	-7,398	-227
Net liquidity balance ⁶	-9,961	-19,207	-13,709	-5,498
Changes in net liquid liabilities to private foreigners.....	-6,909	-2,791	-4,170	1,379
Balance on official reserve transactions.....	-16,870	-21,998	-17,879	-4,119
Changes in Reserve Assets (+ = decrease):				
Gold.....	1,382	845	301	544
SDR.....	-365	-560	-211	-349
Convertible currencies.....	810	-107	74	-181
IMF gold tranche position.....	922	1,027	843	184
Changes in U.S. liabilities to foreign official agencies (+ = increase).....	14,121	20,793	16,872	3,921

*All data are based on seasonally adjusted quarterly data.

Differences between these figures and those published by the Bureau of the Census are due to adjustments for valuations, timing, coverage and to the exclusion of DOD military export sales and military import purchases.

² Equal to net exports of goods and services in national income and product accounts of the United States.³ Includes nonscheduled debt repayments to the United States.⁴ Includes U.S. Government nonliquid liabilities to other than foreign official reserve agencies.⁵ Includes certain U.S. short-term bank and nonbank claims and all short-term liabilities of nonbanks.⁶ Differs from old liquidity basis by treating some short-term bank and nonbank claims and "nonliquid" liabilities to foreign official reserve agencies as below the line items.

SOURCE: Department of Commerce, "The U.S. Balance of Payments: Revised Presentation," Survey of Current Business, June and September 1972.

tal transactions. Total U.S. capital transfers abroad declined from the fiscal 1971 figure of \$8.3 billion to a 1972 total of \$6.9 billion. This decline was caused by a reduction of U.S. Government capital from \$2.0 billion in 1971 to \$1.2 billion in 1972 (partly offsetting a rise in Government grants), and by a major reduction in the net purchase of foreign securities by Americans from \$1.6 billion to less than \$1 billion.

Most of this decline reflects a shift by U.S. investors from net purchases to net liquidations of foreign stocks. Capital transfers for U.S. direct investment abroad were \$3.7 billion, about \$0.8 billion less than in fiscal 1971. On the other hand, U.S. long-term bank and nonbank claims rose from \$0.3 billion to over \$1.1 billion in fiscal 1972.

The United States has generally run a deficit in its balance on current and long-term capital transactions for more than 10 years. Prior to 1965, this deficit averaged less than \$1 billion. It averaged over \$2 billion in the 1965-68 calendar years, and \$3 billion in 1969-70. But since that time the balance deteriorated further: In fiscal 1971 the deficit was \$5.5 billion; in fiscal 1972 it rose to \$10.6 billion.

The unprecedented increase in the deficit balance on official reserve transactions to a total of \$22.0 billion occurred largely in the first half of fiscal 1972. In the second half, after the Smithsonian agreement was concluded, the deficit declined sharply. In part, the improvement in the balance reflected a sharp decline in U.S. capital outflows—mainly through unrecorded transactions, and in part the absorption of some of the net dollar outflow by private foreigners, resulting in the first increase in private foreign holdings of liquid dollar assets since 1969.

In fiscal 1972, U.S. liabilities to foreign official agencies posted an alltime increase of \$20.8 billion following an increase of \$14.1 billion in fiscal 1971. In the first quarter after the Smithsonian agreement foreign official agencies increased their dollar holdings by \$3.3 billion, and in the following quarter the increase lessened to about \$600 million, most of which was associated with another speculative flurry at the end of that period.

International development banks

During fiscal 1972 substantial progress was made toward increasing the lending resources of each of the institutions in which the United States has membership—the International Bank for Reconstruction and Development (IBRD or World Bank), the Inter-American Development Bank (IDB), and the Asian Development Bank (ADB). These efforts among member nations covered special increases in subscriptions to the World Bank paralleling special quota increases in the IMF, a third replenishment of the resources of the World Bank's concessional-loan affiliate, the International Development Association (IDA), increases in the Ordinary Capital and the Fund for Special Operations (FSO) of the IDB, and a contribution to the ADB's Special Funds. During fiscal 1972, Treasury officials testified many times before Congress in support of required authorizing and appropriations legislation.¹ By the end of the year, all proposed increases

¹ See exhibits 59, 60, and 88.

had been authorized by Congress, but appropriations for the IDA, IDB-FSO, and ADB Special Funds originally scheduled for fiscal 1972 were delayed to fiscal 1973.

The World Bank group

The IBRD and its affiliates, the IDA and the IFC, committed a total of \$3.1 billion during the fiscal year—almost 20 percent more than in fiscal 1971—for financing economic development projects in the member countries. The IBRD made new loans to its members totaling \$1,966 million, \$45 million more than in the previous fiscal year. While the bulk of its lending operations continued to be for transportation, power, agriculture and industry, there was a sharp increase in loans for education. IDA credits increased sharply from \$584 million in 1971 to \$1 billion, with agriculture and transportation the major lending sectors. IFC investments in equity and loans to the private sector without government guarantee totaled \$116 million for manufacturing and tourism.

The loan operations of the World Bank are financed by paid-in capital subscriptions, funds borrowed in capital markets, sales of participations, principal repayments on loans, and earnings on loans and investments. During the year the Bank's outstanding funded debt increased by \$1,527 million, of which \$385 million reflected the results of exchange realignments, to the equivalent of \$6,951 million. The debt is denominated chiefly in U.S. dollars (\$3,550.8 million), Deutsche marks (\$1,754.8 million equivalent), Japanese yen (\$665.6 million equivalent), and Swiss francs (\$340.4 million equivalent).

The World Bank's borrowings during the year reached a new peak of \$1,744 million¹ equivalent compared with \$1,368 million in 1971 and \$735 million in 1970. The Bank made two issues aggregating \$425 million in the United States during fiscal 1972. Borrowings in Germany amounted to DM 1,250 million.

The \$1,744 million borrowed by the World Bank in fiscal 1972 included \$1,264 million equivalent sold to raise new funds and \$480 million equivalent of refundings. The principal source outside the United States was Germany, which lent \$341 million equivalent in public offerings and private placements. In addition, the Bank signed a loan agreement with the Bank of Japan to borrow up to \$278 million equivalent over the period ending December 30, 1972, but had borrowed only \$27.8 million of this as of June 30, 1972.

The Bank's obligations are marketed widely, as is indicated by the estimated division of holdings by investors as of June 30, 1972—about 35 percent in the United States; 26 percent in Germany; 10 per-

¹ Borrowings valued at official rates at time of borrowing.

cent in Japan; 6 percent in Switzerland; and 4 percent in Canada. The remaining 19 percent is held largely by central banks and other governmental accounts.

During the fiscal year, subscriptions to the Bank's capital stock increased by the equivalent of \$485.4 million in 1944 dollars, all but \$6 million of which represented special increases under a resolution passed the previous year by the Bank's Board of Governors. If fully subscribed, the selective increases would raise the subscribed capital of the Bank by the equivalent of \$2,222 million in 1944 dollars to a total of about \$25.5 billion (in current dollars, about \$27.7 billion). The U.S. share of the increase, \$246.1 million, was authorized by Congress in fiscal 1971 but only half of the authorized increase has been appropriated. It is anticipated that the U.S. payment, as well as a further payment for maintenance of value, would be made early in fiscal 1973.

IDA credits are funded largely by member subscriptions and contributions and grants from the net earnings of the World Bank. IDA's usable resources, cumulative to June 30, 1972, amounted to \$4,202 million of which part I (developed) countries had contributed \$3,473 million and IBRD grants supplied \$595 million. Earnings and repayments on outstanding credits, together with contributions of part II (developing) and nonmember countries and exchange profits, made up the balance. As of June 30, 1972, these resources had been fully committed; moreover, an additional \$319.5 million in credits had been approved but not yet signed pending availability of resources under the third replenishment.

The proposed third replenishment of IDA's resources, approved by the Board of Governors on February 17, 1971, to cover a 3-year period beginning with fiscal 1972, calls for total additional contributions, subject to necessary legislative action, of the equivalent of \$2,439 million in 1960 dollars, of which the U.S. share is \$960 million. The agreement, however, cannot become effective until donors pledging not less than \$1,900 million and including at least 12 part I members have notified IDA that they will make the contributions specified in the agreement. Thus, replenishment cannot come about without the participation of the United States. Legislation to authorize the U.S. contribution was submitted to Congress on May 19, 1971, and approved on March 10, 1972. Appropriation of the first installment, however, was still pending as of June 30, 1972.

Inter-American Development Bank

During fiscal 1972, the IDB committed a total of \$558.1 million from its two windows, approximately \$83 million less than during

the previous fiscal year. Of this, \$352.5 million was loaned on hard terms from Ordinary Capital resources and \$205.6 million on soft terms from the Fund for Special Operations (FSO). In addition, the IDB committed \$17 million in administered funds.

As of June 30, 1972, cumulative lending by the IDB from its own resources totaled \$4.4 billion. Of this, \$2.0 billion had been lent from the Ordinary Capital and \$2.4 billion from the Fund for Special Operations. In addition, the IDB had lent \$584 million from funds it was administering. These loans served to mobilize resources from local contributions in member countries almost two times greater than their own level.

During fiscal 1972, three sectors—transportation, power, and industry—received most of the funds committed (75 percent). About 28 percent, or \$161.1 million, went to industry. The power and transportation sectors received \$140.4 million and \$132.0 million respectively. On a cumulative basis, agriculture has received the largest amount of funds, \$1,163.5 million (23 percent) and the transportation sector the second largest, \$876.6 million (18 percent).

The subscribed capital of the IDB totaled \$4,038.3 million equivalent on June 30, 1972, of which \$3,353.5 million was callable capital. The resources of the Bank's Fund for Special Operations totaled \$2,328.0 million equivalent on June 30, 1971.

In fiscal 1972, the IDB borrowed \$97 million net, with new resources obtained from Europe, Latin America, and Japan. This compares with \$171 million in the preceding fiscal year. Borrowings (gross) included \$31.0 million from Germany, \$15.6 million from Switzerland, \$15.3 million from several other European countries, and \$56.8 million from Japan, including \$31.6 million of undrawn commitments at June 30, 1972. Additionally \$32.5 million of 2-year bonds was sold to Latin American countries. The IDB's funded debt on June 30, 1972 amounted to the equivalent of \$1,056 million.

At the 11th annual meeting (April 1970) in Punta del Este, Uruguay, the Governors had agreed to intensify their efforts to bring other developed countries into a closer relationship with the Bank. In this connection, Canada has now accepted full membership in the IDB, and work continues on a framework within which other developed countries might join as non-regional members.

During the fiscal year, the IDB's members completed the necessary legislative actions to replenish the Bank's resources. In December 1970, Congress had authorized the U.S. subscription to Ordinary Capital but only \$100 million of the requested \$1 billion for the FSO; the remaining \$900 million was authorized on March 10, 1972. The funds

authorized for fiscal years 1971 and 1972 have been appropriated except for \$50 million of the \$100 million authorized for the FSO.

The 13th annual meeting was held in Quito, Ecuador, May 8-14, 1972. The U.S. delegation was headed by Assistant Secretary Hennessey.¹ At the meeting, the Bank adopted several policy changes to make more effective use of its resources. For example, once the funds from the new replenishment of the FSO are available, all countries will make repayments in the currencies lent rather than local currencies; consequently, the Bank will not be faced with an increasing supply of inconvertible currencies. Moreover, lending terms will provide preferential treatment for the relatively lesser developed countries.

The Asian Development Bank

During fiscal 1972, the Asian Development Bank committed a total of \$274.1 million, \$220.6 million from Ordinary Capital and \$53.4 million from Special Funds. This brought the Bank's cumulative total of loans to \$659.0 million—\$536.9 million from Ordinary Capital and \$122.1 million from Special Funds. As of June 30, 1972, the Bank had also undertaken 69 technical assistance projects in 16 member countries.

With the accession to membership of the Kingdom of Tonga on March 29, 1972, the Bank's membership reached 37 nations, 23 regional and 14 nonregional countries, with subscriptions totalling the equivalent of \$1,092 million. Of this, 50 percent was paid-in capital.

During fiscal 1972, the Bank did not enter the U.S. capital market but borrowed \$91.5 million in Europe and Japan. Total funded debt at the end of the fiscal year was \$205.6 million.

As of June 30, 1972, seven countries had contributed a total of \$186.4 million to the Bank's Special Funds (apart from technical assistance); in addition, a total of \$26.6 million has been set aside from Ordinary Capital resources for such lending.

On January 26, 1971, President Nixon forwarded a message to the Congress urging authorization of a \$100 million U.S. contribution to the Bank's Special Funds. This contribution was authorized on March 10, 1972, but appropriations are still pending before the Congress.

The fifth annual meeting of the ADB's Board of Governors was held in Vienna, Austria, April 20-22, 1972. Under Secretary Walker headed the U.S. delegation.²

Trade policy

A series of far-reaching measures were taken in fiscal 1972 to strengthen the U.S. international trade position and to focus attention on fundamental problems confronting the world trading system.

¹ See exhibit 70.

² See exhibit 61.

These measures, initiated by President Nixon on August 15, 1971, suspended convertibility of the dollar, temporarily imposed a 10-percent import surcharge and provided for other measures to reverse the deterioration of the U.S. trade and payments balance.

Bilateral trade negotiations between the United States and the European Community and Japan entered an intensive phase following the Smithsonian agreement. As a result in February 1972 the EC and Japan agreed to lower or eliminate certain barriers to U.S. exports and joined the United States in a declaration to initiate and actively support multilateral and comprehensive trade negotiations beginning in 1973.¹ This commitment was later supported in the GATT Council by all other industrialized nations.

Multilateral forums dealing with trade matters were also the scene of intensive work during fiscal 1972. The GATT began discussion of possible techniques and modalities for the 1973 trade negotiations and also established machinery to examine the effects of EC enlargement on third countries. In the OECD, the United States took the lead in creating a small, high-level group of experts to consider how best to deal with world trade problems. The United Nations Committee on Trade and Development (UNCTAD) held its 3d plenary session in Santiago, Chile, at which the less developed and industrialized countries studied ways to further expand the benefits of international trade. In all of these forums the Department of the Treasury helped formulate U.S. positions and was represented on the U.S. delegation.

On the domestic front, special attention was given during the fiscal year to industries and workers suffering from injury due to import competition. Voluntary textile agreements were concluded in October 1971 with Japan, the Republic of China, Korea, and Hong Kong, limiting the growth of manmade and woolen textile exports to the United States. Imported cotton textiles continued under restraint as provided under the GATT-sponsored Long-Term Arrangement in Cotton Textiles. Imported steel mill products continued to be restrained by a renewal, with some significant improvements of the voluntary arrangements with European and Japanese steel producers first negotiated in 1968. Shoe imports also came under some voluntary control when Italy, one of the two major exporters of nonrubber footwear to the United States, agreed to monitor its shipments to this country.

Enforcement of the antidumping and countervailing duty laws, which serve to protect American industry from injury due to unfair pricing by and subsidization of foreign competitors, was improved and the number of investigations increased.² Relief to domestic industries, firms and workers by means of tariff action and adjustment

¹ See exhibit 54.

² See exhibit 39.

assistance was also provided. The Department of the Treasury actively participated in these and other actions taken under domestic statutes designed to protect domestic industries and workers from injury due to competition from imports.

While cushioning the impact of import competition, the United States also undertook measures to expand its exports. Limited tax deferral of income from export sales was accorded under the Domestic International Sales Corporation (DISC) provisions of the Revenue Act of 1971. As a result, U.S. exporters should be able to compete on a more equitable basis with foreign producers and U.S.-controlled subsidiaries abroad. U.S. exporters also benefited from the Export Expansion Act of 1971, which substantially increased the commitment authority of the Export-Import Bank and excluded the Bank's receipts and disbursements from the U.S. Government budget.¹

Opportunities for trade with Communist countries were broadened in fiscal 1972 consistent with the evolution of U.S. foreign policy. Agreement was reached at the Moscow Summit in May 1972 to establish a U.S.-U.S.S.R. Commercial Commission to negotiate a trade agreement dealing with reciprocal most-favored-nation treatment, export credits, the establishment of business facilities to promote trade and other matters. Negotiations are also in process regarding the World War II lend-lease debt of the U.S.S.R. to the United States. Trade with the People's Republic of China was facilitated by increased availability of general export licenses, modification of Foreign Assets Control Regulations, and the removal of controls on the use of dollars or dollar instruments in transactions with the People's Republic and its nationals.

Finally, important progress was made during fiscal 1972 in the formulation and management of U.S. foreign economic policy. The report of the President's Commission on International Trade and Investment Policy, published in July 1971, represents a major input into the development of U.S. Government trade policy. Recommendations include measures to strengthen U.S. competitiveness and proposals for negotiations with our major trading partners. High-level trade policy coordination was improved by the Council on International Economic Policy (CIEP), of which the Secretary of the Treasury is a member. The CIEP is developing long-range programs to improve U.S. export performance, facilitate domestic adjustment to foreign competition, and prepare for international economic negotiations.

¹ See exhibit 71.

Debt rescheduling

The Department of the Treasury, during fiscal 1972, has taken an especially active role in shaping and presenting the U.S. position in bilateral and multilateral debt reschedulings. In fiscal 1971, there were five debt agreements. Treasury headed the delegation to the Chilean negotiations which were completed on April 19, 1972,¹ and participated in the multilateral reschedulings including Khmer Republic (Cambodia) and Pakistan, and the bilateral debt relief agreements with Yugoslavia and Egypt.

Investment security

On January 19, 1972, President Nixon issued a policy statement entitled "Economic Assistance and Security in Developing Nations" which outlined in precise terms what U.S. Government responses will be in investment security situations which affect significant U.S. interests. Also during fiscal 1972 the U.S. Congress enacted a statute, the "Gonzalez amendment," which defines U.S. responses in investment security situations in the context of U.S. support for international development by loans to developing countries which seize, expropriate, nationalize or in other ways unfairly affect the operations of U.S. firms in their countries. The amendment reads:

Gonzalez Amendment:

Section 21 of the Inter-American Development Bank Act
Section 18 of the Asian Development Bank Act

Section 12 of the International Development Association Act

"The President shall instruct the United States Executive Director of the Bank to vote against any loan or other utilization of the funds of the Bank for the benefit of any country which has:—

"(1) nationalized or expropriated or seized ownership of property owned by any United States citizen or by any corporation, partnership, or association not less than 50 per centum of which is beneficially owned by United States citizens;

"(2) taken steps to repudiate or nullify existing contracts or agreements with any United States citizen or any corporation, partnership, or association not less than 50 per centum of which is beneficially owned by United States citizens; or,

"(3) imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operational conditions, or has taken other actions, which have the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property so owned; unless the President determines that (A) an arrange-

¹ See exhibit 84.

ment for prompt, adequate, and effective compensation has been made, (B) the parties have submitted the dispute to arbitration under the rules of the Convention for the Settlement of Investment Disputes, or (C) good faith negotiations are in progress aimed at providing prompt, adequate, and effective compensation under the applicable principles of international law.”

In order to help implement these new policies, the President established an interagency committee under the control of the Council on International Economic Policy. The Departments of State, Treasury, Defense, and Commerce are represented on this Committee. Assistant Secretary Hennessy represented the Department of the Treasury on this Committee during fiscal 1972.

Expropriations involving significant U.S. interests, most notably in Chile, Iraq, Bolivia, Peru, and Panama, required during the past fiscal year extensive Treasury analysis. In the case of the expropriation of the Iraqi Petroleum Company, the Secretary of the Treasury instructed the U.S. Executive Director of the IBRD to vote the U.S. shares against a proposed \$12.9 million development loan to that country. The basis for this negative vote, which was cast on June 20, 1972, was the Presidential policy statement of January 19, 1972.

Bilateral assistance

The three principal institutions responsible for U.S. bilateral assistance programs are the Agency for International Development (AID); the Department of Agriculture, which administers the Public Law 480 food-for-peace program; and the Overseas Private Investment Corporation (OPIC).

The Department of the Treasury participated in the U.S. development finance programs of these institutions through membership in the National Advisory Council, participation on the OPIC Board of Directors, and on interagency committees designed to coordinate economic assistance programs. Treasury's specific concern is to relate the various foreign economic assistance programs to overall U.S. international development and balance of payments objectives. A major Treasury staff study on the balance of payments impact of the Public Law 480 food-for-peace program was completed during fiscal 1972.

The loan and guaranty activity of these three institutions is summarized below.

U.S. bilateral assistance of selected institutions

[In millions of dollars]

Institution/Program	Fiscal 1971	Fiscal 1972
AID/Development loans.....	696.4	604.1
Agriculture/Public Law 480, food-for-peace program.....	930.8	790.0
OPIC/Insurance, issued.....	1,886.1	636.0
OPIC/Guarantees and direct lending, executed.....	4.1	23.9

Agency for International Development.—The Department of the Treasury participated during fiscal 1972 in the Development Loan Committee of the Agency for International Development (AID). As a member of this Committee, Treasury primarily focuses on the balance of payments impact of AID development lending and on the financial characteristics of each development loan.

During fiscal 1972, AID authorized 61 development loans totalling \$604.1 million. This represented a reduction from fiscal 1971 of one loan and \$92.3 million. Of the 61 loans, six or \$167.0 million were program loans, 51 or \$333.1 million were in the form of project loans and four or \$104.0 million were sector loans. Twenty-one of the 61 loans were made to Africa, 16 to Asia, and 24 were made to Latin America under the Alliance for Progress.

Public Law 480.—Treasury is represented on the interagency staff committee which reviews all Public Law 480 proposals, and is mainly concerned with the U.S. balance of payments returns associated with the program. During fiscal year 1972, Title I sales agreements and amendments were signed with participating governments and private trade entities for a total export market value of \$790 million. This was a reduction from fiscal 1971 levels of approximately \$930 million. The terms of Public Law 480 credits have gradually hardened in recent years with a favorable effect on the balance of payments, and this trend is expected to continue.

The Overseas Private Investment Corporation.—Under Secretary for Monetary Affairs Volcker represented the Department of the Treasury on OPIC's 11-man Board of Directors during fiscal 1972.

OPIC administers two general incentive programs, investment insurance and investment financing.

The investment insurance program was designed to assist in minimizing the risks of currency inconvertibility, expropriation, and war, revolution, and insurrection damage—risks occurring in the developing countries and areas—in order to increase the steady flow of U.S. private capital and technology into the developing world. The rapid and largely uncontrolled growth during the 1960's of the insurance program led to a serious concentration of exposure in particular industries and countries. The high risk which characterized the insurance portfolio led to increasing concern with risk management of the insurance operation. During fiscal 1972, OPIC applied risk management policies adopted in fiscal 1971 to specific investments in natural resources and other large and sensitive projects. In addition, other risk management techniques designed to help control the amount of exposure in any given country were instituted.

The investment financing programs were designed to enable eligible

development projects to obtain U.S. private long-term financing through OPIC guarantees or direct dollar or foreign currency loans; financing which otherwise would either have not been available or available only on prohibitive terms. Preinvestment assistance, largely comprised of information services, investment counseling, and incentive financing, was focused on experimental programs, offering partial financial support for feasibility studies and project development research especially in the agribusiness area.

OPIC issued \$636 million in investment insurance in fiscal 1972, a 66-percent decrease from fiscal 1971. The various financing programs guaranteed \$20 million of new investment in the development countries and extended \$3.9 million in direct lending during fiscal 1972. In fiscal 1971, \$2.1 million in guarantees and \$2.0 million in direct loans were signed.

Local currency management.—The Secretary made another annual determination of the currencies excess to the normal requirements of the United States for fiscal 1973 and 1974. Treasury's primary objective guiding its management of these currencies is to maximize the balance of payments benefits accruing to the United States from their use. In fiscal 1971, the latest data available, the U.S. Government reduced the balance of payments effect of its operating abroad by \$290 million through the use of local currencies held in Treasury accounts.

ADMINISTRATIVE REPORTS



Administrative Management

Management improvement program

The Department, by yearend, had realized benefits valued at \$19 million from management improvement actions that were taken during the year. By fiscal 1974, carryover benefits realized from these actions will amount to an additional \$36 million.

Treasury bureaus selected a score of operational areas for top management attention in fiscal 1972 under the program's priority improvement projects. Significant progress in such projects is detailed in individual bureau reports shown in succeeding pages. In recognition of outstanding achievements in this program, 3 nominations were submitted for Presidential awards.

Special studies and projects

The management and planning staffs of the Office of the Secretary completed numerous studies and projects at the departmental level to strengthen analytic capability and administrative control and to improve the operation of Treasury activities:

The Office of the Assistant Secretary for Administration was reorganized by integrating the functions of the Office of Planning and Program Evaluation at the division level into the Office of Management and Organization, and by reassigning the functions of the Office of Security to the Office of Personnel and the Office of Administrative Programs. The departmental organization was revised to capitalize on the new executive level positions authorized by Public Law 92-302. An administrative support plan was developed for the Cost of Living Council. Consultants employment, security, and preexit clearance procedures were reviewed and redeveloped; and the long-range planning system of the Department was restructured for greater responsiveness and compatibility with budget structure.

A study of the organizational placement of the alcohol, tobacco and firearms functions of Internal Revenue Service resulted in the establishment of a new bureau in the Department of the Treasury—the Bureau of Alcohol, Tobacco and Firearms. A study of the Bureau of Engraving and Printing determined its space and production facility needs for the next 10 years. Studies were made of the Office of Domestic Gold and Silver Operations and the Office of Foreign Assets Control to determine their proper organizational placement. Management staffs participated in the planning for the implementation of revenue sharing and of the proposed welfare reform program. Other studies evaluated Treasury's participation in the organized crime joint strike forces, reviewed prevailing policies on the use of revenue stamps in connection with distilled spirits, assisted in the review of the IRS inspection program, and determined the applicability of the standard Federal regions to Treasury's field structure. In addition, Treasury management staffs participated in the Government-wide study of productivity measurement in the Federal sector and found that Treasury productivity

increased by 2.5 percent each year since 1967; and in the work of the Inter-Agency Committee on Drug Abuse Statistics to estimate the number of narcotics abusers in the United States.

During the year, the budget function for the Office of the Secretary was transferred from the Office of Budget and Finance to the Office of Management and Organization so as to bring about a relationship with the departmental budget and finance staff similar to that of a separate bureau. This transfer also assures closer control by the Assistant Secretary for Administration over the use of appropriations and the justification of needs before congressional committees.

Treasury continues to participate extensively in the technical co-operation programs of the Agency for International Development. Currently, teams of customs and tax advisors are at work in 18 developing nations throughout the world. In addition, the Department participates actively in accommodating foreign visitors coming to Treasury under the auspices of AID by arranging training programs and appropriate itineraries.

Emergency preparedness

In addition to the normal emergency preparedness actions, the staff assisted in the implementation of the President's new economic policy by coordinating Treasury matters with the Office of Emergency Preparedness and working with an interagency group responding to public inquiries.

Plans developed to handle bomb threats and demonstrations were put to frequent tests at numerous locations throughout the United States. Although there were a number of disruptions to normal activities, plans developed to handle and report these incidents have worked satisfactorily.

Among the normal emergency preparedness actions were the orientation briefings and tours given to 20 key officials at the Treasury headquarters relocation site. Staff members also visited six regions to provide training and information on current trends in emergency planning for responsible officials in regional offices. Another major accomplishment was the development of an automated system for providing damage assessment information to key officials in the event of an emergency in Treasury field offices.

Financial management

Budgeting.—Budget staff continued to develop policies and procedures and direct and coordinate the formulation, justification, and presentation of budget estimates which totaled nearly \$26.2 billion in fiscal 1972. The amount includes \$1.6 billion for operating appropriation, \$21.6 billion for public debt and other interest accounts, \$2.5 billion for general revenue sharing, and \$0.5 billion for numerous miscellaneous permanent and trust accounts.

During fiscal 1972, the budget staff:

- (1) Established and maintained controls on expenditures, number of personnel on the roll, motor vehicle fleet, reserves for the 5 percent personnel reduction, and grade deescalation to comply with limitations and directives prescribed by the Office of Management and Budget.

(2) Assisted in the preparation and presentation of budget requests for funds totalling over \$2.4 billion to be appropriated to the President for the U.S. share of contributions to five of the international financial institutions of which the Secretary of the Treasury serves as a Governor. Of this total, \$1.6 billion represented a supplemental appropriation necessary for maintaining the value of the holdings of U.S. dollars by these institutions under the Par Value Modification Act of 1972.

(3) Gave special budgetary consideration and emphasis—including the preparation of requests for budget amendments, supplemental appropriations, reprogramming actions or reimbursements—to programs and items of special concern to the administration and the Department. These included intensified emphasis on drug control, pay and postal increases, equipment purchases for increased workload and general revenue sharing, sale of silver dollars, issuance of Eisenhower dollars, and preliminary work relating to the American Revolutionary Bicentennial Commission.

(4) Assisted in obtaining new language and a separate appropriation for the new Treasury Bureau of Alcohol, Tobacco and Firearms to become effective July 1, 1972.

(5) Assisted the Cost of Living Council in arranging interim financing until funds were appropriated, and assisted the Treasury bureaus in financing their responsibilities relative to the economic stabilization program.

Accounting systems.—Efforts to maintain and strengthen the administrative accounting systems of the Department were continued by assisting bureaus with plans for new and improved systems, recruitment of personnel, and coordination of General Accounting Office systems review activities. The administrative accounting system for the U.S. Secret Service was approved, the system for the Consolidated Federal Law Enforcement Training Center was submitted, and two other systems remained with the General Accounting Office for approval.

Management of automatic data processing.—The Department used 94 computers, 23,712 man-years, and \$289 million in its automatic data processing (ADP) operations during fiscal 1972. The benefits obtained through the use of computers include operating savings of 119 man-years and \$1.1 million, \$629 million in net additional revenue. Major accomplishments include a reorganization of ADP functions, completion of major studies on the automated "system of the seventies," and initial implementation of the integrated data retrieval system by the Internal Revenue Service; completion of plans for, and acquisition of, a computer for numismatic operations in the Bureau of the Mint; development of a 5-year plan for automated data and management information by the Bureau of Engraving and Printing; acquisition of a computer and related equipment for automating check claims functions in the Office of the Treasurer of the United States; and acquisition of a large computer by the Bureau of the Public Debt for replacement and improvements in its automated debt operations and for joint use by the Office of the Secretary and other Fiscal Service offices.

Internal auditing.—The creation of the Office of Audit during the year was accompanied by an increase in the staff from three to six professional auditors and a revision of the departmental audit policy to recognize and encourage the modern, broad form of internal auditing.

As a result of the review and appraisal of the internal auditing systems of the U.S. Secret Service, Bureau of Engraving and Printing, and the Office of the Comptroller of the Currency, proposals were accepted for providing adequate staffing and proper career development ladders, strengthening bureau internal audit policies, encouraging expanded coverage of financial and other activities, instituting formal planning procedures, and improving audit reports.

In providing continuing service to Treasury audit staffs, the Office of Audit assisted in recruiting a number of professionally qualified auditors and made informal appraisals of bureau audit reports. The Director, Office of Audit, as chairman of a study team, examined the internal audit needs of the new Bureau of Alcohol, Tobacco and Firearms.

Direct audit service to the Office of the Secretary included audits of Treasury buildings management operations and the working capital fund for certain services provided commonly to Treasury bureaus. The Office of Audit also examined the Treasury cafeteria fund and supervised a preaward audit at San Francisco of a Bureau of the Mint contract proposal. The audit contributed to the negotiation of a reduction in the initial bid of more than \$80,000.

Personnel management

The policy established in fiscal 1971 to prohibit bearing of firearms as a basis for excluding women from certain Federal positions was extended. As a result, women were employed as Secret Service agents for the first time in the history of the Service. The equal employment opportunity program for women received special emphasis and support by establishment of bureau goals for placing women in high level jobs GS-13 and above. Approximately 50 additional women were placed in positions at those levels.

Bureau goals were established for use in personnel management evaluation, and plans were refined for a systematic inspection program.

Detailed procedures involved in executive assignments were refined to facilitate their processing.

As in past years, the preponderance of employee training in Treasury was Government-facility training. Openings and staffing of the Consolidated Federal Law Enforcement Training Center represented a decided advance in the training of criminal investigators and others in related occupations. Expansion of the earlier Treasury Law Enforcement School to include non-Treasury law enforcement personnel is a significant step in the fight against crime.

Central services

The Office of Central Services was established July 1, 1971, as a result of the reorganization of the Office of Administrative Services.

Also effective July 1, a working capital fund was established, without appropriated funds, in the Office of Central Services to furnish reproduction and communications support. Bureaus and offices supported by the Working Capital Fund advance funds against services to be performed by the Fund.

The Office of Central Services provided administrative support to the Cost of Living Council, Price Commission, and Pay Board. Areas primarily affected were personnel processing, fiscal accounting, payroll, and reproduction.

Administrative programs

The new Office of Administrative Programs completed its organizational and functional alignments with emphasis on developing plans and programs for effective coordination and economy in conduct of administrative services throughout the Department. The Director of Administrative Programs completed the organization of a new Federal Administrative Services Offices group with representation from Cabinet-level departments and agencies for improving programs and procedures Government-wide for administrative services.

Space.—Because of the severe fragmenting of Treasury offices in the Washington metropolitan area, efforts are being made to reduce the number of locations and yet meet the additional needs of existing and new organizations. These efforts include a request for a new Treasury building.

Other space actions include coordination with GSA in the selection of a site for the new Denver Mint, the implementation of the President's directive to restore the old United States Mint in San Francisco to active Government use, and assistance in the preparation of a request to provide additional housing for manufacturing operations of the Bureau of Engraving and Printing.

The Main Treasury Building in Washington, D.C. was designated as a national historic landmark by the Secretary of the Interior on March 28, 1972. The old San Francisco Mint was transferred on March 23, 1972, from GSA to the Department of the Treasury to function as a museum and numismatic processing facility.

Safety.—Treasury was selected as a winner in the President's safety award competition. The Department's disabling injury frequency rate for 1971 was 2.8 injuries per million man-hours worked, the lowest rate on record.

Procurement.—This office provided procurement assistance in the purchase of a Univac 1108 computer to provide consolidated ADP services to several users in the Department.

During fiscal 1972, the negotiation of 45 blanket purchase agreements for office machines and miscellaneous supplies for use by all Treasury bureaus provided a savings in excess of \$750,000. The consolidation of Treasury requirements for 1,434 law enforcement vehicles, procured through General Services Administration, resulted in significant dollar savings and an improved standard specification for Treasury undercover vehicles. Average price paid was \$2,865.

Excess property.—Treasury bureaus' personal property transactions during fiscal 1972 included the reassignment within Treasury of

property valued at \$425,000; transfer of personal property, valued at \$2.6 million, to other Federal agencies for their use; the donation of personal property valued at \$502,000 no longer needed by the Federal Government for use by State organizations and nonprofit groups; and the acquisition of excess personal property valued at \$1.6 million from other Federal agencies.

Paperwork management.—The study to improve Federal reporting and reduce related paperwork resulted in savings of \$3,325,416 for interagency and internal reports and reduction of 257,792 man-hours required for reports from the public.

The annual summary of records holdings for the Department at the close of fiscal 1972 showed a total of 852,211 cubic feet, a decrease of 79,146 cubic feet. Total disposals by transfer or destruction amounted to 897,609 cubic feet.

Telecommunications.—The sector control communications system which was installed along the U.S.-Mexican border by the Bureau of Customs with technical assistance by Administrative Programs, has proven to be extremely effective. The system allows blanket radio coverage from the Gulf of Mexico to the Pacific Ocean. Customs agents in the Florida area are sure that the new console being installed in Tampa will allow them to greatly expand their capability.

The Office of Administrative Programs in coordination with the architects and the Director of the Consolidated Federal Law Enforcement Training Center is developing a communications system which will provide the managers of the new facility a new approach to administrative and operational telecommunications.

The communications center in the Main Treasury Building has been upgraded to handle special classified messages as well as high volume domestic and international traffic. One such change was the introduction of a communication channel from the U.S. INTERPOL Headquarters in Treasury to the INTERPOL Headquarters in Paris. Besides better service, an annual savings of \$1,750 has been realized.

Office of the Comptroller of the Currency

The Comptroller of the Currency, as the Administrator of the National Banking System, is charged with the responsibility of maintaining the public's confidence in the System by sustaining the banks' solvency and liquidity. An equally important public objective is to fashion the controls over banking so that banks may have the discretionary power to adapt their operations sensitively and efficiently to the needs of a growing economy.

Office operations

In fiscal 1972, the Office of the Comptroller of the Currency continued to refine administrative procedures. A more responsive organization was achieved to meet the needs of both regional and headquarters staffs.

In space management, the Denver regional office was relocated, thus completing the planned upgrading of all regional offices into modern, efficient facilities. The continuing review of effective use of subre-

gional offices resulted in four being newly established, three closed, and seven relocated.

During this period, a new, standardized inventory and control system was implemented resulting in the more efficient and accurate use of personal property. The function of controlling the issuance and distribution of office publications was relocated to the Office of the Administrative Assistant where refinements to procedures brought about faster responses to demands with greater accuracy and with tangible dollar savings in operating costs. A revitalized officewide cost reduction program yielded tangible savings of \$140,000 for fiscal 1972.

A completely revised "Comptroller's Manual for National Banks" was published and distributed in fiscal 1972; and a major revision of another important operating publication, the "Comptroller's Handbook of Examination Procedures," was initiated. Distribution is expected early in the next fiscal year.

Data processing services were expanded to include the successful automation of foreign branches data. Other automated projects completed during this period encompassed bank liquidity data, common trust fund survey data, and the establishment of a structured file for all national banks.

Personnel

Personnel administration included a major effort in fiscal 1972 for a more comprehensive, progressive personnel management program. This program, initiated in the prior fiscal year, calls for regular on-site reviews of personnel management in Washington and all regional offices on a scheduled basis.

A supervisory-managerial training course was developed and training sessions were held during this period. The course, supplemented by a newly issued "Handbook for Supervisors," was designed to improve managerial skills to achieve office objectives through effective use of resources at hand. Further training included a 1-week course for representatives in trust, who met in Washington to review trust examination procedures and study current and proposed developments affecting trust examinations. The National Bank Examiner School continued for newly commissioned national bank examiners.

During fiscal 1972, the Office continued to operate under stringent personnel ceilings. To facilitate minimum staffing for each organizational segment, quality staffing and effective manpower utilization measures were implemented. Also, efforts were renewed to increase the number of financial interns in the cooperative work-study program. This program is designed to formally train and develop college students for future bank examiner positions. It also has proved to be an effective means of recruiting minority personnel.

Additional progress was realized in the Comptroller's equal employment opportunity program during fiscal 1972. Through various recruiting efforts, the number of minority employees increased significantly. At yearend, there were over 200 minority employees on the roles. There also were substantial achievements in the advancement of minority individuals during this period.

Fiscal management

The Fiscal Management Division experienced a very eventful year due to the general uncertainty of economic conditions. As with most businesses and other Government agencies, the Comptroller's Office faced rapidly rising costs and a slower rate of income growth. Because of this, the Comptroller increased emphasis on a financial information system to provide top management with necessary data to make decisions in a timely manner. Success can be measured by the fact that there was an increase in income 5 percent greater than the rise in expenses.

Another innovation during fiscal 1972 included a change in the method of investing assessment funds, which generated additional interest income for the year. Had this new method not been adopted, the Office would have experienced an actual decrease in interest income. Through a reorganization of the Accounting Branch and further modifications of operating procedures, the Fiscal Management Division was able to reduce its staff for the fourth consecutive year.

During fiscal 1972, the Internal Audit Division made comprehensive reviews in four regional offices and in three of the six computerized payroll centers in accordance with an approved annual audit plan. Additionally, audit reviews of various functional areas in Washington produced many recommendations adopted by management, thus contributing to the improved administrative procedures in the office.

Information services program

The purpose of this continuing program is to make the policies and procedures of the Office of the Comptroller of the Currency better known and to facilitate communications among the Office, the banking industry, and the general public.

Basic publications available to employees, banks, and other interested parties are: "Comptroller's Manual for National Banks," "Comptroller's Manual for Representatives in Trusts," and the monthly "Summary of Actions." The "Directory" also is published and contains the address and telephone number of every decision-making official in the Office together with his picture and a biographical sketch. The "Annual Report of the Comptroller of the Currency" is available to interested parties and contains a general statement of policy, descriptions of the state of the national banking system, of Office operations, and reprints of selected Office documents relating to crucial public issues in banking.

Status of national banks

The total assets of the 4,607 banks in the national banking system reached \$392.2 billion at mid-1972, an increase of \$39.2 billion or 11.1 percent during fiscal 1972. The rate of increase was only slightly below the 12.9 percent rate during fiscal 1971. Outstanding loans at the end of fiscal 1972 totaled \$207.4 billion, an increase of \$24.5 billion. Total deposits increased by \$28.3 billion, reaching \$322.4 billion. The deposit increase included a \$21.2 billion increase in time and savings deposits, in contrast to a \$7.1 billion increase in demand deposits.

Number of national banks and banking offices, by States, June 30, 1972

	National banks			Number of branches	Number of offices
	Total	Unit	With branches		
United States.....	4,607	2,890	1,717	13,401	18,008
Alabama.....	88	40	48	215	303
Alaska.....	5	0	5	56	61
Arizona.....	3	1	2	228	231
Arkansas.....	69	31	38	88	157
California.....	55	7	48	2,498	2,553
Colorado.....	122	108	14	14	136
Connecticut.....	26	4	22	257	283
Delaware.....	5	3	2	4	9
District of Columbia.....	11	1	10	74	85
Florida.....	236	236	0	0	236
Georgia.....	61	23	38	235	296
Hawaii.....	1	0	1	9	10
Idaho.....	7	1	6	114	121
Illinois.....	415	345	70	70	485
Indiana.....	122	47	75	367	489
Iowa.....	100	56	44	62	162
Kansas.....	171	138	33	33	204
Kentucky.....	80	33	47	156	236
Louisiana.....	50	11	39	191	241
Maine.....	20	4	16	111	131
Maryland.....	39	11	28	277	316
Massachusetts.....	82	19	63	449	531
Michigan.....	105	29	76	596	701
Minnesota.....	198	195	3	7	205
Mississippi.....	38	5	33	149	187
Missouri.....	100	73	27	27	127
Montana.....	54	51	3	3	57
Nebraska.....	125	99	26	27	152
Nevada.....	4	1	3	65	69
New Hampshire.....	48	24	24	55	103
New Jersey.....	119	15	104	765	884
New Mexico.....	33	6	27	83	116
New York.....	163	60	103	1,372	1,535
North Carolina.....	23	3	20	637	660
North Dakota.....	43	32	11	11	54
Ohio.....	219	66	153	793	1,012
Oklahoma.....	194	147	47	47	241
Oregon.....	8	1	7	263	271
Pennsylvania.....	284	124	160	1,102	1,386
Rhode Island.....	5	0	5	96	101
South Carolina.....	19	4	15	254	273
South Dakota.....	32	22	10	63	95
Tennessee.....	77	16	61	307	384
Texas.....	534	534	0	0	534
Utah.....	9	5	4	76	85
Vermont.....	25	11	14	37	62
Virginia.....	100	23	77	517	617
Washington.....	23	6	17	461	484
West Virginia.....	87	87	0	0	87
Wisconsin.....	127	90	37	72	199
Wyoming.....	42	42	0	0	42
Virgin Islands.....	1	0	1	8	9
District of Columbia (all) ¹	14	1	13	109	123

¹ Includes national and nonnational banks in the District of Columbia, all which are supervised by the Comptroller of the Currency.

Assets, liabilities, and capital of national banks, selected dates

[In millions of dollars]

	June 30, 1971 (4,599 banks)	Dec. 31, 1971 (4,600 banks)	June 30, 1972 (4,607 banks)
ASSETS			
Cash, balances with other banks, and cash items in process of collection.....	57,255	59,201	60,197
U.S. Government securities ¹	41,207	45,030	42,893
Obligations of States and political subdivisions ¹	46,253	48,648	51,033
Other securities ¹	2,071	2,351	2,884
Total securities ¹	89,531	96,029	96,810
Federal funds sold and securities purchased under agreements to resell.....	9,574	12,705	12,756
Direct lease financing.....	828	871	972
Loans and discounts ¹	182,868	194,145	207,414
Fixed assets.....	6,231	6,611	6,975
Customers' liability on acceptances outstanding.....	2,218	2,197	2,080
Other assets.....	4,459	4,697	4,959
Total assets.....	352,964	376,456	392,163
LIABILITIES			
Demand deposits of individuals, partnerships, and corporations. Time and savings deposits of individuals, partnerships, and corporations.....	105,000	113,210	111,974
Deposits of U.S. Government.....	130,684	138,222	147,298
Deposits of States and political subdivisions.....	5,492	6,389	6,025
Deposits of foreign governments and official institutions, central banks, and international institutions.....	26,540	29,036	30,445
Deposits of commercial banks.....	3,305	3,390	3,658
Certified and officers' checks, etc.....	17,267	18,620	16,737
	5,850	5,345	6,248
Total deposits.....	294,138	314,212	322,385
Demand deposits.....	142,819	151,985	149,877
Time and savings deposits.....	151,319	162,227	172,508
Federal funds purchased and securities sold under agreements to repurchase.....	14,473	17,302	21,541
Liabilities for borrowed money.....	1,186	866	1,288
Acceptances executed by or for account of reporting banks and outstanding.....	2,264	2,242	2,149
Other liabilities.....	11,094	10,844	12,118
Total liabilities.....	323,155	345,466	359,481
RESERVES ON LOANS AND SECURITIES			
Reserves on loans.....	3,713	3,837	3,879
Reserves on securities.....	89	81	83
Total reserves on loans and securities.....	3,802	3,918	3,962
CAPITAL ACCOUNTS			
Capital notes and debentures.....	1,314	1,449	1,902
Preferred stock.....	64	43	43
Common stock.....	6,681	6,786	7,153
Surplus.....	11,325	11,818	12,171
Undivided profits.....	5,955	6,300	6,989
Reserves.....	668	676	462
Total capital accounts.....	26,007	27,072	28,720
Total liabilities and capital accounts.....	352,964	376,456	392,163

¹ Gross, reserves not deducted.

Consolidated Federal Law Enforcement Training Center

The Consolidated Federal Law Enforcement Training Center (CFLETC) was established July 1, 1970, by Treasury Department Order 217, as an interagency law enforcement training center. A memorandum of understanding dated September 30, 1970, provides for CFLETC's operation under a Board of Directors, with members from all participating agencies. General Services Administration was added as a participating agency during the year, making a total of 20 agencies.

During fiscal 1972, CFLETC continued the operation and expansion of the Treasury Law Enforcement School (TLES), reactivated the Treasury Air Security Officers School (TASOS) for a part of the year, and continued preparation for construction and operation of the Training Center in Beltsville, Md., for all participating agencies.

Treasury Law Enforcement School

TLES, the nucleus around which CFLETC is being built, trains investigators for participating law enforcement agencies. In fiscal 1972 there were 1,211 graduates from TLES, a 15-percent increase over the previous fiscal year. Trainees from non-Treasury agencies increased from 33 to 107.

Treasury Air Security Officers School

TASOS was a special school to train customs security officers (CSO's), commonly called "sky marshals." Established by CFLETC in November 1970, it completed its emergency training of over 1,300 CSO's and was closed in May 1971.

In fiscal 1972, TASOS reopened and from August 23, 1971, to March 10, 1972, trained an additional 467 CSO's.

Preparation for future operations

In November 1971, Congress gave final approval to the Prospectus for a new CFLETC facility to train, house, and feed trainees, to be erected on a tract of approximately 490 acres near Beltsville, Maryland. The facility will accommodate 745 students at one time and will train an estimated 8,000 each year.

About 60 percent of the trainees are to be in general courses for either investigators or police recruits, both of which will last approximately 12 weeks. The balance of those attending the Center are to be in shorter advanced, in-service and refresher courses for experienced agents and in specialized recruit training of the individual services.

The basic courses and other common training are to be conducted by Center personnel. Specialized courses for recruits and the advanced, in-service and refresher courses for the personnel of a single agency will be conducted by the agency involved.

During fiscal 1972, the staff of CFLETC increased from 47 to 54. In January 1972, the first Director took over from the Deputy Director who had functioned as Acting Director from the establishment of the Center.

The Basic Police School

An important step toward the operation of the Consolidated Training Center was the appointment near the fiscal yearend of a Director of Police Training and the selection of the initial group of instructors for the Basic Police School. Those instructors were scheduled to join the CFLETC staff at the beginning of fiscal 1973 for the first session of the new school scheduled to begin July 10, 1972. The curriculum development section of the CFLETC staff, assisted by representatives from the Department of the Interior's National Park Service and the Department of Justice's Immigration and Naturalization Service, prepared student and instructor guides for the courses to be taught.

Additional space was obtained in the Center's temporary quarters at 1310 L Street, NW., Washington, D.C., both for the Basic Police School and for the first specialized training course by a participating agency, in this case the National Park Service.

The physical facilities

Congress appropriated to the Department of the Treasury for fiscal 1972, \$21 million for construction of the new facilities. Added to appropriations in prior years, this made available for the planning and construction of new facilities \$28,675,000 out of an estimated total cost of \$52.6 million.

Initial facilities at Beltsville, consisting of a special training building, firing ranges, and a motorcade training area (originally planned for the Secret Service but incorporated into the CFLETC), were completed and placed in operation during the fiscal year.

Opposition to the development of the Center was expressed by some officials of Prince George's County before the Senate Committee approved the project on November 18, 1971.

The diagrammatic drawings for the major structures of the Center were completed in December 1971, but in the early part of 1972 the architect's original design was determined to be not satisfactory. While restudy of this original design was being conducted, the Maryland National Capital Park and Planning Commission and the Prince George's County Council filed an action against the Administrator of the General Services Administration and the Secretary of the Treasury based on the provisions of the National Environmental Protection Act. This action sought an injunction against further construction of the CFLETC facilities on the grounds that the environmental impact statement previously filed was inadequate. A stipulation was made with the plaintiffs that there would be no construction at the site other than completing the initial facilities then under construction until a new environmental impact statement had been filed.

Diagrammatic drawings based on a new design were presented on June 2 and accepted by the middle of June. The architects were directed to proceed with preparation of tentative drawings. At the end of the fiscal year the draft of the new environmental impact statement was still under preparation.

Bureau of Customs

The mission of the Bureau of Customs is to collect and protect the revenue on imports and enforce Customs and related laws. Customs administers the Tariff Act of 1930, as amended, and other laws. Specific tasks in accomplishing this mission include the assessment and collection of duties and taxes; control of carriers, persons and merchandise entering or departing the United States; administration of the tariff and related laws affecting international trade and traffic; detection and prevention of smuggling and frauds on the revenue; and regulation of vessels coastwise and in fishing trades. In addition, an air security program, including preflight screening of boarding air passengers and in-flight undercover guarding to prevent sky-jackings, is part of the Customs mission. The Bureau has special programs for informing the public of its requirements and encourages voluntary compliance by the international trading community with the laws, regulations, and controls established by Customs and numerous other Federal agencies.

Bureau and field operations

Antidumping and countervailing duties.—A considerable amount of interest was shown by American industry during fiscal 1972 in the administration of the Antidumping Act. Thirty-nine dumping cases were initiated, an increase of 70 percent over fiscal 1971. Thirty-six dumping cases were closed and 23 were referred to the Tariff Commission. Eighteen findings of dumping were issued during the year. Four countervailing duty proceeding notices were published, and two countervailing duty orders were published.

As of June 30, 40 operations officers have been assigned to process antidumping and countervailing duty cases. The administrative staff has also increased to provide necessary support. Case analysts have participated in domestic and overseas investigations in cooperation with special agents and customs representatives. Operations officers are on duty in Tokyo and Paris to conduct dumping and countervailing duty investigations, resulting in a greater degree of accuracy and shorter processing time in complex antidumping cases.

Appraisalment.—Technological advances and the rise in volume of international trade during the past decade have been so rapid that a reevaluation of customs procedures related to the import specialists' activities was deemed necessary. As a result, a program which provides a fundamentally new approach has been developed and implemented. Its objectives are: (1) To place the import specialist in direct contact with the purchaser (importer) at the earliest possible time for the purpose of (a) examining the imported merchandise as well as any other merchandise imported or to be imported by that importer; (b) obtaining such information relating to the purchase as is pertinent to its classification, value, or admissibility, and reviewing, as appropriate, pertinent supporting records for verification, including records of payment, etc.; and (c) establishing effective communications between the importer and Customs for simplifying the processing of future transactions; (2) to require coordination of the information; (3) to

assure effective supportive examination; and (4) to encourage the use of all sources of trade information.

Carriers and persons entering.—Significant progress has been made in efforts to preclude the smuggling of high-grade heroin by military personnel returning from Southeast Asia. Nearly 300,000 military personnel and their personal effects have been processed under intensified inspection procedures, and over 176,000 pieces of cargo have been subjected to enforcement-type examinations.

Clearance of passengers and baggage at U.S. ports continues to be handled with as little delay and inconvenience as possible and with continued enforcement effectiveness of the screening inspection system which was developed last year.

Collections.—Revenue collected by Customs during fiscal 1972 totaled almost \$4.2 billion, an increase of approximately 20 percent over fiscal 1971 collections of \$3.47 billion. Included in the 1972 collections is almost a half billion dollars collected under the 10-percent surcharge program. Collections and payments by customs regions and districts, as well as the major classes of all collections made by Customs, are contained in the Statistical Appendix. The cost of collecting \$100 was \$4.71.

Customs Information Exchange (CIE).—The mission of the CIE is to promote uniformity in appraisal and classification of merchandise regardless of the port of entry. It also serves to standardize treatment of similar transactions at all ports of entry. There were 20,000 disagreements reported on classification and value reports, most of which were resolved through the CIE. Only 50 were sent to the Bureau for a decision. Two hundred requests were received for information from foreign and domestic sources. Another 800 requests were handled for certified exchange rates for currencies not listed on the weekly list of rates of exchange certified by the Federal Reserve Bank of New York.

More than 2,300 publications with pricelists and value data on merchandise of foreign manufacturers and shippers were disseminated to customs officers at ports which receive importations of such or similar merchandise.

Drawback.—Fiscal 1972 was the first year of operation under the new procedure whereby manufacturers are required to prepare their drawback statements without assistance from the Office of Investigations districts. A total of 350 applications to operate under the substitution provision of the drawback law were received and processed.

Wool was the single product which required the greatest amount of attention in the drawback area. Although the procedures for substitution of wool and for processing drawback claims on wool products were issued in 1960, there was very little activity in wool drawback until the past year. As a result of this sudden increase, new methods and procedures have been introduced to simplify the preparation of claims by the manufacturer-exporter and their processing by Customs.

In addition to fulfilling the normal role of assisting American manufacturers in competing in foreign markets, drawback occasionally serves an unusual purpose. For example, during the past year it was a factor in a program established by AID and the Department of Agriculture for supplying certain sweetened food products for children

in Bangladesh during the food crisis there. To reduce the cost of food to the lowest possible figure, customs representatives assisted in setting up procedures for furnishing drawback information to contractors who filed bids to make such products.

The total drawback allowance paid during fiscal 1972 amounted to \$42,418,235 as reflected in the Statistical Appendix. Drawback allowance on the exportation of merchandise manufactured from imported materials amounts to 99 percent of the customs duties paid at the time the goods are imported.

Entrance and clearance of vessels.—The following table compares entrances and clearances of vessels for fiscal years 1971 and 1972.

Vessel movements ¹	1971	1972	Percentage increase or decrease (—)
Entrances:			
Direct from foreign ports.....	48,363	46,421	—4.00
Via other domestic ports.....	37,696	31,616	—16.13
Total.....	86,059	78,037	—9.32
Clearances:			
Direct to foreign ports.....	47,949	45,679	—4.73
Via other domestic ports.....	36,851	30,676	—16.76
Total.....	84,800	76,355	—9.96

¹ Excluding Puerto Rico and the Virgin Islands.

Entries of merchandise.—Eleven ports of entry participated in the import control team program, which was designed to supplement the normal merchandise examination functions, provide for enforcement oriented examinations, and obtain a clear understanding of the enforcement and revenue risks involved in present procedures.

For fiscal 1972, 2,309 shipments were subjected to a 100-percent examination. Of those examined, 29 percent or 674 shipments were found to contain discrepancies of one form or another. They ranged from false declarations, deliberate undervaluation of merchandise and fraudulent quantities to improperly prepared invoices. In addition to the violations of statutory requirements detected, a potential loss of \$159,911 in revenue was collected. A large number of fraud cases were initiated as a direct result of this program.

Terminals that do not provide adequate security areas for the storage of high-value merchandise have been identified in all regions. The provisions of Treasury Decision 71-39 will be applied, which may include revoking term permits to unlade, beginning with facilities where security areas do not exist and continuing in the order of seriousness of each situation.

Fibers administration.—On the advice of the Committee for the Implementation of Textile Agreements, Customs imposed 12 additional restraint levels on wool and manmade fiber textiles imported from the Republic of China and the Republic of Korea October 1, 1971, through September 30, 1972. These new quotas caused a 400-percent increase in the number of field transactions telephoned to the headquarters quota section. In all, the Commissioner of Customs issued 51

restraint levels on merchandise from seven countries; 21 of these were on merchandise never before under import control.

Foreign trade zones.—Customs duties and internal revenue taxes collected during fiscal 1972 from the nine zones in operation amounted to \$11,633,299. The following table summarizes foreign trade zone operations during fiscal 1972.

Trade zone	Number of entries	Received in zone		Delivered from zone		Duties and internal revenue taxes collected
		Long tons	Value	Long tons	Value	
New York.....	1,769	11,030	\$16,984,126	12,743	\$15,719,139	\$3,663,770
New Orleans.....	3,030	34,012	42,835,704	32,149	37,494,704	2,602,536
San Francisco.....	1,043	5,138	7,196,971	4,596	5,694,339	651,277
San Francisco (subzone).....	66	23	163,988	16	89,720	14,769
Seattle.....	115	1,495	1,978,540	1,986	1,692,406	172,081
Mayaguez.....	991	2,276	4,623	2,413	4,656	387,966
Toledo.....	225	34,739	25,327,850	44,848	22,075,179	2,003,729
Honolulu.....	7,237	4,591	10,139	4,569	9,782	2,132,839
Honolulu (subzone).....	23	332	7,015	74	2,402	4,332
Total.....	14,499	93,636	94,508,956	103,394	82,782,327	11,633,299

Laboratories.—Samples tested in Customs laboratories during fiscal 1972 totaled 170,278. New equipment and techniques have resulted in more efficient use of laboratory services and expertise. The first of three second-generation X-ray devices for examining postal packages has been installed. Other new equipment includes an improved narcotics detection kit for field use, gas and mass spectrophotographs, distillation equipment, a metallurgical furnace, gas chromatographs, and fluorine apparatus.

Mail operations.—Mail operations personnel again concentrated their efforts on the 100-percent examination program for all mail from Vietnam and Thailand; a decreasing number of violations indicate the program's effectiveness.

Approximately 37 million pieces of foreign mail were diverted from postal channels for customs examination, principally at the port of New York. Approximately 15,000 pieces seized contained obscene matter; approximately 200,000 pieces contained lottery materials re-delivered for disposition to postal authorities; and approximately 5,000 pieces contained seized narcotics delivered for disposition to the Office of Investigations.

With the implementation of the new pressure-sensitive mail entry envelope, composed of a transparent plastic material which permits a clear exposure of the mail entry and its serial number, the manual writing of the mail entry number on dutiable parcels has been virtually eliminated resulting in significant savings of manpower.

A program for providing a career ladder for personnel working in mail divisions has been formalized. The concept, which abolishes Wage Board positions and establishes new positions in the General Schedule, is expected to resolve the present morale problems existing in this activity.

Penalties.—During fiscal 1972, the Bureau headquarters offices received, reviewed, and prepared decisions concerning violations of

customs and related laws and claims for liquidated damages assessed under customs bonds. A total of 1,219 cases involving \$238,063,975 of liability resulted in a net liability of \$4,649,284 imposed by penalty decisions.

Penalty cases, fiscal 1972

Types of case	Number	Full statutory liability of violators
Penalty and forfeiture.....	957	\$228,647,321
Liquidated damages.....	262	9,416,654
Total.....	1,219	238,063,975

Net liability imposed by penalty decisions, 1971 and 1972

Types of case	1971	1972
Penalty and forfeiture.....	\$3,456,211	\$4,291,098
Liquidated damages.....	252,587	358,186
Total.....	3,708,798	4,649,284

Quotas.—During fiscal 1972, Customs administered a total of 198 tariff-rate and absolute quotas imposed under proclamations, legislation and agreements. In addition, 91 directives from the President's Cabinet Textile Advisory Committee and the Committee for the Implementation of Trade Agreements resulted in the implementation and administration of 395 quotas on cotton textile products, 24 quotas on wool and manmade fiber textile products, and nine prohibitions involving 28 foreign countries.

Other new quotas imposed included stainless steel flatware; sweetened chocolate, candy and confectionery; and certain cheeses.

Regulations.—As part of the general revision of Customs Regulations, five parts were completed and became effective, and 16 other parts are being evaluated, undergoing review, or are in various stages of preparation.

The Division of Regulations has been charged with the duty of drafting all amendments to the regulations for other Bureau offices. Some of these amendments have dealt with changes in ports of entry and Customs stations, creation of ports of entry, revocation of international airports status, new procedures for bonded fuel for aircraft, the microfilming of customhouse brokers records, the retention of seized switchblade knives, and the signing of petitions for remission or mitigation of fines, penalties or forfeitures, and of petitions for relief.

Treasury Decision 72-149 designated certain steel wirebaskets and steel dollies as instruments of international traffic.

Restricted merchandise.—A total of 169 trademarks, service marks, renewals, assignments and name changes, and 142 copyrights were recorded. Five patent surveys or renewals were approved. A total of \$44,220 of recordation and related fees was collected for these services.

Approximately 2,100 cases were handled concerning various import restrictions, prohibitions, or controls, including one country-of-origin marking on goods of mainland China origin.

The Bureau published two Treasury Decisions to implement Presidential orders for temporary exclusion of foreign-made lightweight luggage and pantyhose which under 19 U.S.C. 1337 may infringe upon U.S. owners' patent rights.

The Bureau reviewed under the obscenity provisions 14 commercial feature-length films, of which 10 imported films were referred after customs seizure to the U.S. attorney for judicial forfeiture proceedings.

Tariff classification.—The final stage of duty reductions under the "Kennedy Round" of international tariff agreements went into effect during fiscal year 1972. As a result, the duty on most items in the tariff schedules of the United States has been reduced by approximately one-half since the first stage of reductions became effective in fiscal 1968.

Enforcement

Continued emphasis was placed on the interdiction of illicit drugs. With additional personnel and equipment, the intensified enforcement program was expanded to examine more people, vehicles, aircraft, boats, cargo, and mail entering the country. More advanced technology is being used in the form of computer identification systems and highly sophisticated radio communications networks.

A policy of seeking international cooperative action was implemented. Discussions were held with customs officials in Europe, Mexico, Canada, and the Far East concerning narcotics interdiction.

The rapid increase in the use of light aircraft for smuggling prompted initiation of the air intrusion program. Customs aircraft are now equipped with radar and other sophisticated sensing systems.

Detector dogs have been effectively used in international mail rooms, cargo docks and terminals, and ports of entry along the Mexican border. At yearend, there were 41 handlers and 65 dogs permanently assigned to field operations. The training of additional handlers and dogs has been broadened to include heroin and cocaine detection. Twenty-nine dogs have been trained in these additional detection capabilities. In a 9-month period, dogs accounted for 1,042 seizures.

During fiscal 1972, approximately 160 additional customs automated data processing intelligence network (CADPIN) terminals were allocated to be installed at Canadian border stations, additional Offices of Investigations districts, and international airports. This will double the number of terminals on the network. Installations are scheduled for completion in the late fall of 1972. CADPIN was responsible for 686 productive narcotic hits which resulted in 444 arrests.

Significant progress has been made in the effort to preclude smuggling by military personnel returning from Southeast Asia. Two full-time customs advisors advise and monitor the operations of the 200-man joint military customs group in Vietnam. The limited number of seizures and small quantities of narcotics seized attest to the deterrent effectiveness of this program.

During fiscal 1972, enforcement efforts led to the seizure of 635 pounds of pure heroin, and 379 pounds of cocaine.

Air security.—During fiscal 1972, there were 34 skyjacking incidents involving U.S. registered aircraft. Of these, 12 were successful. There has been a decrease of 33 percent in the number of successful skyjackings during 1972 as compared to 1971.

Since the beginning of the air security program in fiscal 1971, there have been 1,107 weapons seizures, 129 hard narcotics seizures, and 519 marijuana or dangerous drug seizures; 48,619 weapons or dangerous articles were detained and then returned to the passengers later. There was a total of 1,459 arrests—37 were aboard aircraft, of which 15 were in response to announced or threatened hijackings and 22 for other causes involving safety of the aircraft.

Training of customs security officers (CSO's) at the Treasury Air Security Officer School was concluded in March 1972. A CSO field instructional program was initiated to keep the field force abreast of recent legal decisions, particularly in the areas of arrest, search and seizure, and air security operational changes which directly affect their enforcement activities.

Arrests.—There were 7,860 arrests during the year, as compared with 7,810 in 1971. These arrests resulted in 2,202 convictions under U.S. statutes compared with 2,275 in the previous year.

Activity	Fiscal years		Percentage increase or decrease (—)
	1971	1972	
Arrests (narcotics).....	7,810	7,860	0.6
Nolle prosequi.....	2,981	2,981	—
Convictions under U.S. statutes.....	2,275	2,202	—3.2
Dismissals and acquittals.....	896	711	—20.7
Cases closed.....	37,995	39,392	3.7

¹ Includes declinations and not indicted; category not shown in fiscal 1971.

Seizures of narcotics.—The following table shows in detail the amount of drugs seized in fiscal 1972, as compared to those seized in fiscal 1971.

Drug seizures	Fiscal years		Percentage increase or decrease (—)
	1971	1972	
Narcotics:			
Heroin:			
Pounds.....	937.11	634.81	—33
Number of seizures.....	503	611	21
Opium:			
Pounds.....	38.19	50.59	32
Number of seizures.....	141	121	—14
Cocaine:			
Pounds.....	360.42	378.58	5
Number of seizures.....	176	405	130
Other:			
Pounds.....	47.82	240.80	404
Number of seizures.....	255	264	4
Hallucinogens:			
Hashish:			
Pounds.....	3,162.76	9,456.29	199
Number of seizures.....	1,335	2,519	89
Marijuana:			
Pounds.....	177,388.44	291,887.40	65
Number of seizures.....	5,969	7,889	33
Dangerous drugs: ¹			
5-grain units.....	6,310,060	16,240,449	157
Number of seizures.....	1,509	1,615	7

¹ Revised.

¹ Including LSD, amphetamines and barbiturates.

Cargo theft.—An intensified program to combat cargo theft, inaugurated on March 3, 1972, was terminated as planned on June 3, 1972. Initially conceived as a west coast operation, the program was also extended to cover eastern U.S. ports. Basic objectives of this program were to increase the number of arrests for cargo theft, obtain Federal or local prosecution of each defendant, and recover stolen cargo. The program was highly successful on both coasts, resulting in a total of 280 apprehensions for cargo theft with recoveries of merchandise valued at over a quarter of a million dollars. Total arrests during this program were, roughly, 1,000 percent higher than in the comparable period in 1971.

There were over 730 cargo theft investigations during fiscal 1972.

Fraud.—During fiscal 1972, 649 cases of fraud were investigated and processed; 20 of these cases resulted in criminal prosecutions. Merchandise valued at \$254,293,312 was seized or forfeited, with the potential loss of \$5,912,891 in revenue.

Neutrality violation.—Information developed by Customs during the fiscal year led to the indictment of three persons for conspiracy to violate neutrality laws. The three persons arranged the transfer to Portugal, without a State Department license, of parts and plans for the Commando XM-706, an armored, amphibious vehicle used by the U.S. Army in Vietnam. As a result of this illegal venture, over \$1 million in armored vehicles have been manufactured in Portugal.

Cost reduction/management improvement

During fiscal 1972, this program resulted in savings of \$5,488,800. Of this amount \$1,482,000 was cost reduction, \$3,906,000 was cost avoidance, and \$100,000 was savings to other agencies.

An example of how such savings are made is the use of special X-ray machines for examination of mail in mail divisions in San Francisco and Chicago. The machines, designed to detect heroin and other forms of contraband in tape cassettes and film mailers, are operated by only two men, whereas 10 men previously had been needed to properly examine the parcels. An annual cost avoidance of \$72,200 is being realized.

Improved services to the public.—Speaking engagements by Customs officials, as part of the cargo security program, were held at fraternal, civic, and trade organizations. Emphasis was placed on the problems of cargo thefts, and how these thefts increase the prices of merchandise to consumers. Enthusiastic responses were received from the importing public.

Prospective bidders, private and commercial, as a result of an expanded use of the news media, are receiving more timely information of the date, location, time of viewings, and items offered for sale at Customs quarterly auctions.

Steps were taken in San Juan, Puerto Rico, to expedite processing of passengers arriving at the seaport and airport. They included the use of intermittent inspectors and rescheduling shifts to provide more regular inspector man-hours during peak periods.

Public service announcements for radio and television were recorded to advise the public that delays in clearing Customs were occasioned by the intensified inspections for drug smuggling. The spots also in-

clude information on such things as duty-free allowances and locations at which the public can obtain helpful hints on customs regulations.

Planning and research.—A feasibility study regarding an airport name-search system has been completed. Such a system would give airport inspectors CADPIN terminals for checking passengers' names against the CADPIN suspect file in much the same manner as license plate queries are made at land border crossings.

The random time sampling system has provided detailed, accurate and up-to-date information on the utilization of Customs manpower in the field. It has provided the man-year basis for preparation of the Customs 5-year plan, as well as information for management review at Bureau and Regional headquarters.

Reorganizations.—An Office of Assistant to the Commissioner (International Affairs) was established. The functions of the Office of Assistant to the Commissioner (Foreign Customs Assistance) were transferred to this new office.

A Law Enforcement Data Processing Division was established in Bureau headquarters, Office of Administration, replacing the ADP-Law Enforcement Section, Data Processing Services Division. The new division assumed its predecessor's responsibilities, providing data processing support to both the investigative and inspectional customs activities.

The Financial Management Division has been abolished, and two separate divisions, an Accounting Division and a Budget Division, have been established.

The Office of Automated Merchandise Processing and the Data Processing Services Division were combined into the Office of Assistant to the Commissioner (Automatic Data Processing).

Ports of entry were established at Alcan, Alaska; Harrisburg, Pa.; Progreso, Tex.; and Vicksburg, Miss. Albuquerque, N. Mex., was designated a customs station, and service was initiated at Logan Field, Billings, Mont., on a reimbursable basis. Las Vegas and Reno, Nev., were designated temporary customs stations for a 1-year period.

Security and audit.—The Bureau conducted 1,699 personnel investigations in the fiscal year compared to 2,336 during fiscal 1971.

During this fiscal year a program was completed which computerized all security clearances. Expected to be operational in the near future, the computerized system will provide a current listing of each employee holding a clearance, the type of clearance, the date the employee is due for reinvestigation, and other pertinent information regarding his background. This program should lessen the burden of recordkeeping related to the security clearance program throughout Customs.

In this fiscal year several personnel dereliction investigations were conducted resulting in the arrest of five Customs employees. These cases are particularly significant because, had the personnel involved continued in their activities undetected, they would have had a very material bearing on smuggling in general, and the national narcotics problem in particular. Had the involved employees been reached by professional smugglers and narcotics traders before being discovered, untold quantities of smuggled merchandise and narcotics could have been brought into the United States.

Activities of auditors in task force services and other similar, unscheduled activities resulted in management action at the Bureau level and in the Department of the Treasury. Audit's contribution to the cargo security program in connection with claims of nondelivered merchandise resulted in policy pronouncements designed to reduce waterfront thefts of imported merchandise.

Automated data processing

In fiscal 1972, the Office of Automatic Data Processing was formed, combining the functions of existing computer operations at Silver Spring, Md., with automated merchandise processing system (AMPS) program management responsibilities, and permitting better integration of short- and long-range ADP programs throughout the Bureau.

A 3-year program plan was developed for the design and implementation of AMPS, a nationwide computer network for servicing both national headquarters and field needs by the mid-seventies. The program calls for a large development effort leading to the installation of an initial version of the system in Washington, D.C., and Seattle, Wash., replacing manual systems now employed for control of cargo and collection of revenue. The fiscal 1972 program plan was achieved with the completion of basic system design work, the initiation of paper work for the acquisition of two large-scale computers for the first phase of the effort, and the detailed identification of Customs requirements for operation of the system.

An automated customs agent case inventory system (CASCIS) was installed, in which each case assigned to a customs agent for investigation is logged into the computer and all results, including quantities and types of narcotics seized, are summarized for statistical analysis.

A data communications link between the Customs computer at Silver Spring and the computer at the New York customhouse was established. Data relating to several applications are now being transmitted rather than mailed, resulting in shorter processing cycles and greater control through faster turnaround.

Further developments took place in CADPIN. A new name-indexing scheme was developed and implemented which allows CADPIN master files to exceed 100,000 suspects without serious effects on response time. Several intelligence systems were developed during fiscal 1972, including an arrest and seizure system, a dossier system, and a telephone analysis system.

Administration

Facilities management.—Consolidation of the Bureau of Customs headquarters activities into the Columbia Plaza Tower Building, currently under construction in Washington, D.C., is scheduled for completion early in fiscal 1973.

A new property accountability system was implemented which substantially reduces clerical manpower utilization, insures greater accuracy of input data, and provides better management information and control.

Financial management.—When the surcharge was instituted on August 16, 1971, the Customs automated accounting system allowed

for special code assignments that readily identified and summarized surcharge collections with absolute minimum field involvement. Approximately a half billion dollars in surcharge was collected through February 1972.

The Budget Division has been working with the Accounting Division to install a new appropriations accounting system for fiscal 1973, giving each headquarters office a financial plan. The Budget Division will prepare each plan, and the financial data accumulated under the new procedures will be summarized and reported on a monthly basis to each office.

Management analysis.—A customs organization and position management system was developed to give better control over organizational structure, position and employment ceilings, and employee assignments. A system has also been developed for selecting employees to fill overseas positions.

The performance management system for narcotics control was implemented and further developed during the year. Several analyses of the data took place, including one on the narcotics-related arrest-to-conviction rate.

A review for currency of Bureau directives eliminated almost one-third of the existing internal management directives. In addition, a new records control system was completed.

More than 150 customs forms were revised, and 12 forms were abolished.

Personnel management.—The Bureau of Customs added 1,800 employees to its ranks in fiscal 1972. Due to special recruitment emphasis, approximately one-third of the employees hired were minority group members and one-third were Vietnam-era veterans. In addition, five women were hired as investigative agents, the first time that women have filled that position in Customs.

Customs completed giving a labor relations seminar to all top and midlevel managers of the regions.

The Presidential requirement of reducing employment by 5 percent was waived for Customs in fiscal 1972 because of the additional workload from the surcharge program.

Cost of administration.—Customs operating expenses amounted to \$248,248,454, including export control expenses and the cost of additional inspection reimbursed by the Department of Agriculture.

The following table shows man-years employment data in fiscal years 1971 and 1972.

Operation	Man-years		Percentage increase or decrease (—)
	1971	1972	
Regular customs operations:			
Nonreimbursable.....	9,832	11,116	13.1
Reimbursable ¹	508	427	—15.9
Total regular customs employment.....	10,340	11,543	11.6
Export control.....	161	132	—18.0
Additional inspection for Department of Agriculture.....	276	241	—12.7
Air security program.....	630	1,310	107.9
Total employment.....	11,407	13,226	15.9

¹ Salaries reimbursed to the Government by the private firms who received the exclusive services of these employees.

International affairs

Through a major concentrated effort, U.S. customs advisors assisted the South Vietnamese Customs Service successfully in sealing off Ton Son Nhut Airport in Saigon as a major source of contraband (including heroin) into Vietnam.

The U.S. team in South Vietnam also assisted the Directorate General of Customs in carrying out a new nationwide effort, coordinated at the highest levels of the Government of Vietnam, to reduce and stamp out traffic in illicit and dangerous drugs.

A new 11-man effort was initiated to assist the Royal Laotian Government in bringing under control the flow of narcotics and other contraband into and through Laos. During June, a two-man team began a nationwide narcotics control survey in Thailand to determine whether a similar effort there might be feasible.

At the request of AID, a survey was made of the Haitian Customs Service, one of the first AID-sponsored activities in that country since 1963.

A three-man team assisted the Brazilian Revenue Service by providing customs technical assistance in various fields. A two-man team assisted the ongoing AID-Customs project in Ethiopia by providing a 6-week course in customs enforcement; a full-time advisory team in Ethiopia established and put into effect systems which will reduce customs clearance time.

Through the efforts of the Senior Customs Advisor in Afghanistan, a provision was added to Afghan customs law making the export of narcotics substances illegal. Also, a 3-week course in customs enforcement was conducted with U.S. Customs assistance.

A 5-year customs technical assistance effort in Costa Rica was successfully concluded on June 30, 1972.

The Customs Directors of Vietnam, Bulgaria, Yugoslavia, and Costa Rica, with accompanying high-level customs officials from their own respective countries, were given observation training, ranging from 1 week to 1 month in duration in major U.S. ports.

Approximately 175 foreign customs and border officials were programmed for U.S. Customs observation training and for formal courses in Laredo, Tex., and at the Customs National Training Center, Uniondale, N.Y.

The Bureau was represented at various international meetings of the Customs Cooperation Council during the year, including those of the Permanent Technical Committee, the Universal Commodity Code Project, the Chemist Committee meeting, the Working Party on the Origin of Goods, and the 57th and 58th sessions of the Valuation Committee. In addition, Bureau representatives participated in the subsidiary meetings of the Inland Transport Committee of the Economic Commission for Europe and the Inter-Governmental Maritime Consultative Organization. In June 1972, Assistant Secretary Rossides served as the U.S. Delegate to the 39th and 40th sessions of the Council. Mr. Rossides extended an invitation, which was accepted by the Council members, to hold the 10th meeting of the Representatives of Customs Investigation Services in the United States in the fall of 1973.

On June 5, 1972, in Brussels, Robert V. McIntyre, U.S. representative to the Customs Cooperative Council, signed, subject to ratifica-

tion, the Customs Convention on the International Transit of Goods (ITI Convention). The United States thereby takes a leading role as a signatory to an international convention designed to meet the present day need for facilitation of world trade.

On June 5, 1972, the Customs Cooperation Council formally adopted the recommendation concerning lighters carried by LASH or similar-type vessels. The Bureau of Customs was responsible for first introducing the question of uniformity in the treatment of LASH-type vessels and for preparing the first draft recommendation for consideration by the Council Members.

During fiscal 1972, U.S. Customs, through the American Embassy in Brussels, notified the Secretary General of the Customs Cooperation Council that the U.S. accepted without reservation the following recommendations:

- (1) To expedite the forwarding of relief consignments in the event of disasters through simplification of customs formalities.

- (2) The spontaneous exchange of information concerning illicit traffic in narcotic drugs and psychotropic substances.

- (3) Mutual administrative assistance.

- (4) The pooling of information concerning persons convicted of customs offenses.

- (5) The pooling of information concerning customs fraud.

Public information

Eleven customhouses were designated "historic" under a continuing program which is part of Treasury's contribution to the American Bicentennial era. The historic customhouse program focuses attention on Customs role as the financial mainstay for the young Republic.

A continued, accelerated information program concerning the problems of drug abuse is reflected by the preparation and distribution of 3,040 information kits and the issuance of 355 news releases, speech texts, fact sheets, photos, etc. Major articles appeared in 45 publications; 42 talks and presentations were made by Bureau officials; and spot announcements were produced and aired over radio and television networks.

Equal employment opportunity

During the year, the first conference for EEO officers in Customs was held jointly with the Internal Revenue Service. Emphasis was placed on the latest approaches to program implementation, the handling of complaints, and changes in laws and regulations.

Reports from field offices indicate that employment of members of minority groups and females in technical and professional positions has increased.

Office of Director of Practice

The Office of Director of Practice is a part of the Office of the Secretary of the Treasury and is under the immediate supervision of the General Counsel. Pursuant to the provisions in Treasury Department Circular No. 230 (31 CFR, Pt. 10), the Director of Practice institutes and provides for the conduct of disciplinary proceedings against attorneys, certified public accountants, and enrolled agents who are alleged to have engaged in disreputable conduct or who are

alleged to have violated the rules and regulations regarding practice before the Internal Revenue Service. The Director of Practice also exercises jurisdiction, as the first level of administrative appeal, in those cases where the Commissioner of Internal Revenue denies an application for enrollment to practice before the Internal Revenue Service made by persons seeking enrollment pursuant to Section 10.4 of Circular 230.

During fiscal 1972, amendments were promulgated to Treasury Department Circular No. 230 (31 CFR, Pt. 10) to provide rules governing practice by any person before the Internal Revenue Service on matters relating to the President's economic stabilization program. Those amendments regarding practice before the Service on economic stabilization matters appeared in 37 F.R. 1016 dated January 21, 1972, and in 37 F.R. 11676 dated June 10, 1972. Despite adoption of amendments relating to authority of any person to practice before the Internal Revenue Service on economic stabilization matters, it remains the position of the Department of the Treasury that an appearance before the Internal Revenue Service on economic stabilization matters shall not in any manner be considered to be an authorization to practice before the Service for the purpose of tax matters.

On July 1, 1971, there were 84 derogatory information cases pending in the Office under active review and evaluation, six of which were awaiting presentation or decision before a hearing examiner. During the fiscal year, 162 cases were added to the caseload of the Office. Disciplinary action was taken in 65 cases, either by the Office or by order of a hearing examiner. Those 65 actions consisted of one order of disbarment, 37 suspensions (either by order of the examiner or by consent of the practitioner) and 27 reprimands. The 65 actions affected 17 attorneys, 26 certified public accountants and 22 enrolled agents.

Five proceedings for disbarment or suspension were initiated before a hearing examiner during fiscal 1972. Therefore, including the six cases remaining on the examiner's docket on July 1, 1971, there were 11 cases before the examiner during fiscal 1972. Initial decisions invoking a disciplinary action by the examiner were rendered in seven of the cases. In one case, involving a certified public accountant, the examiner's initial order was that the respondent be disbarred from further practice before the Service. In six cases, the examiner issued initial orders for suspension from practice before the Internal Revenue Service. In one case, the proceedings were dismissed due to the respondent's death. As of June 30, 1972, three cases were pending on the examiner's docket awaiting presentation or decision. Two cases in which the examiner had made initial findings and decisions were on appeal to the Secretary pursuant to section 10.71 of Circular 230.

Seventy-seven cases were removed from the Office caseload during fiscal 1972 after review and evaluation showed that the allegations of misconduct did not state sufficient grounds to maintain disciplinary proceedings under the regulations of Circular 230. Including the three cases pending on the examiner's docket, there were 104 derogatory information cases under consideration in the Office as of June 30, 1972.

During the fiscal year, three certified public accountants and one at-

torney petitioned the Director of Practice, pursuant to section 10.75 of Circular 230, for reinstatement to practice before the Internal Revenue Service. Favorable consideration was given to each petition and reinstatement was accordingly granted.

Office of Domestic Gold and Silver Operations

The Office of Domestic Gold and Silver Operations, in the Office of the Under Secretary for Monetary Affairs, assists the Under Secretary and the Assistant Secretary (Economic Policy) in the formulation, execution, and coordination of policies and programs relating to gold and silver in both their monetary and commercial aspects. The Office administers the Department of the Treasury gold regulations relating to the purchase, sale, and control of industrial gold and gold coin; issues licenses and other authorization for the use, import and export of gold and for the importation and exportation of gold coin; receives and examines reports of operations; and investigates and supervises the activities of users of gold. Investigations into possible violations of the gold regulations are coordinated with the U.S. Secret Service, the Bureau of Customs, and other enforcement agencies.

Use of gold for industrial purposes

Estimated net industrial use of gold in the United States during the calendar year 1971 was 6,933,000 ounces as compared with 5,973,000 ounces in 1970, an increase of 16 percent. The 1971 increase in purchases was due both to increased production of gold products and to increased gold inventories. The estimated total purchases of gold and allocation of purchases by industry group for the years 1966-71 are shown in table 1.

TABLE 1.—*Estimated industrial use of gold in the United States calendar years 1966-71*

[Thousands of fine troy ounces]

	1966	1967	1968	1969	1970	1971
Estimated total purchases of gold by U.S. industry.....	6,062	6,294	6,604	7,109	5,973	6,933
Converted into fabricated products.....	5,984	5,942	6,073	6,568	6,148	6,542
Increase in inventories.....	78	352	531	541	-175	391
Allocation of purchases by industry group.....	6,062	6,294	6,604	7,109	5,973	6,933
Jewelry and arts.....	3,758	3,840	3,908	3,839	3,340	4,299
Dental.....	424	566	771	710	658	750
Industrial, including space and defense.....	1,880	1,888	1,925	2,560	1,975	1,884

Sources of gold

Sales of gold by the Treasury for industrial use and purchases from the private market were terminated on March 18, 1968. Since that date, gold used in industry, profession and art in the United States has come from new domestic production and from imports. Of the 6,933,000 fine troy ounces used in 1971, 1,556,000 ounces came from U.S. mine production and 5,377,000 ounces were imported. Countries from which the gold was imported are shown on table 2.

TABLE 2.—*Exports and imports of gold into the United States for industrial use, calendar year 1971*

[Thousands of fine troy ounces]

Country	Exports	Imports
Belgium.....	147	.....
Canada.....	54	2,859
Switzerland.....	161	2,606
United Kingdom.....	292	35
West Germany.....	61	.....
Other countries.....	5	64
Philippines ¹.....	.....	88
South Africa ².....	.....	445
Total.....	720	6,097
Net imports of gold.....	.....	5,377

¹ Recovered from base bullion imported from the Philippines.² Purchased from the account of the South African Reserve Bank at the Federal Reserve Bank of New York.**Trading in gold on exchanges**

On July 24, 1971, the regulations were amended to prohibit the trading of gold in any form on commodity exchanges and the acquisition of American or foreign gold coins of any description for speculative purposes. The purpose of the amendment was to clarify the intent of the gold regulations that gold coins may be held only for numismatic purposes.

Gold coins

Licenses are required to import gold coins minted during or after 1934. Licenses are issued only for coins of recognized special value to collectors of rare and unusual coin. Gold coins minted after January 1, 1960, may not be imported unless the particular coin had been licensed for importation prior to April 30, 1969.

Licensing of gold dealers

The Office continued licensing banks and commodity firms to acquire and import gold for sale to domestic industrial users with 13 such licenses outstanding at the end of the fiscal year.

Bureau of Engraving and Printing

The Bureau of Engraving and Printing is responsible for manufacturing U.S. paper currency, various public debt instruments, and most other evidences of a financial character issued by the Government, such as postage and internal revenue stamps, food coupons, and military payment certificates. In addition, the Bureau prints commissions, certificates of awards, permits, and a wide variety of other miscellaneous items. The Bureau also executes certain printings for various territories administered by the United States.

The Bureau conducts extensive research and development programs for improving the quality of its products, reducing manufacturing costs, and strengthening deterrents to the counterfeiting of Government securities. It manufactures ink and gum used for its products; purchases materials, supplies, and equipment; provides maintenance

services for its buildings, plant machinery, and equipment; and stores and delivers its products in accordance with requirements of customer agencies.

Finances

The enactment of Public Law 656, 81st Congress, approved August 4, 1950, established a revolving fund method of financing the operations of the Bureau. One of the provisions of the legislation placed all operations on a completely reimbursable basis for work or services performed. The legislation also established the Bureau of Engraving and Printing Fund. This fund, which became effective on July 1, 1951, was capitalized on the basis of (a) all assets and liabilities on hand as of the close of business June 30, 1951, and (b) an initial appropriation by the Congress of \$3,250,000 as working cash to meet payrolls and to pay bills for materials, services, etc., until such times as reimbursement would be received for products manufactured and sold to customer agencies.

Since the inception of the revolving fund, the Bureau had until recent years depended upon funds recovered through depreciation to finance its equipment purchases. However, the limited funds (approximately \$1,500,000 annually) available through depreciation for the orderly pursuit of an effective fixed asset acquisition program have seriously inhibited the Bureau's ability to maintain its productive capacity at a rate consistent with the growth of work programs. Furthermore, these limited funds prevented the Bureau from keeping pace with continuing technological developments in the field of graphic arts and precluded the advancements the Bureau should have been making in further sophistication of its operations.

The bulk of the Bureau's major printing press equipment is not only fully depreciated but also obsolete in productivity capability and should be replaced with more modern equipment. Moreover, it was recognized that funds should be available for the acquisition of special custom-designed equipment for mechanizing some of the more costly manual processing.

An in-depth analysis of immediate and predictable equipment needs culminated in the Bureau initiating a program covering fiscal years 1972 through 1974 for the accelerated acquisition of the most modern replacement and supplemental equipment at an estimated cost of \$17 million. Since this cost exceeds the funds which would be available to the Bureau through annual recoveries of depreciation based on the capitalized value of its present equipment, an appropriation of \$3 million was granted in fiscal 1972 to initiate this 3-year program. An appropriation of \$6 million to carry out phase II of the program was requested for fiscal 1973.

The House Subcommittee on Appropriations recommended that the Bureau's 1973 appropriation be reduced from the \$6 million requested to \$3 million. In its report, the subcommittee directed the Bureau and the Department to review the pricing policies for services with the objective of establishing prices which will, at least over the relatively long range, generate sufficient funds to cover direct and indirect cost of operations as well as accumulate an adequate reserve for replacement of capital equipment. The sense of the recommendation by the

subcommittee is similar to one made earlier by representatives of the Office of Management and Budget, that alternate methods for financing equipment purchases should be developed by the Bureau without resorting to the Congress for additional appropriations for such purposes. This matter is currently being studied.

Comparative financial statements for fiscal years 1971 and 1972 appear in the Statistical Appendix.

Currency program

Total deliveries of currency notes in fiscal 1972 amounted to approximately 3.1 billion notes as compared to 2.9 billion notes in fiscal 1971. This year's unit cost of manufacturing currency was \$8.68 per thousand notes.

In order to meet the increasing demand for currency (the requirement for fiscal 1978 is projected at 4.3 billion notes), the Bureau is constantly planning and implementing programs for the modernization of its currency manufacturing operations and facilities. Near-future planning calls for acquisition of six additional sheet-fed rotary presses—two each in fiscal years 1974 through 1976—to replace existing models which were obtained in 1957 and are fully depreciated and technologically obsolete.

Another area given priority attention has been the mechanization of the finishing operations associated with the production of currency. During the past fiscal year, the prototype currency overprinting and processing equipment (COPE), based on a Bureau concept and custom designed to Bureau specifications, became fully operative. In view of the limited funding available, the Bureau will be able to contract in fiscal 1973 for only two production models of this equipment, which will allow approximately 60 percent of the present manual currency-finishing operations to be converted to the automatic process.

During this fiscal year, the Bureau executed a contract with a private concern to determine the feasibility of equipment which would automatically examine all plate-printed sheets (prior to overprinting) and identify any note which might be defective. Phase I of this study has been completed with the conclusion that such equipment is now within the state of the art. This conclusion is expected to be verified in phase II of the study now in progress. It is anticipated that at the conclusion of phase II procurement action will be taken to initiate the building of a prototype machine for which \$300,000 has been identified in the 1974 budget request. The final step in this project would be to obtain production-type examining equipment for currency in fiscal 1975, and over a period of several years thereafter, at a total estimated cost of \$3 million. Similar type equipment would be obtained for examination of postage stamps and other security products.

The Federal Reserve Board has for many years been actively interested in the development of equipment to automate the handling of currency in Federal Reserve banks to supplant existing costly manual operations. Two fundamental requirements for such equipment are feasible in-line capabilities for identification of genuine currency and for the measurement of currency fitness for recirculation. The Bureau has been conducting specific research to facilitate this end-use objective of its customer agency, predicated on techniques which will permit the use of existing production equipment, materials, and supplies

and not require a change in existing currency design. The Bureau's proposed techniques were discussed with Federal Reserve personnel, and a synopsis of activities carried out in connection with the project was furnished to them and other interested parties. Later a contract was awarded to Stanford Research Institute by the Federal Reserve Board with the identified objective of obtaining an independent appraisal of the Bureau's proposals. The Bureau is cooperating in this review by sponsoring related additional in-house studies and research at the National Bureau of Standards.

Postage stamp program

Deliveries of U.S. postage stamps were 26.7 billion pieces in fiscal 1972 as opposed to 32.9 billion in 1971. The greater amount delivered in 1971 was due to the postal rate increase which occurred that year.

In order to further enhance the capability of the Bureau for meeting the U.S. Postal Service's increasing requirement for complex multi-color stamps, a contract was awarded in November 1971 for a combined rotogravure line-intaglio web press at a cost of approximately \$2 million. This press will be used to print postage stamps to be issued in sheet form. A second press for printing coil stamps in up to three colors by the intaglio process was also ordered at a cost of \$1 million. The need for these two presses was the basis for the \$3 million appropriation by the Congress for fiscal 1972.

Procurement of necessary engraving equipment associated with the rotogravure press will be spread over 3 years. Chrome-plating equipment for the rotogravure cylinders was ordered in fiscal 1972. Photographic equipment was ordered in fiscal 1973, and cylinder-making equipment will be ordered in fiscal 1974. A total of \$700,000 has been allowed in the capital equipment acquisition plan for fiscal years 1973-74 to permit acquisition of the photographic and cylinder-making equipment.

New issues of postage stamps delivered in fiscal 1972 are shown in the Statistical Appendix.

Food coupon program

Although food coupons are being used in a growing number of areas, the delivery of food coupons decreased slightly this year due to the introduction of the higher denomination \$5 coupon. Approximately 1.8 billion coupons were delivered during fiscal 1972 as opposed to 2 billion in 1971. However, by 1974 our delivery requirement is expected to rise to 2.7 billion coupons.

The food coupon program has so taxed the production capability of the Bureau that a contract was awarded the American Bank Note Company of New York City on November 2, 1971, to print the 50¢ food coupons and manufacture the balance of the \$2 and \$3 booklets required during the remainder of fiscal 1972. This action has been helpful in reducing excessive overtime in the Bureau. Plans are being made to solicit bids for production of all of the fiscal 1973 requirements for the \$2 and \$3 booklets.

Internal audit

In the interest of maintaining efficient, economic operations and review for possible improvements, the Bureau continued to conduct intensive announced and unannounced audits, providing for both fiscal

auditing and auditing of operations. During fiscal 1972, 44 reports of audit, containing 162 recommendations for improvements, were released for management consideration and action.

Improved service to the public

Throughout the year, the Bureau conducted an active program designed to improve communications with and services to the public and, at the same time, to advance the Bureau's goal for increased public awareness of the security characteristics of genuine currency. In fiscal 1972, the Bureau furnished exhibit materials for 33 numismatic or philatelic events. In some instances, Bureau participation included live demonstrations of the techniques of the intaglio process used in the production of currency, postage stamps, and other securities. Public response to the Bureau's participation has been most enthusiastic.

In addition, the Bureau produced six distinctive souvenir cards in complement to the following major philatelic and numismatic exhibitions in fiscal 1972: The American Numismatic Association Exhibition, in Washington, D.C.; the 85th Annual Convention of the American Philatelic Society, in San Antonio, Tex.; the National Postage Stamp Show, in New York City; the 75th Year of the Collectors' Club, in New York City; the 14th International Stamp Exhibition, in New York City; and the New Orleans Philatelic Society Exhibition, in New Orleans, La. Production of these souvenir items not only responded to longstanding recommendations of philatelists and numismatists but also defrayed the cost of Bureau participation in such exhibits.

During this fiscal year, 712,335 visitors took the self-guided tour through the Bureau. Other tours, geared to technical needs and other particular interests, were conducted on an individual basis for special visitors, such as agents of the U.S. Secret Service, representatives of foreign governments, domestic and foreign firms in the printing industry, and news media personnel.

Labor-management relations

It has been a longstanding policy of the Bureau to foster constructive and harmonious relationships with its employees and labor organizations representing them. Special emphasis and attention has been directed toward the conduct of all labor-management dealings within the spirit and intent of Executive Order 11491 as amended by Executive Order 11616 of August 26, 1971. At the close of the fiscal year, there existed within the Bureau grants of exclusive recognition to 16 AFL-CIO affiliate unions covering 25 craft units, one noncraft unit, and one guard unit. Further, there are nine approved substantive labor-management agreements. The unions function as a dynamic part of the Bureau and are a major factor in management considerations.

Awards program

During fiscal 1972, 799 employees received special achievement awards and 28 received high quality pay increases.

Nonrecurring savings of \$199,657 were realized in fiscal 1972 from the superior work performance phase and recurring savings of \$146,654 from the special service award phase of the incentive awards program. Under the employee suggestions phase of the program, 335 sug-

gestions were received and 152 adopted, from which it is estimated that the Bureau will realize annual recurring savings of \$121,636. It is to be noted that of the suggestions processed during this fiscal year, 44.7 percent were adopted.

The Bureau again received the Secretary's annual award for outstanding accomplishment in the performance award phase of the incentive awards program.

Certificates of appreciation were presented to 60 employees in appreciation for their work as group leaders in the convention days program. An honor award was presented to the Armored Truck Guards Section, comprised of 14 employees, for safe driving.

Training program

In various training activities during fiscal 1972, 677 employees completed Bureau and Departmental training courses; 156 employees completed interagency training courses; and 254 employees attended specialized seminars, training classes, conferences, and exhibits sponsored by non-Government organizations. A general education development (GED) program was announced and 181 employees signed up for the program of which 137 have been tested.

Training has been supplied at levels, with special emphasis in executive development, and in most occupations to meet the needs at different stages of employment. The training courses have included on-the-job and refresher training for current needs, developmental training in anticipation of future needs, training to develop unavailable skills, and training to develop underutilized and disadvantaged employees.

Equal employment opportunity program

During fiscal 1972, the EEO program continued to show progress in the advancement of minorities and females. With the addition of a full-time female EEO counselor, creditability of the program has been enhanced. The precomplaint counseling program continued to be successful in reducing the number of formal complaints. Only one formal complaint was filed during this fiscal year, and an investigation made at the departmental level resulted in a finding of no discrimination. The case has now gone to the Civil Service Commission Board of Appeals and Review.

Efforts were expanded to increase the number of Spanish surnamed employees by improving contacts with the Spanish-speaking community. Through participation in the Washington Urban League-D.C. Public Schools "School to Industry Program," over 50 high school seniors were provided full-time employment upon graduation.

The employee committees for EEO continue to be a prime source of communications between employees and management. The involvement of these committees in policy considerations has proved most beneficial.

The EEO plan of action was updated to include numerical goals and timetables and other changes as appropriate. Discussion of the plan with supervisors and EEO members received favorable comment. Similarly, an EEO evaluation questionnaire was favorably received.

A review of minority statistics shows steady improvement in the advancement of minorities and females in craft, supervisory, and higher

General Schedule positions. A substantial increase was noted in the number of minority group employees and females earning above \$10,000 per annum.

Minority group employees and females received over 70 percent of the superior work performance and other awards presented this fiscal year.

Safety program

Employee safety continues to be a matter of vital management concern. Such intensified efforts as universal first aid training and the innovation of a rapid accident reporting system were added to our ongoing safety awareness programs. In addition, supervisor seminars stressing techniques for fostering safety were also held. During fiscal 1972, safety certificates were awarded to the employees of seven Bureau components in recognition of their achievements. Four awards were presented for 1 full year without a disabling injury; three were presented for 2 full years without a disabling injury.

Office of Equal Opportunity Program

The Office of Equal Opportunity Program operates within the Office of the Secretary and is under the immediate supervision of the General Counsel. It assists the Secretary and General Counsel in the formulation, execution, and coordination of policies related to equal opportunity for Treasury employees (implementing Executive Order 11478 governing equal employment in the Federal Government) and to employment policies and programs of banks, savings and loan associations, savings banks and other financial institutions that are Federal depositaries or issuing and paying agents of U.S. savings bonds and savings notes (implementing Executive Order 11246 and Treasury Regulations governing equal employment for Government contractors).

Federal employment

The Office guides and oversees the implementation of the Department's equal employment program and action plan by all of the bureaus; provides consultative services on equal opportunity matters; reviews and approves activities; programs action plans promulgated by each bureau; and reviews and adjudicates the investigation of complaints alleging discrimination because of race, color, religion, sex or national origin. The Office provides guidance to Treasury officials and all its field activities on "upward mobility" personnel management evaluations concerning the employment and utilization of minority group persons and women.

Progress in the administration of the Treasury equal employment opportunity program during calendar year 1971 was marked mainly by increased Department emphasis on upward mobility, the Federal women's program, and the President's 16-point program for Spanish-surnamed Americans. Initial Department guidance was issued to all bureaus in order to achieve implementation of plans to set numerical employment goals and timetables at the local activity level for the increased hiring and upgrading of Department minority and women

employees. The Department undertook a weeklong Upward Mobility Task Force planning conference during 1971 in which numerical goals and timetable requirement plans were firmly mandated on all bureaus with regard to the upgrading of lower level grade employees.

In the fall of 1971, the Department struck from the computer a manpower run showing the breakdown of all positions by grade, occupational grouping, race, and sex. These printouts have been used by all major field activities in setting numerical hiring and upgrading goals and timetables on the basis of local considerations. These considerations include planned mission needs, attrition, budget restrictions, and the availability of minority skills in surrounding metropolitan areas.

The bureau goals will be consolidated and will represent Treasury's commitment, to be updated quarterly, toward achieving success in the equal employment opportunity program.

The 1971 compilation of full-time employment by race status with comparisons for each year from 1968 follows:

Department of the Treasury full-time employment by minority group status

	End of calendar year				Increase from 1970 to 1971		Increase from 1968 to 1971	
	1968	1969	1970	1971 ¹	Number	Percentage	Number	Percentage
Total Employees.....	82,155	85,635	88,351	94,557	6,206	7.0	12,402	15.2
Negro.....	11,777	12,251	13,234	13,954	720	5.4	2,177	18.5
Spanish American.....	1,052	1,116	1,489	1,754	265	17.8	702	66.7
American Indian.....	79	85	104	107	3	2.9	28	30.9
Oriental.....	482	505	596	687	91	15.3	205	42.5
None of these.....	68,765	71,678	72,928	78,055	5,127	7.0	9,290	13.5
GS 1-4:								
Total.....	19,120	19,679	18,867	19,484	626	3.3	373	2.0
Negro.....	4,947	4,948	5,156	4,984	172	3.3	37	.8
Spanish American.....	255	300	398	502	104	26.1	247	96.9
American Indian.....	25	26	33	36	2	9.1	11	44.0
Oriental.....	80	87	96	125	29	30.2	45	56.3
None of these.....	13,813	14,318	13,184	13,837	653	5.0	24	.2
GS 5-8:								
Total.....	19,480	21,603	23,826	26,494	2,668	11.2	7,014	36.0
Negro.....	2,708	3,077	3,467	3,856	389	11.2	148	5.5
Spanish American.....	264	281	422	447	25	5.9	183	69.3
American Indian.....	26	24	30	31	1	3.3	5	19.2
Oriental.....	141	139	183	189	6	3.3	48	34.0
None of these.....	16,341	18,082	19,724	21,971	2,247	11.4	5,630	34.5
GS 9-12:								
Total.....	28,893	28,737	28,960	30,436	1,476	5.1	1,543	5.3
Negro.....	1,144	1,257	1,283	1,457	174	13.6	313	27.4
Spanish American.....	332	316	389	450	61	15.7	118	35.5
American Indian.....	21	27	30	30	-----	-----	9	42.9
Oriental.....	186	179	203	213	10	4.9	27	14.5
None of these.....	27,210	26,958	27,055	28,286	1,231	4.6	1,076	4.0
GS 13-18:								
Total.....	9,491	9,839	10,665	11,642	977	9.2	2,151	22.7
Negro.....	151	167	218	271	53	24.3	120	79.5
Spanish American.....	35	38	54	72	18	33.3	37	105.7
American Indian.....	3	4	5	5	-----	-----	2	66.7
Oriental.....	55	70	67	77	10	14.9	22	40.0
None of these.....	9,247	9,560	10,321	11,217	896	8.7	1,970	21.3

¹ The latest statistics available are as of November 1971.

The major action objectives of the President's 16-point program for Spanish-surnamed have been inculcated in the Department's affirmative action plan, presently in the process of revision. Special program efforts aimed at increasing recruitment and upgrading of the Spanish-speaking work population are already underway in a majority of Treasury bureaus, and these efforts are being coordinated at the Department level through the Committee on the Spanish-Speaking.

The Federal women's program has seen significant gains with the creation of a Department-level Federal Women's Program Committee which meets regularly and is very actively involved in recruitment, training, and other employment thrusts designed to improve the position of all of Treasury's women employees. In consonance with Presidential mandates to get more women in grades GS-13 and above, the Department moved positively in accomplishing a required goal of 50 such positions by the end of calendar year 1971.

The Department improved its complaint processing system and provided guidance to all bureaus and field elements to seek and attain speedy processing and the resolution of the limited number of formal complaints coming to their attention.

It is expected that there will be marked increased equal employment opportunity program operation emphasis with high concentration given to a management review of all equal employment opportunity efforts by field facilities and the manner in which bureaus are implementing the goals and procedures set forth by the Department.

Financial institutions

Approximately 400 compliance reviews have been conducted at banks this year. These are examination of a bank's personnel policies and programs and have entailed negotiating agreements for affirmative action programs and providing technical assistance to assure compliance with Treasury requirements. Guidelines on affirmative action have been revised and reissued to financial institutions to assure accurate understanding of Treasury expectations and to assist them in achieving meaningful result-getting equal employment programs. These guidelines have been widely distributed by the various trade associations (American Bankers Association, U.S. Savings and Loan League, National Association of Mutual Savings Banks) and have been analyzed, highly commended, and distributed by numerous trade and management publications; e.g., Prentice Hall, Bank Wage & Hour Reports, Commerce Clearing House and Banking Magazine.

Treasury continues to be impressed with the exceptional cooperation and eagerness of the banking and savings industries to comply with Treasury regulations and to effect result-getting equal employment opportunity programs. A recent Department study made of the employment in 2,400 banks, whose total employment is 630,000, discloses that minority employment has increased significantly as a result of our compliance program and surveillance. In a comparison for the 3½ years, mid-1966 to mid-1970, Negro employment increased from 22,581 to 55,542; Spanish-surnamed from 12,587 to 23,858; Orientals from 4,892 to 7,973; and American Indians from 433 to 712. These data demonstrate an increase of minority participation in employment at the banks studied from 8 percent in 1966 to 14 percent by mid-1970.

Increased from 40,493 to 88,085, minority-held jobs have more than doubled. The record of progress in minority employment is not complete without mentioning that reports from the 1971 minority employment reports and the early returns on the 1972 reports showed continued increase of minority utilization at all levels.

In an effort to assure that banks are complying with technical requirements, the Department receives from bank examiners of the Comptroller of the Currency, Federal Deposit Insurance Corporation and Federal Reserve banks reports of deficiencies found with regard to the filing of the Federal Equal Employment Opportunity Report and the availability of a written affirmative action program whenever bank examinations are conducted.

Negative reports filed with the Treasury Department are handled in a manner that assures the compliance of these two aspects usually within a 30-day period without travel, special reviews, etc. This cooperative endeavor with the bank examiners of the above mentioned group has obviated considerable expense and additional staffing.

During this past year, field offices have been established in Los Angeles, Chicago, Atlanta, and Houston. Staffing at Houston and Los Angeles has been accomplished, and the two remaining are expected to be completed shortly. With these four offices, the Department anticipates even greater results because of the continuity of surveillance and the availability of on-site technical assistance to the financial institutions.

Fiscal Service

BUREAU OF ACCOUNTS

The functions of the Bureau are Government-wide in scope. They include central accounting and financial reporting relating to the Government as a whole; disbursing for virtually all civilian agencies; supervising the Government's depository system and agency cash management practices; determining qualifications of insurance companies to do surety business with Government agencies; a variety of fiscal activities, such as investment of trust funds, agency borrowings from the Treasury, international claims and indebtedness, and liquidation of the Postal Savings System; and Treasury staff representation in the Joint Financial Management Improvement Program.

Management improvement

Under the cost reduction and management improvement program, savings of \$322,000 were realized during fiscal 1972 attributable to further improvements in technology and systems, realignment of organization and staffing, and the fruits of continuing programs for the development of people in management and other skills at all levels.

Personnel

Although faced with budgetary restraints in connection with the economic stabilization program, the Bureau was able to continue its positive efforts in fostering career development through consistent representative participation in both executive development and middle management programs. Provision of supervisory as well as occupational skills training at all levels was equally successful. Under the

Bureau's career development program; eight new trainees were recruited to fill professional accountant and management and systems analyst positions. For utilization of full potential, broader experience and knowledge of Bureau operations, each trainee is receiving rotational training. It is anticipated that as many as 20 career development trainees will be recruited for similar positions during fiscal 1973.

Equal opportunity programs, such as those for Spanish-surnamed and women in the Federal service, received special emphasis during fiscal 1972. Under the latter program, three women advanced within or to senior level positions, a fourth became a regional disbursing officer, and a fifth woman has been assigned, with Civil Service approval, to a grade GS-13 position and will be promoted when fully eligible. Sustained efforts in support of programs for summer aids, summer examination, back-to-school, and Junior Federal Fellowship employees have exceeded by 11 our goal of 39.

Under Executive Order 11491, as amended, entitled "Labor-Management Relations in the Federal Service," exclusive contracts were negotiated with the American Federation of Government Employees in the Washington and Birmingham Disbursing Centers. Also, during fiscal 1972, exclusive recognition was afforded the National Federation of Federal Employees in the Austin Disbursing Center.

Systems improvement

Representatives of the Bureau of Accounts, working with the General Services Administration (as the billing agency) and the Department of Defense (as a customer agency), developed a simplified intragovernmental billing and collection (SIBAC) system. This system stemmed from a proposal, in June 1969, by a Joint Financial Management Improvement Program interagency study team to improve the accounting for transactions between Government agencies by (1) eliminating (or significantly reducing) interagency receivables and payables, (2) eliminating the need for checks and deposits in payment of bills, and (3) simplification of collection procedures by providing for simultaneous billing and collection upon performance by the billing agency. The SIBAC system accomplished these objectives by authorizing the billing agency to credit its own account and to charge the appropriation or fund account of the customer agency. It is planned to explore expansion of the system to all Government purchases from the GSA supply fund, other GSA funds and other billing agencies.

Procedural requirements were prescribed for Government agencies concerning: (1) Withholding of Federal and State income taxes from employees' wages; (2) unpaid salary and wages and unused annual leave of deceased employees; (3) the handling of unclaimed moneys of individuals whose whereabouts are unknown, and moneys erroneously received and covered; (4) magnetic tape reporting by Federal agencies of annual information returns to the Internal Revenue Service covering salaries, wages, and other specific classes of payments; and (5) payments to the U.S. Civil Service Commission for payroll deductions and agency contributions for retirement, life insurance, and health benefits.

The procedures for the issuance of composite salary checks are now firmly established Government-wide. A "Financial Organization Directory" listing 11,000 financial organizations that participate in this program was compiled and distributed to all Federal payroll offices. A composite check (issued to a financial organization to pay groups of personnel who have elected to have direct credit to their accounts in that financial organization) produces economies through avoidance of individual checks, virtually precludes opportunities for forgery, guarantees timely payment, and provides optimum service to personnel. At yearend, approximately 400,000 civilian and military personnel were being paid by composite checks, thus avoiding over 9 million individual checks annually.

Central accounting and reporting

Bureau staff continued joint efforts with the Office of Management and Budget and the General Accounting Office toward Government-wide implementation of the accrual basis and ultimate use of such data in the President's budget and related Treasury reports. To reduce agency workloads and to encourage agencies to improve quality and timeliness of data, accrual reporting requirements were reduced from monthly to quarterly frequency.

Department Circular No. 966, concerning preparation of business-type financial statements, is being revised. New report formats for Government-wide use will cover all assets (except cash of accountable officers), liabilities and equities relating to all programs and activities under an agency's control. This approach stresses bureauwide reporting for management purposes in addition to fund-type reporting.

Pursuant to Public Law 92-126 dated August 17, 1971, receipts, expenditures, and net lending of the Export-Import Bank of the United States were removed from unified budget totals. Staff developed, jointly with the Office of Management and Budget, reporting formats to disclose transactions of entities classified outside the unified budget.

To meet the requirements of the Par Value Modification Act of 1972, staff developed the accounting and reporting treatment needed to recognize monetary gains and losses from gold revaluation.

Effective July 1, 1971, the Bureau of the Public Debt began submitting Statements of Transactions covering public debt principal and accrued interest (data formerly obtained from basic documents, requiring manual processing for the central accounts). Also effective July 1, 1971, the Office of the Treasurer, U.S., began submitting a combined Statement of Accountability and Statement of Transactions specifically designed to facilitate processing for the central accounts.

New procedures simplifying and standardizing issuance of public debt registered interest checks were approved, effective July 1, 1972. These checks will now be issued by Treasury disbursing officers from their regular check symbol accounts, serving to eliminate, among other things, six funded checking accounts.

Internal procedures for reconciling reports of checks issued and for auditing deposits in transit were subjected to comprehensive studies. Recommendations are being considered to permit the completion of this work on a more timely and efficient basis.

New formats for the annual Combined Statement of Receipts, Expenditures and Balances of the U.S. Government were developed for fiscal 1972. The new presentations stress a balance sheet approach for fund entities and more fully disclose the transactions during the year. Improvements in terminology and presentation of summary totals will also provide better compatibility with the President's budget.

Auditing

During 1972, the Audit Staff conducted 16 audits in the review of Bureau activities. Additionally, management surveys and operational reviews were performed in four regional offices.

The annual examination of the financial statements and supporting data of surety companies holding Certificates of Authority as acceptable sureties on bonds running in favor of the United States (6 U.S.C. 8) was performed. Certificates are renewable each July 1, and a list of approved companies (Department Circular 570, Revised) is published annually in the Federal Register for the information of Federal bond-approving officers and persons required to give bonds to the United States. As of June 30, 1972, a total of 266 companies held certificates.

General coordination and staff assistance were also furnished for the annual audit of the Exchange Stabilization Fund.

Disbursing operations

During fiscal 1972, a total of 515.1 million checks and savings bonds were issued by the 11 disbursing offices of the Division of Disbursement at an average unit cost of 3.01 cents. Service was provided to 1,300 Government agency offices. Ninety-eight percent of the payments were produced by computers.

The use of computers continued to bring increased productivity and a variety of better services for Government agencies and the general public. A number of small Government agency offices also received automated payroll accounting services.

Following are the more significant achievements during 1972:

1. Savings of \$72,000 annually from further computerization of workloads.
2. Submission to the Treasurer's Office of magnetic tapes for cancellation of withheld checks for veterans and social security payments in lieu of shipping the checks themselves. The cancelled checks are subsequently destroyed by the disbursing offices locally.
3. A pilot operation in one disbursing center for semiautomation of claims processing relating to social security payments.
4. An automatic microfilm retrieval system installed to facilitate searching on check claims for social security and tax refund payments, producing annual recurring savings of \$54,000.
5. A magnetic tape file of persons ordering uncirculated Eisenhower dollars kept as a service to the Bureau of the Mint. Planning effort commenced with the General Services Administration for the refund payment aspect of the Carson City dollar program.
6. Progress continued in developing the new mechanical check-wrapping system to be used for enclosing checks in envelopes at a speed

of 30,000 items per hour. A prototype machine is expected in the Philadelphia Disbursing Center early in calendar year 1973. Recurring annual savings of \$550,000 are projected.

7. Output of civil service retirement checks in ZIP code groupings commenced during the year.

8. The Washington Disbursing Center now produces as a service to the Civil Service Commission for mailing with checks various notices of adjustment and annual W-2 forms incident to the voluntary withholding of Federal income taxes on annuities. Considerable savings to the Government are being realized by so avoiding separate mailings and postage in the operations of the Civil Service Commission.

9. There has been considerable progress in investigating optical character recognition (OCR) and facsimile transmission equipment capabilities. Primary emphasis is being placed on the use of OCR equipment to generate direct input to disbursing center computer equipment for certain operations.

Following is a comparison of workloads for fiscal years 1971 and 1972.

Classification	Volume	
	1971	1972
Operations financed by appropriated funds:		
Checks:		
Social security benefits.....	303,275,542	294,664,438
Veterans benefits.....	76,435,033	76,012,925
Income tax refunds.....	56,110,340	55,617,958
Veterans national service life insurance dividends program.....	3,958,660	5,185,754
Other.....	56,623,973	59,715,385
Savings bonds.....	7,057,044	7,473,003
Adjustments and transfers.....	285,348	301,334
	503,745,958	499,770,797
Operations financed by reimbursements:		
Railroad Retirement Board.....	14,684,146	14,586,411
Bureau of the Public Debt (General Electric Co. bond program).....	966,530	999,822
Total workload—reimbursable items.....	15,650,676	15,586,233
Total workload.....	519,396,634	515,357,030

¹ Includes 23 million checks for retroactive social security benefits.

Cash management

On July 1, 1971, a new Division of Cash Management was created to give emphasis to the important objective of improving cash management practices in all Government agencies and in the depository system. Cash management efforts in the past had been pursued in terms of specific systems or operations with responsibility limited in various parts of the Bureau. The new concentration is designed to provide better opportunities for continuous, systematic attention in order to optimize the timing of collections and disbursements in the Government's interests, to insure that the cost of depository services is reasonable, to minimize the amount of cash held outside the Treasury, and to improve utilization of foreign currencies. The Division was staffed entirely from within the Bureau.

Federal depositary system.—The types of depositary services provided and the number of depositaries for each of the authorized services as of June 30, 1971 and 1972, are shown in the following table:

Type of service provided by depositaries	1971	1972
Receive deposits from taxpayers and purchasers of public debt securities for credit in Treasury tax and loan accounts.....	12, 856	13, 049
Receive deposits from Government officers for credit in Treasurer's general accounts..	1, 186	1, 153
Maintain checking accounts for Government disbursing officers and for quasi-public funds.....	8, 094	7, 566
Furnish bank drafts to Government officers in exchange for collections.....	815	1, 213
Maintain State unemployment compensation benefit payment and clearing accounts..	54	54
Operate limited banking facilities:		
In the United States and its outlying areas.....	222	209
In foreign areas.....	255	249

Investments and other activities

Investments.—The Secretary of the Treasury, under specific provisions of law, is responsible for investing various Government trust funds. The Department also furnishes investment services for other funds of Government agencies. Investing was begun during the year for the Postal Service Fund. At the end of fiscal 1972, Government trust funds and accounts held public debt securities (including special securities issued for purchase by the major trust funds as authorized by law) and Government agency securities. See the Statistical Appendix for table showing the investment holdings by Government agencies and accounts.

Loans by the Treasury.—The Bureau administers loan agreements with those Government corporations and agencies that have authority to borrow from the Treasury. See the Statistical Appendix for tables showing the status of Treasury loans to Government corporations and agencies as of June 30, 1972.

Surety bonds.—Prior to the enactment of Public Law 92-310 on June 6, 1972, which repealed all statutory requirements for bonding Federal personnel in connection with the faithful performance of their official duties, executive agencies were required by law (6 U.S.C. 14) to obtain, at their own expense, blanket, position schedule, or other types of surety bonds covering employees required to be bonded. The legislative and judicial branches were permitted by the latter law to follow the same procedure. Under the new law, the Government acts as a self-insurer for its fidelity losses, and the agencies can, under regulations of the Comptroller General, charge uncollectible losses against their operating appropriations. The law provides, however, that surety bonds presently held by the agencies shall remain in force until expiration, subject to the cancellation and other provisions therein. Accordingly, the following summary of bonding activities of the agencies covers the entire fiscal year.

Number of officers and employees covered on June 30, 1972.....	103, 705
Aggregate penal sums of bonds procured.....	\$511, 538, 710
Total premiums paid by the Government in fiscal 1972.....	\$122, 722
Administrative expenses in fiscal 1972.....	\$87, 922

Foreign indebtedness

World War I.—The Governments of Finland and Greece made payments during fiscal 1972 of \$352,545 and \$328,898.02, respectively. For

status of World War I indebtedness to the United States, see the Statistical Appendix.

Credit to the United Kingdom.—The Government of the United Kingdom made a principal payment of \$65.9 million and an interest payment of \$64.4 million on December 31, 1971, under the Financial Aid Agreement of December 6, 1945, as amended March 6, 1957. The interest payment included \$10.9 million representing interest on principal and interest installments previously deferred. Through June 30, 1972, cumulative payments totaled \$2,051.1 million, of which \$1,135.8 was interest. A principal balance of \$2,834.7 million remains outstanding; interest installments of \$319.9 million which have been deferred by agreement also were outstanding at the fiscal yearend.

Japan, postwar economic assistance.—The Government of Japan made payments in fiscal 1972 of \$39.3 million in principal and \$4.5 million in interest on its indebtedness arising from postwar economic assistance. Cumulative payments through June 30, 1972, totaled \$337.2 million principal and \$79.9 million interest, leaving an unpaid principal balance of \$152.8 million.

Indonesia, consolidation of debts.—The Government of the Republic of Indonesia made payments in fiscal 1972 of \$3,048,680.10 in principal and \$183,087.85 in interest on deferred principal installments in accordance with the Indonesian Bilateral Agreement of March 16, 1971. The normal payment of interest on principal is not due until June 11, 1985.

Payment of claims against foreign governments

The 12th installment of \$2 million was received from the Polish Government under the Agreement of July 16, 1960, and pro rata payments on each unpaid award were authorized. Private Law 91-210, approved December 9, 1970, required the Foreign Claims Settlement Commission to redetermine a claim of an American national against the Government of Poland which resulted in a supplemental award in the principal amount of \$925,000. A payment equal to the total percentage previously authorized on the Polish awards was made on this supplemental award in fiscal 1972.

The Department of the Treasury received an additional \$7,600,000 for deposit into the War Claims Funds for payment on awards certified under the War Claims Act of 1948, as amended by Public Law 91-571, approved December 24, 1970. A payment of the balance of the awards to nonprofit organizations totaling \$2,850,469.96 was made, and a payment of up to \$11,000 was made on each remaining award.

As required by the International Claims Settlement Act of 1949, as amended, the Foreign Claims Settlement Commission completed its adjudication of claims under the second Bulgarian, Rumanian, and Italian claims programs. Pro rata distributions were authorized on awards certified against those governments under both the first and second programs. See Statistical Appendix for more details.

Defense lending

Defense Production Act.—Loans outstanding were reduced from \$6.4 to \$5.6 million during fiscal 1972. Further transfers of \$1 million were made to the account of the General Services Administration

from the net earnings accumulated since inception of the program, bringing the total of these transfers to \$29.2 million.

Federal Civil Defense Act.—Outstanding loan of \$44,655 was paid in full during fiscal 1972.

Liquidation of Reconstruction Finance Corporation assets.—The Secretary of the Treasury's responsibilities in the liquidation of RFC assets relate to completing the liquidation of business loans and securities with individual balances of \$250,000 or more as of June 30, 1957, and securities of and loans to railroads and financial institutions. Net income and proceeds of liquidation amounting to \$55.8 million have been paid into Treasury as miscellaneous receipts since July 1, 1957. Total unliquidated assets as of June 30, 1972, had a gross book value of \$7.1 million.

Liquidation of Postal Savings System

Effective July 1, 1967, pursuant to the act of March 28, 1966, (39 U.S.C. 5225-5229), the unpaid deposits of the Postal Savings System were required to be transferred to the Secretary of Treasury for liquidation purposes. As of June 30, 1970, a total amount of \$65,139,269.29 representing principal and accrued interest on deposits had been transferred for payment of depositor accounts. All deposits are held in trust by the Secretary pending proper application for payment. Through fiscal 1972, payments totaling \$56,024,669.06 had been made including \$1,084,849.54 during fiscal 1972.

Public Law 92-117, approved August 13, 1971, provides for the periodic pro rata distribution among the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam of the available amounts of unclaimed Postal Savings deposits. A distribution of \$5 million was made to the States and the other jurisdictions during fiscal 1972.

Federal tax deposits

The Federal tax deposit system is used for the collection of individual and corporate income tax, social security tax, railroad retirement tax, unemployment tax, and Federal excise tax. The Bureau of Accounts prepares and mails Federal tax deposit forms quarterly to private enterprises. During fiscal 1972, the disbursing centers issued 98 million forms. The following table shows the volume of deposits processed by Federal Reserve banks for fiscal years 1960-72.

Fiscal year	Individual income and social security taxes	Railroad retirement taxes	Federal excise taxes	Corporate income taxes	Unemployment taxes	Total
1960.....	9,469,057	10,625	598,881	.....	.....	10,078,563
1961.....	9,908,068	10,724	618,971	.....	.....	10,537,763
1962.....	10,477,119	10,262	610,026	.....	.....	11,097,407
1963.....	11,161,897	9,937	619,519	.....	.....	11,791,353
1964.....	11,729,243	9,911	633,437	.....	.....	12,372,591
1965.....	12,012,385	9,859	644,753	.....	.....	12,666,997
1966.....	12,518,436	9,986	259,952	.....	.....	12,788,374
1967.....	15,007,304	10,551	236,538	22,783	.....	15,277,176
1968.....	17,412,921	14,596	233,083	394,792	.....	18,055,392
1969.....	23,939,080	12,479	272,048	1,297,052	.....	25,520,659
1970.....	26,612,484	11,622	296,487	1,235,452	192,905	28,348,950
1971.....	28,714,587	12,367	323,730	1,249,034	956,201	31,255,919
1972.....	32,336,751	15,080	364,656	1,309,668	1,409,527	35,435,582

NOTE.—Comparable data for 1944-59 will be found in the 1962 Annual Report, p. 141.

Government losses in shipment

Claims totaling \$823,258.86 were paid from the fund established by the Government Losses in Shipment Act, as amended. Details of operations under this act are shown in the Statistical Appendix.

Other operations

Donations and contributions.—During the year, the Bureau of Accounts received “conscience fund” contributions totaling \$46,373.59 and other unconditional donations totaling \$1,123,015.44. Other Government agencies received conscience fund contributions and unconditional donations amounting to \$7,743.34 and \$87,517.20, respectively. Conditional gifts to further the defense effort amounted to \$1,355.65. Gifts of money and the proceeds of real or personal property donated in fiscal 1972 for reducing the public debt amounted to \$110,038.72.

BUREAU OF THE PUBLIC DEBT

The Bureau of the Public Debt, in support of the management of the public debt, has responsibility for the preparation of Department of the Treasury circulars offering public debt securities, the direction of the handling of subscriptions and making of allotments, the formulation of instructions and regulations pertaining to each security issue, the issuance of the securities, and the conduct or direction of transactions in those outstanding. The Bureau is responsible for the final audit and custody of retired securities, the maintenance of the control accounts covering all public debt issues, the keeping of individual accounts with owners of registered securities and authorizing the issue of checks in payment of interest thereon, and the handling of claims on account of lost, stolen, destroyed, or mutilated securities.

The Bureau’s principal office and headquarters is in Washington, D.C. Offices also are maintained in Chicago, Ill., and Parkersburg, W. Va., where most Bureau operations related to U.S. savings bonds and U.S. savings notes are handled. Under Bureau supervision many transactions in public debt securities are conducted by the Federal Reserve banks and their branches as fiscal agents of the United States. Approximately 18,600 private financial institutions, industrial organizations, selected post offices, and others cooperate in the issuance of savings bonds, and approximately 16,900 financial institutions act as paying agents for savings bonds.

Management improvement

In the Washington office, the registered accounts activities were transferred from the Division of Loans and Currency to the Division of Public Debt Accounts. The latter Division, now responsible for maintaining the accounts with owners of registered Treasury securities and authorizing the issuance of registered interest checks, will continue to maintain the accounts covering principal, both cash and securities, and interest cost.

Concurrently, the remaining functions of the Division of Loans and Currency were combined with the functions of the Division of Retired Securities to form a new organizational segment called the Division of Securities Operations. The responsibilities of the new Division include the unissued stock and security transaction operations of the former Division of Loans and Currency as well as the security and

coupon audit operations and the numerical records of the former Division of Retired Securities.

In connection with the registered accounts activity of the Washington office, a major project was initiated to decrease processing time, improve the accuracy of records, and generally enhance the efficiency of operations. A computerized system was designed to create and maintain the individual ownership accounts which at present are only semiautomated. When completed, a full master record will be kept on magnetic tape, and the automated system will record and process all pertinent data from the time a registered security is inscribed and issued through its eventual retirement. In addition, the necessary information as to registered interest will be maintained for each registered owner, and regular interest payment authorizations will be generated from the computerized system. Conversion of the more than 300,000 manual accounts began in June and is expected to be completed in the latter part of fiscal 1973.

An automated system has been developed and implemented for processing retired Treasury bills. Through effective utilization of the computer, the separate functions of recording, controlling, auditing, and preparing destruction schedules were combined into one highly efficient operation.

To facilitate the processing of claims for lost or stolen securities and thus improve service to the investors, the Bureau reorganized its recordkeeping and computerized its data on securities reported missing. A claims file on magnetic tape contains the descriptions of some 8,000 securities and the claims to which they are related. Data is updated regularly, and a portion of the file, representing securities not yet overdue, is included in a checklist maintained by the Federal Reserve banks, as a means of screening securities presented to the banks.

The Bureau is cooperating in a nationwide effort to recover missing securities and apprehend security thieves. Both the Federal Reserve bank checklist and the master claims file are being made available to the FBI for investigative purposes.

In the Parkersburg office the stub adjustment operation in the Issue and Retirement Processing Section was consolidated with the issues-on-tape activity in the Accounts Section. Merging these two similar operations resulted in a better work flow, the elimination of duplicate control factors, and simplification in the interchange of personnel, thereby providing a more efficient utilization of personnel and the elimination of seven clerical positions.

The program to have large-volume issuing agents report series E savings bond sales on magnetic tape in lieu of registration stubs was expanded to include three additional Treasury disbursing centers, one Defense Department installation, one Federal Reserve bank and three private companies. There are now 24 agents participating in the issues-on-tape program.

Key-to-tape encoders in the Washington office were replaced with a key-to-disk system resulting in lower rental costs per machine, use of less floor space and easier handling of data throughout. This new system has greater capabilities than the old one. The manually controlled magnetic tape library was converted to an automated tape library system, resulting in a more efficient tape system and a reduction in the number of magnetic tapes.

Arrangements were made for facsimile transmission machines to be installed in each of the 12 Federal Reserve banks enabling the Treasury to furnish details on financing operations more expeditiously to the Federal Reserve banks. In turn this will aid the banks, in their capacity as fiscal agents, to disseminate the information within their districts in a timely manner.

A central dictation system was procured for installation in the Correspondence and Claims Branch of the Division of Securities Operations, Washington office. This will link 26 correspondents and supervisors at individual dictating stations to a series of endless loop recorders. A unique feature of this system is the capability for simultaneous recording and transcribing. It is anticipated that there will be an approximate two-thirds reduction in the time necessary to draft correspondence. As an additional benefit, the system can be readily expanded to service additional functions as needed.

A new "Identification Guide for Cashing U.S. Savings Bonds" was developed and distributed to paying agents. Replacing instructions issued in 1947, the new guide clarifies and standardizes the responsibilities of paying agents with respect to obtaining and documenting the identification of presenters of savings bonds. By following the guide, agents will be protected against financial loss in cases in which bonds are cashed for the wrong person.

A move was begun to consolidate all savings bond functions which are performed in the Chicago and Parkersburg offices into one office to be located in Parkersburg. The initial phase of the consolidation involved the relocation from Chicago to Parkersburg of the adjudication of claims for relief on account of the loss, theft, or destruction of savings bonds. The consolidation will simplify many operations, eliminate the duplication and overlapping of organizations and functions, reduce the time needed to process cases and correspondence, permit the combination of data processing and other equipment and facilities in the interest of increased effectiveness, allow better utilization of space, provide for centralized direction of activities, and in general make it possible to perform savings bond operations with greater efficiency and at less cost. Future plans and progress in completing the consolidation are awaiting the procurement of space to house the combined operations. In the meantime, the personnel complement of the Chicago office is being reduced by normal attrition and transfer, while a staff is being trained in Parkersburg at a deliberate pace that will permit the orderly transfer of functions.

Special records disposal projects were initiated in anticipation of the consolidation of the Chicago and Parkersburg offices and the physical moving of some components of the Washington office. As a result, 40,070 cubic feet of records have been destroyed, and 4,058 cubic feet of records were transferred to a Federal Records Center.

Bureau operations

During the year, 50,234 individual accounts covering publicly held registered securities other than savings bonds, savings notes, and retirement plan bonds were opened and 75,662 were closed. This decreased the number of open accounts to 269,951 covering registered securities in the principal amount of \$9,702 million. There were 495,096 interest checks with a value of \$416 million issued during the year.

Redeemed and canceled securities other than savings bonds, savings notes, and retirement plan bonds received for audit included 4,979,360 bearer securities and 242,945 registered securities. Coupons totaling 16,004,810 were received.

During the year, 26,998 registration stubs of retirement plan bonds and 7,578 retirement plan bonds were received for audit.

A summary of public debt operations handled by the Bureau appears on pages 20-28 of this report and in the Statistical Appendix.

U.S. savings bonds.—The issuance and redemption of savings bonds result in a heavy administrative burden for the Bureau of the Public Debt, involving: Maintenance of ownership records for the 3.6 billion bonds issued since 1935; adjudication of claims for lost, stolen, and destroyed bonds; and the audit and recording of retired bonds.

Detailed information on sales, accrued discount, and redemptions of savings bonds will be found in the Statistical Appendix.

There were 135 million stubs or records on magnetic tape and microfilm representing the issuance of series E bonds received for registration, making a grand total of 3,503 million, including reissues, received through June 30, 1972.

All registration stubs of series E savings bonds and all retired series E savings bonds are microfilmed, audited, and destroyed, after required permanent record data are prepared by an EDP system in the Parkersburg office. The following table shows the status of processing operations for savings bonds in the Parkersburg office.

Fiscal year	Re- ceived	Micro- filmed	Key punched	Con- verted to mag- netic tape	Audited and classi- fied	De- stroyed	Balance			
							Un- filmed	Not key punched	Not converted to magnetic tape	Unau- dited
Stubs of issued card type series E savings bonds (in millions of pieces)										
1958-67.....	911	910	.....	907	903	859	2.6	.....	5.2	8.9
1968.....	102	103	.....	103	103	98	1.7	.....	4.4	8.1
1969.....	104	102	.....	102	102	104	3.1	.....	6.6	9.7
1970.....	98	98	.....	98	95	108	3.3	.....	6.9	13.2
1971.....	101	104	.....	106	108	107	.5	.....	1.6	6.1
1972.....	104	104	.....	104	107	137	.2	.....	1.5	2.8
Total ¹	1,421	1,421	.....	1,419	1,418	1,414	.....	.....	.....	.....
Retired card type series E savings bonds and savings notes ² (in millions of pieces)										
1958-67.....	619	618	614	614	611	577	2.0	4.9	5.5	8.3
1968.....	95	94	96	97	95	84	2.5	3.6	3.6	7.6
1969.....	111	110	108	108	106	98	3.4	6.7	6.7	11.9
1970.....	116	116	118	117	114	125	3.6	5.3	5.7	14.2
1971.....	110	114	115	115	119	124	0	.5	.5	5.6
1972.....	105	105	105	105	108	131	.1	.5	.5	2.8
Total.....	1,156	1,156	1,156	1,155	1,153	1,139	.....	.....	.....	.....
Retired paper type series E savings bonds (in millions of pieces)										
1962-67 ³	101.5	101.1	.....	100.7	100.1	89.4	0.4	.....	0.8	1.4
1968.....	15.2	15.2	.....	15.2	15.3	13.8	.4	.....	.8	1.3
1969.....	13.7	13.7	.....	13.7	13.7	18.4	.4	.....	.8	1.3
1970.....	13.3	13.3	.....	13.4	13.0	15.5	.4	.....	.7	1.6
1971.....	10.1	10.5	.....	10.6	11.3	8.9	0	.....	.1	.4
1972.....	8.9	8.9	.....	8.9	9.0	15.5	0	.....	.1	.3
Total.....	162.7	162.7	.....	162.6	162.4	161.5	.....	.....	.....	.....

¹ Excludes records received on magnetic tape: 5.3 million in 1965, 6.4 million in 1966, 12.8 million in 1967, 17.2 million in 1968, 19.9 million in 1969, 22.7 million in 1970, 24.6 million in 1971, and 31.3 million in 1972 for a total of 140.2 million.

² U.S. savings notes were first issued in May 1967, and the sale of the notes was terminated on June 30, 1970.

³ In 1962 (and prior years) most paper type bonds were processed in other offices manually and on tabulating equipment.

Of the 108.9 million series A-E savings bonds and savings notes redeemed and charged to the Bureau during the year, 106.2 million (98 percent) were redeemed by authorized paying agents. For these redemptions these agents were reimbursed quarterly at the rate of 15 cents each for the first 1,000 bonds and notes paid and 10 cents each for all over the first 1,000 for a total of \$13,798,587 and an average of 12.99 cents per bond and note.

The following table shows the number of issuing and paying agents for series A-E savings bonds by classes.

June 30	Post offices ¹	Banks	Building and savings and loan associations	Credit unions	Companies operating payroll plans	All others	Total ²
Issuing agents:							
1945.....	24,038	15,232	3,477	2,081	3,605	(3)	54,433
1950.....	25,060	15,225	1,557	522	3,052	550	45,966
1955.....	2,476	15,692	1,555	428	2,942	588	23,681
1960.....	1,093	16,436	1,851	320	2,352	643	22,695
1965.....	943	14,095	1,702	246	1,695	510	19,191
1968.....	870	14,234	1,701	227	1,485	448	18,965
1969.....	836	14,267	1,711	230	1,408	446	18,897
1970.....	777	14,319	1,698	224	1,365	442	18,825
1971.....	735	14,415	1,693	219	1,374	404	18,840
1972.....	380	14,582	1,669	218	1,311	404	18,564
Paying agents:							
1945.....		13,466					13,466
1950.....		15,623	874	137		57	16,691
1955.....		16,269	1,188	139		56	17,652
1960.....		17,127	1,797	169		60	19,153
1965.....		14,190	1,816	157		15	16,178
1968.....		14,304	1,970	175		14	16,463
1969.....		14,336	1,997	176		15	16,524
1970.....		14,399	1,998	181		18	16,597
1971.....		14,489	1,998	182		12	16,681
1972.....		14,635	2,054	165		10	16,864

¹ Estimated by the Post Office Department for 1955 and thereafter. Sale of series E savings bonds was discontinued at post offices at the close of business on Dec. 31, 1953, except in those localities where no other public facilities for their sale were available.

² Effective Dec. 31, 1960, a substantial reduction was made due to reclassification by Federal Reserve banks to include only the actual number of entities currently qualified. Does not include branches active in the savings bond program.

³ "All others" included with companies operating payroll plans.

Interest checks issued on current income-type savings bonds (series H) during the year totaling 4,140,666 with a value of \$372,245,686. New accounts established for series H bonds totaled 120,865 while accounts closed totaled 105,706, an increase of 15,159 accounts.

Applications received during the year for the issue of duplicates of savings bonds and savings notes lost, stolen, or destroyed after receipt by the registered owner or his agent totaled 42,682. In 26,514 of such cases the issuance of duplicate bonds was authorized. In addition, 17,350 applications for relief were received in cases where the original bonds were reported as not being received after having been mailed to the registered owner or his agent.

OFFICE OF THE TREASURER OF THE UNITED STATES

The Office of the Treasurer of the United States was created by the act of September 2, 1789 (1 Stat. 65; 31 U.S.C. 141), for the purpose of receiving, holding, and paying out the public moneys for the Federal Government. The Office maintains accounts of the source, location, and disposition of these funds.

The Treasury checks issued to pay virtually all of the Federal Government's obligations are drawn on the Treasurer, and upon their presentment for payment are examined by the Treasurer's Office and reconciled against the records of the issuing officers. In fiscal 1972, almost 655 million checks were issued from over 1,800 disbursing stations.

Claims for checks that are lost in the mails, or which bear forged endorsements, are paid by the Treasurer by issuing or authorizing the issuance of new checks. The Treasurer also handles claims for partially destroyed paper currency.

Most of the Federal Government's operating cash is held in accounts of the Treasurer maintained in the 36 Federal Reserve banks and branches. These banks have been designated, pursuant to law, as fiscal agents of the United States. Revenue receipts, public debt borrowings and other incoming moneys are credited to those accounts, and checks drawn on the Treasurer are charged to those accounts after they have been endorsed by the payees and enter the banking system for collection from the Treasurer. The Federal Reserve banks make daily reports of these transactions to the Treasurer, who keeps cash accounts of the Federal Government's receipts and disbursements and publishes daily reports of them.

Representatives of the Treasurer make regular inspections of the procedures employed by Federal Reserve banks in verifying and destroying paper currency of the United States which has become worn out and will be replaced. Unfit currency delivered to the Treasury in Washington, D.C., is verified and destroyed by the Treasury.

The Treasurer is vault custodian of a quantity of securities and other valuables deposited with the Treasury by many Government agencies.

In the Washington, D.C., area, the Treasurer supplies coin and currency to local banks, cashes checks drawn on the Treasurer, and issues and redeems Government bonds and other securities. In other parts of the country, these functions are performed by Federal Reserve banks and branches.

Management improvements

ADP management.—During fiscal 1972, the Treasurer's Office continued performing ADP services on a reimbursable basis and sharing its computer systems with other agencies. The computer systems are used primarily to process Government checks; however, during the year, the systems were used a total of 3,321 hours by personnel of the Treasurer's Office in performing services on a reimbursable basis for other bureaus and agencies, primarily for the U.S. Postal Service. In addition, the systems were used 1,464 hours by personnel of the Department of Labor after regular working hours and on weekends when the equipment was not needed for operations performed by the Treasurer's Office.

About 90 percent of the computer systems were purchased in 1962 and 1963 and the purchase cost is fully amortized. Because of this, the Office was able to provide computer time to other agencies at a cost of \$15,000. Purchase of this time through a commercial computer service company would have required an expenditure of \$385,000 thus providing a cost avoidance of \$370,000 to other departments.

Automation.—During fiscal 1972, substantial progress was made in developing a system that will automate the check claims operation. Contracts were awarded to three companies for the necessary equipment. Documentation work to implement the system is now underway. Late in fiscal 1972 some remote terminal devices and a remote optical character reader were delivered. These devices are connected to a Honeywell computer by telephone lines, and initial testing of the system has commenced.

The system will substantially improve service and cut costs in handling claims. Each step taken in the progression of a claim can be keyed into the memory of a computer and accumulated and at any time can be flashed in seconds on a television-like screen enabling a claims examiner to view the history and quickly decide what action is required each time a paper is received affecting the progress of the case.

Destruction of unfit paper currency.—To help reduce air pollution and reuse the currency paper in a constructive way, the Treasurer's Office has been testing alternative destruction methods of replacing incineration as the only method of destroying currency which is unfit for further circulation. Tests made to date show that it can be effectively destroyed by pulverization into a fibrous residue that can be efficiently used in the manufacture of roofing felt and as a "mud" in oil well drilling. One Federal Reserve bank is now pulverizing unfit currency and selling the residue, and four others have been authorized to procure necessary equipment.

Internal Auditing.—Audits of the various activities in the Office of the Treasurer provide the surveillance necessary to assure management that established policies and procedures are being followed and that assets are properly accounted for. Unannounced audits made of cash, negotiable securities, bond stock, and check stock are a deterrent to misappropriation of funds.

As a result of fiscal 1972 audits, internal controls were strengthened in the processing and recordkeeping of currency, coin, and Government securities. Internal audit work also assisted management in developing more efficient and economical procedures in performing financial operations.

Staffing and training.—During the year, most of the employees of the Check Claims Division and selected employees of other divisions were given formal training on the automated claims system. The course, given by Treasurer's Office employees, consisted of an introduction to data processing and to the new system; approximately 1,000 man-hours of training were received during these sessions.

Training in computer systems design, analysis operations, and programming, consuming about 440 man-days, was also received by bureau employees and was given in regularly scheduled classes by the computer manufacturer. A 1-day management orientation was provided for 25 senior management personnel.

Assets and liabilities in the Treasurer's account

A statement of the assets and liabilities in the Treasurer's account at the close of the fiscal years 1971 and 1972 appears in the Statistical Appendix. Balances shown in that statement, which is on a final accounting basis, may differ somewhat from balances mentioned herein

on the daily Treasury statement basis. The assets of the Treasurer consist of gold bullion, coin, coinage metal, paper currency, deposits in Federal Reserve banks, and deposits in commercial banks designated as Government depositaries.

Gold.—Although the Treasurer's gold stock decreased by 21.3 million ounces during fiscal 1972, there was a net increase of \$78 million in value. All gold held in the Treasurer's account on May 8, 1972, as well as gold held by the Exchange Stabilization Fund, was revalued from \$35 to \$38 per ounce pursuant to the Par Value Modification Act approved March 31, 1972.¹ Transactions at \$35 per ounce prior to revaluation consisted of the withdrawal of \$147.9 million previously deposited by the International Monetary Fund and sales of \$700.2 million offset by purchases of \$104.3 million. This reduced the beginning balance of \$10,332.1 million to \$9,588.3 by May 8, 1972, when revaluation was effected. Revaluation increased this value by \$821.9 million to \$10,410.2 million. Net sales of \$0.1 million at the new price of \$38 per ounce left the balance of \$10,410.1 million as the year ended.

Coinage metal.—Stocks of coinage metal stood at \$228.5 million at the beginning of fiscal 1972 and at \$216.8 at yearend. Such stocks include silver, copper, nickel, zinc, and alloys of these metals which are not yet in the form of finished coins.

Balances with depositaries.—During fiscal 1972, the Department arranged to open a new type of special demand account with certain major commercial banks. The Treasury deposits funds with the banks to compensate for services rendered but may withdraw such deposits upon demand during periods of temporary cash stringency, thereby reducing its need to resort to interim borrowing operations.

The number of depositaries of each type and the balances on June 30, 1972, on the daily Treasury statement basis, are shown in the following table:

	Number of accounts with depositaries ¹	Deposits to the credit of the Treasurer of the United States June 30, 1972
Federal Reserve banks and branches.....	36	² \$2,596,222,418
Other depositaries reporting directly to the Treasurer:		
Special demand accounts.....	6	139,070,000
Other:		
Domestic.....	20	2,902,098
Foreign ³	52	4,546,392
Depositaries reporting through Federal Reserve banks:		
General depositaries, etc.....	1,925	151,454,860
Special depositaries, Treasury tax and loan accounts.....	13,049	7,634,121,872
Total.....	15,088	10,523,317,640

¹ Includes only depositaries having balances with the Treasurer of the United States on June 30, 1972. Excludes depositaries designated to furnish official checking account facilities or other services to Government offices, but which are not authorized to maintain accounts with the Treasurer. Banking institutions designated as general depositaries are frequently also designated as special depositaries, hence the total number of accounts exceeds the number of institutions involved.

² Includes checks for \$252,181,961 in process of collection.

³ Principally branches of U.S. banks and of the American Express International Banking Corp.

¹ See exhibit 55.

Bureau operations

Receiving and disbursing public moneys.—Government officers deposit moneys which they have collected to the credit of the Treasurer of the United States. Such deposits may be made with the Treasurer in Washington, D.C., or at Federal Reserve banks or designated Government depositories, domestic and foreign. Certain taxes are also deposited directly by the employers or manufacturers who withhold or pay them. All payments are withdrawn from the Treasurer's account. Moneys deposited and withdrawn in the fiscal years 1971 and 1972, exclusive of certain intragovernment transactions, are shown in the following table on the daily Treasury statement basis:

Deposits, withdrawals, and balances in the Treasurer's account	1971	1972
Balance at beginning of fiscal year	\$9, 015, 895, 781	\$9, 910, 720, 039
Cash deposits:		
Internal revenue, customs, trust fund, and other collections	205, 960, 854, 544	228, 285, 455, 364
Public debt receipts ¹	354, 848, 290, 216	466, 356, 112, 806
Less:		
Accruals on savings bonds and notes, retirement plan bonds and Treasury bills	6, 586, 378, 312	6, 660, 949, 840
Purchases by Government agencies ²	109, 361, 742, 281	117, 118, 702, 447
Sales of securities of Government agencies in market ²	27, 090, 702, 648	25, 964, 803, 130
Total deposits	471, 951, 726, 815	596, 826, 719, 012
Cash withdrawals:		
Budget and trust accounts, etc	229, 353, 484, 378	244, 879, 617, 807
Public debt redemptions ¹	327, 637, 252, 710	437, 225, 396, 321
Less:		
Redemptions included in budget and trust accounts	6, 625, 358, 604	5, 462, 501, 032
Redemptions by Government agencies ²	101, 050, 378, 960	108, 133, 198, 963
Redemptions of securities of Government agencies in market ²	23, 563, 823, 950	21, 286, 237, 625
Total withdrawals	472, 878, 823, 474	589, 795, 551, 759
Change in clearing accounts (checks outstanding, deposits in transit, unclassified transactions, etc.), net deposits, or withdrawals (-)	1, 821, 920, 918	-5, 632, 240, 221
Balance at close of fiscal year	9, 910, 720, 039	11, 309, 647, 071

¹ For details see Statistical Appendix.

² "Government agencies," as here used, includes certain enterprises which have been converted to private ownership.

Issuing and redeeming paper currency.—The Treasury is required by law (31 U.S.C. 404) to issue U.S. notes in amounts equal to those redeemed. To comply with this requirement in the most economical manner, Treasury issues U.S. notes only in the \$100 denomination and only for local distribution in the Washington, D.C. area. Silver certificates are no longer issued. New series unfit U.S. notes and silver certificates are redeemed and destroyed at the Federal Reserve banks and at the Treasurer's Office in Washington, D.C.

Federal Reserve notes constitute nearly 99 percent of the paper currency in circulation. After being printed by the Bureau of Engraving and Printing, these notes are held in a reserve vault for the account of the Comptroller of the Currency. The Bureau ships notes to Federal Reserve banks as needed. Federal Reserve banks obtain notes for issuance to the commercial banking system by depositing equivalent amounts of collateral with their respective agents.

As the notes become unfit for further circulation, they are retired under procedures prescribed by the Fiscal Assistant Secretary pursuant to delegation from the Secretary. Approximately 97 percent of the notes retired are verified and destroyed at the Federal Reserve banks. The remainder are verified and destroyed at the Treasury Department in Washington.

The Treasurer's Office accounts for Federal Reserve notes from the time that they are delivered by the Bureau of Engraving and Printing until redeemed and destroyed. The accounts show the amounts for each bank of issue and each denomination of notes held in the reserve vault, held by each Federal Reserve agent, or issued and outstanding.

The Treasurer's Office retires unfit paper currency of all types received locally in Washington and from Government offices abroad, and handles all claims involving burned or mutilated currency. During fiscal 1972, payments totaling \$7.3 million were made to 51,326 claimants for burned and mutilated currency cases.

A comparison of the amounts of paper currency of all classes, issued, redeemed, and outstanding during the fiscal years 1971 and 1972 follows:

	Fiscal year 1971		Fiscal year 1972	
	Pieces	Amount	Pieces	Amount
Outstanding July 1.....	5,373,864,149	\$51,054,900,945	5,613,768,498	\$55,114,602,017
Issues during year.....	2,603,816,820	16,540,908,000	2,715,007,699	16,841,876,620
Redemptions during year.....	2,363,912,471	12,481,206,928	2,330,529,038	13,054,507,197
Outstanding June 30.....	5,613,768,498	55,114,602,017	5,998,247,159	58,901,971,440

Details of the issues and redemptions for fiscal 1972 and of the amounts outstanding at yearend are given by class of currency and by denomination in a table in the Statistical Appendix. Other tables in that volume give further information on the stock and circulation of money in the United States.

Processing Federal tax deposits.—Under provisions of Treasury Department Circular No. 1079, tax withholders and certain taxpayers are supplied with partially punched cards which they forward to their banks with their tax payments. The cards are then routed to Federal Reserve banks which complete the punching and forward them to the Treasurer's Office in Washington. The Treasurer's Office enters the data from the cards on magnetic tapes which are furnished to the Internal Revenue Service for reconciliation with taxpayers' returns. This procedure obviates any handling of tax remittances in the Department and expedites the crediting of tax payments in the Treasurer's account.

The types of tax payments which are collected in this manner include withheld individual income and social security taxes, corporation income taxes, certain excise taxes, railroad retirement taxes, and Federal unemployment taxes. Collections received under this procedure in fiscal 1972 totaled \$159,889 million and required the processing of 32.4 million cards, compared with \$144,269.1 million collected and 31.3 million cards processed in the previous year.

Paying grants through letters of credit.—Treasury Department Circular No. 1075, dated May 28, 1964, established a procedure “to preclude withdrawals from the Treasury any sooner than necessary” in cases where Federal programs are financed by grants or other payments to State or local governments or to educational or other institutions. Under this procedure Government departments and agencies issue letters of credit which permit grantees to make withdrawals from the account of the Treasurer of the United States as they need funds to accomplish the object for which a grant has been awarded.

By the close of fiscal 1972, 69 Government agency accounting stations were making disbursements through letters of credit. During the year, the Treasurer’s Office processed 76,569 withdrawal transactions, aggregating \$34,658.2 million, compared with 69,932 transactions, totaling \$28,341.7 million, in fiscal 1971.

Checking accounts of disbursing officers and agencies.—As of June 30, 1972, the Treasurer maintained 1,808 checking accounts, compared with 1,831 the year before. The number of checks paid by categories of disbursing officers during fiscal 1971 and 1972 follow.

Disbursing officers	Number of checks paid	
	1971	1972
Treasury.....	502, 539, 420	517, 684, 629
Air Force.....	34, 488, 996	30, 403, 130
Army.....	35, 966, 044	36, 516, 872
Navy.....	38, 511, 782	36, 332, 907
Other.....	29, 080, 264	33, 587, 763
Total.....	640, 586, 506	654, 525, 301

Settling check claims.—During fiscal 1972, the Treasurer received 798,000 requests to stop payment on Government checks. This resulted in 486,000 paid check claims acted upon during the year, including 58,000 referred to the U.S. Secret Service for investigation because of forgery, alteration, counterfeiting, or fraudulent issuance and negotiation. Reclamation was requested from those having liability to the United States on 64,000 claims with a value of \$10.4 million. During the year, 64,000 paid check claims totaling \$20.5 million were settled. In addition, claims by payees and others involving 189,000 outstanding checks were acted upon. Of these, 173,000 were certified for issuance of substitute checks valued at \$128.2 million to replace checks that were not received or were lost, stolen, or destroyed.

The Treasurer treated as canceled and transferred to accounts of agencies concerned the proceeds of 30,000 unavailable outstanding checks, totaling \$12.4 million.

Collecting checks deposited.—Government offices during the year deposited 8.4 million commercial checks, drafts, money orders, etc., with the Treasurer’s Cash Division in Washington for collection.

Custody of securities.—The face value of securities held in the custody of the Treasurer as of June 30, 1971, and June 30, 1972, is shown below.

Purpose for which held	June 30	
	1971	1972
As collateral:		
To secure deposits of public moneys in depository banks.....	\$37,103,100	\$33,626,100
In lieu of sureties.....	5,005,250	6,855,950
In custody for government officers and others:		
For the Secretary of the Treasury ¹	37,384,997,232	38,896,504,840
For the Comptroller of the Currency.....	11,307,500	11,493,000
For the Federal Deposit Insurance Corporation.....	245,000,000	245,000,000
For the Rural Electrification Administration.....	147,157,000	183,314,400
For the District of Columbia.....	386,480,066	500,800,202
For the Commissioner of Indian Affairs.....	34,172,150	1,746,125
Foreign obligations ²	12,028,276,451	12,024,056,451
Other ³	120,013,619	117,852,334
For government security transactions:		
Unissued bearer securities.....	1,705,536,950	1,611,914,150
Total.....	52,105,049,318	53,633,163,552

¹ Includes those securities listed in table 108 in the Statistical Appendix as in custody of the Treasury.

² Issued by foreign governments to the United States for indebtedness arising from World War I.

³ Includes U.S. savings bonds in safekeeping for individuals.

Servicing securities for Federal agencies and Government-sponsored enterprises.—In accordance with agreements between the Secretary of the Treasury and the agencies and enterprises listed below, the Treasurer of the United States acts as special agent for the payment of principal and interest on their securities. A comparison of these payments during the fiscal years 1971 and 1972, on the daily Treasury statement basis, is as follows:

Payment made for	1971		1972	
	Principal redeemed	Interest paid	Principal redeemed	Interest paid
Banks for cooperatives.....	\$3,240,675,000	\$123,834,962	\$3,452,060,000	\$93,423,813
District of Columbia Armory Board.....		716,604		1,112,622
Federal home loan banks.....	7,230,855,000	818,665,913	2,355,760,000	566,423,590
Federal Housing Administration.....	65,578,550	21,056,873	54,127,500	20,084,087
Federal intermediate credit banks.....	6,010,905,000	383,933,952	6,486,720,000	313,430,614
Federal land banks.....	1,923,259,500	432,195,949	1,989,039,700	455,650,761
Federal National Mortgage Association.....	3,315,313,000	709,882,164	3,653,214,000	1,038,847,492
Others.....	152,900	23,994	128,425	18,189
Total.....	21,786,738,950	2,490,310,411	17,991,049,625	2,488,991,166

Office of Foreign Assets Control

The Office of Foreign Assets Control administers the Department of the Treasury's freezing controls. The Foreign Assets Control Regulations and the Cuban Assets Control Regulations prohibit, unless licensed, trade and financial transactions with North Korea, North Vietnam, Cuba, and their nationals, and block assets in the United States of such countries and their nationals. Under general licenses issued during fiscal 1971 and 1972, all transactions with the People's Republic of China are authorized with the exception of transactions abroad by foreign firms owned or controlled by Americans involving shipment to the People's Republic of China of internationally controlled strategic merchandise, unless licensed under the Transaction Control Regulations (see below), and with the exception of trans-

actions in Chinese assets blocked in the United States as of May 6, 1971.

The Office of Foreign Assets Control also administers the Transaction Control Regulations which supplement the export controls exercised by the Department of Commerce over direct exports from the United States to Eastern Europe and the U.S.S.R. These regulations prohibit, unless licensed, the purchase or sale or the arranging of the purchase or sale of strategic merchandise located outside the United States for ultimate delivery to communist countries of Eastern Europe, the U.S.S.R., mainland China, North Korea, and North Vietnam. The prohibitions apply not only to domestic American companies but also to foreign firms owned or controlled by persons within the United States. During fiscal 1971, these regulations were amended by the issuance of a general license permitting sales of these commodities to countries other than the People's Republic of China, North Korea, North Vietnam, or Tibet, providing shipment is made from and licensed by a COCOM member country. (COCOM is a NATO entity.) During fiscal 1972, this general license was amended to remove the People's Republic of China from the above exception.

The administration of assets remaining blocked under the World War II Foreign Funds Control Regulations was continued without change. These regulations apply to assets blocked under Executive Order 8389, as amended, of Hungary, Czechoslovakia, Estonia, Latvia, Lithuania, East Germany, and nationals thereof who were, on January 1, 1945, in Hungary, or on December 7, 1945, in Czechoslovakia, or on December 31, 1946, in East Germany.

The Rhodesian Sanctions Regulations are also administered by the Office of Foreign Assets Control. These regulations were issued under Executive Order 11419 of July 29, 1968, which broadened the mandatory economic sanctions against Southern Rhodesia which had been voted by the United Nations Security Council with U.S. support. During fiscal 1972, the regulations were administered without change except for the issuance of a general license to implement the provisions of section 503 of the Military Procurement Act of 1971. This general license authorizes imports of certain strategic and critical materials from Southern Rhodesia.

Under the Foreign Assets Control and the Transaction Control Regulations, the number of specific license applications received (including applications reopened) during fiscal year ending June 30, 1972, was 299. During that period, 343 applications were acted on.

Under the Cuban Assets Control Regulations, 392 applications for licenses were received (including applications reopened) during the fiscal year, and 397 applications were acted on. Comparable figures under the Foreign Funds Control Regulations were 243 applications received and 240 acted on. Under the Rhodesian Sanctions Regulations, 276 applications were received and 275 acted on.

Certain broad categories of transactions are authorized by general licenses set forth in the regulations, and such transactions may be engaged in by interested parties without the need for securing specific licenses.

During fiscal 1972, criminal case actions by the Department of Justice involving violations of the regulations administered by this Office

resulted in convictions in five cases and (a) court fines totalling \$4,500, (b) forfeiture of merchandise valued at \$124,887, and (c) civil penalties of \$5,000. During this period, the total value of merchandise forfeited was \$249,346, the total amount of seizures was \$50,787, and the total amount of penalties collected was \$63,890.

Internal Revenue Service ¹

The Internal Revenue Service administers the internal revenue laws embodied in the Internal Revenue Code (title 26 U.S.C.) and certain other statutes, including the Federal Alcohol Administration Act (27 U.S.C. 201-212), the Liquor Enforcement Act of 1936 (18 U.S.C. 1261, 1262, 3615), the Gun Control Act of 1968 (18 U.S.C., chapter 44 and as amended in 1970), and Title VII of the Omnibus Crime Control and Safe Streets Act of 1968 (18 U.S.C. 1201-1203).

The Internal Revenue Service's mission is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the integrity and efficiency of the Service. This includes communicating the requirements of the law to the public, determining the extent of compliance and causes of noncompliance, and doing all things feasible to a proper enforcement of the law.

Financial Management Activities

The Service's fiscal 1972 budget totaled \$1.1 billion and provided for an employment level of close to 73,000. The budget amounts to about one-half of 1 percent of tax collections.

A number of developments brought financial changes to the Service. Late in fiscal 1971, the Secretary of the Treasury approved changes in the IRS organization that resulted in a newly designated appropriation: "Accounts, Collection and Taxpayer Service" (ACTS). This alignment was formed by joining the revenue accounting and returns processing functions, formerly a separate appropriation, with the collection activity and an expanded taxpayer service program. Another change was the establishment of the Alcohol, Tobacco, and Firearms Division as a separate bureau within Treasury effective July 1, 1972. This moved 4,000 man-years and \$73.7 million from IRS appropriations.

Another development involved the new responsibilities assigned under the economic stabilization program. Beginning with Phase I, the Service mobilized personnel in over 350 offices around the country to answer questions and check complaints. The Service applied about 425 man-years and \$5 million to the 90-day Phase I effort. The more extensive Phase II program called for a complete financial plan and a more permanent organization for stabilization activities. To handle Phase II, the Service retained about 3,000 jobs and about \$34 million through exemption from the 5-percent employment cutback applied during the year to all Government agencies.

¹ Additional information will be found in the separate "Annual Report of the Commissioner of Internal Revenue."

The year ended with the Service spending 99.3 percent of its total authorization and leaving an unobligated balance of \$7.8 million for return to the general fund.

Planning activities

The Service's planning activities faced new challenges in 1972 as a result of new legislation and necessary changes in procedures and equipment systems.

Planning activities encompass complex subjects such as the new asset depreciation range system, a restructuring of the income tax withholding system, a system for detecting unallowable tax return items prior to audit, revenue sharing, Federal collection of State income taxes, and full use of information documents to check delinquencies and income reporting. Service personnel conducted other projects to update the technology and capabilities of the Service's automatic data processing system and to support other essential programs of the Service.

Office of Industrial Economics.—The Service organized an Office of Industrial Economics as a division of its Planning and Research activities early in fiscal 1972. The new Office is responsible for recommending changes in definitions of asset guideline classes and in the associated depreciation and repair norms necessary to the new "class life depreciation range system." It is staffed by economists and engineers who formulate plans for collection and analysis of tax return data and collect information from trade sources to serve as a basis for elaborating the application of the class life system to various types of real and personal property, particularly computers, and to such varied activities as shipbuilding, communications, commercial fisheries, and animal husbandry. From these findings they recommend new classes and revision of existing asset classes and their depreciation and repair guidelines.

Taxpayers may use the class life system to determine allowances for depreciation of property for which the Secretary of the Treasury establishes guideline classes provided they adhere to prescribed accounting and reporting rules. Taxpayers electing the class life system may also elect to use a guideline repair allowance rule for determining repair and maintenance expense.

Federal collection of State individual income taxes.—The Congress is considering legislation to authorize the Service to collect and administer State individual income taxes. A State would have to conform its individual income tax law closely to the Federal law before agreements could be made so that taxpayers could readily compute their State income tax liabilities in connection with their Federal tax returns. Under the proposed legislation, Federal administrative and judicial procedures would apply to the collection of State income tax. The Service would collect State withholding and estimated taxes under the same procedures applicable to Federal taxes. Implementing this legislation would involve redesign of the Service's systems and procedures—including modifications in tax forms, instructions, regulations, internal operating procedures, and master file systems.

Total information document utilization program.—A plan for a wage and other income information tape file will incorporate all usable

information documents as a base for conducting more effective income and employment tax enforcement programs. This should increase taxpayer compliance by pinpointing delinquent return leads and assuring that payers and payees have properly reported all income and withheld taxes.

Technical reference information (TRI).—The Service tested an automated technical reference system this year. Computers stored information from the U.S. Code, the Cumulative Bulletin, Index Digest supplements, and selected court decisions. Attorneys and technical personnel at the National Office and the Cincinnati District searched this data base via remote terminals. Users input key words or phrases and the terminals display relevant citations abstracts, or text.

Remittance processing system (RPS).—Researchers began a program to modernize the depositing, clearing, and crediting of taxpayers' checks through an automated remittance processing system.

Under RPS the computer signals the operator to insert the taxpayer's check into the system after a taxpayer's identification and remittance amounts are verified. The check is then guided past print stations which automatically encode it with the remittance amount and endorse it, leaving a complete audit trail printed on the reverse side. The operator then places the accompanying document, such as a return or bill, into the numbering station for imprinting with the document number and remittance amount. While these operations are carried out the transaction is recorded on a remittance register.

The new system permits rapid posting of credits to tax account files and facilitates payment tracers.

Federal-State cooperation.—The Service expanded programs for Federal-State cooperation in tax administration in 1972. Tax administrators in 43 States and the District of Columbia and Puerto Rico now receive uniform data on magnetic tape from the Service's individual master file. Only 32 States received data the preceding year. The Service has now entered into agreements for exchange of information with all States, except Nevada and Texas, plus the District of Columbia and Puerto Rico.

Enforcement operations in hazardous duty areas.—The Service initiated a study of the hazards to enforcement personnel working in inner city areas with a high incidence of violent crime. The exclusive use of office audit techniques for returns from these areas and improved coordination of account collection activities are major areas of the study.

Significant developments for the tax models in 1972.—The use of a larger computer with a standard programming language for processing tax files meant more flexibility and greater speed and production capacity in tax model operations.

Researchers developed the tax models 9 years ago to determine estimates of the revenue effect of proposed tax legislation. Each model consists of the application of generalized computer programs to specially formatted data files made up of samples of taxpayer records. Since inception, they have been valuable tools for fiscal, administrative, and economic planning.

Uses of tax model tabulations can be shown by reference to the Revenue Act of 1971. In advance of the legislation, researchers devel-

oped statistical tables to simulate the revenue effects of proposed changes in personal deductions and exemptions for individuals and the effect of the proposed restoration of the investment credit provisions.

Informing and assisting taxpayers

The public affairs program on taxes.—Effective communication with taxpayers is essential to maintain a favorable attitude toward voluntary compliance. The Public Affairs Division is concerned with disseminating tax information to taxpayers through the use of mass media and advising management on matters of public import. To accomplish these objectives, public information programs are employed using every segment of the mass communications media.

The IRS National Office furnished numerous taxpayer information material (TIM) items covering tax law requirements to all field offices prior to, and during, the income tax filing period. The TIM series contains advice to taxpayers which field office representatives placed with local newspaper, radio, and television outlets. This year the Service provided a once-a-week tax column ("Taxpayers Ask IRS") to 1,508 daily newspapers and 5,986 weekly newspapers. It also furnished TIM spot announcements to 4,750 radio stations. Some 765 television stations carried IRS film spots. More than 360 television stations carried a 30-minute TIM film providing, in dramatic form, tax hints for the public. As a public service, motion picture theaters across the country ran a shortened version of the film for patrons.

In addition to the TIM items, the National Office issued 135 general information news releases and 91 technical information releases directly to the mass media. The Service also responded to over 70,000 media inquiries on tax matters.

The Revenue Act of 1971 provided for increased withholding rates to eliminate substantial underwithholding experienced by some taxpayers in 1971. In some situations the new rates would cause too much tax to be withheld from the paychecks of many taxpayers. To meet this problem, the Service conducted a continuing program to inform taxpayers about the latest change in the tables and to explain the actions a taxpayer could take to prevent excessive withholding. The Service prepared releases and articles for, and arranged interviews with, representatives of wire services, national magazines, and newsletters to explain the new withholding rates and call attention to the provisions available to taxpayers to avoid excessive withholding. Nearly 900 television stations and the networks carried two television spot announcements on withholding, and Service offices distributed four radio spots to nearly 5,000 radio stations.

For the first time, the Service began a program of providing tax information in Spanish since Spanish-speaking taxpayers comprise the largest non-English-speaking group in the United States. Through press conferences the Service announced the publication of a new Spanish language guidebook for individual taxpayers, based on the pamphlet "Your Federal Income Tax." The Service arranged to translate selected TIM items into Spanish for release to newspapers, radio, and television. Spanish-speaking Service personnel appeared on radio and television programs in the large metropolitan areas to broadcast tax information.

To assist taxpayers in the East and Northwest who suffered severe losses due to flood and wind damage late in the fiscal year, Congress amended the tax law to allow an extension of time to file amended 1971 tax returns so they could deduct casualty losses sustained during the first half of 1972. Field offices in the affected areas conducted information campaigns appropriate to their localities. The National Office answered press and taxpayer inquiries on the changes in the law and issued news releases advising taxpayers in the disaster areas that they could file amended 1971 tax returns.

The public affairs program on the economic stabilization program.—The Service issued or distributed 1,367 news releases covering regulations and other information on the economic stabilization program. Service information officers responded to 11,004 media inquiries and participated in 58 news conferences, 784 radio programs, and 466 television programs. They provided speakers for 2,938 meetings of business associations and other groups. A weekly economic stabilization question and answer column furnished information to the public through 8,000 daily and weekly newspapers.

Taxpayer Service program.—The Service is committed to increasing assistance to taxpayers and to reducing the tax filing burden through improved forms and instructions. The Service has elevated taxpayer service activity to division status. The new division has embarked on a number of projects and studies to ensure effective response to the needs of taxpayers. The Training Division, with the Taxpayer Service Division, developed improved training courses for taxpayer service representatives to help ensure Service capability for providing quality services to the taxpaying public.

In 1972, taxpayers made an unprecedented 41 million contacts with the Service for information and assistance. Service personnel answered 19 million telephone inquiries. About 9 million taxpayers visited Service offices for help, and almost 300,000 more asked for and received help by correspondence with district offices. An estimated 13 million obtained help through various taxpayer education programs and countless others through free tax publications.

The Service provides access to its facilities and early resolution of taxpayer inquiries through a variety of methods. Centiphone, a system of toll-free lines to Service offices, is available to taxpayers in 27 States. Centiphone is a term meaning "centralized taxpayer information by telephone." The system provides information and assistance to taxpayers at a local-call rate, regardless of where the taxpayer lives.

Before Centiphone, approximately one of every three taxpayers was isolated from adequate IRS assistance. Some had to pay a long distance telephone toll, write a letter, or travel out of town to contact a Service office. Others had local access only to small offices staffed by technical personnel whose primary duties involved collection of delinquent taxes or the audit of returns. Under Centiphone, all taxpayers in a State have local-call access to groups of taxpayer service representatives who are specially trained to aid citizens in solving tax problems.

As the end-of-filing-season rush took place, the Service increased assistance both as to locations and hours of availability to protect taxpayers against unscrupulous returns preparers (see p. 139). More than

500,000 taxpayers received assistance during the last 6 days of the filing period. The Service is developing plans to continue the expanded assistance programs in future filing seasons.

Taxpayer education grows in importance.—This year more than 13 million taxpayers received assistance through various Service sponsored taxpayer education programs.

“Teaching Taxes,” the largest Service taxpayer education program, provided materials and instruction to 4.1 million students in 23,000 secondary schools. It is designed for high school juniors and seniors and teaches students to prepare accurate tax returns.

The general, farm, and military tax practitioner institute programs provided training to 54,000 participants who assisted nearly 8 million taxpayers. The volunteer income tax assistance (VITA) program provided training to volunteers who assisted 300,000 low-income and other disadvantaged taxpayers such as those with language problems, the blind, and the deaf. VITA is a self-instructional program in which employees volunteer to train people from the community to assist disadvantaged taxpayers in preparing their returns. Through VITA, members of diverse organizations such as community action groups, churches, colleges, and retirement organizations assist taxpayers in community centers, Indian reservations, churches, store-fronts, hospitals, and elsewhere. Also as part of the VITA program, the Institutes of Lifetime Learning coordinated with the Service in providing assistance to 53,000 elderly and retired taxpayers in 317 cities. Other national organizations will be contacted next year to develop similar programs for their groups.

The teaching business taxes program is carried out in junior colleges, colleges, and universities. Fourteen thousand business, economics, and accounting students received instruction in preparing tax forms used in small businesses and corporations.

Regulations program

To provide clarity and uniformity in implementing the Internal Revenue Code, Congress authorized the Secretary of the Treasury or his delegate to prescribe regulations. These regulations provide guidelines to Service personnel and the public to minimize administrative discretion and encourage uniformity in application of the taxing statutes.

The Chief Counsel's Office issues proposed regulations through publication of the complete text in a notice of proposed rulemaking. Notices invite written comments on the proposed regulations and inform the public of its right to request a hearing. The usual period provided for written comments and requests for a public hearing is 30 days. After considering comments and suggestions, the proposed regulations are revised as necessary, and a Treasury decision is prepared and published in the Federal Register. These regulations have the force and effect of law.

The Tax Reform Act of 1969 required 179 regulations projects. The Service also undertook 36 projects to clarify changes made by the Revenue Act of 1971. The following publications appeared in the Federal Register on projects associated with the Tax Reform Act of 1969: 22 Treasury decisions containing final regulations, three Treas-

ury decisions containing temporary regulations, and 39 notices of proposed rulemaking. These publications covered such topics as income averaging, capital losses, multiple corporations, charitable remainder trusts, and reserves for losses on mutual savings banks. The following publications appeared in the Federal Register on projects associated with the Revenue Act of 1971: Four Treasury decisions containing temporary regulations and three notices of proposed rulemaking. These publications dealt with investment credit and the treatment of corporations qualified as a Domestic International Sales Corporation. On projects not under the Tax Reform Act of 1969 or the Revenue Act of 1971, the following publications appeared: 24 Treasury decisions containing final regulations, four Treasury decisions containing temporary regulations, and 22 notices of proposed rulemaking.

The Service publishes official rulings, procedures, and other significant technical developments in the weekly Internal Revenue Bulletin for the guidance of Service personnel, taxpayers, and tax practitioners. Information published in 1972 included: 647 revenue rulings, 57 revenue procedures, 14 public laws relating to internal revenue matters, five committee reports, eight Executive orders, two tax conventions, 70 Treasury decisions containing new or amended regulations, 11 delegation orders, six notices of suspension and disbarment from practice before the Service, and 229 announcements of general interest. Also announced were 72 notices of acquiescence or nonacquiescence to adverse decisions of the U.S. Tax Court. Contents of the Bulletins are cumulated semiannually and published in bound volumes, known as Cumulative Bulletins.

Staff development

With the growth in complexity of Service occupations, well-designed training programs have become increasingly important. Most Service jobs require at least introductory specialized training. The Service designed over 300 courses, ranging from clerical training to executive development. During the year, 49,000 employees enrolled in advance technical and professional skills courses. An additional 3,000 received training in service center occupations and 5,500 new employees engaged in basic skills training.

The Training Division restructured many programs to remove extraneous materials and shorten training time where possible. Typical of redesigned programs is the basic training course for revenue officers. Classroom time was cut 60 hours for each of the nearly 500 revenue officers trained annually. This revision will save some 14 man-years and \$3.5 million annually. Similar revisions are planned for basic training courses for taxpayer service representatives and revenue agents.

Enforcement activities

Enforcement activities are directed toward assuring that tax liabilities are properly determined and paid according to law. The purpose of these activities is twofold: First, to collect the taxes due, and second—and more important—to maintain general confidence in the voluntary self-assessment system.

To help strengthen the system, Commissioner Walters ordered an expansion of taxpayer service programs in all IRS field offices and instituted a vigorous crackdown on unscrupulous tax return preparers. The Commissioner, in public appearances, also expressed concern about the disparity and inadequacy of judicial sentences handed down in tax fraud cases, as well as the questionable practice of some societies and commercial associations promoting convention and seminar expenses as business tax deductions when they were shallowly disguised personal vacations.

Tax return preparers.—For some time the Service has been concerned with unscrupulous tax return preparers and their effect on the taxes paid and on the voluntary self-assessment system. Investigations had disclosed that some practitioners typically increased or created deductions, or falsified the number of dependents. During the 1972 filing period, the Service launched a nationwide program to identify and prosecute unethical tax return preparers.

The Service took all positive steps it properly could to warn taxpayers with respect to unscrupulous preparers. It issued press releases cautioning taxpayers to choose their tax return preparers carefully. It announced that revenue agents would go anonymously to return preparers with withholding slips and income deduction data to have tax returns prepared. Of the 3,200 practitioners contacted throughout the Nation, more than 1,800 were found to have filed false or otherwise improper returns. Criminal actions have been filed against practitioners in 26 States. Some 430 are under prosecution or in process of prosecution, and 55 have been convicted or have pleaded guilty.

The Service will continue to monitor activities of suspected preparers and will examine individual returns prepared by them as necessary.

The Service also made a comprehensive study of the pending congressional bills and other proposals to remedy the incompetent and unethical tax returns preparer situation. It consulted professional organizations and the leading commercial tax returns preparing companies. Commissioner Walters presented the problems in detail at a public hearing of the Legal and Monetary Affairs Subcommittee on Government Operations. Service proposals provide:

1. Imposing a statutory penalty of from 10 to 25 percent of the deficiency in tax (caused by the preparer) on the preparer who knowingly understates income or overstates deductions, exemptions, or credits.
2. Authorizing the Government to apply to a district court for an injunction to prevent further preparation of returns by preparers who consistently prepare false or deficient returns.
3. Establishing a penalty on the preparer of approximately \$5 for each return which he fails to sign.
4. Requiring each preparer to furnish an annual information return listing all of the taxpayers and their identification numbers for whom returns have been prepared.

The Service is also considering model courses for use by schools and universities that offer instruction in tax return preparation.

Sentencing in tax evasion cases.—In 1972, only 38 percent of those convicted in tax cases received jail terms. Comparisons of sentencing practices by judicial districts reflect wide disparities.

Ten sentences handed down in the Eastern District of Michigan resulted in no prison terms. Four of the cases involved additional taxes and penalties of \$925,250, \$203,552, \$191,399, and \$164,664. During the same period, the court did not order confinement for any of the six defendants convicted of tax evasion in the Central District of California. On the other hand, tax violators go to jail in the Southern District of Texas. Three recent convictions brought prison terms of 6 months, 4 years, and 4 years.

In Philadelphia, Pa., courts ordered confinement for nine income tax evaders. They are: A physician and former Public Health Director, 6-month jail sentence; a prominent dress manufacturer, 1-year prison sentence; a major racketeer, a 1-year prison sentence; a business executive, a 1-year sentence; a restaurant operator, 100 days imprisonment; a roofing contractor, 6 months imprisonment; a voting machine salesman, 6 months imprisonment; and two others, 60 days and 4 months imprisonment, respectively. Some defendants also paid large fines.

Examination of returns.—In 1972, the Service audited 1,695,848 returns, a 3-percent increase from a year ago, reversing a 9-year downward trend. These examinations resulted in recommendations for assessment of \$3.413 billion, a record high. This total includes \$1.2 billion in additional tax and penalties recommended under the coordinated examination program of large corporations.

Not all examinations produce additional tax. About 5.1 percent of the returns audited resulted in Service-initiated refunds to taxpayers of \$251.2 million. Service examiners agreed with the tax liabilities reported by taxpayers on 32 percent of the returns audited. This record low in "no-change" returns can be attributed to improved methods of selecting returns for audit.

The audit activity made great strides in reducing its over-age case inventory. By the end of the year, prior year returns in inventory were at the lowest level since 1963.

Service Centers coordinated several correspondence audit programs in 1972. Service managers implemented the unallowable items program in January 1972 to coincide with the processing of 1971 individual returns. This is a low-cost audit program using computers to contact taxpayers about deductions which clearly are unallowable by law. From January 1 to June 30, the Service corrected 453,521 returns under this program, producing additional revenue of \$24.2 million.

Exempt organization audit activity.—Exempt organizations classified as private foundations filed 306,000 returns, reporting more than \$4.3 million as initial taxes under the excise tax provisions of the Tax Reform Act of 1969.

The Service issued more than 23,000 exempt organization determination letters. It withdrew advance assurance of deductibility of contributions from 45 private schools that failed to establish a racially nondiscriminatory admissions policy.

The exempt organization master file (EOMF) continued to grow. The number of exempt organizations in the file has increased from 309,000 in 1967 to 535,000 in 1972.

Administrative appeals system.—The appeals function provides the taxpayer an opportunity for an early review of his case in an effort to settle disputes promptly, without litigation, on a fair and impartial basis. The appeals function operates at both district and regional levels in 58 district offices and 40 regional appellate offices. As need arises, the Service offers conferences at other locations.

Although there are differences in authority and jurisdiction, district and regional offices have the same objective—to effect an early disposition on a basis which reflects a fair administration of the law. The principal difference is that regional appellate offices may dispose of cases by considering hazards of litigation; that is, uncertainty as to outcome in the event of trial. The Appellate Division has this authority in keeping with longstanding Service policy which favors administrative settlements over protracted litigation.

Cases considered involved all types of taxes except those on alcohol, tobacco, firearms, narcotics, and wagering. Issues range from the most elementary to the most complex, and deficiencies in tax from a few dollars to many millions. In most cases a mutually acceptable basis for resolving the dispute is reached. In the last 7 years, the Service closed over 98 percent of disputed cases without trial.

Proceedings in district and regional offices are informal and the taxpayer may represent himself or be represented by counsel. If the Service does not reach agreement with the taxpayer, it informs him of his additional rights and options.

In 1972, the appeals function achieved the greatest number of case disposals per conferee in history as it closed 52,189 cases by agreement. About half of the cases closed by agreement were at the district level and half at the regional level. Regional appellate offices obtained agreements in 78 percent of nondocketed cases (those not docketed for trial in the Tax Court).

Tax fraud investigations.—The Intelligence Division identifies areas of noncompliance and investigates alleged tax fraud under the Internal Revenue Code. The intelligence function employed over 3,000 technical and clerical employees in 1972.

The Service conducted a program to identify patterns of noncompliance by homogeneous groups of taxpayers. It focused attention on widespread areas of noncompliance to sweep into the tax system groups not covered in other programs.

Surveys or compliance checks covered more than 250 professions, occupations, businesses, industries, and income information sources. Among pockets of noncompliance located are subcontractors in the construction industry, area managers in the direct selling industry, insurance salesmen, recipients of land condemnation awards, attorneys, and persons liable for highway use taxes. Criminal sanctions are recommended in cases in which evidence of tax evasion is discovered.

Tax fraud investigations, indictments, and convictions.—The Service carried out 8,882 fraud investigations and recommended prosecution in a record high of 1,777 cases. Selecting the investigation caseload involved screening and evaluating more than 132,000 allegations of fraud.

Grand juries indicted 1,074 defendants in tax fraud cases; 722 defendants pleaded guilty; courts convicted 113 defendants after trial, acquitted 39, and dismissed charges against 137 defendants.

In the organized crime area, Service activity in the strike force program established new records in criminal and civil enforcement.

The war against drug abuse.—In June 1971, the President called for an increased effort to combat drug abuse. The Service set up a special program to conduct tax investigations on key figures engaged in narcotics traffic. The objectives are to prosecute those who commit criminal tax violations and to reduce profits from illicit drug traffic by assessing taxes and penalties on unreported income. The Service committed 189 revenue agents, 268 special agents, and 110 clerical support personnel to the project.

A target selection committee establishes criteria and identifies subjects for investigation. It is composed of the Director of Law Enforcement as chairman with one member each from the Bureau of Customs, the Bureau of Narcotics and Dangerous Drugs, and the Audit and Intelligence Divisions of the Internal Revenue Service. They selected 697 targets in 49 districts for joint investigation and 94 for independent audit. The success of the program is evident from results that already include seven convictions and \$43 million in recommended tax deficiencies. In addition, Service offices issued immediate assessments (terminations of taxable years and jeopardy assessments) amounting to \$49.9 million. Agents seized \$7.2 million in cash and \$1.3 million in other property after the spontaneous assessments. The largest seizure occurred in New York on April 29, 1972, when agents discovered and seized \$1,078,100 at the home of a convicted heroin dealer.

Collection of delinquent accounts.—Delinquent accounts dropped in 1972 despite continued growth in population and taxable income. The decline was aided by: (1) Increased use of the automatic data processing system to help collect taxes, (2) the impact of recent tax legislation which removed many low-income taxpayers from the tax rolls, and (3) some easing in economic conditions. The Service established 2.6 million delinquent accounts, 202,000 (7.2 percent) fewer than last year. The amount of delinquent tax also dropped by \$298 million to \$3.2 billion.

The Service disposed of 2.7 million delinquent accounts or 138,000 fewer than in 1971. The decrease is due in part to the decline in the number of new delinquencies and the lower dollar value of these accounts. Delinquent taxes collected amounted to \$2.2 billion, which is \$265 million below 1971.

Delinquent returns secured.—Most taxpayers file tax returns reflecting their correct tax liabilities. The Service makes every effort to uncover situations where some fail to file required returns so that confidence of the conscientious taxpayer in the self-assessment system will remain at a high level. Intense enforcement efforts in this fiscal year produced 757,000 delinquent returns, an increase of 22,000 over the preceding year. Assessed tax, penalties, and interest on delinquent accounts totalled \$381 million.

End of an era of regulatory operations.—The Internal Revenue Service's responsibility for regulation of the alcohol and tobacco industries ended at the close of fiscal 1972 after 110 years. This responsibility was transferred to a new Bureau of Alcohol, Tobacco and Firearms which reports to the Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations.

Liquor law enforcement.—Extensive use of manpower to meet the enforcement and regulatory responsibilities associated with firearms and explosives programs has had an impact on illicit liquor investigations. This year the Service used only 29.4 percent of the investigator force for liquor law enforcement.

Illicit distillery seizures for 1972 totalled 2,090, compared to 2,272 seized in 1971. Similar declines were evident in seizures of mash and untaxed spirits.

Most of the Nation's illicit distilleries operate in the Southeast Region and portions of the Central and Southwest Regions. "Operation Dry-up," a program employing a heavy concentration of Federal officers in three States of the Southeast Region, continues to curb non-taxpaid whiskey traffic. This, along with stringent sentences in some judicial districts, has reduced the number of persons deriving income from unregistered distilleries.

Firearms licenses and permits.—In 1972, Service investigators made 34,292 license applications investigations and 33,142 compliance investigations, compared to 20,088 applications investigations and 23,684 compliance investigations in 1971.

Firearms investigations produced 3,441 criminal cases, arrests of 2,507 violators, and the seizure of 7,142 firearms. These figures compared with 2,785 criminal cases, 2,223 violators arrested, and 7,995 firearms seized in 1971. Investigations of the activities of licensed gun dealers disclosed 3,143 purchasers of firearms who had criminal records, used fictitious names, or furnished other false information in purchasing firearms.

Economic stabilization activities

On August 15, 1971, President Nixon announced a 90-day freeze on most prices, wages, and rents.¹ The President's Executive order created the Cost of Living Council as a major policymaking body.² Simultaneously, the Office of Emergency Preparedness (OEP) was delegated the responsibility to implement, administer, and enforce the economic stabilization program.

On August 19, OEP redelegated responsibility to the IRS for local service and compliance centers to provide information to the public, investigate complaints, and monitor compliance.

Because of the minimum of advance notice about its new responsibility, the Service had little time for planning programs to handle the volume of inquiries and investigations that quickly followed.

Innovation was the rule since no precedent body of knowledge, experience, or procedures existed. The first week of operation brought 120,000 inquiries and more than 4,000 complaints of violation.

On November 14, 1971, Phase II emerged as an ongoing operation. To discharge its new responsibility, the Service established and staffed an Office of Assistant Commissioner (Stabilization) and counterparts at regional and district offices. Within this organization, service and enforcement is provided at each of the 58 district offices and at 302 local offices.

¹ See exhibit 14.

² See exhibit 15.

Field personnel answered 2,320,358 oral inquiries and 102,324 written inquiries from November 15, 1971, to June 30, 1972. A section in the National Office responded to 14,083 special executive, policy board, congressional, and public inquiries.

The Service develops monitoring techniques and guidelines after making surveys of industries and testing procedures in firms representing a particular segment of industry. Full-scale monitoring investigations span the textile, ferrous metals, lumber and paper, wholesale meat packer, meat retailer, and the machinery and equipment manufacturing industries and institutional health providers and professional service firms. From January 1, 1972, to June 30, 1972, the Service performed 426 investigations of large firms and completed compliance checks on Price Commission roll-back or refund orders.

When regulations create extreme hardship or gross inequity, exceptions and exemptions provide relief. An exception is a waiver of one aspect of the regulations for a specific firm or individual. An exemption is a general waiver from the regulations for certain classes of property.

In March 1972, the Pay Board delegated authority to the Service to approve or deny exceptions for wage and salary adjustments. This affected employee units of fewer than 1,000 persons and shortened the time for a citizen to receive an answer to his request for a pay exception. The Service processed over 10,000 requests for pay exceptions by the end of the fiscal year.

In May 1972, the Price Commission delegated authority for exceptions in all rent and price cases involving firms with annual sales or revenues of \$50 million or less. The Service processed over 10,000 requests for exceptions to the price regulations.

Decisions on interpretations and requests for exception or exemption may be appealed. The Service issues a formal notice when an appeal is denied. The appellant may then appeal to the Cost of Living Council, the Pay Board, or the Price Commission.

More than 2,557 appeals had arisen by June 30, 1972. The majority were resolved at the district level with few reversals.

The Service works with the Justice Department in developing litigation cases. Stabilization investigators frequently contact assistant U.S. attorneys to ensure that cases are accurately documented. Notices of violation are issued only after the cases are reviewed by the Department of Justice.

The number of consumer complaints grew to 105,000 by June 30, 1972. The Service issued 1,615 notices of violation in connection with the complaints.

Inspection activities

Internal audit and internal security activities aid Service managers in their efforts to maintain operational integrity.

Internal audit programs provide management with reviews of accounting, financial, and other operating activities of the Service to help insure that policies, procedures, and controls are adequate to protect the revenue. Activities closely associated with collection of revenue and enforcement of tax laws receive the greatest emphasis.

The Service's program of enlisting the support of employees in reporting bribery attempts continues to show results. In fiscal 1972, 125 employees reported possible bribery attempts, resulting in 47 arrests or indictments.

Service employees have reported 1,003 bribery attempts since 1961. One of every four instances resulted in prosecution action. During the 10-year period, bribery investigations resulted in 283 arrests or indictments and 202 convictions or guilty pleas. At the end of the fiscal year, 41 persons charged with attempted bribery awaited trial. Bribes offered, solicited, or paid ranged from \$40,000 to \$100,000. In the latter cases the taxpayer attempted to avoid over \$1 million in tax assessments.

International activities

The Service's international programs consist of three segments: (1) Administering tax laws as they apply to U.S. citizens living abroad, nonresident aliens, and foreign corporations; (2) participating in negotiation of tax conventions or treaties with foreign countries to prevent double taxation; and (3) providing assistance requested by developing countries to improve their systems of tax administration.

Overseas tax administration.—Until 1972, the Service handled most audits of returns filed by U.S. taxpayers overseas through correspondence. In some cases, Service personnel at foreign posts carried out intermittent field audits. On infrequent occasions, agents from Washington assisted them on short assignments.

Recent surveys indicated a need to expand overseas audit activity to counter a growing noncompliance problem. In response, the Service started a new program which details teams of revenue agents and tax auditors to the Service's foreign posts in Bonn, London, Manila, Mexico City, Ottawa, Paris, Rome, Saigon, Sao Paulo, and Tokyo. Each agent-auditor team is stationed abroad for periods of from 4 to 6 months. After their tour of duty, a replacement team takes over, assuring year-round continuity.

New tax conventions.—Attorneys from the Office of the Chief Counsel assisted the Department of the Treasury in negotiations with Cyprus, Denmark, Indonesia, Kenya, Malaysia, and Singapore concerning bilateral income tax conventions, and with Denmark and West Germany concerning bilateral estate tax conventions. The July 9, 1970, income tax conventions with Belgium served as a basis for the negotiations on the income tax conventions, and the July 15, 1969, estate tax conventions with the Netherlands served as a basis for the negotiations on the estate tax conventions.

The United States signed an income tax convention with representatives of Norway on December 3, 1971. A protocol amending article 9 of the income tax convention with France became effective upon the exchange of instruments of ratification on January 21, 1972. The protocol extends to U.S. portfolio investors in French corporations a credit equal to one-half the French corporate income tax paid on the profits. This type of credit was introduced for residents of France in 1965.

Tax administration assistance to foreign countries.—This is the 10th year in which the Service provided technical assistance to developing countries. Long-term advisory teams serve in Bolivia, Brazil, Columbia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Paraguay, Trinidad and Tobago, Uruguay, and Vietnam. The teams are staffed by IRS executives and technicians who generally serve 2-year tours of duty.

They are aided by specialists on short-term assignments drawn from the Service and occasionally from State and local governments.

Surveys of the tax administration systems of Barbados and Zambia were conducted to identify major weaknesses, propose solutions, and outline approaches for strengthening their systems.

The request from the Government of Zambia reflects a rising interest within Africa for the kind of technical assistance the Service extends throughout the world. Service representatives met with tax officials of the East Africa Community, Liberia, and the Economic Commission for Africa. During the year, Liberia implemented recommendation made during a 1970 survey.

Host countries continued to make gains in audit, collection, processing tax returns and remittances, taxpayer education, training, organization, and management.

Many foreign tax officials came to the United States to study and observe tax administration in a series of courses offered under the International Tax Administration Training Series (INTAX), and to participate in programs specially designed to meet their needs. The courses covered the major functions of tax administration, and the observation sites included State and local tax agencies as well as Service installations. The visitors came from 59 countries. They ranged in rank from subcabinet officials to technicians.

The Inter-American Center of Tax Administrators (CIAT) is made up of leading tax administrators of the 23 Western Hemisphere countries. It continues to attract worldwide attention as a regional organization devoted to self-help in tax administration. CIAT's technical seminars on audit, automatic data processing, and land tax administration draw participants from all parts of the world. Its monthly newsletter and technical materials receive worldwide distribution. CIAT also arranges for exchange of technical missions among member countries. It is a model for regional organizations under consideration in Asia, the Middle East, and Africa.

Commissioner Walters led the U.S. delegation to the sixth General Assembly at Asuncion, Paraguay, where the United States was elected to the six-country Executive Council.

Internal revenue collections and refunds

Gross internal revenue collections surpassed \$200 billion for the first time. Contributing to the record level was the largest amount ever collected in 1 month, \$27.2 billion in April 1972.

Total collections of \$209.9 billion were up \$18.2 billion (9.5 percent) from fiscal 1971. The increase was the fourth largest in history, exceeded only by those in 1944, 1967, and 1969. Improved economic conditions, higher corporate profits, and steadily rising salaries and wages are principal factors contributing to the improved collection picture.

Individual income taxes of \$108.9 billion accounted for over one-half of total collections. New withholding rates provided by the Revenue Act of 1971 designed to achieve more accurate withholding apparently resulted in excessive withholding because many taxpayers have not adjusted their withholding allowances and exemptions in accordance with the new law.

Corporation income tax collections rose by \$4.6 billion (15.2 percent) to \$34.9 billion.

Excise taxes levied on a variety of manufactured products and services declined slightly from the 1971 record high. Collections of \$16.8 billion were lower because of the repeal of excise taxes on vehicles. Tobacco tax collections declined from last year, while alcohol tax collections were up \$0.3 billion. Over the last 10 years, tobacco tax collections have remained relatively stable while receipts from alcohol tax have increased by almost 50 percent.

Employment taxes amounting to \$43.7 billion were the second biggest source of revenue. Increased rates for social security (FICA) taxes and self-employment (SECA) taxes were in effect for the full fiscal year, and beginning January 1, 1972, the taxable base for both was up from \$7,800 to \$9,000. In addition, as of January 1, 1972, Federal Unemployment Tax Act taxes extended to almost every employer, and the wage base was up from \$3,000 to \$4,200.

Two-thirds of all individual income taxpayers received refunds in 1972 continuing the general pattern of prior years. The total amount of taxes refunded to all classes of taxpayers was \$18.8 billion, including interest of \$182.8 million (less than 1 percent of the tax refunded). Income taxes refunded to corporations were down \$0.7 billion from 1971.

Bureau of the Mint¹

The Mint became an operating bureau of the Department of the Treasury in 1873, pursuant to 31 U.S.C. 253. All U.S. coins are manufactured at U.S. Mint institutions. The Bureau of the Mint distributes coins to and among the Federal Reserve banks and branches, which in turn release them, as required, to commercial banks. In addition, the Mint maintains physical custody of Treasury monetary stocks of gold and silver; refines and processes silver bullion; handles various deposit transactions including inter-mint transfers of bullion; and moves, places into storage, and releases values from its custody for such purposes as authorized. Functions performed by the Mint on a reimbursable basis in fiscal 1972 included: The manufacture and sale of numismatic Eisenhower dollars; the production and sale of proof coin sets and uncirculated coin sets; the manufacture and sale of medals of a national character; and, as scheduling permitted, the manufacture of foreign coins.

The Bureau of the Mint headquarters is located in Washington, D.C. The operations necessary to conducting the business of the Mint are performed at six field facilities. Mints are located in Philadelphia, Pa., and in Denver, Colo.; assay offices are in New York, N.Y., and San Francisco, Calif.;² bullion depositories are situated at Fort Knox, Ky. (for gold) and at West Point, N.Y. (for silver). The West Point Depository is an adjunct of the New York Assay Office.

During fiscal 1972, highly significant changes affected every aspect of Mint operations. The progress that took place throughout the year reflected the fine working relationships that exist among other parts of the Treasury and the Mint, as well as the President's concern for proper management.

During fiscal 1971 (as noted in the 1971 Annual Report, pp. 65-66), a management review of the Mint's operations was prepared by the

¹ Additional information is contained in the separate "Annual Report of the Director of the Mint."

² The San Francisco facility also operates as a mint.

Office of the Secretary. The study paid particular attention to forecasting the demand and associated production requirements for coins.

The Treasury management survey resulted in a total realignment of the executive structure of the Mint, effective the middle of fiscal 1972. The new organization is composed of the Director of the Mint, with a Deputy Director, supported by three staff functions: Internal Audit, Legal Counsel, and Security and Safety. The reorganization provided for four assistant directors: Assistant Director for Production, Assistant Director for Technology, Assistant Director for Public Services, and Assistant Director for Administration. The reorganization sharpened executive responsibility for specific functions such as production, technological developments, public services, and administration.

The Mint's Internal Audit Staff assists the Director and Deputy Director in an advisory capacity by providing information, analyses, appraisals, and recommendations pertinent to the overall goals of the organization. Annual audits are performed at each Mint installation, including the headquarters in Washington. It also directs, coordinates, and participates in the annual settlement of monetary balances.

The Legal Counsel advises Mint executives on legislation pertaining to Bureau operations. Other functions involve claims and litigation and matters pertaining to labor law.

The security and safety programs of the Mint are designed to insure the most efficient and effective security systems; and compliance with the highest standards of safety, including all phases of the Occupational Safety and Health Act (OSHA). Security objectives include the safeguarding of monetary values, property, equipment, and personnel at all Mint installations. During the fiscal year, many innovations were implemented throughout the Mint service to improve security and safety.

During fiscal 1972, a revised "Procedure for administrative control over appropriations and other authorizations to incur obligations and make expenditures" was issued. This strengthened the Bureau's financial management objectives.

The Bureau of the Mint deposited \$1,446,037,531 into the general fund of the Treasury during fiscal 1972. Seigniorage on U.S. coins accounted for \$580,586,683 of the deposit.

Bureau of the Mint operations, fiscal years 1971 and 1972

Selected items	Fiscal year	
	1971	1972
Newly minted U.S. coins issued:¹		
1 dollar.....		206, 144, 905
50 cents.....	246, 510, 429	320, 858, 262
25 cents.....	511, 147, 162	356, 575, 753
10 cents.....	787, 478, 617	460, 775, 885
5 cents.....	576, 065, 672	464, 548, 068
1 cent.....	5, 256, 036, 806	5, 928, 757, 362
Total.....	7, 377, 238, 686	7, 737, 660, 235
Inventories of coins in Mints, June 30.....	231, 240, 061	740, 343, 393
Electrolytic refinery production:		
Gold—fine ounces.....	1, 893, 223, 612	
Silver—fine ounces.....	3, 393, 885, 831	4, 576, 251, 270
Balances in Mint, June 30:		
Gold bullion—fine ounces.....	276, 456, 445	267, 007, 869
Silver bullion—fine ounces.....	44, 377, 935	47, 416, 220
Visitors touring mint exhibits.....	725, 789	796, 682

¹ For general circulation only.

Production

Several major changes in coin production were initiated in the fiscal year 1972. A new system of scheduling coin production was introduced whereby each of the two principal mints (Philadelphia and Denver) is assigned production on a 4-month cycle. The goal of this system is to reach and maintain a 4-month inventory of coins (except cents) at the end of each cycle at each of these mints.

Domestic coinage

U.S. mints produced cupronickel clad dollars, half dollars, quarters, and dimes; cupronickel 5 cent pieces; and 1 cent pieces composed of 95 percent copper, 5 percent zinc during fiscal 1972 for general circulation. The Philadelphia Mint manufactured 3,458,234,000 coins with a face value of \$268,527,200; the Denver Mint made 4,365,744,413 coins with a face value of \$384,865,708; while the San Francisco Assay Office produced 422,785,154 1 cent pieces with a face value of \$4,227,851.54. A total of 8,246,763,567 coins were minted for general issue during fiscal 1972, an increase of approximately 742 million coins from 1971.

All proof coin sets as well as both types of the silver-clad numismatic Eisenhower dollars were manufactured at the San Francisco facility and bore the "S" mint mark.

The Bureau of the Mint delivered 7,746 million coins to the Federal Reserve banks and branches during fiscal year 1972.

U.S. coins manufactured, fiscal year 1972

Denomination	General circulation		Numismatic ¹		Total coinage	
	Number of pieces	Face value	Number of pieces	Face value	Number of pieces	Face value
1 dollar:						
Cupro-nickel	233, 273, 649	\$233, 273, 649. 00			233, 273, 649	\$233, 273, 649. 00
Silver-clad			10, 637, 294	\$10, 637, 294. 00	10, 637, 294	\$10, 637, 294. 00
50 cents	352, 933, 520	176, 466, 760. 00	2, 545, 587	1, 272, 793. 50	355, 479, 107	177, 739, 553. 50
25 cents	412, 529, 544	103, 132, 386. 00	2, 545, 587	636, 396. 75	415, 075, 131	103, 768, 782. 75
10 cents	607, 541, 840	60, 754, 184. 00	2, 545, 587	254, 558. 70	610, 087, 427	61, 008, 742. 70
5 cents	439, 723, 260	21, 986, 163. 00	2, 545, 587	127, 279. 35	442, 268, 847	22, 113, 442. 35
1 cent	6, 200, 761, 754	62, 007, 617. 54	2, 545, 587	25, 455. 87	6, 203, 307, 341	62, 033, 073. 41
Total	8, 246, 763, 567	657, 620, 759. 54	23, 365, 229	12, 953, 778. 17	8, 270, 128, 796	670, 574, 537. 71

¹ All numismatic coins were manufactured in the San Francisco Assay Office and include 1,481,245 proof sets dated 1971 and 1,064,342 sets dated 1972.

² Consists of 6,371,520 silver-clad dollars of the uncirculated variety and 4,265,774 proof dollars, all of which were sold to the public at premium prices.

NOTE.—All dollars, half dollars, quarters, and dimes for general circulation are three-layer composite coins—outer cladding 75 percent copper, 25 percent nickel, bonded to a core of pure copper. The proof coins, except for the numismatic Eisenhower dollars, are of the same metallic composition as those for general issue. The numismatic dollars are three-layer composite coins with an outer cladding 800 parts silver, 200 parts copper, bonded to a core of approximately 215 parts silver and 785 parts copper.

Foreign coinage

The Mint is permitted to execute coinage for foreign countries on a reimbursable basis provided that the manufacture of such coins does not interfere with the required coinage of the United States. During the fiscal year, the Denver Mint produced 195,067,500 coins for the Philippines and 13,000,000 for Liberia; San Francisco produced 18,192 coins for Liberia, 16,660 for Nepal, and 71,039 for Panama, all of which were either in proof or uncirculated condition.

Technology

As the demand for and production of U.S. coins has increased in succeeding fiscal years, so has the Mint's responsibility to sharpen its technological resources. During fiscal 1972, the Mint's commitment to quality coin production was greatly increased by several major steps. These included instituting modern statistical sampling for some of its coin inspection; the installation of the first high-speed delamination testing machine; more effective quality control at various production levels; and the initiation of a number of research and development type projects to improve procedures or alleviate problems.

Twenty-two new high-speed coining presses were installed during the fiscal year to upgrade the Mint's domestic coin capability.

The Treasury, through the Bureau of the Mint's Laboratory in Washington, acts as the technical authority on the authenticity of U.S. coins. During the year, laboratory examinations of 3,300 questioned coins relative to 136 cases, submitted by the U.S. Secret Service, the Bureau of Customs, and the Office of Domestic Gold and Silver Operations, were performed by the Mint.

Public services

Liaison with Federal Reserve.—In the Treasury's continuing efforts to improve techniques for estimating coin demand, the Mint and the Federal Reserve refined previous procedures for projecting coin needs, in accordance with recommendations made by the Office of the Secretary in its management study. Under the procedures implemented during the fiscal year 1972, the Federal Reserve Board, which with the Office of the Treasurer of the United States is the sole customer for coins, assumed a more vital role in estimating coin requirements for the Federal Reserve System. It gives the Mint short- and long-term requirements by denomination, thereby assuring itself that sufficient coins will be available in each of the 12 banks and 25 branches. The Mint maintains constant liaison with the Federal Reserve to satisfy its needs, using its forecasts for production planning. During the fiscal year, the Mint utilized the Federal Reserve facilities at Culpeper, Va., to store coins for emergency requirements. This action contributes to the joint goal of the Mint and the banks to establish and maintain sufficient coin inventories to minimize the possibility of a coin shortage.

Numismatic services.—The Eisenhower dollar program, a major service for the public, was begun during fiscal 1972. Orders for both the proof and uncirculated varieties of the 40 percent silver-clad dollars¹ were accepted beginning on July 1, 1972. During the year, 4,265,774 proof dollars and 6,371,520 of the uncirculated ones were manufactured for sale to the public at premium prices.

The proof Eisenhower dollars were produced, packaged, and sent by registered mail from the San Francisco Assay Office. The uncirculated silver-clad dollars were shipped from San Francisco by the bag to the New York Assay Office, where they were packaged and dispatched by registered mail.

In fiscal 1972 the Mint again offered sets of regular proof coins for sale to the public at a premium price. These sets were sent by reg-

¹ See 1971 Annual Report, p. 138 for explanation of the types of coins.

istered mail from San Francisco. During the fiscal year approximately 2,545,000 sets were mailed in response to orders from the public. The uncirculated coin sets through December 1971 also were mailed from San Francisco. However, the packaging and mailing of uncirculated coin sets was transferred to the New York Assay Office for coins dated after 1971. During the fiscal year, 2,143,396 uncirculated coin sets were mailed from San Francisco, and 765,385 were sent from the New York facility.

In connection with the American Revolutionary Bicentennial, Public Law 92-228, enacted February 15, 1972,¹ authorized the Secretary of the Treasury to strike appropriate national medals to commemorate the significance of American independence. The first of these medals, which are of exceptionally high quality, was struck before the fiscal yearend for release on July 4, 1972. Between fiscal 1972 and 1983, a maximum of 13 additional medals, each of a different design, may be struck to commemorate specific historic events of great importance.

Pursuant to Public Law 92-266, approved March 30, 1972,² the Mint struck medals in commemoration of the First United States International Transportation Exposition. This exposition was held at Dulles Airport, May 27-June 4, 1972.

On April 27, 1972, the Director of the Mint announced the availability of the Mint's new White House medal.³ The medal was placed on sale at the Treasury Department's Exhibit Hall and at other Mint sales areas.

The Mint continued to manufacture and sell national medals at Philadelphia throughout the fiscal year. Public interest in the miniature Presidential series, which was introduced by the Director of the Mint in fiscal 1971, mushroomed during the year, with medals of 36 Presidents available by June 30, 1972. Production of these "mini" medals, created primarily for young people, was extended to the Denver Mint. During fiscal 1972, Denver produced 250,849, while the Philadelphia Mint manufactured 520,016 of these bronze 1 $\frac{1}{16}$ inch medals.

The miniature medals produced, plus all other "List" medals manufactured brought the total for fiscal 1972 to 896,678, an increase of almost 100 percent from the 455,269⁴ made during the previous year.

In July 1971, a new public area was opened at the Denver Mint for the convenience of visitors touring that coining plant. Early in August the Treasury Exhibit Hall in the Main Treasury Building in Washington was expanded to include a Mint display room and sales area. During the fiscal year, about 79,000 people took advantage of the opportunity to visit this area. Late in August an area was opened to the public at the San Francisco Assay Office.

On March 23, 1972, the President announced⁴ the transfer of the old San Francisco Mint, at 5th and Mission Streets, which had been dedicated in 1874, to the Department of the Treasury for restoration by the Bureau of the Mint. The building will be used by the Mint

¹ See exhibit 89.

² See exhibit 90.

³ See exhibit 92.

⁴ Revised.

⁵ See exhibit 91.

to house its Numismatic Service Division, a museum, and the Mint computer data center. Restoration was begun before the fiscal yearend.

U.S. Savings Bonds Division

The U.S. Savings Bonds Division promotes the sale and retention of U.S. savings bonds. This medium of savings makes possible the widespread distribution of the national debt through its ownership by a substantial part of the Nation's citizenry; it provides a stabilizing influence on the economy insofar as the average life of the E and H bonds is over 7 years, and therefore constitutes a long-term underwriting of the Treasury's debt structure.

The program is carried out by a comparatively small staff assisted by thousands of dedicated volunteers in financial, media, business, labor, and agricultural institutions and civic minded groups of all kinds. Their volunteer services assist in the promotion and sale of savings bonds through banks, savings and loan associations, credit unions, some few post offices and over 40,000 business establishments and other employers cooperating in the operation of the payroll savings plan and over-the-counter sales.

Sales of series E and H savings bonds totaled \$5,939 million in fiscal 1972. Participants in the payroll savings plan as of June 30, 1972 totaled about 9½ million. There were \$56.5 billion savings bonds and savings notes held at the close of fiscal 1972, 22 percent of the privately held portion of the public debt. U.S. savings notes were withdrawn from sale on June 30, 1970, but the amount outstanding is included in the total. During fiscal 1972, holders of these savings vehicles received over \$2.7 billion in interest.

Promotional activities

During fiscal 1972, the payroll savings plan again received major program emphasis and was promoted among employees in private industry; Federal, State and local governments; as well as the military services.

The leader of the 1972 nationwide payroll savings campaign in industry is Donald S. MacNaughton, chairman and chief executive officer, The Prudential Insurance Co. of America, and chairman of the U.S. Industrial Payroll Savings Committee. The 1972 campaign was launched in Washington, D.C., on January 13, 1972, with the annual meeting of the Committee. Serving on the Committee with Mr. MacNaughton are nine former chairmen and 50 top executives of the Nation's major corporations. Mr. MacNaughton's immediate predecessors as chairmen were B. R. Dorsey, president, Gulf Oil Corp., the 1971 chairman; Gordon M. Metcalf, chairman of the board, Sears, Roebuck and Co., the 1970 chairman; and James M. Roche, past chairman of the board, General Motors Corp., the 1969 chairman. Mr. MacNaughton's involvement in the work of the Committee and that of his predecessors has been unprecedented in extensiveness and depth. Mr. MacNaughton, for example, has traveled from coast to coast and north to south to spur on the campaign and addressed 13 meetings of business leaders to help Committee members get campaigns underway in their areas and industries. On April 6, he appeared on NBC's national tele-

vision network "Today" show. Ninety NBC stations also presented their local volunteer campaign leaders to further publicize the campaign. Mr. MacNaughton also addressed the Advertising Council in Washington on March 27.

Mr. MacNaughton has also provided a number of sales tools, among them a brochure for top executives and a flip-chart presentation for sales calls on top executives in their offices. His "Action for America" resolution was the key promotional piece for an extensive direct-mail campaign which he conducted to mobilize support among the heads of 8,300 of the Nation's largest companies. The resolution was also the key item for a campaign which the National Association of Manufacturers conducted among its 12,200-member companies. Led by M. P. Venema, chairman of the board, Universal Oil Products Co., and chairman of the board, National Association of Manufacturers, the NAM is encouraging its members to organize payroll savings drives among their employees. Mr. MacNaughton also ran two full-page ads in the Wall Street Journal.

The Committee has spearheaded sales of E bonds in the \$25 to \$200 denominations of more than a billion dollars a year higher than they were before the Committee was organized in early 1963. In 1970, 2,303,401 employees in private business, State and local government, and civilian employees of the Federal Government enrolled as new participants or increased their payroll savings allotments; the campaign signups in 1971 totaled 2,430,502. Sales of small denomination E bonds in 1970 came to \$3,738,486,000; in 1971 they came to \$3,927,111,000.

The Committee members are setting strong examples by the campaigns they conduct in their own companies. For example, Mr. Richard C. Gerstenberg, chairman of the board, General Motors Corp., has just completed a campaign in his company in which 280,009 men and women enrolled either as new payroll savers or for increases in their allotments. Mr. Gerstenberg produced an 8-minute sound motion picture in color which was shown to GM's supervisors.

Through their efforts under the leadership of Chairman MacNaughton, the members of the 1972 U.S. Industrial Payroll Savings Committee are setting an outstanding example of citizen service to the Nation.

Agriculture Secretary Earl L. Butz was appointed chairman of the Interdepartmental Savings Bonds Committee on May 1, 1972 following the resignation of Commerce Secretary Maurice Stans. Mr. Butz commenced to execute previously made plans for conducting the annual campaign among Federal civilian and military personnel. As in previous years, Federal agencies conducted during May and June an intensive campaign to sign up new payroll savers among Federal personnel, worldwide and to invite present savers to increase their allotments. The total civilian and military participation in the program amounted to 2.6 million for fiscal 1972.

Chairmen of State savings bonds committees, with North Carolina Chairman Bland W. Worley presiding, met with Treasury officials and members of the American Bankers Association savings bonds committee at their annual national conference in Washington, D.C., on March 9. Featured topics on the agenda were the annual renewal of "Take Stock in America" campaigns in some 90 cities, the development

of payroll savings and awareness "Information and Action Projects" for county chairmen, and the importance of a continuing recognition program for active savings bonds volunteers at all levels.

The ABA savings bonds committee, chaired by Douglas R. Smith, president of the National Savings and Trust Company, Washington, D.C., recommended no change in the present relatively low annual limitation on purchases of series E and H bonds, urged adoption of resolutions reaffirming the support of State bankers associations, and reported a great need for the formal training program developed in collaboration with the American Institute of Banking for tellers and other bank employees who handle savings bonds transactions.

Professionally prepared materials for a 3-hour training seminar now are available, without charge, to AIB chapters and all financial institutions qualified to issue and redeem savings bonds. The main objective is to provide the best possible service to owners of the \$56 billion worth of savings bonds outstanding as well as to prospective purchasers of the 125 million bonds issued each year.

Four new State chairmen and two State chairmen emeritus were appointed during the fiscal year.

All State Governors continued to serve or, if newly elected, accepted appointment as honorary chairmen of State savings bonds committees. Their volunteer participation benefits the savings bonds program—notably through special ceremonies and their leadership in providing extension of the payroll savings plan among State employees.

The national organizations program for the calendar year 1971-72 was once again a "grassroots" operation whereby local units of participating national organizations can bring savings bonds to the attention of their members by distributing informational materials at meetings. In addition, the national, State and local publications of these organizations carried advertisements, editorials and articles. The National Organizations Committee for Savings Bonds, representing a combined membership of 50 million, continued under the chairmanship of Hugh H. Cranford, executive secretary of Optimist International.

On August 12, 1971, Mrs. Jacqueline Sue Goreham (Mrs. Colorado) became the 13th Mrs. U.S. Savings Bonds and soon thereafter took up her rôle as our ambassador of good will. During her reign, she traveled some 55,000 miles through 28 States and thanked many of the more than 500,000 volunteers who help to advance the savings bonds program. The annual selection of a Mrs. U.S. Savings Bonds from among a carefully chosen cross section of homemakers from every State has become a major feature in the promotion and sale of savings bonds.

Organized labor continued its strong support of the program under the direction of George Meany, President of the AFL-CIO, acting in the volunteer capacity of National Labor Chairman. Other active labor support included resolutions of support adopted by conventions of statewide labor bodies, statements of support by national and State labor officials. Much of this support was communicated to the membership by the labor press through its use of literally hundreds of savings bonds ads and editorials.

The public service advertising campaign for savings bonds, sponsored by the Advertising Council and led by James S. Fish of General Mills as volunteer coordinator, continued to support the sales program

with more than \$60 million in advertising contributed by the major media. In recognition of longstanding support, 30th anniversary awards were presented to these media trade associations: Magazine Publishers Association, International Newspaper Advertising Executives, Outdoor Advertising Association of America, Transit Advertising Association, American Business Press, and National Association of Broadcasters. In addition, individual awards were made to the ABC, CBS, and NBC radio-TV networks and to 34 national magazine publishing companies.

In the field of motion pictures, a special film featuring the cast of TV's "The Odd Couple" was produced by Paramount Pictures for the training of payroll savings canvassers. The film has been widely and successfully used in industry and government and was recognized at the 1972 National Industrial Film Festival by the presentation of a "Gold Camera" award. Motion picture-TV stars Tony Randall and Jack Klugman served as honorary co-chairmen of the 1972 Federal payroll savings campaign and were featured at the April 12 kick-off rally for key workers. The Department of Defense campaign, launched at an outdoor rally at the Pentagon on May 4, featured TV comedienne Sandy Duncan as honorary chairman.

Regional meetings of the National Panel on Public Relations for Savings Bonds were held in the fall of 1971 in Orlando, San Diego, Chicago, and New York. The initial issue of PRx for Savings Bonds was distributed to panel members in June 1972. Throughout the fiscal year, personal calls were made on members of the National Committee of Newspaper Publishers and selected nonmember publishers in Atlanta, Chicago, Dallas, Denver, Detroit, Houston, Jacksonville, Memphis, Miami, Nashville, Orlando, New York, Phoenix, Portland, Reno, San Diego, San Francisco, and Seattle. Publishers were presented awards signed by Secretary Connally in appreciation of their increased editorial emphasis on savings bonds. The second issue of the Publisher Committee's communication, Pro Bono, was distributed to members in June. A kit of "Copy Themes" for Associations/Societies was distributed nationwide in February, and a series of editorial ideas for labor leaders was released in April. The first issue of a new quarterly publication for key savings bonds volunteers, Savings Bonds Salute, was distributed in June. Collaboration with the staffs of Changing Times, U. S. News & World Report, Weaver Communications, and numerous financial writers has resulted in significant articles in magazines and newspapers.

Management improvement

In fiscal 1972, the Division continued the redeployment of positions to areas needing better manpower coverage and the reduction of coverage in those areas that did not merit it because of a lesser sales potential. The number of markets was reduced from 12 to 11 through the combination of the Ohio and Michigan markets which resulted in the better utilization of manpower and the reduction in grade of one executive position. The Division also continued to make progress in its efforts to further integrate its accounting, budgeting and financial reporting activities with those of the Bureau of the Public Debt. More effective coordination will be achieved through the utilization of the

payrolling facilities of the Fiscal Service which has for several years served the Bureau of Public Debt. Since the conversion from the Detroit facility of the Internal Revenue Service was not completed until the pay period ending June 10, 1972, the full benefits will not begin to accrue to the Division until fiscal 1973.

Internal audit program

During fiscal 1972, operational surveys were made in five States: Wisconsin, Missouri, Georgia, South Carolina, and Michigan.

Program planning

During fiscal 1972, the Office of Program Planning issued a manual on the sales allocation system, an operation which governs the distribution of some \$1½ billion of annual sales of U.S. savings bonds by States, areas and counties. These sales are reported nationally for (a) Federal civilian and military personnel purchasing bonds under the payroll savings plan, (b) for the employees of selected large interstate corporations which operate payroll savings plans for their employees, and (c) regional finance centers of the Defense Department issuing bonds for civilian personnel. Various formulae are used in the geographic allocation of these sales, nationally and in the field offices of the Division. This manual describes the procedures followed in the National Office to allocate the sales to markets and States, and outlines graphically the methods to be used in the State offices for area and county distribution of these sales.

During fiscal 1972, the Office of Program Planning cooperated with the Office of the Commissioner of the Public Debt in preparing a complete revision of the procedures followed by the Federal Reserve banks and the Bureau of the Public Debt's Parkersburg, W. Va. office in the collection and preparation of monthly geographic sales of series E and H savings bonds. This revision superseded the April 1967 outline of procedures and incorporated a variety of improvements, changes in coding and format effected and proposed since that time.

At the end of fiscal 1972, the number of reporting units (companies that operate the payroll savings plan) on the EDP tapes was 38,850, which represents 21,226 interstate units (including branches of companies) and 17,624 intrastate companies. Total employment in these companies is shown as 24,830,553.

In addition to the report on on-plan companies, the Office of Program Planning expanded its list of no-plan (prospect) companies to cover units of 250 employees or more. This list now comprises 3,778 units (compared to 1,728 units with 500 or more employees the previous year) with total employment of 2.9 million.

The Office of Program Planning continued its program of EDP seminars for both clerical and promotional personnel by conducting a comprehensive 2-day seminar for 41 employees in the Western and California markets.

Staff development

The Division is implementing a 3-year priority plan to recruit young people for movement up through the ranks. Its primary plan is a current training program employing young college graduates to train

them for key sales promotional, managerial, and administrative positions.

A line management training program entitled "How to Improve Individual Manager Performance," prepared by the American Management Association, was continued in fiscal 1972. In addition, an intensive 2-week indoctrination seminar was held for new promotional staff members in May 1972.

The United States Secret Service

The major responsibilities of the U.S. Secret Service are defined in section 3056, title 18, United States Code. The protective responsibilities are to protect the President of the United States, the members of his immediate family, the President-elect, the Vice President or other officer next in the order of succession to the office of the President, and the Vice President-elect; to protect the person of a former President and his wife during his lifetime, the person of the widow of a former President until her death or remarriage and minor children of a former President until they reach 16 years of age, unless such protection is declined; to protect persons who are determined from time to time by the Secretary of the Treasury, after consultation with the advisory committee, as being major presidential and vice presidential candidates, unless such protection is declined; and to protect the person of a visiting head of a foreign state or foreign government and, at the direction of the President, other distinguished foreign visitors to the United States and official representatives of the United States performing special missions abroad.

The investigative responsibilities are to detect and arrest persons committing any offense against the laws of the United States relating to coins, obligations and securities of the United States and of foreign governments; and to detect and arrest persons violating certain laws relating to the Federal Deposit Insurance Corporation, Federal land banks and Federal land bank associations.

Management improvement

Certain Secret Service management procedures are being revised to achieve greater efficiency. An automated accounting system was designed, a new computer operated personnel location and skills file system was developed, and an automated property management system was designed.

Based upon recommendations contained in a files management study conducted by the National Archives and Records Service in fiscal 1971, a revised subject classification guide was developed and issued to all Secret Service offices. The new guide contains instructions which enable more accurate subject classification of documents as well as easier identification of record material, and provisions which will facilitate more systematic disposal of records holdings.

Also, mechanized equipment has been procured for maintaining indices that facilitate investigative research and files retrieval operations.

Training

There were 118,377 man-hours of training conducted by the Secret Service, Office of Training, for personnel engaged in investigative,

protective, and administrative functions. In addition, 65,148 man-hours of interbureau training, 8,019 man-hours of interagency training, and 6,559 man-hours of nongovernmental training were completed, giving Service personnel a combined total of 198,103 man-hours of training during fiscal 1972.

The Office of Training provided firearms training to 606 recruits for the air security program of the Bureau of Customs, 450 Customs patrol officers, 75 Alcohol, Tobacco, and Firearms agents, 62 U.S. Park Police officers, 39 Federal Protective Service officers, and 15 Internal Revenue Service agents.

There were 169 participants from State, local, and other Federal agencies who attended the Secret Service protective operations briefings. Twenty-seven participants from State and local police agencies attended the questioned document course.

Inspections and internal audits resulted in improvements in operations in many areas of the Service. Inspectors represented the Director in many projects and surveys and conducted special investigations of the highest importance. They also participated in a major way in affording protection to the presidential candidates.

Other Government agencies requested assistance in establishing or improving their inspection procedures. They also requested and were granted permission to use the Secret Service Inspection Procedures Manual.

Protective responsibilities

The protective responsibilities of the Secret Service increased significantly in fiscal 1972.

For example, greater protective needs were required for President Nixon's visits to major countries such as Canada, Poland, Iran, Austria, China, and the Union of Soviet Socialist Republics.

Protective requirements for the Vice President also reflected a marked increase. To illustrate, the Vice President made three trips in fiscal 1972 embracing 19 countries. All of these travels, combined with those of other protectees of the Secret Service, resulted in generating greater protective man-hour time than ever before in Secret Service history.

Another major effort was the protection of presidential candidates. Originally, five were designated for protection; however, the actual requirement totaled eight.

Since it was difficult to estimate the number of trips each candidate would make, the number of trips, 1,212, through June 30 far exceeded projected figures. Moreover, the number of man-hours expended, which totaled approximately 307,000, also exceeded previous estimates.

The protection of foreign dignitaries also increased significantly. For example, in fiscal 1971, there were 36 visits; in fiscal 1972, there were 57. This included providing security details during the 26th session of the United Nations in October 1971. In fiscal 1971, 106,000 man-hours were required, whereas in fiscal 1972 approximately 126,000 man-hours were used.

Insofar as protection of official representatives of the United States performing special missions abroad is concerned, approximately 98,000 man-hours were expended as of June 1972. No comparable data is available for fiscal 1971.

Another major area in the protective mission of the Secret Service is the responsibility of the Executive Protective Service. This security force continues to protect the White House, buildings in which Presidential offices are located, the President and his immediate family and foreign diplomatic missions located in the metropolitan area of the District of Columbia. In addition, the Executive Protective Service provides protection for foreign diplomatic missions located in such other areas in the United States, its territories and possessions, as the President on a case-by-case basis may direct.

Recent statistics from the Metropolitan Police Department indicating a decrease in crime in areas surrounding foreign missions patrolled by the Service are supported by the rise in the number of arrests by EPS officers for incidents in connection with their protective mission. In fiscal 1971, there were 19 arrests; for the period ending June 30, 1972, there were 76 arrests.

Protective intelligence

Programs for remote access to intelligence files from cathode ray tube and teleprinter terminals were developed and placed into operation improving the retrieval and updating cycles of these files.

Installation of a high-speed transmission line between the Secret Service and the National Crime Information Center has improved the time for establishment and search of records in the NCIC, including the newly available criminal history records.

Investigative responsibilities

Continuing a trend evident during the past decade, there were more counterfeit bills produced, distributed and passed in fiscal 1972 than ever before. Counterfeiters printed a total of \$27.7 million, and although 83 percent (\$22.9 million) of their output was seized from the counterfeiters by the Secret Service before being placed into circulation, losses to the public reached \$4.8 million, a 39-percent increase over the past fiscal year. Arrests increased to 2,331, 32 percent over fiscal 1971.

This data illustrates that counterfeiting continues to present an enforcement problem of increasing magnitude, a challenge the Secret Service is currently meeting by concentrating its investigative manpower in those areas of most critical need. For example, over 55 percent of the losses during fiscal 1972 occurred in five metropolitan areas—New York, Los Angeles, Philadelphia, Newark, and Miami—areas in which prime investigative efforts are now centered.

In assessing the causes for the current counterfeiting situation, the Service attributes some of them to the general increase in almost every segment of criminal endeavor. However, another factor has contributed materially to this growth. The counterfeiter, as an individual, has become more business oriented than his predecessor. To obtain a higher and more immediate profit, he is willing to accept a higher degree of risk. He deals directly with more people about whom he has collected less background data than the more provincial counterfeiter of past years. In previous years, the counterfeiter was a cautious, suspicious introvert who demanded criminal credentials, often authenticated by blood relatives, before he would sell his product to a

stranger. While this made infiltrating criminal operations quite difficult, it also greatly limited the scope of the counterfeiter's potential clientele. Today's counterfeiter is less concerned with his personal safety and more concerned with volume sale of his merchandise. He makes more deals with more people in shorter periods of time. He has found that underworld fences are interested in handling counterfeits as a common item in their inventory of contraband merchandise, frequently buying large quantities of counterfeits on speculation for possible future sale.

Today, prime conspirators are arrested as quickly as in the past. However, they are generally more successful than they were 10 years ago in placing more counterfeit currency in the hands of distributors before they come to the attention of the Secret Service. Even though the counterfeiting plant operation is successfully suppressed, agents must still locate and identify the many small distributors throughout wide geographic areas who purchased the counterfeiter's product before an investigation was initiated. Constant and dedicated pursuit of each new case by trained investigators is still the most successful method of controlling this segment of crime.

Counterfeiting cases

One major violator arrested during fiscal 1972 first came to the attention of the Secret Service during 1964 when Detroit police reported he was involved in a counterfeiting conspiracy which subsequently failed to materialize because those involved were incarcerated on other charges. He again came to the attention of the Secret Service during 1969 when he was among a dozen conspirators arrested in connection with a \$1.5 million counterfeit plant in Detroit. While on bail awaiting trial on the counterfeiting charge, he was arrested by Michigan authorities for burglarizing a jewelry store. He escaped by sawing through his cell bars with a hacksaw blade. He was arrested again 13 months later in Dallas for operating a third counterfeiting venture and was returned to Michigan to stand trial on original charges. He and six others escaped from jail again by cutting through the bars with a hacksaw blade. Shortly after his second escape, new issues of counterfeit notes appeared in the Detroit area and were traced to associates of the fugitive. During this past year, he was located and arrested by the Secret Service in Cincinnati, and another counterfeit plant was seized. A small pistol, two hacksaw blades and a set of lock picks were found in a money belt worn around his waist; hacksaw blades were also found secreted in the soles of his shoes. Several weeks later, a jailer, making his rounds in the Ohio institution where the defendant was then confined, noticed that one of his cell bars had been sawed in half. A hacksaw blade was found hidden in the defendant's hair. The defendant later entered guilty pleas to the charges pending against him and is now serving a total of 30 years in a Federal penal institution.

During mid-June of 1971, the arrest in Louisiana of a former city police detective and his associate for passing counterfeit notes provided the first substantial lead to the source of a group of counterfeit issues circulating in the Gulf Coast States. While documents found on the defendants indicated they had recently purchased several pieces

of printing equipment, neither would make any admissions. However, after reading of the arrests in a Dallas newspaper, a citizen identified one of the defendants as a tenant to whom she had recently rented a house near Tyler, Tex. A search of the premises uncovered a complete counterfeiting operation. Fingerprints found on the scene also led to the identification of a third conspirator who had narrowly avoided capture in Louisiana. While on bond awaiting trial, the former detective was arrested on September 9, delivering \$20,000 in counterfeits to an undercover Secret Service agent. During October, the third conspirator, also awaiting trial on the original charges, was arrested for passing counterfeit notes at Maybank, Tex. Both defendants, again on bond awaiting trial, were arrested for a third time during December and charged with possession of negatives for counterfeit currency. They had enlisted a local printer in the hope of starting a new counterfeiting venture to raise funds for their defense on the previous charges. All three defendants were convicted this past March and have received substantial sentences on these convictions. The former detective is also awaiting trial for armed robbery of a Corpus Christi bank.

During November of 1969, the first of a group of nine new counterfeit issues appeared in New York City and investigative data developed within the next several days indicated the notes originated in the Boston area. Two months later, the first of a second group of 16 related issues appeared in Boston. Information gleaned from informants and arrested passers resulted in the arrest of two men who had printed the notes. However, agents were unable at the time to develop sufficient evidence to arrest the five individuals who actually controlled the conspiracy. In July of 1970, a third group of counterfeit issues struck the Boston area, followed by the appearance of a fourth and fifth group in September and December. Evidence uncovered during the following months linked these notes to the five major conspirators involved in the original printings. All of the evidence developed during the 22-month investigation was presented to a Federal grand jury during August 1971, and indictments involving the five major conspirators and a number of other individuals were returned. Two of the five prime defendants have now been convicted and the others are awaiting trial. The group of individuals involved in this conspiracy was responsible for producing over \$1.8 million in counterfeit notes with almost \$700,000 being successfully passed on the public, largely in the Boston metropolitan area. The Service has arrested 232 persons for passing notes stemming from this operation.

Bond forgery investigations

Bond forgery investigations have continued in an irregular pattern, but have shown a decrease in an overall statistical comparison. In fiscal 1971, the Secret Service received 22,991 bond investigations while this year the figure decreased by 28 percent to 16,559.

The decrease was due partly to the curtailing of the activities of one forger who redeemed 6,976 forged bonds during the prior year. This individual, now in a Federal penitentiary, had extensive connections with other individuals in the organized crime area. Efforts have been concentrated on the investigation of the large bond distributors in the major cities in an attempt to keep this violation to a minimum.

During the past fiscal year, 177 persons were arrested for bond forgery—an increase of 22 percent over the previous year.

The following are examples of bond cases involving organized groups of criminals operating with established fences.

Bond cases

On October 27, 1971, an individual was sentenced in Chicago to 5 years on a three-count indictment. He was charged with conspiring to aid and abet in the forgery and interstate transportation of approximately \$50,000 in stolen U.S. savings bonds. He had been found guilty on September 17, 1971, by a jury trial, lasting 5 days, during which it was learned that he had been involved with an additional \$100,000 in stolen and forged U.S. savings bonds. He was a recognized fence who provided stolen series E bonds to numerous forgers in the Chicago area for several years. Bond forgeries handled by at least five different multiple forgers were attributed to his operation. Three of his customers were convicted of cashing 1,861 bonds with a face value of over \$120,000. They received sentences of 15 years, 5 years, and 6 years.

In another bond case, the New York Police Department recovered on September 7, 1968, a bag containing \$23,000 in stolen U.S. savings bonds and numerous other securities including postal money orders at the residence of the mother of a suspected fence of stolen bonds. He was there at the time. His fingerprints were determined to be on the money orders and he was charged by Postal authorities. When he was questioned by agents of the Secret Service, he agreed to cooperate by identifying the source of stolen bonds and the subsequent forgers of those bonds. He initially identified bonds from 39 cases as to whether he handled them or whether they were forged by people he knew. A subsequent lengthy investigation was conducted by the Secret Service, which developed other information and informants that resulted in the arrest and indictment of 18 persons, including the suspect for the forgery and conspiracy to forge approximately \$500,000 in stolen U.S. savings bonds and postal money orders. Prior to trial, seven defendants entered guilty pleas and were subsequently placed on probation. One defendant entered a guilty plea, and was sentenced to 3 years' imprisonment. The indictment against a woman defendant was dismissed. The remaining defendants were found guilty by jury trial lasting from January 3-28, 1972, and were sentenced to terms ranging from 1 to 10 years in prison.

Another bond case commenced on March 27, 1970, when a \$1,000 stolen savings bond was forged and redeemed at a savings and loan association in Natick, Mass. A bank surveillance photograph was taken of the individual during the transaction. Prior to referral of this bond to the Secret Service in Boston for investigation, it was associated by the Secret Service Forgery Division in Washington to an unidentified forger believed responsible for 498 additional bonds in 12 cases in Boston, Providence, and New Haven. Other referrals received after the original bond increased these totals to 1,123 bonds for 20 registered owners, face value \$74,850, which were attributed to the forger. Investigation by the Boston office identified the bank surveillance photograph as a close associate of a previously suspected fence of stolen bonds in the New England area. On March 10, 1971, the suspect in the photograph was arrested by the Secret Service. Upon questioning he

admitted the forgery and negotiation of all the bonds that had been associated with the original bond.

In early May 1971, an informant advised the Boston office that the suspect and the fence were planning to redeem a package of bonds at a bank in Woburn, Mass. On May 14, 1971, surveillance was maintained at the bank where the suspect attempted to redeem the bonds and was refused by the bank. Upon leaving the bank, he joined the fence and they were both placed under arrest. Upon questioning, the fence admitted his involvement in the negotiation of stolen bonds over a 3-year period. He identified his source of stolen bonds and subsequent forgers he used to redeem them. A total of 1,703 bonds, face value \$110,425, were identified as handled by him. It is believed he is responsible for other bonds which were not identified by him. On July 12, 1971, the suspect entered a guilty plea and was sentenced to 2 years' imprisonment, with the sentence suspended. He was placed on probation for 5 years. On March 3, 1972, the fence entered a guilty plea and on March 29, 1972, was sentenced to 3 years' imprisonment.

Check forgery investigations

As a result of the increased number of check investigations, the Secret Service initiated the check squad system in a number of metropolitan area offices. Through this concentrated utilization of manpower, agents closed 87,566 cases during the fiscal year compared with 59,675 during last fiscal year. This 47-percent increase is significant, particularly since it was accompanied by a 29-percent increase in arrests—from 2,910 to 3,751—during the same period.

The Secret Service will continue to concentrate its check investigation efforts in these priority areas during the coming fiscal year. At the conclusion of the current campaign year, substantial additional manpower will be diverted to the reduction of check investigation backlogs. The following are two cases involving multiple check forgeries in fiscal 1972.

Check cases

An individual was arrested July 3, 1971, in Anderson, Ind., after being observed stealing U.S. Treasury checks from apartment house mailboxes in that city. He was chased on foot by a person who was expecting her monthly check and was apprehended a short distance away by a gas station attendant who heeded the screams of the woman. The man, 62 years of age, has an extensive criminal record dating back to 1930 and has served sentences in penitentiaries at Columbus, Ohio, and Joliet and Menard, Ill. On November 23, 1949, he received a 2-year sentence at the U.S. Penitentiary, Leavenworth, Kans., for the forging and uttering of a Treasury check. Other convictions of this defendant have primarily been for forgery. He was released from the Illinois State Penitentiary at Menard on September 28, 1966, and started stealing checks during the early part of January 1967. He continued this activity, almost on a monthly basis, until his arrest in July 1971. Operating alone primarily in the Midwest and the South, he stole three or four checks a month, enough to cover his expenses for that period of time. The Secret Service Forgery Division has associated 190 Treasury checks with an approximate value of \$17,000 to him during his latest check stealing and forgery operation. On Sep-

tember 17, 1971, he pled guilty to 14 charges in Indianapolis, Ind., and was sentenced to 12 years.

In another check forgery investigation, the owner of a supermarket located in Harlem, New York City, received stolen U.S. Treasury checks from various unnamed postal employees in New York City and deposited these checks to fictitious accounts at banks in that city. A bank employee became suspicious when a large number of these checks were returned as forgeries and correspondence from the bank to the account of the supermarket was returned as nondeliverable. Surveillance was established at this bank and an accomplice of the supermarket owner was arrested on April 30, 1970, attempting to make a cash withdrawal. She was questioned and admitted forging some of the checks but said the bulk were signed when she received them from the supermarket owner. A voluntary search was conducted at the woman's apartment and 31 Treasury checks, some of which were signed, and 20 U.S. savings bonds were located. During the search the supermarket owner entered the apartment and was also arrested. Both were arraigned the same day and released on \$2,000 bail. The owner continued his check operation after the above arrest using the same method of operation. He was subsequently arrested on July 24, 1970, and again on March 24, 1971, on the same charges. Both the owner and the woman pleaded guilty to forging and uttering U.S. Treasury checks and the man was sentenced to 4 years in prison. The woman was sentenced to 2 years probation. To date, 365 U.S. Treasury checks have been associated in this case with an approximate value of \$75,000 dating back to March 1970.

Treasury Security Force

The Treasury Security Force, which has the responsibility for securing the Main Treasury Building and Treasury Annex, continued an intensive inservice training program during fiscal 1972. Over 1,600 man-hours were expended on inservice training.

During fiscal 1972, Treasury Security Force Officers made 25 felony arrests at the Main Treasury Building. The majority of the arrests made were in the main cash room when individuals attempted to forge and cash stolen U.S. Treasury checks. The savings to the Government in preventing the cashing of these forged checks was over \$6,284.

This Force has had special classes in bombs and explosives and bomb scene officer training, and members have attended a GSA Federal Executive Seminar on the protection of Federal personnel and property and an FBI Riot Control School. They have also received special internal training on the search, seizure and detention of prisoners; fire prevention; report writing; arrest techniques; bomb threats and explosives; crowds, mobs and riot control; telephone usage; first aid; and alarm response procedures.

Organized crime

The Secret Service continues to participate in the organized crime strike force effort of the Department of Justice. There are 18 special agents assigned to operating strike forces throughout the country. They are presently involved in 136 separate investigations designated as organized crime cases. During fiscal 1972, Secret Service personnel expended 105,598 man-hours in this category.

EXHIBITS



Public Debt Operations, Regulations, and Legislation

During fiscal 1972 there were no offerings of marketable Treasury certificates of indebtedness.

Exhibit 1.—Treasury notes

Two Treasury circulars—one containing an exchange offering and one covering an auction for cash with prices established through competitive bidding—are reproduced in this exhibit. Circulars pertaining to the other note offerings during fiscal 1972 are similar in form and therefore are not reproduced in this report. However, essential details for each offering are summarized in the table in this exhibit, and allotment data for the new notes will be shown in table 37 in the Statistical Appendix.

DEPARTMENT CIRCULAR NO. 11-71. PUBLIC DEBT

THE DEPARTMENT OF THE TREASURY,
Washington, October 28, 1971.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers notes of the United States, designated 6 percent Treasury Notes of Series B-1978, at 99.75 percent of their face value, in exchange for the following securities, singly or in combinations aggregating \$1,000 or multiples thereof:

- (1) 3½ percent Treasury Bonds of 1971, dated May 15, 1962, due November 15, 1971;
- (2) 5½ percent Treasury Notes of Series B-1971, dated November 15, 1966, due November 15, 1971;
- (3) 7¼ percent Treasury Notes of Series G-1971, dated May 15, 1970, due November 15, 1971;
- (4) 4¾ percent Treasury Notes of Series B-1972, dated May 15, 1967, due May 15, 1972, with a cash payment of \$0.13322 per \$1,000 to the United States;
- (5) 6¾ percent Treasury Notes of Series D-1972, dated November 16, 1970, due May 15, 1972, with a cash payment of \$9.61515 per \$1,000 to subscribers;
- (6) 4 percent Treasury Bonds of 1972, dated September 15, 1962, due August 15, 1972, with a cash payment of \$5.89353 per \$1,000 to the United States; or
- (7) 5 percent Treasury Notes of Series E-1972, dated May 15, 1971, due August 15, 1972, with a cash payment of \$1.36700 per \$1,000 to subscribers.

Interest will be adjusted on the securities due in 1972 as of November 15, 1971. Payments on account of accrued interest and cash adjustments will be made as set forth in Section IV hereof. The amount of this offering will be limited to the amount of eligible securities tendered in exchange. The books will be open until 8:00 p.m., local time, November 3, 1971, for the receipt of subscriptions.

2. In addition, holders of the securities enumerated in Paragraph 1 of this section are offered the privilege of exchanging all or any part of them for 6½ percent Treasury Bonds of 1986, which offering is set forth in Department Circular, Public Debt Series—No. 12-71, issued simultaneously with this circular.

II. DESCRIPTION OF NOTES

1. The notes will be dated November 15, 1971, and will bear interest from that date at the rate of 6 percent per annum, payable semiannually on May 15 and November 15 in each year until the principal amount becomes payable. They will mature November 15, 1978, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes is subject to all taxes imposed under the Internal Revenue Code of 1954. The notes are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer notes with interest coupons attached, and notes registered as to principal and interest, will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of notes of different denominations and of coupon and registered notes, and for the transfer of registered notes, under rules and regulations prescribed by the Secretary of the Treasury.

5. The notes will be subject to the general regulations of the Department of the Treasury, now or hereafter prescribed, governing United States notes.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions accepting the offer made by this circular will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Department of the Treasury are authorized to act as official agencies.

2. Under the Second Liberty Bond Act, as amended, the Secretary of the Treasury has the authority to reject or reduce any subscription, and to allot less than the amount of notes applied for when he deems it to be in the public interest; and any action he may take in these respects shall be final. Subject to the exercise of that authority, all subscriptions will be allotted in full.

IV. PAYMENT

1. Payment for the face amount of notes allotted hereunder must be made on or before November 15, 1971, or on later allotment, and may be made only in a like face amount of securities of the issues enumerated in Paragraph 1 of Section I hereof, which should accompany the subscription. Payment will not be deemed to have been completed where registered notes are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. Payments due to subscribers will be made by check or by credit in any account maintained by a banking institution with the Federal Reserve Bank of its District, following acceptance of the securities surrendered. In the case of registered securities, the payment will be made in accordance with the assignments thereon.

2. *3½ percent bonds of 1971, 5½ percent notes of Series B-1971 and 7½ percent notes of Series G-1971.*—When payment is made with securities in bearer form, coupons dated November 15, 1971, should be detached and cashed when due.¹ A cash payment of \$2.50 per \$1,000 on account of the issue price of the new notes will be made to subscribers.

3. *4¾ percent notes of Series B-1972.*—When payment is made with notes in bearer form, coupons dated May 15, 1972, must be attached (November 15, 1971, coupons should be detached¹) to the notes when surrendered. The payment on account of the issue price of the new notes (\$2.50 per \$1,000) will be credited, the payment due the United States (\$0.13322 per \$1,000) will be charged, and the difference (\$2.36678 per \$1,000) will be paid to subscribers.

4. *6¾ percent notes of Series D-1972.*—When payment is made with notes in bearer form, coupons dated May 15, 1972, must be attached (November 15, 1971, coupons should be detached¹) to the notes when surrendered. The payment on account of the issue price of the new notes (\$2.50 per \$1,000) plus the cash payment of \$9.61515 per \$1,000, a total of \$12.11515 per \$1,000, will be paid to subscribers.

5. *4 percent bonds of August 15, 1972.*—When payment is made with bonds in bearer form, coupons dated February 15 and August 15, 1972, must be attached to the bonds when surrendered. Accrued interest from August 15 to November 15,

¹Interest due on November 15, 1971, on registered securities will be paid by issue of interest checks in regular course to holders of record on October 15, 1971, the date the transfer books closed.

1971 (\$10.00 per \$1,000) plus the payment on account of the issue price of the new notes (\$2.50 per \$1,000) will be credited, the payment due the United States (\$5.89353 per \$1,000) will be charged, and the difference (\$6.60647 per \$1,000) will be paid to subscribers.

6. *5 percent notes of Series E-1972.*—When payment is made with notes in bearer form, coupons dated February 15 and August 15, 1972, must be attached to the notes when surrendered. Accrued interest from August 15 to November 15, 1971 (\$12.50 per \$1,000), the payment on account of the issue price of the new notes (\$2.50 per \$1,000) and the cash payment (\$1.36700 per \$1,000), a total of \$16.36700 per \$1,000 will be paid to subscribers.

V. ASSIGNMENT OF REGISTERED SECURITIES

1. Registered securities tendered in payment for notes offered hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of the Department of the Treasury governing assignments for transfer or exchange, in one of the forms hereafter set forth, and thereafter should be surrendered with the subscription to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, D.C. 20220. The securities must be delivered at the expense and risk of the holder. If the notes are desired registered in the same name as the securities surrendered, the assignment should be to "The Secretary of the Treasury for exchange for 6 percent Treasury Notes of Series B-1978"; if the notes are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for 6 percent Treasury Notes of Series B-1978 in the name of -----"; if notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for 6 percent Treasury Notes of Series B-1978 in coupon form to be delivered to -----".

VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notices as may be necessary, to receive payment for and make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

JOHN B. CONNALLY,
Secretary of the Treasury.

DEPARTMENT CIRCULAR NO. 4-72. PUBLIC DEBT

THE DEPARTMENT OF THE TREASURY,
Washington, March 22, 1972.

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites tenders at a price not less than 99.26 percent of their face value for \$1,750,000,000, or thereabouts, of notes of the United States, designated 5½ percent Treasury Notes of Series F-1975. Tenders will be received up to 1:30 p.m., Eastern Standard time, Tuesday, March 28, 1972. The notes will be issued under competitive and noncompetitive bidding, as set forth in Section III hereof.

II. DESCRIPTION OF NOTES

1. The notes will be dated April 3, 1972, and will bear interest from that date at the rate of 5½ percent per annum, payable on a semiannual basis on November 15, 1972, and thereafter on May 15 and November 15 in each year until the principal amount becomes payable. They will mature May 15, 1975, and will not be subject to call for redemption prior to maturity.

2. The income derived from the notes is subject to all taxes imposed under the Internal Revenue Code of 1954. The notes are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer notes with interest coupons attached, and notes registered as to principal and interest, will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of notes of different denominations and of coupon and registered notes, and for the transfer of registered notes, under rules and regulations prescribed by the Secretary of the Treasury.

5. The notes will be subject to the general regulations of The Department of the Treasury, now or hereafter prescribed, governing United States notes.

III. TENDERS AND ALLOTMENTS

1. Tenders will be received at Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220, up to the closing hour, 1:30 p.m., Eastern Standard time, Tuesday, March 28, 1972. Each tender must state the face amount of notes bid for, which must be \$1,000 or a multiple thereof, and the price offered, except that in the case of noncompetitive tenders the term "noncompetitive" should be used in lieu of a price. In the case of competitive tenders, the price must be expressed on the basis of 100, with two decimals, e.g., 100.00. Tenders at a price less than 99.26 will not be accepted. Fractions may not be used. Noncompetitive tenders from any one bidder may not exceed \$200,000. It is urged that tenders be made on the printed forms and forwarded in the special envelopes marked "Tender for Treasury Notes", which will be supplied by Federal Reserve Banks on application therefor.

2. Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than commercial banks will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for.

3. Immediately after the closing hour tenders will be opened, following which public announcement will be made by The Department of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. In considering the acceptance of tenders, those at the highest prices will be accepted to the extent required to attain the amount offered. Tenders at the lowest accepted price will be prorated if necessary. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for \$200,000 or less without stated price from any one bidder will be accepted in full at the average price¹ (in two decimals) of accepted competitive tenders.

4. All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any notes of this issue at a specific rate or price, until after 1:30 p.m., Eastern Standard time, Tuesday, March 28, 1972.

5. Commercial banks in submitting tenders will be required to certify that they have no beneficial interest in any of the tenders they enter for the account of their customers, and that their customers have no beneficial interest in the banks' tenders for their own account.

¹ Average price may be at, or more or less than 100.00.

IV. PAYMENT

1. Settlement for accepted tenders in accordance with the bids must be made or completed on or before April 3, 1972, at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States, Washington, D.C. 20220, in cash or other funds immediately available by that date. Payment will not be deemed to have been completed where registered notes are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. In every case where full payment is not completed, the payment with the tender up to 5 percent of the amount of notes allotted shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make settlement by credit in its Treasury Tax and Loan Account for notes allotted to it for itself and its customers.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive tenders, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notices as may be necessary, to receive payment for and make delivery of notes on full-paid tenders allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

JOHN B. CONNALLY,
Secretary of the Treasury.

Summary of information pertaining to Treasury notes issued during fiscal year 1972

Date of preliminary announcement	Department circular		Concurrent offering circular No.	Treasury notes issued for exchange or for cash	Date of issue	Date of maturity	Date subscription books closed or tenders received	Allotment payment date on or before (or on later allotment)
	No.	Date						
1971		1971			1971		1971	1971
July 21	6-71	July 22	7-71	7 percent Series D-1975 at 99.80 in exchange for.....	Aug. 15	Nov. 15, 1975	July 28	Aug. 16
				8¼ percent Series F-1971 notes maturing August 15, 1971.				
				4 percent bonds maturing August 15, 1971.				
July 30	8-71	Aug. 2		6½ percent Series C-1973 at 99.94 (average) for cash ¹	Aug. 16	Feb. 15, 1973	Aug. 5	Aug. 16
Aug. 25	9-71	Aug. 26		6¼ percent Series D-1976 at 101.14 (average) for cash ^{2 3}	Sept. 8	Nov. 15, 1976	Aug. 31	Sept. 8
Oct. 12	10-71	Oct. 12		5½ percent Series E-1975 at 100.89 (average) for cash ^{3 4}	Oct. 22	Feb. 15, 1975	Oct. 15	Oct. 22
Oct. 27	11-71	Oct. 28	12-71	6 percent Series B-1978 at 99.75 in exchange for ⁵	Nov. 15	Nov. 15, 1978	Nov. 3	Nov. 15
				3½ percent bonds maturing November 15, 1971.				
				5½ percent Series B-1971 notes maturing November 15, 1971.				
				7¼ percent Series G-1971 notes maturing November 15, 1971.				
				4¼ percent Series B-1972 notes maturing May 15, 1972.				
				6¼ percent Series D-1972 notes maturing May 15, 1972.				
				4 percent bonds maturing August 15, 1972.				
				5 percent Series E-1972 notes maturing August 15, 1972.				
Nov. 4	13-71	Nov. 5		4½ percent Series D-1973 at 99.96 (average) for cash ⁶	Nov. 15	Feb. 15, 1973	Nov. 9	Nov. 15
1972		1972			1972		1972	1972
Jan. 26	1-72	Jan. 27	2-72	5¾ percent Series E-1976 at par in exchange for.....	Feb. 15	May 15, 1976	Feb. 2	Feb. 15
				4¼ percent Series A-1972 notes maturing February 15, 1972.				
				7½ percent Series C-1972 notes maturing February 15, 1972.				
				4 percent bonds maturing February 15, 1972.				
Mar. 21	4-72	Mar. 22		5½ percent Series F-1975 at 100.26 (average) for cash ⁷	Apr. 3	May 15, 1975	Mar. 28	Apr. 3
Apr. 26	5-72	Apr. 27	6-72	4¼ percent Series E-1973 at 100.30 (average) for cash ⁸	May 15	May 15, 1973	May 2	May 15

¹ These notes were sold at auction at prices ranging from 100.08 to 99.87. Noncompetitive tenders for \$200,000 or less were accepted in full at the average price of accepted competitive tenders. Qualified depositaries were permitted to make settlement by credit in their Treasury tax and loan account for 50 percent of the amount of notes allotted.

² These notes were sold at auction at prices ranging from 101.44 to 101.00.

³ Noncompetitive tenders for \$200,000 or less were accepted in full at the average price of accepted competitive tenders. Qualified depositaries were permitted to make settlement by credit in their Treasury tax and loan account.

⁴ These notes were sold at auction at prices ranging from 101.25 to 100.80.

⁵ See Department Circular No. 11-71 in this exhibit for provisions for subscription and payment, including cash adjustments.

⁶ These notes were sold at auction at prices ranging from 100.10 to 99.90. Noncompetitive tenders for \$400,000 or less were accepted in full at the average price of accepted competitive tenders. Payment could not be made through Treasury tax and loan accounts.

⁷ These notes were sold at auction at prices ranging from 100.50 to 100.20.

⁸ These notes were sold at auction at prices ranging from 100.50 to 100.27.

Exhibit 2.—Treasury bonds

Two Treasury circulars—one containing an exchange offering and one covering an auction for cash with prices established through competitive bidding—are reproduced in this exhibit. Circulars pertaining to two other offerings are similar in form and therefore are not reproduced in this report. However, essential details for each offering are summarized in the table in this exhibit, and allotment data for the new bonds will be shown in table 38 in the Statistical Appendix.

DEPARTMENT CIRCULAR NO. 2-72. PUBLIC DEBT

THE DEPARTMENT OF THE TREASURY,
Washington, January 27, 1972.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, offers bonds of the United States, designated 6½ percent Treasury Bonds of 1982, at par, in exchange for the following securities, singly or in combinations aggregating \$1,000 or multiples thereof:

- (1) 4¾ percent Treasury Notes of Series A-1972, dated February 15, 1967, due February 15, 1972;
- (2) 7½ percent Treasury Notes of Series C-1972, dated August 17, 1970, due February 15, 1972;
- (3) 4 percent Treasury Bonds of 1972, dated November 15, 1962, due February 15, 1972;
- (4) 7¾ percent Treasury Notes of Series C-1974, dated August 15, 1970, due February 15, 1974, with a cash payment of \$53.21583 per \$1,000 to subscribers;
- (5) 4½ percent Treasury Bonds of 1974, dated January 15, 1965, due February 15, 1974, with a cash payment of \$14.40167 per \$1,000 to the United States;
- (6) 7¼ percent Treasury Notes of Series D-1974, dated November 15, 1970, due May 15, 1974, with a cash payment of \$47.56228 per \$1,000 to subscribers; or
- (7) 4¼ percent Treasury Bonds of 1974, dated May 15, 1964, due May 15, 1974, with a cash payment of \$15.04946 per \$1,000 to the United States.

Interest will be adjusted on the securities due in 1974 as of February 15, 1972. Payments on account of accrued interest and cash adjustments will be made as set forth in Section IV hereof. In addition, the Secretary of the Treasury offers the bonds to natural persons in their own right for cash, not to exceed \$10,000 to any one person. The books will be open until 5:00 p.m., local time, February 2, 1972, for the receipt of subscriptions.

2. In addition, holders of the securities maturing on February 15, 1972, enumerated in Paragraph 1 of this section are offered the privilege of exchanging all or any part of them for 5¾ percent Treasury Notes of Series E-1976, which offering is set forth in Department Circular, Public Debt Series—No. 1-72, issued simultaneously with this circular.

3. *Optional recognition of gain or loss for Federal income tax purposes on securities due in 1974.*—Pursuant to the provisions of section 1037(a) of the Internal Revenue Code of 1954, the Secretary of the Treasury hereby declares that gain or loss for Federal income tax purposes upon the exchange with the United States of the securities due in 1974 enumerated in Paragraph 1 of this section solely for the 6½ percent Treasury Bonds of 1982 may be recognized either—

- (1) In the taxable year of the exchange, or
- (2) In the taxable year of disposition or redemption of the new obligations.

In the case of either option, any gain realized on the exchange to the extent that money (other than as an interest adjustment) is received by the security holder in connection with the exchange must be recognized as gain for the taxable year of the exchange.

II. DESCRIPTION OF BONDS

1. The bonds will be dated February 15, 1972, and will bear interest from that date at the rate of 6½ percent per annum, payable semiannually on August 15, 1972, and thereafter on February 15 and August 15 in each year until the principal

amount becomes payable. They will mature February 15, 1982, and will not be subject to call for redemption prior to maturity.

2. The income derived from the bonds is subject to all taxes imposed under the Internal Revenue Code of 1954. The bonds are subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

3. The bonds will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Department of the Treasury, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions accepting the offer made by this circular will be received at the Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220. Only the Federal Reserve Banks and the Department of the Treasury are authorized to act as official agencies. Banking institutions generally may submit subscriptions for account of customers, provided the names of customers subscribing for cash are set forth in such subscriptions. Others than banking institutions will not be permitted to enter cash subscriptions except for their own account.

2. Cash subscriptions, which may not exceed \$10,000 from any one person, must be accompanied by payment of 10 percent of the face amount of bonds applied for.

3. Banking institutions in submitting cash subscriptions for customers will be required to certify that they have no beneficial interest in any such subscriptions.

4. Under the Second Liberty Bond Act, as amended, the Secretary of the Treasury has the authority to reject or reduce any subscription, and to allot less than the amount of bonds applied for when he deems it to be in the public interest; and any action he may take in these respects shall be final. Subject to the exercise of that authority, all subscriptions will be allotted in full.

IV. PAYMENT

1. Payment for the face amount of bonds allotted hereunder in exchange for securities of the issues enumerated in Paragraph 1 of Section I hereof, must be made on or before February 15, 1972, or on later allotment, and may be made only in a like face amount of such securities, which should accompany the subscription. On cash subscriptions payment at par and accrued interest, if any, for bonds allotted hereunder, must be completed on or before February 15, 1972, in cash or other funds fully collectible by that date. In every case where full payment is not completed, the payment with the application up to 10 percent of the amount of bonds allotted shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Payment will not be deemed to have been completed where registered bonds are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. Payments due to subscribers (paragraphs 3 and 5 below) will be made by check or by credit in any account maintained by a banking institution with the Federal Reserve Bank of its District, following acceptance of the securities surrendered. In the case of registered securities, the payment will be made in accordance with the assignments thereon. Payments due from subscribers (paragraphs 4 and 6 below) should accompany the subscription.

2. *4½ percent notes of Series A-1972, 7½ percent notes of Series C-1972 and 4 percent bonds of 1972.*—When payment is made with securities in bearer form, coupons dated February 15, 1972, should be detached and cashed when due.¹

3. *7½ percent notes of Series C-1974.*—When payment is made with notes in bearer form, coupons dated August 15, 1972, and all subsequent coupons, must

¹ Interest due on February 15, 1972, on registered securities will be paid by issue of interest checks in regular course to holders of record on January 14, 1972, the date the transfer books closed.

be attached (February 15, 1972, coupons should be detached ¹) to the notes when surrendered. The cash payment of \$53.21583 per \$1,000 will be paid to subscribers.

4. *4½ percent bonds of 1974.*—When payment is made with bonds in bearer form, coupons dated August 15, 1972, and all subsequent coupons, must be attached (February 15, 1972, coupons should be detached ¹) to the bonds when surrendered. The cash payment of \$14.40167 per \$1,000 due the United States must be paid by subscribers.

5. *7¼ percent notes of Series D-1974.*—When payment is made with notes in bearer form, coupons dated May 15, 1972, and all subsequent coupons, must be attached to the notes when surrendered. Accrued interest from November 15, 1971, to February 15, 1972 (\$18.32418 per \$1,000), plus the cash payment (\$47.56228 per \$1,000), a total of \$65.88646 per \$1,000 will be paid to subscribers.

6. *4¼ percent bonds of 1974.*—When payment is made with bonds in bearer form, coupons dated May 15, 1972, and all subsequent coupons, must be attached to the bonds when surrendered. Accrued interest from November 15, 1971, to February 15, 1972 (\$10.74176 per \$1,000), will be credited, the cash payment (\$15.04946 per \$1,000) due the United States will be charged, and the difference of \$4.40770 per \$1,000 must be paid by subscribers.

V. ASSIGNMENT OF REGISTERED SECURITIES

1. Registered securities tendered in payment for bonds offered hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of the Department of the Treasury governing assignments for transfer or exchange, in one of the forms hereafter set forth, and thereafter should be surrendered with the subscription to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, D.C. 20220. The securities must be delivered at the expense and risk of the holder. If the bonds are desired registered in the same name as the securities surrendered, the assignment should be to "The Secretary of the Treasury for exchange for 6½ percent Treasury Bonds of 1982"; if the bonds are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for 6½ percent Treasury Bonds of 1982 in the name of _____"; if bonds in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for 6½ percent Treasury Bonds of 1982 in coupon form to be delivered to _____".

VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notices as may be necessary, to receive payment for and make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

JOHN B. CONNALLY,
Secretary of the Treasury.

DEPARTMENT CIRCULAR NO. 6-72. PUBLIC DEBT

THE DEPARTMENT OF THE TREASURY,
Washington, April 27, 1972.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites tenders at a price not less than 97.76 percent of their face value for up to \$500,000,000, or thereabouts, of bonds of the United States, designated 6½ percent Treasury Bonds of 1982. An additional amount of the bonds may be allotted by the Secretary of the Treasury to Government accounts and Federal Reserve Banks at the average price of accepted tenders in exchange for Treasury notes maturing May 15, 1972. Tenders will be

See footnote on previous page.

received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, May 2, 1972, under competitive and noncompetitive bidding, as set forth in Section III hereof. The 4½ percent Treasury Notes of Series B-1972 and 6¾ percent Treasury Notes of Series D-1972, maturing May 15, 1972, will be accepted at par in payment, in whole or in part, to the extent tenders are allotted by the Treasury.

II. DESCRIPTION OF BONDS

1. The bonds now offered will be identical in all respects with the 6½ percent Treasury Bonds of 1982 issued pursuant to Department Circular, Public Debt Series—No. 2-72, dated January 27, 1972, except that interest will accrue from May 15, 1972. With this exception the bonds are described in the following quotation from Department Circular No. 2-72:

"1. The bonds will be dated February 15, 1972, and will bear interest from that date at the rate of 6½ percent per annum, payable semiannually on August 15, 1972, and thereafter on February 15 and August 15 in each year until the principal amount becomes payable. They will mature February 15, 1982, and will not be subject to call for redemption prior to maturity.

"2. The income derived from the bonds is subject to all taxes imposed under the Internal Revenue Code of 1954. The bonds are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority.

"3. The bonds will be acceptable to secure deposits of public moneys. They will not be acceptable in payment of taxes.

"4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$1,000, \$5,000, \$10,000, \$100,000 and \$1,000,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

"5. The bonds will be subject to the general regulations of the Department of the Treasury, now or hereafter prescribed, governing United States bonds."

III. TENDERS AND ALLOTMENTS

1. Tenders will be received at Federal Reserve Banks and Branches and at the Office of the Treasurer of the United States, Washington, D.C. 20220, up to the closing hour, 1:30 p.m., Eastern Daylight Saving time, Tuesday, May 2, 1972. Each tender must state the face amount of bonds bid for, which must be \$1,000 or a multiple thereof, and the price offered, except that in the case of non-competitive tenders the term "noncompetitive" should be used in lieu of a price. In the case of competitive tenders, the price must be expressed on the basis of 100, with two decimals, e.g., 100.00. Tenders at a price less than 97.76 will not be accepted. Fractions may not be used. Noncompetitive tenders from any one bidder may not exceed \$50,000. It is urged that tenders be made on the printed forms and forwarded in the special envelopes marked "Tender for Treasury Bonds", which will be supplied by Federal Reserve Banks on application therefor.

2. Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than commercial banks will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from banking institutions for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, and Government accounts. Tenders from others must be accompanied by payment (in cash or the securities referred to in Section I which will be accepted at par) of 5 percent of the face amount of bonds applied for.

3. Immediately after the closing hour tenders will be opened, following which public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. In considering the acceptance of

tenders, those at the highest prices will be accepted to the extent required to attain the amount offered. Tenders at the lowest accepted price will be prorated if necessary. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for \$50,000 or less without stated price from any one bidder will be accepted in full at the average price¹ (in two decimals) of accepted competitive tenders.

4. All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bonds of this issue at a specific rate or price, until after 1:30 p.m., Eastern Daylight Saving time, Tuesday, May 2, 1972.

5. Commercial banks in submitting tenders will be required to certify that they have no beneficial interest in any of the tenders they enter for the account of their customers, and that their customers have no beneficial interest in the banks' tenders for their own account.

IV. PAYMENT

1. Settlement for accepted tenders in accordance with the bids together with \$15.76236 per \$1,000 for accrued interest from February 15 to May 15, 1972, must be made or completed on or before May 15, 1972, at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States, Washington, D.C. 20220, in cash, securities referred to in Section I (interest coupons dated May 15, 1972, should be detached) or other funds immediately available by that date. Payment will not be deemed to have been completed where registered bonds are requested if the appropriate identifying number as required on tax returns and other documents submitted to the Internal Revenue Service (an individual's social security number or an employer identification number) is not furnished. In every case where full payment is not completed, the payment with the tender up to 5 percent of the amount of bonds allotted shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States. Any qualified depository will be permitted to make settlement by credit in its Treasury Tax and Loan Account for bonds allotted to it for itself and its customers. When payment is made with securities, a cash adjustment will be required of the bidder for any difference between the face amount of securities submitted and the amount payable, including accrued interest, on the bonds allotted.

V. ASSIGNMENT OF REGISTERED SECURITIES

1. Registered securities tendered as deposits and in payment for bonds allotted hereunder should be assigned by the registered payees or assignees thereof, in accordance with the general regulations of The Department of the Treasury, in one of the forms hereafter set forth. Securities tendered in payment should be surrendered at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States, Washington, D.C. 20220. The securities must be delivered at the expense and risk of the holder. If the bonds are desired registered in the same name as the securities surrendered, the assignment should be to "The Secretary of the Treasury for 6½ percent Treasury Bonds of 1982"; if the bonds are desired registered in another name, the assignment should be to "The Secretary of the Treasury for 6½ percent Treasury Bonds of 1982 in the name of -----"; if bonds in coupon form are desired, the assignment should be to "The Secretary of the Treasury for 6½ percent Treasury Bonds of 1982 in coupon form to be delivered to -----".

VI. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive tenders, to make such allotments as may be prescribed by the Secretary of the Treasury, to issue such notices as may be necessary, to receive payment for and make delivery of bonds on full-paid tenders allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

CHARLES E. WALKER,
Acting Secretary of the Treasury.

¹ Average price may be at, or more or less than 100.00.

Summary of information pertaining to Treasury bonds issued during fiscal year 1972

Date of preliminary announcement	Department circular No.	Date	Concurrent offering circular No.	Treasury bonds issued for exchange or for cash	Date of issue	Date of maturity	Date subscription books closed or tenders received	Allotment payment date on or before (or on later allotment)
1971 July 21	7-71	1971 July 22	6-71	7 percent of 1981 at 99.20 for cash ¹ and in exchange for..... 8½ percent Series F-1971 notes maturing Aug. 15, 1971. 4 percent bonds maturing Aug. 15, 1971.	1971 Aug. 15	Aug. 15, 1981	1971 July 28	1971 Aug. 16
Oct. 27	12-71	Oct. 28	11-71	6½ percent of 1986 at 99.75 for cash ¹ and in exchange for..... 3½ percent bonds maturing Nov. 15, 1971. 5½ percent Series B-1971 notes maturing Nov. 15, 1971. 7½ percent Series G-1971 notes maturing Nov. 15, 1971. 4½ percent Series B-1972 notes maturing May 15, 1972. ² 6½ percent Series D-1972 notes maturing May 15, 1972. ³ 4 percent bonds maturing Aug. 15, 1972. ⁴ 5 percent Series E-1972 notes maturing Aug. 15, 1972. ⁵	Nov. 15	Nov. 15, 1986	Nov. 3	Nov. 15
1972 Jan. 26	2-72	1972 Jan. 27	1-72	6½ percent of 1982 at par for cash ¹ and in exchange for..... 4½ percent Series A-1972 notes maturing Feb. 15, 1972. 7½ percent Series C-1972 notes maturing Feb. 15, 1972. 4 percent bonds maturing Feb. 15, 1972. 7½ percent Series C-1974 notes maturing Feb. 15, 1974. ⁶ 4½ percent bonds maturing Feb. 15, 1974. ⁷ 7½ percent Series D-1974 notes maturing May 15, 1974. ⁸ 4½ percent bonds maturing May 15, 1974. ⁹	1972 Feb. 15	Feb. 15, 1982	1972 Feb. 2	1972 Feb. 15
Apr. 26	6-72	Apr. 27	5-72	6½ percent of 1982 at 100.60 (average) for cash. ⁷	Feb. 15 ⁸	Feb. 15, 1982	May 2	May 15

¹ Cash subscriptions for \$10,000 or less were accepted but only from natural persons in their own right.

² To adjust the exchange value of the 4½ percent notes subscribers were given a net cash payment of \$1.36678 per \$1,000.

³ To adjust the exchange value of the 6½ percent notes subscribers were given a net cash payment of \$11.11515 per \$1,000.

⁴ To adjust the exchange value of the 4 percent bonds subscribers were charged a net cash adjustment of \$4.39353 per \$1,000 and credited with \$10.00 per \$1,000 accrued interest on the 4 percent bonds.

⁵ To adjust the exchange value of the 5 percent notes subscribers were given a net cash adjustment of \$2.86700 per \$1,000 plus \$12.50 per \$1,000 accrued interest on the notes.

⁶ See Department Circular No. 2-72 in this exhibit for cash and interest adjustments and provision for optional recognition of gain or loss for Federal income tax purposes.

⁷ These bonds were sold at auction at prices ranging from 101.06 to 100.37. See Department Circular No. 6-72 in this exhibit for provisions for tenders and payments.

⁸ Interest was payable from May 15, 1972.

Exhibit 3.—Treasury bills

During the fiscal year there were 53 weekly issues of 13-week and 26-week bills (the 13-week bills represent additional amounts of bills with an original maturity of 26 weeks), 12 monthly issues of 9-month and 1-year bills (the 9-month bills represent additional amounts of bills with an original maturity of 1 year), five issues of tax anticipation series and one issue of a strip of additional amounts of outstanding issues. Two press releases inviting tenders are reproduced in this exhibit. The release of May 9, 1972, is representative of releases for regular weekly, regular monthly, and tax anticipation series issues whereas the release of February 24, 1972, is for the strip of issues. Also reproduced is the press release of May 15, 1972, which is representative of releases announcing the results of all offerings. Following the press releases is a table of data for each issue during the fiscal year.

PRESS RELEASE OF MAY 9, 1972

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of \$4,100,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing May 18, 1972, in the amount of \$4,211,555,000, as follows:

91-day bills (to maturity date) to be issued May 18, 1972, in the amount of \$2,300,000,000, or thereabouts, representing an additional amount of bills dated February 17, 1972, and to mature August 17, 1972 (CUSIP No. 912793 NZ5), originally issued in the amount of \$1,800,540,000, the additional and original bills to be freely interchangeable.

182-day bills, for \$1,800,000,000, or thereabouts, to be dated May 18, 1972, and to mature November 16, 1972 (CUSIP No. 912793 PM2).

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$10,000, \$15,000, \$50,000, \$100,000, \$500,000 and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, May 15, 1972. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of \$10,000. Tenders over \$10,000 must be in multiples of \$5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for \$200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 18, 1972, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 18, 1972. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his 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.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

PRESS RELEASE OF FEBRUARY 24, 1972

The Treasury Department, by this public notice, invites tenders for additional amounts of 15 series of Treasury bills to the aggregate amount of \$3,000,000, 000, or thereabouts, for cash. The additional bills will be issued March 6, 1972, will be in the amounts, and will be in addition to the bills originally issued and maturing, as follows:

Amount of additional issue	Original issue dates	Maturity dates 1972	CUSIP Nos.	Days from Mar. 6, 1972, to maturity	Amount currently outstanding (in millions)
\$200,000,000	Sept. 30, 1971	Mar. 30	912793MU7	24	\$3,903
200,000,000	Oct. 7, 1971	Apr. 6	912793MV5	31	3,901
200,000,000	Oct. 14, 1971	Apr. 13	912793MW3	38	3,903
200,000,000	Oct. 21, 1971	Apr. 20	912793MX1	45	3,901
200,000,000	Oct. 28, 1971	Apr. 27	912793MY9	52	3,902
200,000,000	Nov. 4, 1971	May 4	912793MZ6	59	3,902
200,000,000	Nov. 11, 1971	May 11	912793NA0	66	3,901
200,000,000	Nov. 18, 1971	May 18	912793NB8	73	4,007
200,000,000	Nov. 26, 1971	May 25	912793NC6	80	4,001
200,000,000	Dec. 2, 1971	June 1	912793ND4	87	1,601
200,000,000	Dec. 9, 1971	June 8	912793NE2	94	1,601
200,000,000	Dec. 16, 1971	June 15	912793NF9	101	1,600
200,000,000	Dec. 23, 1971	June 22	912793NG7	108	1,602
200,000,000	Dec. 30, 1971	June 29	912793NH5	115	1,601
200,000,000	Jan. 6, 1972	July 6	912793NT9	122	1,601
3,000,000,000			Average	73	

The additional and original bills will be freely interchangeable.

Each tender submitted must be in the minimum amount of \$150,000. Tenders over \$150,000 must be in multiples of \$75,000. One-fifteenth of the amount tendered will be applied to each of the above series of bills.

The bills offered hereunder will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$10,000, \$15,000, \$50,000, \$100,000, \$500,000 and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Wednesday, March 1, 1972. Tenders will not be received at the Treasury Department, Washington. 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. A single price must be submitted for each tender. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment secu-

rities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of these additional issues at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Wednesday, March 1, 1972.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for \$300,000 or less (in amounts as set forth in the second paragraph) without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on March 6, 1972. Any qualified depository will be permitted to make settlement by credit in its Treasury tax and loan account for not more than 50 percent of the amount of Treasury bills allotted to it for itself and its customers.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his 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. Purchasers of a strip of the bills offered hereunder should, for tax purposes, take such bills on to their books on the basis of their purchase price prorated to each of the 15 outstanding issues using as a basis for proration the closing market prices for each of the issues on March 6, 1972. (Federal Reserve Banks will have available a list of these market prices, based on the mean between the bid and asked quotations furnished by the Federal Reserve Bank of New York.)

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

PRESS RELEASE OF MAY 15, 1972

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated February 17, 1972, and the other series to be dated May 18, 1972, which were offered on May 9, 1972, were opened at the Federal Reserve Banks today. Tenders were invited for \$2,300,000,000, or thereabouts, of 91-day bills and for \$1,800,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

Range of accepted competitive bids	91-day Treasury bills maturing Aug. 17, 1972		182-day Treasury bills maturing Nov. 16, 1972	
	Price	Approximate equivalent annual rate	Price	Approximate equivalent annual rate
		Percent		Percent
High.....	¹ 99.080	3.640	97.937	4.081
Low.....	99.057	3.731	97.905	4.144
Average.....	² 99.065	³ 3.699	⁴ 97.918	³ 4.118

¹ Except one tender of \$160,000.

² 32 percent of the amount of 91-day bills bid for at the low price was accepted.

³ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.79 percent for the 91-day bills, and 4.26 percent for the 182-day bills.

⁴ 94 percent of the amount of 182-day bills bid for at the low price was accepted.

Total tenders applied for and accepted by Federal Reserve districts

District	Applied for	Accepted	Applied for	Accepted
Boston.....	\$22,985,000	\$12,985,000	\$12,020,000	\$2,020,000
New York.....	3,018,585,000	2,018,585,000	2,664,220,000	1,642,320,000
Philadelphia.....	12,530,000	12,530,000	26,085,000	6,085,000
Cleveland.....	17,740,000	17,740,000	20,070,000	10,070,000
Richmond.....	6,895,000	6,895,000	3,040,000	3,040,000
Atlanta.....	36,110,000	20,110,000	23,135,000	11,135,000
Chicago.....	249,010,000	97,810,000	214,965,000	86,065,000
St. Louis.....	35,910,000	25,230,000	22,060,000	9,560,000
Minneapolis.....	32,600,000	20,600,000	27,400,000	6,400,000
Kansas City.....	33,605,000	23,555,000	18,725,000	7,525,000
Dallas.....	32,265,000	10,265,000	27,720,000	9,720,000
San Francisco.....	67,875,000	33,895,000	53,485,000	6,480,000
Total.....	3,564,110,000	¹ 2,300,200,000	3,112,925,000	² 1,800,420,000

¹ Includes \$172,055,000 noncompetitive tenders accepted at the average price of 99.065.² Includes \$75,600,000 noncompetitive tenders accepted at the average price of 97.918.

Summary of information pertaining to Treasury bills issued during the fiscal year 1972

(Dollar amounts in thousands)

Date of issue	Date of maturity	Days to maturity ¹	Maturity value				Prices and rates							Amount maturing on issue date of new offering
			Total applied for	Tenders accepted			Total bids accepted		Competitive bids accepted					
				Total accepted	On competitive basis	On non-competitive basis	Average price per hundred	Equivalent average rate (percent)	High		Low			
									Price per hundred	Equivalent rate (percent)	Price per hundred	Equivalent rate (percent)		
REGULAR WEEKLY														
1971														
July	1 Sept. 30, 1971	91	\$2,917,818	\$2,199,978	\$1,958,405	\$241,573	98.716	5.078	² 98.742	4.977	98.675	5.242	³ \$1,900,465	
	1 Dec. 30, 1971	182	2,303,335	1,600,535	1,484,201	116,334	97.332	5.278	² 97.372	5.198	97.270	5.400	1,402,020	
	8 Oct. 7, 1971	91	3,335,380	2,302,630	2,051,840	250,790	98.618	5.467	² 98.652	5.333	98.598	5.546	2,000,285	
	8 Jan. 6, 1972	182	3,285,876	1,591,825	1,468,550	123,275	97.162	5.614	² 97.200	5.538	97.140	5.657	1,401,705	
	15 Oct. 14, 1971	91	4,094,980	2,302,285	1,988,060	314,225	98.641	5.377	98.650	5.341	98.637	5.392	2,000,525	
	15 Jan. 13, 1972	182	3,225,655	1,600,565	1,431,990	168,575	97.228	5.483	97.242	5.455	97.226	5.487	1,407,895	
	22 Oct. 21, 1971	91	4,090,995	2,302,025	1,977,770	324,255	98.598	5.546	² 98.615	5.479	98.591	5.574	2,001,015	
	22 Jan. 20, 1972	182	2,981,860	1,600,715	1,451,085	149,630	97.106	5.724	97.144	5.649	97.093	5.750	1,400,855	
	29 Oct. 28, 1971	91	4,421,310	2,313,165	2,035,240	277,925	98.596	5.556	98.614	5.483	98.593	5.566	2,001,490	
	29 Jan. 27, 1972	182	3,608,850	1,600,705	1,465,195	135,510	97.051	5.833	97.072	5.792	97.043	5.849	1,400,440	
Aug.	5 Nov. 4, 1971	91	3,802,330	2,300,580	2,025,145	275,435	98.667	5.273	98.678	5.230	98.661	5.297	2,000,225	
	5 Feb. 3, 1972	182	3,398,540	1,600,870	1,468,835	132,035	97.160	5.618	97.170	5.598	97.150	5.637	1,405,305	
	12 Nov. 11, 1971	91	3,561,245	2,300,060	2,042,575	257,485	98.642	5.371	98.667	5.273	98.635	5.400	2,000,240	
	12 Feb. 10, 1972	182	2,741,875	1,599,975	1,479,625	120,350	97.083	5.760	² 97.110	5.716	97.069	5.798	1,400,250	
	19 Nov. 18, 1971	91	3,269,265	2,301,900	2,059,960	241,940	98.756	4.923	² 98.804	4.731	98.726	5.040	2,001,325	
	19 Feb. 17, 1972	182	2,877,150	1,599,780	1,475,370	124,410	97.370	5.203	97.424	5.095	97.336	5.269	1,402,285	
	26 Nov. 26, 1971	92	3,712,565	2,300,945	2,060,520	240,425	98.787	4.748	98.799	4.700	98.774	4.797	2,000,570	
	26 Feb. 24, 1972	182	2,817,260	1,600,030	1,507,355	92,675	97.543	4.859	² 97.563	4.820	97.503	4.939	1,402,070	
Sept.	2 Dec. 2, 1971	91	3,768,915	2,300,345	2,068,495	231,850	98.850	4.551	98.872	4.462	98.844	4.573	2,101,545	
	2 Mar. 2, 1972	182	2,616,220	1,599,780	1,502,405	97,375	97.588	4.771	² 97.614	4.720	97.560	4.826	1,401,135	
	9 Dec. 9, 1971	91	3,259,015	2,303,215	2,097,200	206,015	98.853	4.536	² 98.861	4.506	98.840	4.589	2,100,905	
	9 Mar. 9, 1972	182	2,679,135	1,601,800	1,526,565	75,235	97.550	4.846	² 97.560	4.826	97.535	4.876	1,400,825	
	16 Dec. 16, 1971	91	3,122,910	2,300,070	2,051,260	248,810	98.778	4.836	² 98.792	4.779	98.762	4.898	2,100,770	
	16 Mar. 16, 1972	182	2,451,635	1,600,960	1,499,275	101,685	97.429	5.085	97.452	5.040	97.408	5.127	1,400,740	
	23 Dec. 23, 1971	91	3,351,645	2,300,490	2,046,925	253,565	98.801	4.742	² 98.810	4.708	98.793	4.775	2,203,210	
	23 Mar. 23, 1972	182	2,399,070	1,600,070	1,493,180	106,890	97.476	4.993	97.508	4.929	97.454	5.036	1,601,780	
	30 Dec. 30, 1971	91	3,950,105	2,301,155	2,067,000	234,155	98.818	4.675	² 98.829	4.633	98.814	4.692	2,199,978	
	30 Mar. 30, 1972	182	3,046,080	1,600,085	1,487,680	112,405	97.486	4.973	² 97.504	4.937	97.475	4.995	1,599,855	

Summary of information pertaining to Treasury bills issued during the fiscal year 1972—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity ¹	Maturity value				Prices and rates							Amount maturing on issue date of new offering	
			Total applied for	Tenders accepted			Total bids accepted		Competitive bids accepted						
				Total accepted	On competitive basis	On non-competitive basis	Average price per hundred	Equivalent average rate (percent)	High		Low				
									Price per hundred	Equivalent rate (percent)	Price per hundred	Equivalent rate (percent)			
REGULAR WEEKLY															
1972															
Oct.	7 Jan.	6	91	3,465,315	2,300,635	2,068,785	231,850	98.854	4.535	98.874	4.455	98.842	4.581	2,302,630	
	7 Apr.	6	182	3,252,990	1,598,895	1,504,615	94,280	97.602	4.743	97.611	4.725	97.586	4.775	1,600,600	
	14 Jan.	13	91	3,789,480	2,301,840	2,077,805	224,035	98.866	4.486	98.875	4.451	98.860	4.510	2,302,285	
	14 Apr.	13	182	2,842,350	1,601,210	1,513,635	87,575	97.677	4.594	97.700	4.549	97.656	4.636	1,600,225	
	21 Jan.	20	91	3,515,470	2,300,970	2,033,995	266,975	98.864	4.493	98.875	4.451	98.855	4.530	2,302,025	
	21 Apr.	20	182	3,275,170	1,600,575	1,494,150	106,425	97.657	4.634	97.662	4.625	97.644	4.660	1,401,175	
	28 Jan.	27	91	4,154,785	2,301,920	2,096,685	205,235	98.877	4.444	98.882	4.423	98.872	4.462	2,313,165	
	28 Apr.	27	182	2,983,400	1,600,935	1,518,335	82,600	97.710	4.530	97.717	4.516	97.700	4.549	1,401,225	
	Nov.	4 Feb.	3	91	3,954,460	2,301,705	2,067,550	234,155	98.930	4.233	98.940	4.193	98.928	4.241	2,300,580
		4 May	4	182	3,026,910	1,601,895	1,509,730	92,165	97.803	4.345	97.822	4.303	97.801	4.350	1,400,240
11 Feb.		10	91	3,724,660	2,300,350	2,076,045	224,305	98.945	4.174	98.954	4.138	98.940	4.193	2,300,060	
11 May		11	182	2,799,460	1,600,710	1,508,305	92,405	97.806	4.341	97.820	4.312	97.793	4.365	1,400,040	
18 Feb.		17	91	4,034,550	2,301,085	2,083,995	217,090	98.958	4.124	98.966	4.091	98.954	4.138	2,301,900	
18 May		18	182	3,303,695	1,601,925	1,514,660	87,265	97.849	4.255	97.866	4.221	97.844	4.265	1,401,985	
26 Feb.		24	90	3,436,040	2,300,535	2,074,390	226,145	98.941	4.235	98.954	4.184	98.929	4.284	2,300,945	
26 May		25	181	3,193,320	1,600,340	1,499,470	100,870	97.782	4.412	97.803	4.370	97.778	4.419	1,400,165	
Dec.		2 Mar.	2	91	3,582,775	2,301,580	2,092,795	208,785	98.907	4.324	98.915	4.292	98.900	4.352	2,300,345
		2 June	1	182	2,842,095	1,600,870	1,513,925	86,945	97.760	4.431	97.775	4.401	97.746	4.458	1,394,930
	9 Mar.	9	91	3,622,725	2,301,255	2,087,995	213,260	98.966	4.090	98.976	4.051	98.960	4.114	2,303,215	
	9 June	8	182	2,904,685	1,601,065	1,502,835	98,230	97.873	4.207	97.884	4.185	97.854	4.245	1,400,480	
	16 Mar.	16	91	3,377,880	2,300,500	2,074,020	226,480	99.003	3.944	99.015	3.897	98.992	3.988	2,300,070	
	16 June	15	182	2,700,065	1,600,400	1,508,585	91,815	97.905	4.114	97.922	4.110	97.889	4.176	1,400,390	
	23 Mar.	23	91	3,229,375	2,309,440	2,119,630	189,810	98.983	4.022	99.004	3.940	98.974	4.059	2,300,490	
	23 June	22	182	2,911,200	1,601,755	1,512,945	88,810	97.845	4.262	97.866	4.221	97.837	4.278	1,603,345	
	30 Mar.	30	91	3,374,805	2,302,860	2,085,405	217,455	99.057	3.732	99.070	3.679	99.044	3.782	2,031,155	
	30 June	29	182	2,749,160	1,601,370	1,502,570	98,800	98.002	3.952	98.029	3.899	97.985	3.986	1,600,535	

1972															
Jan.	6	Apr.	6	91	3,621,370	2,302,250	2,095,855	206,395	99.056	3.733	² 99.067	3.691	99.046	3.774	2,300,635
	6	July	6	182	2,775,055	1,601,305	1,512,325	88,980	97.956	4.042	97.978	4.000	97.935	4.085	1,591,825
	13	Apr.	13	91	3,357,480	2,301,380	2,084,185	217,195	99.214	3.109	99.237	3.018	99.196	3.181	2,301,840
	13	July	13	182	2,862,205	1,600,200	1,495,425	104,775	98.294	3.375	98.322	3.319	98.273	3.416	1,600,565
	20	Apr.	20	91	3,662,120	2,300,855	2,086,890	213,965	99.172	3.276	² 99.186	3.220	99.168	3.291	2,300,970
	20	July	20	182	2,718,055	1,600,815	1,516,425	84,390	98.255	3.452	98.271	3.420	98.240	3.481	1,600,715
	27	Apr.	27	91	3,655,565	2,300,590	2,104,445	196,145	99.117	3.492	99.125	3.462	99.110	3.521	2,301,920
	27	July	27	182	3,601,830	1,603,210	1,500,375	102,835	98.102	3.754	98.113	3.733	98.100	3.758	1,600,705
	3	May	4	91	3,846,570	2,300,550	2,089,130	211,420	99.149	3.367	99.160	3.323	99.142	3.394	2,301,705
	3	Aug.	3	182	2,802,225	1,600,025	1,525,490	74,535	98.113	3.733	98.130	3.699	98.097	3.764	1,600,870
	10	May	11	91	3,643,290	2,300,675	2,095,915	204,760	99.206	3.141	99.216	3.102	99.197	3.177	2,300,350
	10	Aug.	10	182	3,177,655	1,600,175	1,517,575	82,600	98.183	3.594	98.200	3.560	98.174	3.612	1,599,975
	17	May	18	91	3,815,650	2,405,320	2,216,510	188,810	99.225	3.065	99.246	2.983	99.214	3.109	2,301,085
	17	Aug.	17	182	3,103,700	1,800,540	1,712,990	87,550	98.212	3.537	98.231	3.499	98.192	3.576	1,599,780
	24	May	25	91	3,906,115	2,400,780	2,227,900	172,880	99.205	3.143	99.214	3.109	99.196	3.181	2,300,535
Mar.	24	Aug.	24	182	3,787,815	1,802,700	1,737,155	65,545	98.224	3.513	98.235	3.491	98.218	3.525	1,600,030
	2	June	1	91	3,608,995	2,400,565	2,212,980	187,585	99.129	3.447	99.147	3.375	99.115	3.501	2,301,580
	2	Aug.	31	182	3,408,650	1,796,105	1,716,710	79,395	98.098	3.762	98.112	3.735	98.087	3.784	1,599,780
		Mar.	30												
		Apr.	6												
			13												
			20												
			27												
		May	4												
	^{* 6}		11												
			18	73	6,429,975	3,064,650	2,908,275	156,375	99.309	3.405	² 99.327	3.319	99.301	3.447	-----
			25												
		June	1												
			8												
			15												
			22												
			29												
		July	6												
	9	June	8	91	4,129,315	2,400,870	2,211,465	189,405	99.102	3.552	² 99.116	3.497	99.097	3.572	2,301,255
	9	Sept.	7	182	3,608,940	1,800,315	1,721,265	79,050	98.081	3.796	98.099	3.760	98.072	3.814	1,601,800
Mar.	16	June	15	91	3,462,375	2,401,505	2,182,700	218,805	99.028	3.846	² 99.060	3.719	99.010	3.916	2,300,500
	16	Sept.	14	182	3,015,995	1,800,670	1,719,850	80,820	97.879	4.196	² 97.903	4.148	97.861	4.231	1,600,960
	23	June	22	91	3,815,565	2,400,720	2,189,325	211,395	99.009	3.919	² 99.019	3.881	99.002	3.948	2,309,440
	23	Sept.	21	182	3,476,850	1,800,975	1,708,390	92,585	97.815	4.322	² 97.831	4.290	97.806	4.340	1,600,070
	30	June	29	91	3,976,390	2,300,390	2,095,690	204,700	99.027	3.848	99.035	3.818	99.022	3.869	² 2,302,860
Apr.	30	Sept.	28	182	4,442,825	1,804,905	1,719,640	85,265	97.799	4.354	97.807	4.338	97.797	4.358	1,600,085
	6	July	6	91	3,983,325	2,301,380	2,112,860	188,520	99.040	3.798	99.060	3.719	99.034	3.822	² 2,302,250
	6	Oct.	5	182	3,508,040	1,800,340	1,711,920	88,420	97.792	4.367	² 97.820	4.312	97.780	4.391	1,598,895
	13	July	13	91	3,664,105	2,301,305	2,106,830	194,475	99.057	3.729	99.067	3.691	99.043	3.786	² 2,301,380
	13	Oct.	12	182	3,289,290	1,800,825	1,706,860	93,965	97.865	4.223	97.886	4.182	97.843	4.267	1,601,210
	20	July	20	91	4,194,400	2,301,100	2,111,530	189,570	99.027	3.851	99.031	3.833	99.021	3.873	² 2,300,855
	20	Oct.	19	182	3,125,660	1,800,855	1,698,935	101,920	97.837	4.278	97.860	4.233	97.826	4.300	1,600,575
	27	July	27	91	3,585,040	2,300,120	2,123,605	176,515	99.112	3.514	99.122	3.473	99.098	3.568	² 2,300,590
	27	Oct.	26	182	3,122,975	1,800,500	1,711,140	89,360	97.976	4.004	97.988	3.980	97.959	4.037	1,600,935

Summary of information pertaining to Treasury bills issued during the fiscal year 1972—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity ¹	Maturity value				Prices and rates						Amount maturing on issue date of new offering
			Total applied for	Tenders accepted			Total bids accepted		Competitive bids accepted				
				Total accepted	On competitive basis	On non-competitive basis	Average price per hundred	Equivalent average rate (percent)	High		Low		
									Price per hundred	Equivalent rate (percent)	Price per hundred	Equivalent rate (percent)	
REGULAR WEEKLY													
May	4 Aug. 3	91	3,790,540	2,301,260	2,123,640	177,620	99.089	3.603	99.093	3.588	99.079	3.644	2,300,550
	4 Nov. 2	182	3,614,850	1,800,630	1,719,315	81,315	97.979	3.997	97.990	3.976	97.965	4.025	1,601,895
	11 Aug. 10	91	3,716,885	2,300,750	2,131,515	169,235	99.125	3.463	99.139	3.406	99.115	3.501	2,300,675
	11 Nov. 9	182	3,179,875	1,800,365	1,727,295	73,070	98.025	3.906	98.031	3.895	98.004	3.948	1,600,710
	18 Aug. 17	91	3,564,505	2,300,595	2,128,140	172,455	99.065	3.697	99.080	3.640	99.057	3.731	2,405,320
	18 Nov. 16	182	3,113,085	1,800,580	1,724,820	75,760	97.918	4.117	97.937	4.081	97.905	4.144	1,601,925
	25 Aug. 24	91	3,576,995	2,292,670	2,133,660	166,010	99.033	3.825	99.040	3.798	99.025	3.857	2,400,780
	25 Nov. 24	183	3,720,410	1,800,905	1,719,920	80,985	97.848	4.233	97.855	4.220	97.845	4.239	1,600,340
June	1 Aug. 31	91	3,669,735	2,301,555	2,144,420	157,135	99.049	3.761	99.059	3.723	99.041	3.794	2,400,565
	1 Nov. 30	182	2,975,085	1,801,495	1,719,315	82,180	97.924	4.107	97.951	4.053	97.906	4.142	1,600,870
	8 Sept. 7	91	3,662,325	2,301,440	2,134,680	166,760	99.024	3.863	99.030	3.837	99.015	3.897	2,400,870
	8 Dec. 7	182	3,350,605	1,800,205	1,710,230	89,975	97.855	4.243	97.863	4.227	97.843	4.267	1,601,065
	15 Sept. 14	91	3,662,675	2,300,640	2,112,755	187,785	99.040	3.796	99.050	3.758	99.031	3.833	2,401,505
	15 Dec. 14	182	3,205,425	1,801,595	1,711,705	89,890	97.883	4.187	97.905	4.144	97.866	4.221	1,600,400
	22 Sept. 21	91	3,594,145	2,300,725	2,120,140	180,585	99.008	3.926	99.016	3.893	99.000	3.956	2,400,720
	22 Dec. 21	182	3,321,815	1,802,075	1,697,955	104,120	97.812	4.328	97.822	4.308	97.806	4.340	1,601,755
	29 Sept. 28	91	3,537,155	2,300,415	2,130,660	169,755	98.983	4.024	98.996	3.972	98.975	4.055	2,300,390
	29 Dec. 28	182	2,953,190	1,799,460	1,710,815	88,645	97.733	4.484	97.754	4.443	97.714	4.522	1,601,370
REGULAR MONTHLY													
1971	1972												
Aug. 2	Apr. 30	272	1,582,700	501,150	484,480	16,670	95.509	5.944	95.591	5.835	95.482	5.980	500,620
	2 July 31	366	2,300,055	1,202,455	1,154,915	47,540	93.948	5.953	94.063	5.840	93.900	6.000	1,202,410
	31 May 31	274	1,543,520	500,255	483,620	16,635	96.126	5.090	96.137	5.075	96.105	5.118	500,780
	31 Aug. 31	366	2,282,415	1,199,890	1,168,860	31,030	94.789	5.125	94.835	5.080	94.764	5.150	1,203,530
Sept. 30	June 30	274	1,370,160	500,470	480,200	20,270	96.010	5.242	96.027	5.220	95.977	5.259	500,550
	30 Sept. 30	366	2,219,985	1,200,730	1,166,435	34,295	94.633	5.279	94.655	5.257	94.617	5.295	1,202,480

Nov.	1	July 31	273	1,523,610	500,190	485,240	14,950	96,591	4,496	96,615	4,464	96,577	4,514	499,740
	1	Oct. 31	366	2,384,905	1,200,265	1,168,655	31,610	95,435	4,490	95,456	4,470	95,390	4,534	1,201,370
	30	Aug. 31	275	1,528,425	500,275	483,580	16,695	96,501	4,580	96,528	4,545	95,488	4,598	501,330
	30	Nov. 30	366	2,099,165	1,200,655	1,176,285	24,370	95,361	4,563	95,384	4,540	95,304	4,619	1,200,505
Dec.	31	Sept. 30	274	1,488,360	501,300	486,260	15,040	97,009	3,930	97,025	3,909	96,986	3,960	500,365
	31	Dec. 31	366	2,289,525	1,200,475	1,171,275	29,200	96,008	3,927	96,036	3,899	95,956	3,978	1,201,185
1972														
Jan.	31	Oct. 31	274	1,506,180	499,905	487,475	12,430	97,038	3,891	97,052	3,873	97,010	3,928	500,250
	31	Jan. 31, 1973	366	2,203,590	1,200,370	1,182,115	18,255	95,998	3,936	96,046	3,889	95,933	4,000	1,199,455
Feb.	29	Nov. 30, 1972	275	1,526,230	500,080	487,090	12,990	97,050	3,862	97,083	3,819	97,029	3,889	500,105
	29	Feb. 28, 1973	365	1,914,955	1,200,095	1,180,155	19,940	95,852	4,091	95,924	4,020	95,777	4,165	1,201,075
Mar.	31	Dec. 31, 1972	275	1,534,260	500,555	487,210	13,345	96,554	4,512	96,566	4,495	96,532	4,540	500,320
1973														
	31	Mar. 31	365	2,320,430	1,200,810	1,176,255	24,555	95,274	4,661	95,316	4,620	95,235	4,700	1,200,285
May	1	Jan. 31	276	1,467,650	499,950	484,030	15,920	96,766	4,234	96,780	4,215	96,737	4,272	501,150
	1	Apr. 30	365	2,454,855	1,199,860	1,171,705	28,145	95,577	4,362	95,593	4,347	95,554	4,385	1,200,535
	31	Feb. 28	273	1,615,265	500,570	489,550	11,020	96,688	4,367	96,713	4,335	96,675	4,385	500,255
	31	May 31	365	2,150,230	1,200,180	1,180,015	20,165	95,473	4,465	95,519	4,420	95,412	4,525	1,200,820
June	30	Mar. 31	274	1,282,380	501,120	489,240	11,880	96,382	4,784	96,439	4,679	96,347	4,800	500,470
	30	June 30	365	1,961,235	1,201,235	1,171,160	30,075	95,079	4,853	95,155	4,779	95,011	4,921	1,200,335

TAX ANTICIPATION

1971														
July	6	Sept. 21	77	3,866,110	1,751,570	1,596,210	155,360	98,923	5,033	98,953	4,895	98,912	5,087	-----
1972														
Dec.	1	Apr. 21	142	4,777,930	2,506,490	2,261,210	245,280	98,202	4,558	98,254	4,426	98,185	4,601	-----
	13	June 21	191	4,382,675	2,010,325	1,749,900	260,425	97,733	4,273	97,761	4,220	97,716	4,305	-----
	29	Apr. 21	114	3,689,435	1,526,210	1,210,725	315,485	98,782	3,846	98,804	3,777	98,771	3,881	-----
	29	June 21	175	2,736,975	1,016,135	761,210	254,925	98,028	4,056	98,065	3,981	98,017	4,079	-----

¹ The 13-week bills are additional issues of bills with an original maturity of 26 weeks except that when the date of maturity of either a 13-week or a 26-week issue is on the last day of a month, the bills are additional issues of bills with an original maturity of 1 year. The 9-month bills are additional issues of bills with an original maturity of 1 year.

² Relatively small amounts of bids were accepted at a price or prices somewhat above the high shown. However, the higher price or prices are not shown in order to prevent an appreciable discontinuity in the range (covered by the high to the low prices shown) which would make it misrepresentative.

³ In addition, \$200,615,000 of a strip of bills issued Feb. 26, 1971, and \$201,030,000 of a strip of bills issued May 25, 1971, matured.

⁴ In addition, \$201,030,000 of a strip of bills issued May 25, 1971, and \$200,520,000 of a strip of bills issued Apr. 6, 1971, matured.

⁵ In addition, \$200,520,000 of a strip of bills issued Apr. 6, 1971, matured.

⁶ An additional \$204,310,000 of each of the issues issued as a strip.

⁷ In addition, \$204,310,000 of a strip of bills issued Mar. 6, 1972, matured.

NOTE.—The usual timing with respect to weekly issues of Treasury bills is: Press release inviting tenders, 9 days before date of issue; and closing date for the receipt of tenders and press release announcing results of auction, 3 days before date of issue.

Figures are final and may differ from those shown in the press release announcing preliminary results.

For each issue of regular weekly (13-week and 26-week) and regular monthly (9-month and 1-year) bills noncompetitive tenders for \$200,000 or less from any one bidder were accepted in full at the average price of accepted competitive bids. For tax anticipation bills the maximum amount for noncompetitive tenders was \$200,000 except for the issue of Dec. 1 for which it was \$400,000 and for the issue of Dec. 13 for which it was \$300,000. For the strip of bills the maximum amount for noncompetitive tenders was \$300,000.

All equivalent rates of discount are on a bank-discount basis.

Qualified depositories were permitted to make payment by credit in Treasury tax and loan accounts for all issues of tax anticipation bills and the strip of bills except that for the issues of Dec. 1, Dec. 13 and Mar. 6 credit was limited to 50 percent of the amount of bills allotted. Payment by such credit was not permitted for the regular weekly and regular monthly bill issues.

Regulations

Exhibit 4.—Department Circular No. 300, December 23, 1964, Third Revision, Amendment No. 5, general regulations with respect to United States securities

THE DEPARTMENT OF THE TREASURY,
Washington, July 1, 1971.

Sections 306.123 through 306.126 of Subpart P, Treasury Department Circular No. 300, Third Revision, dated December 23, 1964, as amended (31 CFR Part 306), are hereby renumbered as §§ 306.125 through 306.128, respectively, and Subpart N is hereby amended and revised, effective as of June 2, 1971, as follows:

Subpart N—Relief for Loss, Theft, Destruction, Mutilation or Defacement of Securities

Sec.

- 306.105 Statutory authority and requirements.
- 306.106 Procedure for applying for relief.
- 306.107 Type of relief granted.
- 306.108 Cases not requiring bonds of indemnity.

AUTHORITY: The provisions of this Subpart N issued under Public Law 92-19, 85 Stat. 74; 5 U.S.C. 301.

SUBPART N—RELIEF FOR LOSS, THEFT, DESTRUCTION, MUTILATION OR DEFACEMENT OF SECURITIES**§ 306.105 Statutory authority and requirements.**

The Secretary of the Treasury is authorized by Public Law 92-19 (85 Stat. 74) to grant relief, under certain conditions, for the loss, theft, destruction, mutilation or defacement of U.S. securities, whether before, at, or after maturity. A bond of indemnity, in such form and with such surety, sureties or security as may be required to protect the interests of the United States, is required as a condition of relief on account of any bearer security or any registered security assigned in blank or so assigned as to become, in effect, payable to bearer, and is ordinarily required in the case of unassigned registered securities.

§ 306.106 Procedure for applying for relief.

Prompt report of the loss, theft, destruction, mutilation or defacement of a security should be made to the Bureau of the Public Debt. The report should include:

(a) The name and present address of the owner and his address at the time the security was issued, and, if the report is made by some other person, the capacity in which he represents the owner.

(b) The identity of the security by title of loan, issue date, interest rate, serial number and denomination, and in the case of a registered security, the exact form of inscription and a full description of any assignment, endorsement or other writing.

(c) A full statement of the circumstances.

All available portions of a mutilated, defaced or partially destroyed security must also be submitted.

§ 306.107 Type of relief granted.

(a) *Prior to call or maturity.* After a claim on account of the loss, theft, destruction, mutilation, or defacement of a security which has not matured or been called has been satisfactorily established and the conditions for granting relief have been met, a security of the same loan, issue, date, interest rate and denomination will be issued to replace the original security.

(b) *At or after call or maturity.* Payment will be made on account of the loss, theft, destruction, mutilation, or defacement of a called or matured security after the claim has been satisfactorily established and the conditions for granting relief have been met.

(c) *Interest coupons.* Where relief has been authorized on account of a destroyed, mutilated or defaced coupon security which has not matured or been called, the replacement security will have attached all unmatured interest coupons if it is established to the satisfaction of the Secretary of the Treasury that the coupons were attached to the original security at the time of its destruction, mutilation or defacement. In every other case only those unmatured interest coupons for which the Department has received payment will be attached.

The price of the coupons will be their value as determined by the Department at the time relief is authorized using interest rate factors based on then current market yields on Treasury securities of comparable maturities.

§ 306.108 Cases not requiring bonds of indemnity.

A bond of indemnity will not be required as a condition of relief for the loss, theft, destruction, mutilation, or defacement of registered securities in any of the following classes of cases unless the Secretary of the Treasury deems it essential in the public interest:

(a) If the loss, theft, destruction, mutilation, or defacement, as the case may be, occurred while the security was in the custody or control of the United States, or a duly authorized agent thereof (not including the Postal Service when acting solely in its capacity as public carrier of the mails), or while in the course of shipment effected under regulations issued pursuant to the Government Losses in Shipment Act (Parts 260, 261, and 262 of this chapter).

(b) If substantially the entire security is presented and surrendered and the Secretary of the Treasury is satisfied as to the identity of the security and that any missing portions are not sufficient to form the basis of a valid claim against the United States.

(c) If the security is one which by the provisions of law or by the terms of its issue is nontransferable or is transferable only by operation of law.¹

(d) If the owner or holder is the United States, a Federal Reserve Bank, a Federal Government corporation, a State, the District of Columbia, a Territory or possession of the United States, a municipal corporation, or, if applicable, a political subdivision of any of the foregoing, or a foreign government.

The foregoing revisions and amendments, adopted as of June 2, 1971, were effected under authority of Public Law 92-19 (85 Stat. 74) and 5 U.S.C. 301. Notice and public procedures thereon are unnecessary as public property and contracts are involved.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 5.—Department Circular No. 653, December 12, 1969, Eighth Revision, Supplement, offering of United States savings bonds, Series E

THE DEPARTMENT OF THE TREASURY,
Washington, October 12, 1971.

Table 4, of Department Circular No. 653, Eighth Revision, dated December 12, 1969, as amended, is hereby supplemented by the addition of Table 4-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

¹ Other than savings bonds and savings notes, which are not subject to these regulations.

TABLE 4-A
BONDS BEARING ISSUE DATE DECEMBER 1, 1941¹

Issue price	\$18.75	\$37.50	\$75.00	\$375.00	\$750.00	Approximate investment yield			
Denomination	25.00	50.00	100.00	500.00	1,000.00	(annual percentage rate)			
Period after second extended maturity (beginning 30 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) From be- ginning of third extended maturity period to be- ginning of each half-year period	(3) From be- ginning of each half-year period to be- ginning of next half-year period	(4) From be- ginning of each half-year period to third extended maturity ³	
	THIRD EXTENDED MATURITY PERIOD								
						Percent	Percent	Percent	
First ½ year	² (12/1/71)	\$51.37	\$102.74	\$205.48	\$1,027.40	\$2,054.80	0.00	5.49	5.50
½ to 1 year	(6/1/72)	52.78	105.56	211.12	1,055.60	2,111.20	5.49	5.49	5.50
1 to 1½ years	(12/1/72)	54.23	108.46	216.92	1,084.60	2,169.20	5.49	5.53	5.50
1½ to 2 years	(6/1/73)	55.73	111.46	222.92	1,114.60	2,229.20	5.51	5.49	5.50
2 to 2½ years	(12/1/73)	57.26	114.52	229.04	1,145.20	2,290.40	5.50	5.48	5.50
2½ to 3 years	(6/1/74)	58.83	117.66	235.32	1,176.60	2,353.20	5.50	5.51	5.50
3 to 3½ years	(12/1/74)	60.45	120.90	241.80	1,209.00	2,418.00	5.50	5.49	5.50
3½ to 4 years	(6/1/75)	62.11	124.22	248.44	1,242.20	2,484.40	5.50	5.51	5.50
4 to 4½ years	(12/1/75)	63.82	127.64	255.28	1,276.40	2,552.80	5.50	5.52	5.50
4½ to 5 years	(6/1/76)	65.58	131.16	262.32	1,311.60	2,623.20	5.50	5.49	5.50
5 to 5½ years	(12/1/76)	67.38	134.76	269.52	1,347.60	2,695.20	5.50	5.49	5.50
5½ to 6 years	(6/1/77)	69.23	138.46	276.92	1,384.60	2,769.20	5.50	5.52	5.50
6 to 6½ years	(12/1/77)	71.14	142.28	284.56	1,422.80	2,845.60	5.50	5.48	5.50
6½ to 7 years	(6/1/78)	73.09	146.18	292.36	1,461.80	2,923.60	5.50	5.50	5.50
7 to 7½ years	(12/1/78)	75.10	150.20	300.40	1,502.00	3,004.00	5.50	5.51	5.50
7½ to 8 years	(6/1/79)	77.17	154.34	308.68	1,543.40	3,086.80	5.50	5.49	5.50
8 to 8½ years	(12/1/79)	79.29	158.58	317.16	1,585.80	3,171.60	5.50	5.50	5.50
8½ to 9 years	(6/1/80)	81.47	162.94	325.88	1,629.40	3,258.80	5.50	5.50	5.50
9 to 9½ years	(12/1/80)	83.71	167.42	334.84	1,674.20	3,348.40	5.50	5.50	5.50
9½ to 10 years	(6/1/81)	86.01	172.02	344.04	1,720.20	3,440.40	5.50	5.51	5.51
THIRD EXTENDED MATURITY VALUE (40 years from issue date).....	(12/1/81)	88.38	176.76	353.52	1,767.60	3,535.20	4 5.50	.....

¹ Yields also apply to bonds with issue dates January 1, 1942 through April 1, 1942, unless there is a change in the prevailing rate for Series E bonds being issued at the time the third extension begins. (See Sec. 316.8(b)(2).)

² Month, day, and year on which issues of Dec. 1, 1941, enter each period.

³ Based on third extended maturity value in effect on the beginning date of the half year period.

⁴ Yield on purchase price from issue date to third extended maturity date is 3.91 percent.

Exhibit 6.—Department Circular No. 530, December 23, 1964, Ninth Revision, Amendment No. 4, regulations governing United States savings bonds

THE DEPARTMENT OF THE TREASURY,
Washington, November 19, 1971.

Section 315.10 and footnotes 4 and 5 of Department of the Treasury Circular No. 530, Ninth Revision, dated December 23, 1964, as amended (31 CFR Part 315), are hereby further amended to read, as follows:

§ 315.10 Annual limitations on holdings.

The amounts of savings bonds of each series, issued in any one calendar year,¹ which may be held by any one person at any one time, computed in accordance with the provisions of § 315.11, are limited, as follows:

(a) *Series E*—(1) *General limitation.* \$5,000 (issue price) for each calendar year.²

(2) *Special limitations for employees' savings plans and savings and vacation plans.* \$2,000 (face amount) multiplied by the highest number of participants in any employees' savings plan as described in Department Circular No. 653, current revision (Part 316 of this chapter). Qualified savings and vacation plans are also eligible for this special limitation.

(b) *Series H*—(1) *General limitation.* \$5,000 (face amount) for each calendar year.²

(2) *Special limitation for gifts to exempt organizations under 26 CFR 1.501 (c) (3)-1.* \$200,000 (face amount) for each calendar year for bonds received as gifts by an organization which at the time of purchase is an exempt organization under the terms of 26 CFR 1.501 (c) (3)-1.

The foregoing amendment is made for the purpose of having the limitations in the regulations governing savings bonds conform to the current limitations in 31 CFR 316.5 and 332.5, the offerings of Series E and Series H savings bonds, respectively. In view of the earlier publication of these limitations in 35 F.R. 703, January 17, 1970, and 35 F.R. 849, January 21, 1970, I find that notice and public procedures are unnecessary. This action is effected under the provisions of section 22 of the Second Liberty Bond Act, as amended (49 Stat. 21, as amended; 31 U.S.C. 757c), and 5 U.S.C. 301.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 7.—Department Circular No. 1036, December 7, 1971, First Revision, United States savings bonds, Series H, exchange offering

THE DEPARTMENT OF THE TREASURY,
Washington, December 7, 1971.

The regulations set forth in Treasury Department Circular No. 1036, dated December 31, 1959, as amended (31 CFR Part 339), are hereby further revised and amended, and issued as the first revision, effective January 1, 1972, as follows:

Sec.

339.0 Offering of Series H bonds in exchange for Series E bonds and savings notes.

339.1 Definitions of words and terms as used in this circular.

339.2 Denominations.

339.3 Exchanges with privilege of deferring reporting of interest for Federal income tax purposes.

339.4 Exchanges without tax deferral.

339.5 Governing regulations.

339.6 Fiscal agents.

339.7 Preservation of rights.

339.8 Reservation as to terms of offer.

AUTHORITY: The provisions of this Part 339 issued under sections 18, 20, and 22 of the Second Liberty Bond Act, as amended (40 Stat. 1309, 48 Stat. 343, 49 Stat. 21, 73 Stat. 621, all as amended; 31 U.S.C. 753, 754b, 757c), and 5 U.S.C. 301.

¹ The Ninth Revision of this circular contains information on prior annual limitations.
² Effective December 1, 1969, investors who purchased less than \$5,000 (issue price) of the Series E bonds or \$5,000 (face amount) in the case of Series H bonds prior to the effective date of the limitations were entitled only to purchase enough to bring their totals for the year to those amounts. Investors whose purchases exceeded these limitations could not purchase additional bonds during the remainder of the calendar year.

§ 339.0 Offering of Series H bonds in exchange for Series E bonds and savings notes.

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, hereby offers to the people of the United States, U.S. Savings Bonds of Series H in exchange for outstanding U.S. Savings Bonds of Series E and U.S. Savings Notes (freedom shares) without regard to the annual limitation on holdings for the Series H bonds. The Series H bonds offered hereunder are those described in Department Circular No. 905, current revision, except as otherwise specifically provided herein. This offering will continue until terminated by the Secretary of the Treasury.

§ 339.1 Definitions of words and terms as used in this circular.

Unless the context otherwise requires or indicates:

(a) "Securities" mean outstanding U.S. Savings Bonds of Series E and U.S. Savings Notes (freedom shares).

(b) "Owner" means an owner of securities, except a commercial bank in its own right (as distinguished from a representative or fiduciary capacity) and a nonresident alien who is a resident of an area with respect to which the Treasury Department restricts or regulates delivery of checks drawn against funds of the United States or any agency or instrumentality thereof. The term includes a registered owner, whether or not a natural person, either coowner (but only the "principal coowner" if Series H bonds are requested in a form of registration different from that on the securities submitted), a surviving beneficiary, or any other person who would be entitled to reissue under the regulation governing U.S. Savings Bonds,¹ such as, but not limited to, any person entitled to succeed to the estate of a deceased owner.

(c) "Commercial bank" means a bank accepting demand deposits.

(d) "Interest" means the increment in value on Series E savings bonds and on savings notes.

(e) "Principal coowner" means a coowner who purchased the securities submitted for exchange with his own funds or received them as a gift, legacy or inheritance or as a result of judicial proceedings and had them reissued in coownership form, provided he has received no contribution in money or money's worth from the other coowner for designating him on the securities.

§ 339.2 Denominations.

Series H bonds, available for use hereunder, are in denominations of \$500, \$1,000, \$5,000 and \$10,000.

§ 339.3 Exchanges with privilege of deferring reporting of interest for Federal income tax purposes.

(a) *Tax-deferred exchanges.* Pursuant to the provisions of section 1037(a) of the Internal Revenue Code of 1954, the Secretary of the Treasury hereby grants to owners who have not been reporting the interest on their securities on an accrual basis for Federal income tax purposes the privilege of exchanging such securities for Series H bonds and of continuing to defer reporting of the interest on the securities exchange (except interest referred to in paragraph (b)(5) of this section) for Federal income tax purposes to the taxable year in which the Series H bonds received in exchange are disposed of, are redeemed, or have reached final maturity, whichever is earlier.²

(b) *Rules governing the exchange.* (1) Exchange subscription Form PD 3253, completed and executed in accordance with the instructions thereon, the securities, any cash difference (see subparagraph (3) of this paragraph), and any supporting evidence which may be required under the governing regulations³ may be presented or forwarded to any authorized agency.⁴

¹ Department Circular No. 530, current revision (31 CFR Part 315). Copies may be obtained from any Federal Reserve Bank or Branch or the Bureau of the Public Debt, Washington, D.C. 20220.

² The interest paid semiannually by check on all Series H bonds, whether issued in exchange under this or any other section, or otherwise, is subject to the Federal income tax for the taxable year in which it is received.

³ For example, a beneficiary named on Series E bonds would have to submit proof of the death of the registered owner in order to exchange such bonds for Series H bonds.

⁴ Agents authorized to pay Series E bonds and savings notes are authorized to accept and handle exchange subscriptions submitted by natural persons whose names are inscribed on the face of the bonds and notes as owners or coowners in their own right. However, as agents of subscribers they may forward any exchange subscription to a Federal Reserve Bank or Branch or the Securities Division, Office of the Treasurer of the United States, Washington, D.C. 20220, for acceptance and handling.

(2) A Series H bond issued upon exchange will be registered in the name of the owner of the securities submitted in any authorized form of registration. However, the "principal coowner" must be named as owner or coowner.

(3) The total current redemption value of the securities submitted for exchange in any one transaction must amount to \$500 or more. If the total current redemption value is in an even multiple of \$500, Series H bonds must be requested in that exact amount. If the total current redemption value exceeds \$500, but is not in an even multiple of \$500, the owner has the option of furnishing cash necessary to obtain Series H bonds of the next higher \$500 multiple, or of receiving payment of the difference between the total current redemption value and the next lower multiple of \$500. For example, under the rules prescribed in this circular, if the securities submitted for exchange in one transaction total \$4,253.33 current redemption value, the owner may elect to:

(1) Receive \$4,000 in Series H bonds and the amount of the difference, \$253.33, or

(ii) Pay the difference, \$246.67, necessary to obtain \$4,500 in Series H bonds.⁵

(4) Any amount paid to the owner as a cash adjustment (as in subparagraph (3) (i) of this paragraph) must be treated as income for Federal income tax purposes for the year in which it is received up to an amount not in excess of the total interest on the securities exchanged.⁶

(5) Each Series H bond issued under this section will be stamped "EX" or "EXCH" to show that it was issued upon exchange. Each bond also will bear a legend showing how much of its issue price represents interest on the securities exchanged. This interest must be treated as income for Federal income tax purposes for the year in which the Series H bond is redeemed, is disposed of, or finally matures, whichever is earlier.

(6) The Series H bonds will be dated as of the first day of the month in which the securities, the exchange subscription, any necessary cash difference and supporting evidence, if any, are accepted for exchange by an authorized agency.

§ 339.4 Exchanges without tax deferral.

Exchanges by owners who (a) report the interest on all of their securities annually for Federal income tax purposes, or (b) who elect to report all such interest in the year of the exchange, or (c) who are tax-exempt under the provisions of the Internal Revenue Code of 1954 and the regulations issued thereunder, will be handled in the same manner and will be governed by the rules prescribed for exchanges under § 339.3. However, the Series H bonds will not bear the legend referred to in § 339.3(c) (5). Any part of the cash adjustment received which represents interest previously reported for Federal income tax purposes need not be accounted for. The Series H bonds may be registered in the name of the owner of the securities submitted in exchange in any authorized form of registration.

§ 339.5 Governing regulations.

All Series H bonds issued under this circular are subject to the regulations, now or hereafter prescribed, contained in Department Circular No. 530, current revision (Part 315 of this chapter).

§ 339.6 Fiscal agents.

Federal Reserve Banks and Branches, as fiscal agents of the United States, are authorized to perform such services as may be requested of them in connection with exchanges under these regulations.

§ 339.7 Preservation of rights.

The provisions of Treasury Department Circulars Nos. 530, 653, and 905, as currently revised, are hereby modified and amended to the extent that they are not in accordance with this circular. However, nothing contained herein shall limit or restrict rights which owners of Series H bonds received in earlier exchanges have heretofore acquired.

⁵ If a paying agent accepts a subscription solely for the purpose of forwarding it, or if the owner forwards it direct, to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, the remittance for the difference, by check or other form of exchange (which will be accepted subject to collection), must be drawn to the order of the Federal Reserve Bank or the Treasurer of the United States, as the case may be. The remittance must accompany the subscription and the securities to be exchanged.

⁶ The amount, if any, paid to the owner in excess of the interest is a repayment on account of the purchase price of the securities exchanged, not income.

§ 339.8 Reservation as to terms of offer.

The Secretary of the Treasury reserves the right to reject any exchange subscription for Series H bonds, in whole or in part, and to refuse to issue or permit to be issued hereunder any such bonds in any case or any class or classes of cases if he deems such action to be in the public interest, and his action in any such respect shall be final.

The foregoing revision and amendment is made for the purpose of granting to owners of savings notes the same privilege afforded owners of Series E savings bonds for exchanging their securities for Series H bonds with or without tax deferral. As good cause exists for making this change, which involves public property and contracts relating to the fiscal and monetary affairs of the United States, I find that notice and public procedures are unnecessary. This action is effected under the provisions of sections 18, 20, and 22 of the Second Liberty Bond Act, as amended (40 Stat. 1309, 48 Stat. 343, 49 Stat. 21, 73 Stat. 621, all as amended; 31 U.S.C. 753, 754b, 757c), and 5 U.S.C. 301.

[SEAL]

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

**Exhibit 8.—Department Circular No. 653, Eighth Revision, Supplement No. 2,
offering of United States savings bonds, Series E**

THE DEPARTMENT OF THE TREASURY,
Washington, January 19, 1972.

The tables to Department Circular No. 653, Eighth Revision, dated December 12, 1969, as amended (31 CFR Part 316), are hereby supplemented by the addition of Tables 5-A, 6-A, 26-A, 27-A, 28-A, 29-A, 73-A, and 74-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 5-A

BONDS BEARING ISSUE DATE MAY 1, 1942¹

Issue price.....	\$18.75	\$37.50	\$75.00	\$375.00	\$750.00	Approximate investment yield			
Denomination.....	25.00	50.00	100.00	500.00	1,000.00	(annual percentage rate)			
Period after second extended maturity (beginning 30 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)	(2) From beginning of third extended maturity period to beginning of each half-year period	(3) From begin- ning of each half-year period to beginning of next half-year period	(4) From begin- ning of each half-year period to third extended maturity					
	THIRD EXTENDED MATURITY PERIOD								
					Percent	Percent	Percent		
First ½ year.....	² (5/1/72)	\$51.76	\$103.52	\$207.04	\$1,035.20	\$2,070.40	0.00	5.49	5.50
½ to 1 year.....	(11/1/72)	53.18	106.36	212.72	1,063.60	2,127.20	5.49	5.53	5.50
1 to 1½ years.....	(5/1/73)	54.65	109.30	218.60	1,093.00	2,186.00	5.51	5.49	5.50
1½ to 2 years.....	(11/1/73)	56.15	112.30	224.60	1,123.00	2,246.00	5.50	5.49	5.50
2 to 2½ years.....	(5/1/74)	57.69	115.38	230.76	1,153.80	2,307.60	5.50	5.51	5.50
2½ to 3 years.....	(11/1/74)	59.28	118.56	237.12	1,185.60	2,371.20	5.50	5.50	5.50
3 to 3½ years.....	(5/1/75)	60.91	121.82	243.64	1,218.20	2,436.40	5.50	5.48	5.50
3½ to 4 years.....	(11/1/75)	62.58	125.16	250.32	1,251.60	2,503.20	5.50	5.53	5.50
4 to 4½ years.....	(5/1/76)	64.31	128.62	257.24	1,286.20	2,572.40	5.50	5.47	5.50
4½ to 5 years.....	(11/1/76)	66.07	132.14	264.28	1,321.40	2,642.80	5.50	5.51	5.50
5 to 5½ years.....	(5/1/77)	67.89	135.78	271.56	1,357.80	2,715.60	5.50	5.51	5.50
5½ to 6 years.....	(11/1/77)	69.76	139.52	279.04	1,395.20	2,790.40	5.50	5.50	5.50
6 to 6½ years.....	(5/1/78)	71.68	143.36	286.72	1,433.60	2,867.20	5.50	5.50	5.50
6½ to 7 years.....	(11/1/78)	73.65	147.30	294.60	1,473.00	2,946.00	5.50	5.49	5.50
7 to 7½ years.....	(5/1/79)	75.67	151.34	302.68	1,513.40	3,026.80	5.50	5.50	5.50
7½ to 8 years.....	(11/1/79)	77.75	155.50	311.00	1,555.00	3,110.00	5.50	5.50	5.50
8 to 8½ years.....	(5/1/80)	79.89	159.78	319.56	1,597.80	3,195.60	5.50	5.51	5.50
8½ to 9 years.....	(11/1/80)	82.09	164.18	328.36	1,641.80	3,283.60	5.50	5.51	5.50
9 to 9½ years.....	(5/1/81)	84.35	168.70	337.40	1,687.00	3,374.00	5.50	5.50	5.50
9½ to 10 years.....	(11/1/81)	86.67	173.34	346.68	1,733.40	3,466.80	5.50	5.49	5.49
THIRD EXTENDED MATURITY VALUE (40 years from issue date).....	(5/1/82)	89.05	178.10	356.20	1,781.00	3,562.00	³ 5.50	-----	-----

¹ This table does not apply if the prevailing rate for Series E bonds being issued at the time the third extension begins is different from 5.50 percent.² Month, day, and year on which issues of May 1, 1942, enter each period.³ Yield on purchase price from issue date to third extended maturity date is 9.39 percent.

TABLE 6-A

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1942¹

Issue price.....	\$18.75	\$37.50	\$75.00	\$375.00	\$750.00	Approximate investment yield			
Denomination.....	25.00	50.00	100.00	500.00	1,000.00	(annual percentage rate)			
Period after second extended maturity (beginning 30 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)					(2) From beginning of third extended maturity period to beginning of each half-year period	(3) From begin- ning of each half-year period to beginning of next half-year period	(4) From begin- ning of each half-year period to third extended maturity	
	THIRD EXTENDED MATURITY PERIOD								
						Percent	Percent	Percent	
First ½ year.....	2 (6/1/72)	\$52.29	\$104.58	\$209.16	\$1,045.80	\$2,091.60	0.00	5.51	5.50
½ to 1 year.....	(12/1/72)	53.73	107.46	214.92	1,074.60	2,149.20	5.51	5.51	5.50
1 to 1½ years.....	(6/1/73)	55.21	110.42	220.84	1,104.20	2,208.40	5.51	5.47	5.50
1½ to 2 years.....	(12/1/73)	56.72	113.44	226.88	1,134.40	2,268.80	5.50	5.50	5.50
2 to 2½ years.....	(6/1/74)	58.28	116.56	233.12	1,165.60	2,331.20	5.50	5.53	5.50
2½ to 3 years.....	(12/1/74)	59.89	119.78	239.56	1,197.80	2,395.60	5.50	5.48	5.50
3 to 3½ years.....	(6/1/75)	61.53	123.06	246.12	1,230.60	2,461.20	5.50	5.53	5.50
3½ to 4 years.....	(12/1/75)	63.23	126.46	252.92	1,264.60	2,529.20	5.50	5.47	5.50
4 to 4½ years.....	(6/1/76)	64.96	129.92	259.84	1,299.20	2,598.40	5.50	5.51	5.50
4½ to 5 years.....	(12/1/76)	66.75	133.50	267.00	1,335.00	2,670.00	5.50	5.51	5.50
5 to 5½ years.....	(6/1/77)	68.59	137.18	274.36	1,371.80	2,743.60	5.50	5.48	5.50
5½ to 6 years.....	(12/1/77)	70.47	140.94	281.88	1,409.40	2,818.80	5.50	5.51	5.50
6 to 6½ years.....	(6/1/78)	72.41	144.82	289.64	1,448.20	2,896.40	5.50	5.50	5.50
6½ to 7 years.....	(12/1/78)	74.40	148.80	297.60	1,488.00	2,976.00	5.50	5.51	5.50
7 to 7½ years.....	(6/1/79)	76.45	152.90	305.80	1,529.00	3,058.00	5.50	5.49	5.50
7½ to 8 years.....	(12/1/79)	78.55	157.10	314.20	1,571.00	3,142.00	5.50	5.50	5.50
8 to 8½ years.....	(6/1/80)	80.71	161.42	322.84	1,614.20	3,228.40	5.50	5.50	5.50
8½ to 9 years.....	(12/1/80)	82.93	165.86	331.72	1,658.60	3,317.20	5.50	5.50	5.50
9 to 9½ years.....	(6/1/81)	85.21	170.42	340.84	1,704.20	3,408.40	5.50	5.49	5.50
9½ to 10 years.....	(12/1/81)	87.55	175.10	350.20	1,751.00	3,502.00	5.50	5.51	5.51
THIRD EXTENDED MATURITY VALUE (40 years from issue date).....	(6/1/82)	89.96	179.92	359.84	1,799.20	3,598.40	³ 5.50	-----	

¹ This table does not apply if the prevailing rate for Series E bonds being issued at the time the third extension begins is different from 5.50 percent.

² Month, day, and year on which issues of June 1, 1942, enter each period. For

subsequent issue months add the appropriate number of months.

³ Yield on purchase price from issue date to third extended maturity date is 3.96 percent.

TABLE 26-A

BONDS BEARING ISSUE DATES FROM JANUARY 1 THROUGH APRIL 1, 1952¹

Issue price.....	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	Approximate investment yield (annual percentage rate)		
Denomination.....	25.00	50.00	100.00	200.00	500.00	1,000.00			
Period after first extended maturity (beginning 20 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) From beginning of second extended maturity period to beginning of each half-year period	(3) From begin- ning of each half-year period to beginning of next half-year period	(4) From begin- ning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD						Percent	Percent	Percent
First ½ year..... ² (1/1/72)	\$38.34	\$76.68	\$153.36	\$306.72	\$766.80	\$1,533.60	0.00	5.48	5.50
½ to 1 year.....(7/1/72)	39.30	78.78	157.56	315.12	787.80	1,575.60	5.48	5.53	5.50
1 to 1½ years.....(1/1/73)	40.48	80.96	161.92	323.84	809.60	1,619.20	5.51	5.48	5.50
1½ to 2 years.....(7/1/73)	41.59	83.18	166.36	332.72	831.80	1,663.60	5.50	5.48	5.50
2 to 2½ years.....(1/1/74)	42.73	85.46	170.92	341.84	854.60	1,709.20	5.49	5.52	5.50
2½ to 3 years.....(7/1/74)	43.91	87.82	175.64	351.28	878.20	1,756.40	5.50	5.51	5.50
3 to 3½ years.....(1/1/75)	45.12	90.24	180.48	360.96	902.40	1,804.80	5.50	5.50	5.50
3½ to 4 years.....(7/1/75)	46.36	92.72	185.44	370.88	927.20	1,854.40	5.50	5.48	5.50
4 to 4½ years.....(1/1/76)	47.63	95.26	190.52	381.04	952.60	1,905.20	5.50	5.50	5.50
4½ to 5 years.....(7/1/76)	48.94	97.88	195.76	391.52	978.80	1,957.60	5.50	5.52	5.50
5 to 5½ years.....(1/1/77)	50.29	100.58	201.16	402.32	1,005.80	2,011.60	5.50	5.49	5.50
5½ to 6 years.....(7/1/77)	51.67	103.34	206.68	413.36	1,033.40	2,066.80	5.50	5.50	5.50
6 to 6½ years.....(1/1/78)	53.09	106.18	212.36	424.72	1,061.80	2,123.60	5.50	5.50	5.50
6½ to 7 years.....(7/1/78)	54.55	109.10	218.20	436.40	1,091.00	2,182.00	5.50	5.50	5.50
7 to 7½ years.....(1/1/79)	56.05	112.10	224.20	448.40	1,121.00	2,242.00	5.50	5.50	5.50
7½ to 8 years.....(7/1/79)	57.59	115.18	230.36	460.72	1,151.80	2,303.60	5.50	5.52	5.50
8 to 8½ years.....(1/1/80)	59.18	118.36	236.72	473.44	1,183.60	2,367.20	5.50	5.51	5.50
8½ to 9 years.....(7/1/80)	60.81	121.62	243.24	486.48	1,216.20	2,432.40	5.50	5.49	5.49
9 to 9½ years.....(1/1/81)	62.48	124.96	249.92	499.84	1,249.60	2,499.20	5.50	5.51	5.49
9½ to 10 years.....(7/1/81)	64.20	128.40	256.80	513.60	1,284.00	2,568.00	5.50	5.48	5.48
SECOND EXTENDED MATURITY VALUE (30 years from issue date).....(1/1/82)	65.96	131.92	263.84	527.68	1,319.20	2,638.40	³ 5.50	.....	.....

¹ This table does not apply if the prevailing rate for Series E bonds being issued at the time the second extension begins is different from 5.50 percent.

² Month, day, and year on which issues of Jan. 1, 1952, enter each period. For subsequent issue months add the appropriate number of months.

³ Yield on purchase price from issue date to second extended maturity date is 4.2 percent.

TABLE 27-A
BONDS BEARING ISSUE DATE MAY 1, 1952

Issue price.....	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield		
Denomination.....	25.00	50.00	100.00	200.00	500.00	1,000.00	10,000	(annual percentage rate)		
Period after first extended maturity (beginning 19 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)							(2) From beginning of second extended maturity period to beginning of each half-year period	(3) From begin- ning of each half-year period to beginning of next half-year period	(4) From begin- ning of each half-year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD									
								Percent	Percent	Percent
First ½ year.....	(1/1/72)	\$38.19	\$76.38	\$152.76	\$305.52	\$763.80	\$1,527.60	\$15,276	0.00	5.50
½ to 1 year.....	(7/1/72)	39.24	78.48	156.96	313.92	784.80	1,569.60	15,696	5.50	5.50
1 to 1½ years.....	(1/1/73)	40.32	80.64	161.28	322.56	806.40	1,612.80	16,128	5.50	5.51
1½ to 2 years.....	(7/1/73)	41.43	82.86	165.72	331.44	828.60	1,657.20	16,572	5.50	5.50
2 to 2½ years.....	(1/1/74)	42.57	85.14	170.28	340.56	851.40	1,702.80	17,028	5.50	5.50
2½ to 3 years.....	(7/1/74)	43.74	87.48	174.96	349.92	874.80	1,749.60	17,496	5.50	5.49
3 to 3½ years.....	(1/1/75)	44.94	89.88	179.76	359.52	898.80	1,797.60	17,976	5.50	5.52
3½ to 4 years.....	(7/1/75)	46.18	92.36	184.72	369.44	923.60	1,847.20	18,472	5.50	5.50
4 to 4½ years.....	(1/1/76)	47.45	94.90	189.80	379.60	949.00	1,898.00	18,980	5.50	5.48
4½ to 5 years.....	(7/1/76)	48.75	97.50	195.00	390.00	975.00	1,950.00	19,500	5.50	5.50
5 to 5½ years.....	(1/1/77)	50.09	100.18	200.36	400.72	1,001.80	2,003.60	20,036	5.50	5.51
5½ to 6 years.....	(7/1/77)	51.47	102.94	205.88	411.76	1,029.40	2,058.80	20,588	5.50	5.48
6 to 6½ years.....	(1/1/78)	52.88	105.76	211.52	423.04	1,057.60	2,115.20	21,152	5.50	5.52
6½ to 7 years.....	(7/1/78)	54.34	108.68	217.36	434.72	1,086.80	2,173.60	21,736	5.50	5.48
7 to 7½ years.....	(1/1/79)	55.83	111.66	223.32	446.64	1,116.60	2,233.20	22,332	5.50	5.52
7½ to 8 years.....	(7/1/79)	57.37	114.74	229.48	458.96	1,147.40	2,294.80	22,948	5.50	5.51
8 to 8½ years.....	(1/1/80)	58.95	117.90	235.80	471.60	1,179.00	2,358.00	23,580	5.50	5.50
8½ to 9 years.....	(7/1/80)	60.57	121.14	242.28	484.56	1,211.40	2,422.80	24,228	5.50	5.48
9 to 9½ years.....	(1/1/81)	62.23	124.46	248.92	497.84	1,244.60	2,489.20	24,892	5.50	5.50
9½ to 10 years.....	(7/1/81)	63.94	127.88	255.76	511.52	1,278.80	2,557.60	25,576	5.50	5.51
SECOND EXTENDED MATURITY										
VALUE (29 years and 8 months from										
issue date).....	(1/1/82)	65.70	131.40	262.80	525.60	1,314.00	2,628.00	26,280	25.50	.....

¹ Month, day, and year on which issues of May 1, 1952, enter each period.

² Yield on purchase price from issue date to second extended maturity date is 4.27 percent.

TABLE 28-A

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1952¹

Issue price.....	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield			
Denomination.....	25.00	50.00	100.00	200.00	500.00	1,000.00	10,000	(annual percentage rate)			
Period after first extended maturity (beginning 19 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) From beginning of second extended maturity period to beginning of each half-year period	(3) From begin- ning of each half-year period to beginning of next half-year period	(4) From begin- ning of each half-year period to second extended maturity		
	SECOND EXTENDED MATURITY PERIOD										
								Percent	Percent	Percent	
First ½ year.....	² (2/1/72)	\$38.28	\$76.56	\$153.12	\$306.24	\$765.60	\$1,531.20	\$15,312	0.00	5.49	5.50
½ to 1 year.....	(8/1/72)	39.33	78.66	157.32	314.64	786.60	1,573.20	15,732	5.49	5.49	5.50
1 to 1½ years.....	(2/1/73)	40.41	80.82	161.64	323.28	808.20	1,616.40	16,164	5.49	5.54	5.50
1½ to 2 years.....	(8/1/73)	41.53	83.06	166.12	332.24	830.60	1,661.20	16,612	5.51	5.49	5.50
2 to 2½ years.....	(2/1/74)	42.67	85.34	170.68	341.36	853.40	1,706.80	17,068	5.50	5.48	5.50
2½ to 3 years.....	(8/1/74)	43.84	87.68	175.36	350.72	876.80	1,753.60	17,536	5.50	5.52	5.50
3 to 3½ years.....	(2/1/75)	45.05	90.10	180.20	360.40	901.00	1,802.00	18,020	5.50	5.50	5.50
3½ to 4 years.....	(8/1/75)	46.29	92.58	185.16	370.32	925.80	1,851.60	18,516	5.50	5.49	5.50
4 to 4½ years.....	(2/1/76)	47.56	95.12	190.24	380.48	951.20	1,902.40	19,024	5.50	5.51	5.50
4½ to 5 years.....	(8/1/76)	48.87	97.74	195.48	390.96	977.40	1,954.80	19,548	5.50	5.48	5.50
5 to 5½ years.....	(2/1/77)	50.21	100.42	200.84	401.68	1,004.20	2,008.40	20,084	5.50	5.50	5.50
5½ to 6 years.....	(8/1/77)	51.59	103.18	206.36	412.72	1,031.80	2,063.60	20,636	5.50	5.50	5.50
6 to 6½ years.....	(2/1/78)	53.01	106.02	212.04	424.08	1,060.20	2,120.40	21,204	5.50	5.51	5.50
6½ to 7 years.....	(8/1/78)	54.47	108.94	217.88	435.76	1,089.40	2,178.80	21,788	5.50	5.51	5.50
7 to 7½ years.....	(2/1/79)	55.97	111.94	223.88	447.76	1,119.40	2,238.80	22,388	5.50	5.47	5.50
7½ to 8 years.....	(8/1/79)	57.50	115.00	230.00	460.00	1,150.00	2,300.00	23,000	5.50	5.53	5.50
8 to 8½ years.....	(2/1/80)	59.09	118.18	236.36	472.72	1,181.80	2,363.60	23,636	5.50	5.48	5.50
8½ to 9 years.....	(8/1/80)	60.71	121.42	242.84	485.68	1,214.20	2,428.40	24,284	5.50	5.50	5.50
9 to 9½ years.....	(2/1/81)	62.38	124.76	249.52	499.04	1,247.60	2,495.20	24,952	5.50	5.51	5.50
9½ to 10 years.....	(8/1/81)	64.10	128.20	256.40	512.80	1,282.00	2,564.00	25,640	5.50	5.49	5.49
SECOND EXTENDED MATURITY											
VALUE (29 years and 8 months from issue date).....	(2/1/82)	65.86	131.72	263.44	526.88	1,317.20	2,634.40	26,344	³ 5.50	-----	

¹ This table does not apply if the prevailing rate for Series E bonds being issued at the time the second extension begins is different from 5.50 percent.

² Month, day, and year on which issues of June 1, 1952, enter each period. For subsequent issue months add the appropriate number of 8 months.

³ Yield on purchase price from issue date to second extended maturity date is 4.2 percent.

TABLE 29-A
BONDS BEARING ISSUE DATES FROM OCTOBER 1 THROUGH NOVEMBER 1, 1952¹

Issue price Denomination	\$18.75 25.00	\$37.50 50.00	\$75.00 100.00	\$150.00 200.00	\$375.00 500.00	\$750.00 1,000.00	\$7,500 10,000	Approximate investment yield (annual percentage rate)		
Period after first extended maturity (beginning 19 years 8 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) From beginning of second extended maturity period to beginning of each half-year period	(3) From begin- ning of each half-year period to beginning of next half-year period	(4) From begin- ning of each half-year period to second extended maturity	
SECOND EXTENDED MATURITY PERIOD										
								Percent	Percent	Percent
First ½ year..... ² (6/1/72)	\$38.57	\$77.14	\$154.28	\$308.56	\$771.40	\$1,542.80	\$15,428	0.00	5.50	5.50
½ to 1 year..... (12/1/72)	39.63	79.26	158.52	317.04	792.60	1,585.20	15,852	5.50	5.50	5.50
1 to 1½ years..... (6/1/73)	40.72	81.44	162.88	325.76	814.40	1,628.80	16,288	5.50	5.50	5.50
1½ to 2 years..... (12/1/73)	41.84	83.68	167.36	334.72	836.80	1,673.60	16,736	5.50	5.50	5.50
2 to 2½ years..... (6/1/74)	42.99	85.98	171.96	343.92	859.80	1,719.60	17,196	5.50	5.49	5.50
2½ to 3 years..... (12/1/74)	44.17	88.34	176.68	353.36	883.40	1,766.80	17,668	5.50	5.52	5.50
3 to 3½ years..... (6/1/75)	45.39	90.78	181.56	363.12	907.80	1,815.60	18,156	5.50	5.51	5.50
3½ to 4 years..... (12/1/75)	46.64	93.28	186.56	373.12	932.80	1,865.60	18,656	5.50	5.49	5.50
4 to 4½ years..... (6/1/76)	47.92	95.84	191.68	383.36	958.40	1,916.80	19,168	5.50	5.51	5.50
4½ to 5 years..... (12/1/76)	49.24	98.48	196.96	393.92	984.80	1,969.60	19,696	5.50	5.48	5.50
5 to 5½ years..... (6/1/77)	50.59	101.18	202.36	404.72	1,011.80	2,023.60	20,236	5.50	5.50	5.50
5½ to 6 years..... (12/1/77)	51.98	103.96	207.92	415.84	1,039.60	2,079.20	20,792	5.50	5.50	5.50
6 to 6½ years..... (6/1/78)	53.41	106.82	213.64	427.28	1,068.20	2,136.40	21,364	5.50	5.50	5.50
6½ to 7 years..... (12/1/78)	54.88	109.76	219.52	439.04	1,097.60	2,195.20	21,952	5.50	5.50	5.50
7 to 7½ years..... (6/1/79)	56.39	112.78	225.56	451.12	1,127.80	2,255.60	22,556	5.50	5.50	5.50
7½ to 8 years..... (12/1/79)	57.94	115.88	231.76	463.52	1,158.80	2,317.60	23,176	5.50	5.49	5.50
8 to 8½ years..... (6/1/80)	59.53	119.06	238.12	476.24	1,190.60	2,381.20	23,812	5.50	5.51	5.51
8½ to 9 years..... (12/1/80)	61.17	122.34	244.68	489.36	1,223.40	2,446.80	24,468	5.50	5.49	5.50
9 to 9½ years..... (6/1/81)	62.85	125.70	251.40	502.80	1,257.00	2,514.00	25,140	5.50	5.51	5.51
9½ to 10 years..... (12/1/81)	64.58	129.16	258.32	516.64	1,291.60	2,583.20	25,832	5.50	5.51	5.51
SECOND EXTENDED MATURITY										
VALUE (29 years and 8 months from issue date)..... (6/1/82)	66.36	132.72	265.44	530.88	1,327.20	2,654.40	26,544	³ 5.50	-----	

¹ This table does not apply if the prevailing rate for Series E bonds being issued at the time the second extension begins is different from 5.50 percent.

² Month, day, and year on which issues of Oct. 1, 1952, enter each period. For subsequent issue months add the appropriate number of months.

³ Yield on purchase price from issue date to second extended maturity date is 4.31 percent.

TABLE 73-A

BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH MAY 1, 1964

Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield (annual percentage rate)			
Denomination.....	25.00	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000				
(1) Redemption values during each half-year period (values increase on first day of period shown)									(2) From beginning of extended maturity period to beginning of each half-year period	(3) From beginning of each half-year period to beginning of next half-year period	(4) From beginning of each half-year period to extended maturity	
EXTENDED MATURITY PERIOD												
Period after original maturity (beginning 7 years 9 months after issue date)									Percent	Percent	Percent	
First ½ year.....	¹ (1/1/72)	\$25.92	\$51.84	\$77.76	\$103.68	\$207.36	\$518.40	\$1,036.80	\$10,368	0.00	5.48	5.50
½ to 1 year.....	(7/1/72)	26.63	53.26	79.89	106.52	213.04	532.60	1,065.20	10,652	5.48	5.56	5.50
1 to 1½ years.....	(1/1/73)	27.37	54.74	82.11	109.48	218.96	547.40	1,094.80	10,948	5.52	5.48	5.50
1½ to 2 years.....	(7/1/73)	28.12	56.24	84.36	112.48	224.96	562.40	1,124.80	11,248	5.51	5.48	5.50
2 to 2½ years.....	(1/1/74)	28.89	57.78	86.67	115.56	231.12	577.80	1,155.60	11,556	5.50	5.54	5.50
2½ to 3 years.....	(7/1/74)	29.69	59.38	89.07	118.76	237.52	593.80	1,187.60	11,876	5.51	5.46	5.50
3 to 3½ years.....	(1/1/75)	30.50	61.00	91.50	122.00	244.00	610.00	1,220.00	12,200	5.50	5.51	5.50
3½ to 4 years.....	(7/1/75)	31.34	62.68	94.02	125.36	250.72	626.80	1,253.60	12,536	5.50	5.49	5.50
4 to 4½ years.....	(1/1/76)	32.20	64.40	96.60	128.80	257.60	644.00	1,288.00	12,880	5.50	5.53	5.50
4½ to 5 years.....	(7/1/76)	33.09	66.18	99.27	132.36	264.72	661.80	1,323.60	13,236	5.50	5.50	5.50
5 to 5½ years.....	(1/1/77)	34.00	68.00	102.00	136.00	272.00	680.00	1,360.00	13,600	5.50	5.47	5.50
5½ to 6 years.....	(7/1/77)	34.93	69.86	104.79	139.72	279.44	698.60	1,397.20	13,972	5.50	5.50	5.50
6 to 6½ years.....	(1/1/78)	35.89	71.78	107.67	143.56	287.12	717.80	1,435.60	14,356	5.50	5.52	5.50
6½ to 7 years.....	(7/1/78)	36.88	73.76	110.64	147.52	295.04	737.60	1,475.20	14,752	5.50	5.48	5.50
7 to 7½ years.....	(1/1/79)	37.89	75.78	113.67	151.56	303.12	757.80	1,515.60	15,156	5.50	5.54	5.50
7½ to 8 years.....	(7/1/79)	38.94	77.88	116.82	155.76	311.52	778.80	1,557.60	15,576	5.50	5.50	5.49
8 to 8½ years.....	(1/1/80)	40.01	80.02	120.03	160.04	320.08	800.20	1,600.40	16,004	5.50	5.50	5.49
8½ to 9 years.....	(7/1/80)	41.11	82.22	123.33	164.44	328.88	822.20	1,644.40	16,444	5.50	5.50	5.49
9 to 9½ years.....	(1/1/81)	42.24	84.48	126.72	168.96	337.92	844.80	1,689.60	16,896	5.50	5.49	5.49
9½ to 10 years.....	(7/1/81)	43.40	86.80	130.20	173.60	347.20	868.00	1,736.00	17,360	5.50	5.48	5.48
EXTENDED MATURITY VALUE (17 years and 9 months from issue date) (1/1/82)		44.59	89.18	133.77	178.36	356.72	891.80	1,783.60	17,836	² 5.50		

¹ Month, day, and year on which issues of Apr. 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.

² Yield on purchase price from issue date to extended maturity date is 4.94 percent.

TABLE 74-A

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1964¹

Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield (annual percentage rate)		
Denomination.....	25.00	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000			
(1) Redemption values during each half-year period (values increase on first day of period shown)									(2) From beginning of extended maturity period to beginning of each half-year period	(3) From beginning of each half-year period to beginning of next half-year period	(4) From beginning of each half-year period to extended maturity
EXTENDED MATURITY PERIOD											
Period after original maturity (beginning 7 years 9 months after issue date)									Percent	Percent	Percent
First ½ year..... ² (3/1/72)	\$26.09	\$52.18	\$78.27	\$104.36	\$208.72	\$521.80	\$1,043.60	\$10,436	0.00	5.52	5.50
½ to 1 year..... (9/1/72)	26.81	53.62	80.43	107.24	214.48	536.20	1,072.40	10,724	5.52	5.45	5.50
1 to 1½ years..... (3/1/73)	27.54	55.08	82.62	110.16	220.32	550.80	1,101.60	11,016	5.48	5.52	5.50
1½ to 2 years..... (9/1/73)	28.30	56.60	84.90	113.20	226.40	566.00	1,132.00	11,320	5.49	5.51	5.50
2 to 2½ years..... (3/1/74)	29.08	58.16	87.24	116.32	232.64	581.60	1,163.20	11,632	5.50	5.50	5.50
2½ to 3 years..... (9/1/74)	29.88	59.76	89.64	119.52	239.04	597.60	1,195.20	11,952	5.50	5.49	5.50
3 to 3½ years..... (3/1/75)	30.70	61.40	92.10	122.80	245.60	614.00	1,228.00	12,280	5.50	5.54	5.50
3½ to 4 years..... (9/1/75)	31.55	63.10	94.65	126.20	252.40	631.00	1,262.00	12,620	5.50	5.45	5.50
4 to 4½ years..... (3/1/76)	32.41	64.82	97.23	129.64	259.28	648.20	1,296.40	12,964	5.50	5.55	5.50
4½ to 5 years..... (9/1/76)	33.31	66.62	99.93	133.24	266.48	666.20	1,332.40	13,324	5.50	5.46	5.50
5 to 5½ years..... (3/1/77)	34.22	68.44	102.66	136.88	273.76	684.40	1,368.80	13,688	5.50	5.49	5.50
5½ to 6 years..... (9/1/77)	35.16	70.32	105.48	140.64	281.28	703.20	1,406.40	14,064	5.50	5.52	5.50
6 to 6½ years..... (3/1/78)	36.13	72.26	108.39	144.52	289.04	722.60	1,445.20	14,452	5.50	5.48	5.50
6½ to 7 years..... (9/1/78)	37.12	74.24	111.36	148.48	296.96	742.40	1,484.80	14,848	5.50	5.50	5.50
7 to 7½ years..... (3/1/79)	38.14	76.28	114.42	152.56	305.12	762.80	1,525.60	15,256	5.50	5.51	5.51
7½ to 8 years..... (9/1/79)	39.19	78.38	117.57	156.76	313.52	783.80	1,567.60	15,676	5.50	5.51	5.51
8 to 8½ years..... (3/1/80)	40.27	80.54	120.81	161.08	322.16	805.40	1,610.80	16,108	5.50	5.51	5.50
8½ to 9 years..... (9/1/80)	41.38	82.76	124.14	165.52	331.04	827.60	1,655.20	16,552	5.50	5.51	5.50
9 to 9½ years..... (3/1/81)	42.52	85.04	127.56	170.08	340.16	850.40	1,700.80	17,008	5.50	5.46	5.50
9½ to 10 years..... (9/1/81)	43.68	87.36	131.04	174.72	349.44	873.60	1,747.20	17,472	5.50	5.54	5.54
EXTENDED MATURITY VALUE (17 years and 9 months from issue date) (3/1/82)	44.89	89.78	134.67	179.56	359.12	897.80	1,795.60	17,956	³ 5.50	-----	-----

¹ This table does not apply if the prevailing rate for Series E bonds being issued at the time the extension begins is different from 5.50 percent.

² Month, day, and year on which issues of June 1, 1964, enter each period. For subsequent issue months add the appropriate number of months.

³ Yield on purchase price from issue date to extended maturity date is 4.98 percent.

**Exhibit 9.—Department Circular No. 905, December 12, 1969, Fifth Revision,
Supplement No. 1, offering of United States savings bonds, Series H**

THE DEPARTMENT OF THE TREASURY,
Washington, February 18, 1972.

The tables to Department Circular No. 905, Fifth Revision, dated December 12, 1969, as amended (31 CFR Part 332), are hereby supplemented by the addition of Tables 2-A, 3-A, 23-A, and 24-A, as set forth below.

Dated: February 18, 1972.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 2-A

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1952¹

Face value	Issue price	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield (annual percentage rate)			
	Redemption and maturity value								
Period of time bond is held after extended maturity date		(1) Amounts of interest checks for each denomination				(2) From beginning of second extended maturity period to each interest payment date	(3) For half-year period preceding interest payment date	(4) From each interest payment date to second extended maturity	
		SECOND	EXTENDED	MATURITY	PERIOD				
						Percent	Percent	Percent	
½ year	.....² (8/1/72)	\$13.75	\$27.50	\$137.50	\$275.00	5.50	5.50	5.50
1 year	..... (2/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
1½ years	..... (8/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
2 years	..... (2/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
2½ years	..... (8/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
3 years	..... (2/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
3½ years	..... (8/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
4 years	..... (2/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
4½ years	..... (8/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
5 years	..... (2/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
5½ years	..... (8/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
6 years	..... (2/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
6½ years	..... (8/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
7 years	..... (2/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
7½ years	..... (8/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
8 years	..... (2/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
8½ years	..... (8/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
9 years	..... (2/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
9½ years	..... (8/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
10 years (second extended maturity) ³	..... (2/1/82)	13.75	27.50	137.50	275.00	⁴ 5.50	5.50	-----

¹ This table does not apply if the prevailing rate for Series H bonds being issued at the time the second extension begins is different from 5.50 percent.² Month, day, and year on which interest check is payable on issues of June 1, 1952. For subsequent issue months add the appropriate number of months.³ 29 years and 8 months after issue date.⁴ Yield on purchase price from issue date to second extended maturity is 3.97 percent.

TABLE 3-A

BONDS BEARING ISSUE DATES FROM OCTOBER 1, 1952 THROUGH MARCH 1, 1953¹

Face value	Issue price Redemption and maturity value	\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield (annual percentage rate)		
Period of time bond is held after extended maturity date	(1) Amounts of interest checks for each denomination				(2) From beginning of second extended maturity period to each interest payment date	(3) For half-year period preceding interest payment date	(4) From each interest payment date to second extended maturity	
	SECOND EXTENDED MATURITY PERIOD							
					Percent	Percent	Percent	
½ year..... ² (12/1/72)	\$13.75	\$27.50	\$137.50	\$275.00	5.50	5.50	5.50	
1 year..... (6/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
1½ years..... (12/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2 years..... (6/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2½ years..... (12/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3 years..... (6/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3½ years..... (12/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4 years..... (6/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4½ years..... (12/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5 years..... (6/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5½ years..... (12/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6 years..... (6/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6½ years..... (12/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7 years..... (6/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7½ years..... (12/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8 years..... (6/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8½ years..... (12/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9 years..... (6/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9½ years..... (12/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
10 years (second extended maturity) ³ (6/1/82)	13.75	27.50	137.50	275.00	5.50	5.50	-----	

¹ This table does not apply if the prevailing rate for Series H bonds being issued at the time the second extension begins is different from 5.50 percent.² Month, day, and year on which interest check is payable on issues of Oct. 1, 1952. For subsequent issue months add the appropriate number of months.³ 20 years and 8 months after issue date.⁴ Yield on purchase price from issue date to second extended maturity date on bonds dated: Oct. 1 and Nov. 1, 1952 is 3.99 percent; Dec. 1, 1952 through Mar. 1, 1953 is 4.00 percent.

TABLE 23-A
BONDS BEARING ISSUE DATES FROM JANUARY 1 THROUGH MAY 1, 1962¹

Face value	Issue price.....	\$500	\$1,000	\$5,000	\$10,000	Approximate investment yield (annual percentage rate)			
	Redemption and maturity value.....								
Period of time bond is held after maturity date		(1) Amounts of interest checks for each denomination				(2) From beginning of extended maturity period to each interest payment date	(3) For half-year period preceding interest payment date	(4) From each interest payment date to extended maturity	
EXTENDED MATURITY PERIOD									
						Percent	Percent	Percent	
1½ year.....	2(7/1/72)	\$13.75	\$27.50	\$137.50	\$275.00	5.50	5.50	5.50	
1 year.....	(1/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
1½ years.....	(7/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2 years.....	(1/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2½ years.....	(7/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3 years.....	(1/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3½ years.....	(7/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4 years.....	(1/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4½ years.....	(7/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5 years.....	(1/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5½ years.....	(7/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6 years.....	(1/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6½ years.....	(7/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7 years.....	(1/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7½ years.....	(7/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8 years.....	(1/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8½ years.....	(7/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9 years.....	(1/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9½ years.....	(7/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
10 years (extended maturity) 3.....	(1/1/82)	13.75	27.50	137.50	275.00	4 5.50	5.50	-----	

¹ This table does not apply if the prevailing rate for Series H bonds being issued at the time the extension begins is different from 5.50 percent.

² Month, day, and year on which interest check is payable on issues of Jan. 1, 1962. For subsequent issue months add the appropriate number of months.

³ 20 years after issue date.

⁴ Yield on purchase price from issue date to extended maturity is 4.63 percent.

TABLE 24-A

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1962¹

Face value (Issue price..... Redemption and maturity value.....)		\$500 500	\$1,000 1,000	\$5,000 5,000	\$10,000 10,000	Approximate investment yield (annual percentage rate)		
Period of time bond is held after maturity date	(1) Amounts of interest checks for each denomination EXTENDED MATURITY PERIOD					(2) From beginning of extended maturity period to each interest payment date	(3) For half-year period preceding interest payment date	(4) From each interest payment date to extended maturity
						Percent	Percent	Percent
1/2 year.....	² (12/1/72)	\$13.75	\$27.50	\$137.50	\$275.00	5.50	5.50	5.50
1 year.....	(6/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
1 1/2 years.....	(12/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
2 years.....	(6/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
2 1/2 years.....	(12/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
3 years.....	(6/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
3 1/2 years.....	(12/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
4 years.....	(6/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
4 1/2 years.....	(12/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
5 years.....	(6/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
5 1/2 years.....	(12/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
6 years.....	(6/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
6 1/2 years.....	(12/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
7 years.....	(6/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
7 1/2 years.....	(12/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
8 years.....	(6/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
8 1/2 years.....	(12/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
9 years.....	(6/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
9 1/2 years.....	(12/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
10 years (extended maturity) ³	(6/1/82)	13.75	27.50	137.50	275.00	⁴ 5.50	5.50	-----

¹ This table does not apply if the prevailing rate for Series H bonds being issued at the time the extension begins is different from 5.50 percent.² Month, day, and year on which interest check is payable on issues of June 1, 1962. For subsequent issue months add the appropriate number of months.³ 20 years after issue date.⁴ Yield on purchase price from issue date to extended maturity is 4.67 percent.

Exhibit 10.—Department Circular No. 300, December 23, 1964, Third Revision, Sixth Amendment, general regulations with respect to United States securities

THE DEPARTMENT OF THE TREASURY,
Washington, April 27, 1972.

Subpart O of Treasury Department Circular No. 300, Third Revision, dated December 23, 1964, as amended and supplemented (31 CFR Part 306), is hereby further amended and issued in its entirety as follows:

SUBPART O—BOOK-ENTRY PROCEDURE

Sec. 306.115. *Definition of terms.*

In this subpart, unless the context otherwise requires or indicates:

(a) "Reserve Bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of the United States and when indicated acting in its individual capacity.

(b) "Treasury security" means a Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of a definitive Treasury security or a book-entry Treasury security.

(c) "Definitive Treasury security" means a Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in engraved or printed form.

(d) "Book-entry Treasury security" means a Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of an entry made as prescribed in this subpart on the records of a Reserve Bank.

(e) "Pledge" includes a pledge of, or any other security interest in, Treasury securities as collateral for loans or advances or to secure deposits of public monies or the performance of an obligation.

(f) "Date of call" (see Sec. 306.2) is "the date fixed in the official notice of call published in the Federal Register * * * on which the obligor will make payment of the security before maturity in accordance with its terms."

(g) "Member bank" means any national bank, State bank or bank or trust company which is a member of a Reserve Bank.

Sec. 306.116. *Authority of Reserve Banks.*

Each Reserve Bank is hereby authorized, in accordance with the provisions of this subpart, to (a) issue book-entry Treasury securities by means of entries on its records which shall include the name of the depositor, the amount, the loan title (or series) and maturity date; (b) effect conversions between book-entry Treasury securities and definitive Treasury securities; (c) otherwise service and maintain book-entry Treasury securities; and (d) issue a confirmation of transaction in the form of a written advice (serially numbered or otherwise) which specifies the amount and description of any securities, that is, loan title (or series) and maturity date, sold or transferred and the date of the transaction.

Sec. 306.117. *Scope and effect of book-entry procedure.*

(a) A Reserve Bank as Fiscal Agent of the United States may apply the book-entry procedure provided for in this subpart to any Treasury securities which have been or are hereafter deposited for any purpose in accounts with it in its individual capacity under terms and conditions which indicate that the Reserve Bank will continue to maintain such deposit accounts in its individual capacity, notwithstanding application of the book-entry procedure to such securities. This paragraph is applicable, but not limited, to securities deposited:¹

(1) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it;

(2) by a member bank for its sole account;

(3) by a member bank held for the account of its customers;

(4) in connection with deposits in a member bank of funds of States, municipalities, or other political subdivisions; or,

(5) in connection with the performance of an obligation or duty under Federal, State, municipal, or local law, or judgments or decrees of courts.

¹ See the Attachment to this subpart for rules of identification of book-entry securities for Federal income tax purposes.

The application of the book-entry procedure under this paragraph shall not derogate from or adversely affect the relationships that would otherwise exist between a Reserve Bank in its individual capacity and its depositors concerning any deposits under this paragraph. Whenever the book-entry procedure is applied to such Treasury securities, the Reserve Bank is authorized to take all action necessary in respect of the book-entry procedure to enable such Reserve Bank in its individual capacity to perform its obligations as depository with respect to such Treasury securities.

(b) A Reserve Bank as Fiscal Agent of the United States shall apply the book-entry procedure to Treasury securities deposited as collateral pledged to the United States under Treasury Department Circular Nos. 92 and 176, both as revised and amended, and may apply the book-entry procedure, with the approval of the Secretary of the Treasury, to any other Treasury securities deposited with a Reserve Bank as Fiscal Agent of the United States.

(c) Any person having an interest in Treasury securities which are deposited with a Reserve Bank (in either its individual capacity or as Fiscal Agent) for any purpose shall be deemed to have consented to their conversion to book-entry Treasury securities pursuant to the provisions of this subpart, and in the manner and under the procedures prescribed by the Reserve Bank.

(d) No deposits shall be accepted under this section on or after the date of maturity or call of the securities.

Sec. 36.118. *Transfer or pledge.*

(a) A transfer or a pledge of book-entry Treasury securities to a Reserve Bank (in its individual capacity or as Fiscal Agent of the United States), or to the United States, or to, any transferee or pledgee eligible to maintain an appropriate book-entry account in its name with a Reserve Bank under this subpart, is effected and perfected, notwithstanding any provision of law to the contrary, by a Reserve Bank making an appropriate entry in its records of the securities transferred or pledged. The making of such an entry in the records of a Reserve Bank shall (1) have the effect of a delivery in bearer form of definitive Treasury securities; (2) have the effect of a taking of delivery by the transferee or pledgee; (3) constitute the transferee or pledgee a holder; and (4) if a pledge, effect a perfected security interest therein in favor of the pledgee. A transfer or pledge of book-entry Treasury securities effected under this paragraph shall have priority over any transfer, pledge, or other interest, theretofore or thereafter effected or perfected under subsection (b) of this section or in any other manner.

(b) A transfer or a pledge of transferable Treasury securities, or any interest therein, which is maintained by a Reserve Bank (in its individual capacity or as Fiscal Agent of the United States) in a book-entry account under this subpart, including securities in book-entry form under Sec. 306.117(a)(3), is effected, and a pledge is perfected, by any means that would be effective under applicable law to effect a transfer or to effect and perfect a pledge of the Treasury securities, or any interest therein, if the securities were maintained by the Reserve Bank in bearer definitive form. For purposes of transfer or pledge hereunder, book-entry Treasury securities maintained by a Reserve Bank shall, notwithstanding any provision of law to the contrary, be deemed to be maintained in bearer definitive form. A Reserve Bank maintaining book-entry Treasury securities either in its individual capacity or as Fiscal Agent of the United States is not a bailee for purposes of notification of pledges of those securities under this subsection, or a third person in possession for purposes of acknowledgment of transfers thereof under this subsection. A Reserve Bank will not accept notice or advice of a transfer or pledge effected or perfected under this subsection, and any such notice or advice shall have no effect. A Reserve Bank may continue to deal with its depositor in accordance with the provisions of this subpart, notwithstanding any transfer or pledge effected or perfected under this subsection.

(c) No filing or recording with a public recording office or officer shall be necessary or effective with respect to any transfer or pledge of book-entry Treasury securities or any interest therein.

(d) A Reserve Bank shall, upon receipt of appropriate instructions, convert book-entry Treasury securities into definitive Treasury securities and deliver them in accordance with such instructions; no such conversion shall affect existing interests in such Treasury securities.

(e) A transfer of book-entry Treasury securities within a Reserve Bank shall be made in accordance with procedures established by the Bank not inconsistent with this subpart. The transfer of book-entry Treasury securities by a Reserve Bank may be made through a telegraphic transfer procedure.

(f) All requests for transfer or withdrawal must be made prior to the maturity or date of call of the securities.

Sec. 306.119. Withdrawal of Treasury securities.

(a) A depositor of book-entry Treasury securities may withdraw them from a Reserve Bank by requesting delivery of like definitive Treasury securities to itself or on its order to a transferee.

(b) Treasury securities which are actually to be delivered upon withdrawal may be issued either in registered or in bearer form, except that Treasury bills and EA and EO series of Treasury notes will be issued in bearer form only.

Sec. 306.120. Delivery of Treasury securities.

A Reserve Bank which has received Treasury securities and effected pledges, made entries regarding them, or transferred or delivered them according to the instructions of its depositor is not liable for conversion or for participation in breach of fiduciary duty even though the depositor had no right to dispose of or take other action in respect of the securities. A Reserve Bank shall be fully discharged of its obligations under this subpart by the delivery of Treasury securities in definitive form to its depositor or upon the order of such depositor. Customers of a member bank or other depository (other than a Reserve Bank) may obtain Treasury securities in definitive form only by causing the depositor of the Reserve Bank to order the withdrawal thereof from the Reserve Bank.

Sec. 306.121. Registered bonds and notes.

No formal assignment shall be required for the conversion to book-entry Treasury securities of registered Treasury securities held by a Reserve Bank (in either its individual capacity or as Fiscal Agent) on the effective date of this subpart for any purpose specified in Sec. 306.117(a). Registered Treasury securities deposited thereafter with a Reserve Bank for any purpose specified in Sec. 306.117 shall be assigned for conversion to book-entry Treasury securities. The assignment, which shall be executed in accordance with the provisions of Subpart F of the regulations in this part, so far as applicable, shall be to "Federal Reserve Bank of _____, as Fiscal Agent of the United States, for conversion to book-entry Treasury securities."

Sec. 306.122. Servicing book-entry Treasury securities; payment of interest, payment at maturity or upon call.

Interest becoming due on book-entry Treasury securities shall be charged in the Treasurer's account on the interest due date and remitted or credited in accordance with the depositor's instructions. Such securities shall be redeemed and charged in the Treasurer's account on the date of maturity, call or advance refunding, and the redemption proceeds, principal and interest, shall be disposed of in accordance with the depositor's instructions.

JOHN K. CARLOCK,

Fiscal Assistant Secretary of the Treasury.

ATTACHMENT

RECORDS FOR FEDERAL INCOME TAX PURPOSES

There are attached three documents in connection with the book-entry procedure which simplify recordkeeping for Federal income tax purposes. They apply to transferable Treasury bonds, notes, certificates of indebtedness or bills issued under the Second Liberty Bond Act, as amended, and to "any other security of the United States." The quoted term is defined to include a bond, note, certificate of indebtedness, bill, debenture or similar obligation which is subject to the provisions of 31 CFR, part 306, or other comparable Federal regulations and which is issued by any department or agency of the Government of the United States, or the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives, or the Tennessee Valley Authority.

The three documents are:

(1) The substance of Treasury Department Decision 7081, published in the Federal Register on December 31, 1970;

(2) Revenue Ruling 71-21, published in Internal Revenue Bulletin 1971-3, dated January 18, 1971; and

(3) Revenue Ruling 71-15, published in Internal Revenue Bulletin 1971-3, dated January 18, 1971.

The first document modifies the tax identification rules regarding the determination of basis and holding period of securities held as investments. It applies to the sale or transfer of book-entry securities pursuant to a written instruction

by a taxpayer. It permits the taxpayer in its written instruction to its bank or to the person through whom the taxpayer makes the sale or transfer to identify the securities being sold or transferred by specifying the unique lot number which he has assigned to the lot containing them.

The taxpayer may make the specification either—(a) in the written instruction, or (b) in the case of a taxpayer having a book-entry account at a Reserve Bank, in a list of lot numbers with respect to all book-entry securities on the books of the Reserve Bank sold or transferred by him on that date, *provided* the list is mailed to or received by the Reserve Bank on or before the latter's next business day.

These provisions apply only if the taxpayer assigns lot numbers in numerical sequence to successive purchases of securities in the same loan title (series) and maturity date, except that securities of the same loan title (series) and maturity date which are purchased at the same price on the same date may be included within the same lot.

The written advice of transaction furnished to the taxpayer by the Reserve Bank, or by his bank or any other person through whom the taxpayer makes the sale or transfer, which specifies the amount and the description of the securities sold or transferred and the date of the transaction is sufficient confirmation. The Reserve Bank need not use or refer to the lot number.

The second document concerns an owner of securities who has assigned sequential numbers to his successive purchases. The owner retains full interest in the securities but transfers them to a bank which has a book-entry account with a Reserve Bank, or to another party which transfers them to a bank which has a book-entry account with a Reserve Bank.

When at a later date the bank instructs the Reserve Bank to sell or transfer securities held in book entry for its customer, the bank need not refer to the sequential number which had been assigned on the owner's books.

The tax identification requirements are satisfied if the owner's written instruction to his bank or to the person through whom the taxpayer makes the sale or transfer sufficiently identifies the securities to be sold or transferred and refers to the lot number assigned to them in the owner's books. The bank's instruction to the Reserve Bank will not refer to lot numbers; the Reserve Bank will confirm the sale to the bank in the manner it deems appropriate. The member bank will confirm the sale or transfer to its customer by furnishing a written advice of transaction specifying the amount and description of the securities sold and the date of sale. The confirmation need not refer to lot number.

This document also permits substantially the same kind of identification and confirmation procedures when securities are purchased through the book-entry account for the bank's customers.

The third document provides that a dealer, who properly holds securities in inventory in accordance with section 1.471-5 of the Income Tax Regulations and proposes to transfer them to a book-entry system in a Reserve Bank, will continue to maintain his books and records for Federal income tax purposes with respect to such securities in accordance with section 1.471-5 of the regulations and not section 1.1012-1 of the regulations.

The substantive portion of T.D. 7081, approved December 26, 1970, reads as follows:

TITLE 26—INTERNAL REVENUE

Chapter I—Internal Revenue Service, Department of the Treasury

Subchapter A—Income Tax

PART 1—INCOME TAX: TAXABLE YEARS BEGINNING AFTER DECEMBER 31, 1953

Identification of Federal Book-Entry Securities

In order to modify the identification rules for purposes of determining basis and holding period of property in the case of certain Federal securities, paragraph (c) (7) of Sec. 1.1012-1 of the Income Tax Regulations (26 CFR Part 1) is amended to read as follows:

Sec. 1.1012-1 Basis of property.

- * * * *
- (c) *Sale of stock.* * * *
- (7) *Book-entry securities.*

(i) In applying the provisions of subparagraph (3) (i) (a) of this paragraph in the case of a sale or transfer of a book-entry security (as defined in subdivision (iii) (a) of this subparagraph) which is made after December 31, 1970, pursuant to a written instruction by the taxpayer, a specification by the taxpayer of the unique lot number which he has assigned to the lot which contains the securities being sold or transferred shall constitute specification as required by such subparagraph. The specification of the lot number shall be made either—

(a) In such written instruction, or

(b) In the case of a taxpayer, in whose name the book entry by the Reserve Bank is made, in a list of lot numbers with respect to all book-entry securities on the books of the Reserve Bank sold or transferred on that date by the taxpayer, provided such list is mailed to or received by the Reserve Bank on or before the Reserve Bank's next business day.

This subdivision shall apply only if the taxpayer assigns lot numbers in numerical sequence to successive purchases of securities of the same loan title (series) and maturity date, except that securities of the same loan title (series) and maturity may be included within the same lot.

(ii) In applying the provisions of subparagraph (3) (i) (b) of this paragraph in the case of a sale or transfer of a book-entry security which is made pursuant to a written instruction by the taxpayer, a confirmation as required by such subparagraph shall be deemed made by—

(a) In the case of a sale or transfer made after December 31, 1970, the furnishing to the taxpayer of a written advice of transaction, by the Reserve Bank or the person through whom the taxpayer sells or transfers the securities, which specifies the amount and description of the securities sold or transferred and the date of the transaction, or

(b) In the case of a sale or transfer made before January 1, 1971, the furnishing of a serially numbered advice of transaction by a Reserve Bank.

(iii) For purposes of this subparagraph:

(a) The term "book-entry security" means—

(1) In the case of a sale or transfer made after December 31, 1970, a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act (31 U.S.C. 774(2)), as amended, or other security of the United States (as defined in (b) of this subdivision (iii)) in the form of an entry made as prescribed in 31 CFR Part 306, or other comparable Federal regulations, on the records of a Reserve Bank, or

(2) In the case of a sale or transfer made before January 1, 1971, a transferable Treasury bond, note, certificate of indebtedness, or bill issued under the Second Liberty Bond Act, as amended, in the form of an entry made as prescribed in 31 CFR Part 306, Subpart O, on the records of a Reserve Bank which is deposited in an account with a Reserve Bank (i) as collateral pledged to a Reserve Bank (in its individual capacity) for advances by it, (ii) as collateral pledged to the United States under Treasury Department Circular No. 92 or 176, both as revised and amended, (iii) by a member bank of the Federal Reserve System for its sole account for safekeeping by a Reserve Bank in its individual capacity, (iv) in lieu of a surety or sureties upon the bond required by section 61 of the Bankruptcy Act, as amended (11 U.S.C. 101), of a banking institution designated by a judge of one of the several courts of bankruptcy under such section as a depository for the moneys of a bankrupt's estate, (v) pursuant to 6 U.S.C. 15, in lieu of a surety or sureties required in connection with any recognizance, stipulation, bond, guaranty, or undertaking which must be furnished under any law of the United States or regulations made pursuant thereto, (vi) by a banking institution, pursuant to a State or local law, to secure the deposit in such banking institution of public funds by a State, municipality, or other political subdivision, (vii) by a State bank or trust company or a national bank, pursuant to a State or local law, to secure the faithful performance of trust or other fiduciary obligations by such State bank or trust company or national bank, or (viii) to secure funds which are deposited or held in trust by a State bank or trust company or a national bank and are awaiting investment, but which are used by such State bank or trust company or national bank in the conduct of its business;

(b) The term "other security of the United States" means a bond, note, certificate of indebtedness, bill, debenture, or similar obligation which is subject to the provisions of 31 CFR Part 306 or other comparable Federal regulations and which is issued by

(1) any department or agency of the Government of the United States, or

(2) the Federal National Mortgage Association, the Federal Home Loan Banks,

the Federal Land Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives, or the Tennessee Valley Authority.

(c) The term "serially-numbered advice of transaction" means the confirmation (prescribed in 31 CFR 306.116) issued by the Reserve Bank which is identifiable by a unique number and indicates that a particular written instruction to the Reserve Bank with respect to the deposit or withdrawal of a specified book-entry security (or securities) has been executed; and

(d) The term "Reserve Bank" means a Federal Reserve Bank and its branches acting as Fiscal Agent of the United States.

SECTION 1012.—BASIS OF PROPERTY—COST

26 CFR 1.1012-1: Basis of property.

Rev. Rul. 71-21¹

A taxpayer owns as investments Treasury securities and certain other securities described in the new section 1.1012-1(c) (7) (iii) (a) of the Income Tax Regulations. The taxpayer owner will assign a lot number to the securities in his books. The numbers will be assigned in numerical sequence to successive purchases of the same loan title (series) and maturity date, except that securities of the same loan title (series) and maturity date which are purchased at the same price on the same date may be included in the same lot.

The owner proposes to retain full interest in the securities but he will transfer possession of them to a bank. That bank will not keep records of the securities by use of the above-described lot numbers. The bank will also take possession of like securities for other taxpayers.

The bank will transfer all of these securities to a book-entry system of a Federal Reserve Bank. The securities will be entries in the book-entry account of the bank and, as such, the securities will no longer exist in definitive form. That account will not reflect the fact that the bank holds securities for several taxpayers.

When the owner wishes to sell certain securities, he will so instruct the bank in writing. The owner's instruction will sufficiently identify the securities to be sold, and will also refer to the lot number assigned in the books of the owner to the securities to be sold. The bank will then instruct, in writing, the Federal Reserve Bank to transfer the securities. The latter instruction will not refer to the pertinent lot number. The Federal Reserve Bank will confirm the sale to the bank in the manner it deems appropriate. The bank will confirm the sale to the owner by furnishing a written advice of transaction specifying the amount and description of the securities sold and the date of the sale. The confirmation will not refer to lot numbers.

When the owner desires to buy additional securities as investments of the kind described in the new section 1.1012-1(c) (7) (iii) (a) of the regulations, he will order the bank to purchase them. The bank will instruct the Federal Reserve Bank to obtain the securities and to put them in the bank's book-entry account. The confirmation of the purchase from the Federal Reserve Bank to the bank and from the bank to the owner will be of the nature used for the sale of securities. The owner will assign lot numbers in the manner described above to these purchased securities.

Held, the above procedure is consistent with the tax record requirements of new section 1.1012-1(c) (7) of the regulations. This procedure exemplifies the tax record requirements when securities are transferred by parties to a bank who has an account in the book-entry system of a Federal Reserve Bank. The tax record requirements in the case of a bank who puts its own investment securities in the book-entry system are set forth in new section 1.1012-1(c) (7) of the regulations.

SECTION 471—GENERAL RULE FOR INVENTORIES

26 CFR 1.471-5: Inventories by dealers in securities.
(Also Section 1012; 1.1012-1.)

Rev. Rul. 71-15²

A dealer, as defined in section 1.471-5 of the Income Tax Regulations, holds Treasury securities and other securities of the United States. "Other securities of the United States" means a transferable bond, note, certificate of indebtedness, bill, debenture, or similar obligation which is subject to the provisions of 31 CFR 306 or other comparable Federal regulations and which is issued by (1) any department or agency of the Government of the United States, or (2) the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Land

¹ Also released as Technical Information Release 1063, dated December 30, 1970.

² Also released as Technical Information Release 1064, dated January 14, 1971.

Banks, the Federal Intermediate Credit Banks, the Banks for Cooperatives, or the Tennessee Valley Authority.

The dealer properly holds such securities in inventory in accordance with section 1.471-5 of the Income Tax Regulations. He proposes to transfer those securities to a book-entry system maintained by a Federal Reserve Bank. The dealer will continue to maintain his books and records for Federal income tax purposes with respect to such securities in accordance with section 1.471-5 of the regulations.

Held, the dealer is not subject to the provisions of section 1.1012-1 of the regulations relating to identification of property with respect to such securities. Such a dealer must, however, comply with the provisions of section 1.471-5 of the regulations relating to inventory by dealers in securities.

Exhibit 11.—Department Circular No. 3-72, May 22, 1972, regulations governing United States Treasury certificates of indebtedness—State and local government series, and United States Treasury notes—State and local government series

THE DEPARTMENT OF THE TREASURY,
Washington, May 22, 1972.

The regulations in the Department of the Treasury Circular, Public Debt Series No. 3-72 (31 CFR Part 344), set forth below, are issued under the authority of 26 U.S.C. 103 (d), 83 Stat. 656; 31 U.S.C. 753, 754, 754b, and 5 U.S.C. 301.

This offer of U.S. Treasury Certificates of Indebtedness—State and Local Government Series, and U.S. Treasury Notes—State and Local Government Series, relates to the fiscal policy of the United States and notice and public procedures thereon are unnecessary.

The regulations were adopted on May 22, 1972.

[SEAL]

JOHN K. CARLOCK,
Fiscal Assistant Secretary of the Treasury.

Sec.

- 344.0 Offering of securities.
- 344.1 Description of securities.
- 344.2 Subscription for purchase.
- 344.3 Issue date and payment.
- 344.4 Redemption.
- 344.5 General provisions.

AUTHORITY: The provisions of this Part 344 issued under 26 U.S.C. 103 (d), 83 Stat. 656; 31 U.S.C. 753, 754, 754b, and 5 U.S.C. 301.

§ 344.0 Offering of securities.

(a) In order to provide States, municipalities, and other government bodies described in section 103(a)(1) of the Internal Revenue Code of 1954 and the regulations thereunder with investments tailored to their needs under those provisions, the Secretary of the Treasury offers, under the authority of the Second Liberty Bond Act, as amended—

(1) U.S. Treasury Certificates of Indebtedness—State and Local Government Series, and

(2) U.S. Treasury Notes—State and Local Government Series, for sale to those entities. The term “government body” as used herein refers to any one of these entities. The term “securities” herein refers jointly to the certificates and notes. This offering will continue until terminated by the Secretary of the Treasury.

§ 344.1 Description of securities.

(a) *General.* The securities will be issued in book-entry form on the books of the Department of the Treasury, Bureau of the Public Debt, Washington, D.C. 20226. They may not be transferred by sale, exchange, assignment, or pledge, or otherwise.

(b) *Terms and rates of interest.*—(1) *Certificates of indebtedness.* The certificates will be issued in multiples of \$5,000 with periods of maturity fixed, at the option of the government body, for (i) 3 months, (ii) 6 months, (iii) 9 months, or (iv) 1 year. Each certificate will bear such rate of interest as the government body may designate, provided that it shall not be more than the current Treasury rate on a comparable maturity, reduced by one-eighth of 1 percent. The applicable

Treasury rates will be determined by the Treasury not less often than monthly, and will be available at Federal Reserve Banks and Branches. Interest on the certificates will be computed on an annual basis and will be payable at maturity with the principal amount.

(2) *Notes.* The notes will be issued in multiples of \$5,000 with periods of maturity fixed, at the option of the government body, from 1 year 6 months up to and including 7 years, or for any intervening half-yearly period. Each note will bear such rate of interest as the government body may designate, provided that it shall not be more than the current Treasury rate on a comparable maturity, reduced by one-eighth of 1 percent. The applicable Treasury rates will be determined by the Treasury not less often than monthly, and will be available at Federal Reserve Banks and Branches. Interest on the notes will be payable on a semiannual basis by Treasury check on June 1 and December 1, and at maturity if other than June 1 or December 1. Final interest will be paid with the principal.

§ 344.2 Subscription for purchase.

A government body may purchase a security under this offering by submitting a subscription and making payment to a Federal Reserve Bank or Branch. A commercial bank may act on behalf of a government body in submitting subscriptions. The subscription, dated and signed by an official authorized to make the purchase, must state the amount, maturity, and interest rate of the security desired, and give the title of the designated official authorized to redeem it. Separate subscriptions must be submitted for certificates and notes, and for securities of each maturity and each interest rate.

§ 344.3 Issue date and payment.

The issue date of a security will be the date on which funds in full payment therefor are available at a Federal Reserve Bank or Branch.

§ 344.4 Redemption.

(a) *At maturity.* A security may not be called for redemption by the Secretary of the Treasury prior to maturity. Upon the maturity of a security, the Treasury will make payment of the principal amount and interest to the owner thereof by Treasury check, or in accordance with other prior arrangements made by the government body with the Bureau of the Public Debt.

(b) *Prior to maturity.* (1) Securities may be redeemed at the owner's option on 2 days' notice after 1 month from the issue date in the case of certificates, and after 1 year from the issue date in the case of notes. Where redemption prior to maturity occurs, the interest for the entire period the security was outstanding shall be calculated on the basis of the lesser of (i) the original interest rate at which the security was issued, or (ii) an adjusted interest rate reflecting both the shorter period during which the security was actually outstanding and a penalty. The adjusted interest rate is the Treasury rate which would have been in effect on the date of issuance for a marketable Treasury certificate or note maturing on the quarterly maturity date prior to redemption (in the case of certificates), or on the semiannual maturity period prior to redemption (in the case of notes), reduced in either case by a penalty which shall be the lesser of (iii) one-eighth of 1 percent times the number of months from the date of issuance to original maturity, divided by the number of full months elapsed from the date of issue to redemption, or (iv) one-fourth of 1 percent. There shall be deducted from the redemption proceeds, if necessary, any overpayment of interest resulting from previous payments made at a higher rate based on the original longer period to maturity. A schedule showing the adjusted interest rates that apply to securities redeemed prior to their maturity dates will be available at the time of issuance of the securities. A notice to redeem a security prior to the maturity date must be given by the official authorized to redeem it, as shown in the subscription for purchase, to the Bureau of the Public Debt, Division of Securities Operations, Washington, D.C. 20226, by letter, wire, or telex, or by telephone confirmed by wire or telex. The telephone number is 202-964-7007, and the telex number is 892428.

§ 344.5 General provisions.

(a) *Regulations.* U.S. Treasury Certificates of Indebtedness—State and Local Government Series, and U.S. Treasury Notes—State and Local Government Series, shall be subject to the general regulations with respect to U.S. securities, which are set forth in the Department of the Treasury Circular No. 300, current revision (Part 306 of this chapter), to the extent applicable. Copies of the cir-

cular may be obtained from the Bureau of the Public Debt, Division of Securities Operations, Washington, D.C. 20226, or a Federal Reserve Bank or Branch.

(b) *Fiscal agents.* Federal Reserve Banks and Branches, as Fiscal Agents of the United States, are authorized to perform such services as may be requested of them by the Secretary of the Treasury in connection with the purchase of, and transactions in, the securities.

(c) *Reservations.* The Secretary of the Treasury reserves the right to reject any application for the purchase of securities hereunder, in whole or in part, and to refuse to issue or permit to be issued any such securities in any case or any class or classes of cases if he deems such action to be in the public interest, and his action in any such respect shall be final. The Secretary of the Treasury may also at any time, or from time to time, supplement or amend the terms of these regulations, or of any amendments or supplements thereto.

Exhibit 12.—Department Circular 3-67, June 19, 1968, Supplement, offering of United States savings notes

THE DEPARTMENT OF THE TREASURY,
Washington, December 27, 1971.

Table 2, Department Circular No. 3-67, Revised, dated June 19, 1968, as amended (31 CFR Part 342), is hereby supplemented by the addition of Table 2-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 2-A.—Notes bearing issue dates from May 1, 1967¹

Denomination.....	\$25.00	\$50.00	\$75.00	\$100.00	Approximate investment yield (annual percentage rate)		
Issue price.....	20.25	40.50	60.75	81.00			
Period after original maturity (beginning 4 years 6 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)				(2) From beginning of extended maturity period to beginning of each half-year period	(3) From beginning of each half-year period to beginning of next half-year period	(4) From beginning of each half-year period to extended maturity ³
	EXTENDED MATURITY PERIOD						
					Percent	Percent	Percent
First ½ year..... ² (11/1/71)	\$25.00	\$50.00	\$75.00	\$100.00	0.00	5.52	5.50
½ to 1 year..... (5/1/72)	25.69	51.38	77.07	102.76	5.52	5.45	5.50
1 to 1½ years..... (11/1/72)	26.39	52.78	79.17	105.56	5.48	5.63	5.50
1½ to 2 years..... (5/1/73)	27.12	54.24	81.36	108.48	5.50	5.63	5.50
2 to 2½ years..... (11/1/73)	27.87	55.74	83.61	111.48	5.61	5.45	5.50
2½ to 3 years..... (5/1/74)	28.63	57.26	85.89	114.52	5.50	5.52	5.50
3 to 3½ years..... (11/1/74)	29.42	58.84	88.26	117.68	5.50	5.61	5.50
3½ to 4 years..... (5/1/75)	30.23	60.46	90.69	120.92	5.50	5.49	5.50
4 to 4½ years..... (11/1/75)	31.06	62.12	93.18	124.24	5.50	5.47	5.50
4½ to 5 years..... (5/1/76)	31.91	63.82	95.73	127.64	5.50	5.52	5.50
5 to 5½ years..... (11/1/76)	32.79	65.58	98.37	131.16	5.50	5.49	5.50
5½ to 6 years..... (5/1/77)	33.69	67.38	101.07	134.76	5.50	5.52	5.50
6 to 6½ years..... (11/1/77)	34.62	69.24	103.86	138.48	5.50	5.49	5.50
6½ to 7 years..... (5/1/78)	35.57	71.14	106.71	142.28	5.50	5.61	5.50
7 to 7½ years..... (11/1/78)	36.55	73.10	109.65	146.20	5.50	5.47	5.50
7½ to 8 years..... (5/1/79)	37.55	75.10	112.65	150.20	5.50	5.54	5.50
8 to 8½ years..... (11/1/79)	38.59	77.18	115.77	154.36	5.50	5.49	5.50
8½ to 9 years..... (5/1/80)	39.65	79.30	118.95	158.60	5.50	5.50	5.50
9 to 9½ years..... (11/1/80)	40.74	81.48	122.22	162.96	5.50	5.50	5.50
9½ to 10 years..... (5/1/81)	41.86	83.72	125.58	167.44	5.50	5.49	5.49
EXTENDED MA- TURITY VALUE (14 years and 6 months from issue date)..... (11/1/81)	43.01	86.02	129.03	172.04	4.50		

¹ Yields also apply to notes with issue dates June 1, 1967, through May 1, 1968, unless tables showing different yields are published. (See sec. 342.2a, Dept. Circ. Public Debt Series No. 3-67, 1st Amtd.)

² Month, day, and year on which issues of May 1, 1967, enter each period. For subsequent issue months add the appropriate number of months.

³ Based on extended maturity value in effect on the beginning date of the half-year period.

⁴ Yield on purchase price from issue date to extended maturity date is 5.26 percent.

Legislation

Exhibit 13.—An act to provide for a temporary increase in the public debt limit set forth in section 21 of the Second Liberty Bond Act

[Public Law 92-250, 92d Congress, H.R. 12910, March 15, 1972]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That during the period beginning on the date of the enactment of this Act and ending on June 30, 1972, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act, as temporarily increased by section 2(a) of Public Law 92-5, shall be further temporarily increased by \$20,000,000,000.

Public debt
limit.
Temporary
increase,
85 Stat. 5.

Approved March 15, 1972.

Economic and Financial Policy
Exhibit 14.—Address by President Nixon, August 15, 1971, on "The Challenge of Peace"

Good evening.

I have addressed the Nation a number of times over the past 2 years on the problems of ending a war. Because of the progress we have made toward achieving that goal, this Sunday evening is an appropriate time for us to turn our attention to the challenges of peace.

America today has the best opportunity in this century to attain two of its greatest ideals: To bring about a full generation of peace, and to create a new prosperity without war.

This not only requires bold leadership ready to take bold action—it calls forth the greatness in a great people.

Prosperity without war requires action on three fronts: We must create more and better jobs; we must stop the rise in the cost of living; we must protect the dollar from the attacks of international money speculators.

We are going to take that action—not timidly, not half-heartedly, not in piecemeal fashion. We are going to move forward to the new prosperity without war as befits a great people—all together, and along a broad front.

The time has come for a new economic policy for the United States; its targets are unemployment, inflation and international speculation. Here is how we are going to attack them.

First, on the subject of jobs.

We all know why we have an unemployment problem: Two million workers have been released from the Armed Forces and defense plants because of our success in winding down the war in Vietnam. Putting those people back to work is one of the challenges of peace, and we have begun to make progress. Our unemployment rate today is below the average of the 4 peacetime years of the sixties.

But we can and must do better.

The time has come for American industry, which has produced more jobs at higher real wages than any other industrial system in history, to embark on a bold program of new investment in production for peace.

To give that system a powerful new stimulus, I shall ask the Congress when it reconvenes after its summer recess to consider as its first priority the enactment of the Job Development Act of 1971.

I propose to provide the strongest short-term incentive in our history to invest in new machinery and equipment that will create new jobs for Americans: A 10 percent job development credit for 1 year, effective as of today with a 5 percent credit after August 15, 1972. This tax credit for investment in new equipment will not only generate new jobs but will raise productivity and make our goods more competitive in the years ahead.

I propose to repeal the 7 percent excise tax on automobiles, effective today. This will mean a reduction in price of about \$200 per car. I shall insist that the American auto industry pass this tax reduction on to its nearly eight million customers who are buying automobiles this year. Lower prices will mean that more people will be able to afford new cars, and every additional 100,000 cars sold means 25,000 new jobs.

I propose to speed up the personal income tax exemptions scheduled for January 1, 1973, to January 1, 1972—so that taxpayers can deduct an extra \$50 for each exemption 1 year earlier than planned. This increase in consumer spending power will provide a strong boost to the economy in general and to employment in particular.

The tax reductions I am recommending, taken together with the broad upturn of the economy which has taken place in the first half of this year, will move us strongly toward a goal this Nation has not reached since 1956—prosperity with full employment in peacetime.

Looking to the future, I have directed the Secretary of the Treasury to recommend to the Congress in January new tax proposals for stimulating research and development of new industries and new technologies to help provide the 20 million new jobs that America needs for the young people who will be coming into the job market in the next decade.

To offset the loss of revenue from these tax cuts which directly stimulate new jobs, I have ordered a \$4.7 billion cut in Federal spending.

Tax cuts to stimulate employment must be matched by spending cuts to restrain inflation. To check the rise in the cost of Government, I have ordered postponement of pay raises and a 5-percent cut in Government employment.

I have ordered a 10 percent cut in foreign economic aid.

In addition, since the Congress has already delayed action on two of the great initiatives of this administration, I will ask Congress to amend my proposals to postpone the implementation of revenue sharing for 3 months and welfare reform for 1 year.

In this way, I am reordering our budget priorities to concentrate more on achieving full employment.

The second indispensable element of the new prosperity is to stop the rise in the cost of living.

One of the cruelest legacies of the artificial prosperity produced by war is inflation. Inflation robs every American. The 20 million who are retired and living on fixed incomes are particularly hard hit. Homemakers find it harder than ever to balance the family budget. And 80 million wage earners have been on a treadmill; in the 4 war years between 1965 and 1969, their wage increases were completely eaten up by price increases. Their paychecks were higher, but they were no better off.

We have made progress against the rise in the cost of living; from the high point of 6 percent year in 1969, the rise in consumer prices has been cut to 4 percent in the first half of 1971. But just as in our fight against unemployment, we can and must do better.

The time has come for decisive action to break the vicious circle of spiraling prices and costs.

I am today ordering a freeze on all prices and wages throughout the United States, for a period of 90 days. In addition, I call upon corporations to extend that wage-price freeze to all dividends.

I have today appointed a Cost of Living Council within the Government. I have directed this Council to work with leaders of labor and business to set up the proper mechanism for achieving continued price and wage stability after the 90-day freeze is over.

Let me emphasize two characteristics to this action: One, it is temporary. To put the strong, vigorous American economy into a permanent straitjacket would lock in unfairness and stifle the expansion of our free enterprise system. Two, while the wage-price freeze will be backed by Government sanctions if necessary, it will not be accompanied by the establishment of a huge price-control bureaucracy. I am relying on the voluntary cooperation of all Americans—workers, employers, consumers—to make this freeze work.

Working together, we will break the back of inflation, and we will do it without the mandatory wage and price controls that crush economic and personal freedom.

The third indispensable element in building the new prosperity is closely related to creating new jobs and halting inflation. We must protect the position of the American dollar as a pillar of monetary stability around the world.

In the past 7 years, there has been an average of one international monetary crisis every year. Who gains from these crises? Not the workingman, not the investor, not the real producers of wealth. The gainers are the international money speculators. Because they thrive on crises, they help to create them.

In recent weeks, the speculators have been waging an all-out war on the American dollar. The strength of a nation's currency is based on the strength of that nation's economy—and the American economy is by far the strongest in the world. Accordingly, I have directed the Secretary of the Treasury to take the action necessary to defend the dollar against the speculators.

I have directed Secretary Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States.

Let me lay to rest the bugaboo of devaluation. What does this action mean for you?

If you want to buy a foreign car, or take a trip abroad, market conditions may cause your dollar to buy slightly less. But if you are among the overwhelming majority who buy American-made products in America, your dollar will be worth just as much tomorrow as it is today.

The effect of this action will be to stabilize the dollar.

This action will not win us any friends among the international money traders. But our primary concern is with the American workers and with fair competition around the world.

To our friends abroad, including the many responsible members of the international banking community who are dedicated to stability and the flow of trade, I give this assurance: The United States has always been, and will continue to be, a forward-looking and trustworthy trading partner. In full cooperation with the International Monetary Fund and those who trade with us, we will press for the necessary reforms to set up an urgently needed new international monetary system. Stability and equal treatment is in everybody's best interest. I am determined that the American dollar must never again be a hostage in the hands of the international speculators.

I am taking one further step to protect the dollar, to improve our balance of payments, and to increase U.S. jobs. As a temporary measure, I am today imposing an additional tax of 10 percent on goods imported into the United States. This is a better solution for international trade than direct controls on the amount of imports.

This import tax is a temporary action—not directed against any other country, but an action to make certain that American products will not be at a disadvantage because of unfair exchange rates. When the unfair treatment is ended, the import tax will end as well.

As a result of these actions, the product of American labor will be more competitive, and the unfair edge that some of our foreign competition has had will be removed. That is a major reason why our trade balance has eroded over the past 15 years.

At the end of World War II, the economies of the major industrial nations of Europe and Asia were shattered. To help them get on their feet and to protect their freedom, the United States has provided \$143 billion in foreign aid. That was the right thing for us to do.

Today, largely with our help, they have regained their vitality and have become strong competitors. Now that other nations are economically strong the time has come for them to bear their fair share of the burden of defending freedom around the world. The time has come for exchange rates to be set straight and for the major nations to compete as equals. There is no longer any need for the United States to compete with one hand tied behind her back.

The range of actions I have taken and proposed tonight—on the job front, on the inflation front, on the monetary front—is the most comprehensive new economic policy to be undertaken by this Nation in four decades.

We are fortunate to live in a nation with an economic system capable of producing for its people the highest standard of living in the world; flexible enough to change its ways dramatically when circumstances call for change; and most important—resourceful enough to produce prosperity with freedom and opportunity unmatched in the history of nations.

The purposes of the Government actions I have announced tonight are to lay the basis for renewed confidence, to make it possible for us to compete fairly, with the rest of the world, to open the door to a new prosperity.

But government, with all its powers, does not hold the key to the success of a people. That key, my fellow Americans, is in your hands.

A nation, like a person, has to have a certain inner drive in order to succeed.

In economic affairs, that inner drive is called the competitive spirit.

Every action I have taken tonight is designed to nurture and stimulate that competitive spirit, to help us snap out of that self-doubt and self-disparagement that saps our energy and erodes our confidence in ourselves.

Whether this Nation stays number one in the world's economy or resigns itself to second or third or fourth place; whether we as a people instill our faith in ourselves, or lose that faith; whether we hold fast to the strength that makes peace and freedom possible in this world, or lose our grip—all that depends on your competitive spirit, your sense of personal destiny, your pride in your country and in yourself.

We can be certain of this: As the threat of war recedes, the challenge of peaceful competition increases.

We welcome this competition, because America is at her greatest when she is called on to compete. And no nation has anything to fear from our competition, because we lead our competitors on to new heights for their own people.

As there always have been in our history, there will be voices urging us to shrink from that challenge, to build a protective wall around ourselves, to crawl into a shell as the rest of the world moves ahead.

Two hundred years ago, a man wrote in his diary: "Many thinking people believe America has seen its best days." That was just before the American Revolution in 1775, at the dawn of the most exciting era in the history of man. Today, we hear the echoes of those voices, preaching a gospel of gloom and defeat, saying that same thing: "We have seen our best days."

Let Americans reply: "Our best days lie ahead."

As we move into a generation of peace, as we blaze the trail toward the new prosperity, I say to every American: Let us raise our spirits; let us raise our sights; let all of us contribute all we can to the great and good country that contributes so much to the progress of mankind.

Let us invest in our Nation's future, and let us revitalize that faith in ourselves that built a great nation in the past and will shape the world of the future.

Exhibit 15.—Executive order, August 15, 1971, providing for stabilization of prices, rents, wages, and salaries

WHEREAS, in order to stabilize the economy, reduce inflation, and minimize unemployment, it is necessary to stabilize prices, rents, wages, and salaries; and

WHEREAS, the present balance of payments situation makes it especially urgent to stabilize prices, rents, wages, and salaries in order to improve our competitive position in world trade and to protect the purchasing power of the dollar:

NOW, THEREFORE, by virtue of the authority vested in me by the Constitution and statutes of the United States, including the Economic Stabilization Act of 1970 (P.L. 91-379, 84 Stat. 799), as amended, it is hereby ordered as follows:

Section 1. (a) Prices, rents, wages, and salaries shall be stabilized for a period of 90 days from the date hereof at levels not greater than the highest of those pertaining to a substantial volume of actual transactions by each individual, business, firm or other entity of any kind during the 30-day period ending August 14, 1971, for like or similar commodities or services. If no transactions occurred in that period, the ceiling will be the highest price, rent, salary or wage in the nearest preceding 30-day period in which transactions did occur. No person shall charge, assess, or receive, directly or indirectly in any transaction prices or rents in any form higher than those permitted hereunder, and no person shall, directly or indirectly, pay or agree to pay in any transaction wages or salaries in any form, or to use any means to obtain payment of wages and salaries in any form, higher than those permitted hereunder, whether by retroactive increase or otherwise.

(b) Each person engaged in the business of selling or providing commodities or services shall maintain available for public inspection a record of the highest prices or rents charged for such or similar commodities or services during the 30-day period ending August 14, 1971.

(c) The provisions of sections 1 and 2 hereof shall not apply to the prices charged for raw agricultural products.

Sec. 2. (a) There is hereby established the Cost of Living Council which shall act as an agency of the United States and which is hereinafter referred to as the Council.

(b) The Council shall be composed of the following members: The Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, the Director of the Office of Emergency Preparedness, and the Special Assistant to the President for Consumer Affairs. The Secretary of the Treasury shall serve as Chairman of the Council and the Chairman of the Council of Economic Advisers shall serve as Vice Chairman. The Chairman of the Board of Governors of the Federal Reserve System shall serve as adviser to the Council.

(c) Under the direction of the Chairman of the Council a Special Assistant to the President shall serve as Executive Director of the Council, and the Executive Director is authorized to appoint such personnel as may be necessary to assist the Council in the performance of its functions.

Sec. 3. (a) Except as otherwise provided herein, there are hereby delegated to the Council all of the powers conferred on the President by the Economic Stabilization Act of 1970.

(b) The Council shall develop and recommend to the President additional policies, mechanisms, and procedures to maintain economic growth without inflationary increases in prices, rents, wages, and salaries after the expiration of the 90-day period specified in Section 1 of this Order.

(c) The Council shall consult with representatives of agriculture, industry, labor and the public concerning the development of policies, mechanisms and procedures to maintain economic growth without inflationary increases in prices, rents, wages, and salaries.

(d) In all of its actions the Council will be guided by the need to maintain consistency of price and wage policies with fiscal, monetary, international and other economic policies of the United States.

(e) The Council shall inform the public, agriculture, industry, and labor concerning the need for controlling inflation and shall encourage and promote voluntary action to that end.

Sec. 4. (a) The Council, in carrying out the provisions of this Order, may (i) prescribe definitions for any terms used herein, (i.i.) make exceptions or grant exemptions, (i.i.i.) issue regulations and orders, and (i.v.) take such other actions as it determines to be necessary and appropriate to carry out the purposes of this Order.

(b) The Council may redelegate to any agency, instrumentality or official of the United States any authority under this Order, and may, in administering this Order, utilize the services of any other agencies, Federal or State, as may be available and appropriate.

(c) On request of the Chairman of the Council, each Executive Department or agency is authorized and directed, consistent with law, to furnish the Council with available information which the Council may require in the performance of its functions.

(d) All Executive departments and agencies shall furnish such necessary assistance as may be authorized by section 214 of the Act of May 3, 1945, 59 Stat. 134 (31 U.S.C. 691).

Sec. 5. The Council may require the maintenance of appropriate records or other evidence which are necessary in carrying out the provisions of this Order, and may require any person to maintain and produce for examination such records or other evidence, in such form as it shall require, concerning prices, rents, wages, and salaries and all related matters. The Council may make such exemptions from any requirement otherwise imposed as are consistent with the purposes of this Order. Any type of record or evidence required under regulations issued under this Order shall be retained for such period as the Council may prescribe.

Sec. 6. The expenses of the Council shall be paid from such funds of the Treasury Department as may be available therefore.

Sec. 7. (a) Whoever willfully violates this Order or any order or regulation issued under authority of this Order shall be fined not more than \$5,000 for each such violation.

(b) The Council shall in its discretion request the Department of Justice to bring actions for injunctions authorized under Section 205 of the Economic

Stabilization Act of 1970 whenever it appears to the Council that any person has engaged, is engaged, or is about to engage in any acts or practices constituting a violation of any regulation or order issued pursuant to this Order.

RICHARD NIXON.

THE WHITE HOUSE, August 15, 1971.

Exhibit 16.—Proclamation by President Nixon, August 15, 1971, on the imposition of supplemental duty for balance of payments purposes

WHEREAS, there has been a prolonged decline in the international monetary reserves of the United States, and our trade and international competitive position is seriously threatened and, as a result, our continued ability to assure our security could be impaired;

WHEREAS, the balance of payments position of the United States requires the imposition of a surcharge on dutiable imports;

WHEREAS, pursuant to the authority vested in him by the Constitution and the statutes, including, but not limited to, the Tariff Act of 1930, as amended (hereinafter referred to as "the Tariff Act"), and the Trade Expansion Act of 1962 (hereinafter referred to as "the TEA"), the President entered into, and proclaimed tariff rates under, trade agreements with foreign countries;

WHEREAS, under the Tariff Act, the TEA, and other provisions of law, the President may, at any time, modify or terminate, in whole or in part, any proclamation made under his authority;

NOW, THEREFORE, I RICHARD NIXON, President of the United States of America, acting under the authority vested in me by the Constitution and the statutes, including, but not limited to, the Tariff Act, and the TEA, respectively, do proclaim as follows:

A. I hereby declare a national emergency during which I call upon the public and private sector to make the efforts necessary to strengthen the international economic position of the United States.

B. (1) I hereby terminate in part for such period as may be necessary and modify prior Presidential Proclamations which carry out trade agreements insofar as such proclamations are inconsistent with, or proclaim duties different from, those made effective pursuant to the terms of this Proclamation.

(2) Such proclamations are suspended only insofar as is required to assess a surcharge in the form of a supplemental duty amounting to 10 percent ad valorem. Such supplemental duty shall be imposed on all dutiable articles imported into the customs territory of the United States from outside thereof, which are entered, or withdrawn from warehouse, for consumption after 12:01 a.m., August 16, 1971, provided, however, that if the imposition of an additional duty of 10 percent ad valorem would cause the total duty or charge payable to exceed the total duty or charge payable at the rate prescribed in column 2 of the Tariff Schedules of the United States, then the column 2 rate shall apply.

C. To implement section B of this Proclamation, the following new subpart shall be inserted after subpart B of part 2 of the appendix to the Tariff Schedules of the United States:

Subpart C—Temporary Modifications for Balance of Payments Purposes

Subpart C headnotes:

1. This subpart contains modifications of the provisions of the tariff schedules proclaimed by the President in Proclamation 4074.

2. *Additional duties imposed.*—The duties provided for in this subpart are cumulative duties which apply in addition to the duties otherwise imposed on the articles involved. The provisions for these duties are effective with respect to articles entered on and after 12:01 a.m., August 16, 1971, and shall continue in effect until modified or terminated by the President or by the Secretary of the Treasury (hereinafter referred to as the Secretary) in accordance with headnote 4 of this subpart.

3. *Limitation on additional duties.*—The additional 10 percent rate of duty specified in rate of duty column numbered 1 of item 948.00 shall in no event exceed that rate which, when added to the column numbered 1 rate imposed on the

imported article under the appropriate item in schedules 1 through 7 of these schedules, would result in an aggregated rate in excess of the rate provided for such article in rate of duty column numbered 2.

4. For the purposes of this subpart—

(a) *Delegation of authority to Secretary.*—The Secretary may from time to time take action to reduce, eliminate or reimpose the rate of additional duty herein or to establish exemption therefrom, either generally or with respect to an article which he may specify either generally or as the product of a particular country, if he determines that such action is consistent with safeguarding the balance of payments position of the United States.

(b) *Publication of Secretary's actions.*—All actions taken by the Secretary hereunder shall be in the form of modifications of this subpart published in the Federal Register. Any action reimposing the additional duties on an article exempted therefrom by the Secretary shall be effective only with respect to articles entered on and after the date of publication of the action in the Federal Register.

(c) *Authority to prescribe rules and regulations.*—The Secretary is authorized to prescribe such rules and regulations as he determines to be necessary or appropriate to carry out the provisions of this subpart.

5. *Articles exempt from the additional duties.*—In accordance with determinations made by the Secretary in accordance with headnote 4(a), the following described articles are exempt from the provisions of this subpart:

Item	Article	Rates of Duty	
		1	2
948.00	Articles, except as exempted under headnote 5 of this subpart, which are not free of duty under these schedules and which are the subject of tariff concessions granted by the United States in trade agreements.....	10% ad val.... (see headnote 3 of this subpart)	No change

D. This Proclamation shall be effective 12:01 a.m., August 16, 1971.

IN WITNESS WHEREOF, I have hereunto set my hand this fifteenth day of August in the year of our Lord nineteen hundred and seventy-one, and of the Independence of the United States of America the one hundred and ninety-sixth.

RICHARD NIXON.

Exhibit 17.—White House press release, August 15, 1971, containing explanatory material on the President's economic program

The attached material provides a more detailed explanation of the main points of the integrated economic program announced by the President this evening. It is divided into five sections covering:

1. Economic expansion in a world at peace.
2. Wage-price freeze.
3. Budget and tax measures.
4. Temporary import surcharge.
5. International monetary arrangements.

Economic expansion in a world at peace

The President has initiated a comprehensive program of interrelated measures to achieve four interrelated objectives: (1) To increase employment; (2) to achieve price stability promptly; (3) to strengthen the position of the United States in the world economy; and (4) to improve the international monetary and trading system.

The program consists of the following measures:

1. A 90-day freeze of all prices and wages. This freeze will be monitored by the Office of Emergency Preparedness under the policy direction of a newly

established Cabinet Cost of Living Council chaired by Treasury Secretary Connally.

2. *A second stage of price-wage stabilization in which transition is accomplished from the temporary freeze to the restoration of free markets without inflation.* Plans for the mechanisms to be used during the second stage will be developed by the Cost of Living Council.

These steps on the price-wage front will do more than control inflation. They will help to restore confidence, increase the competitiveness of American products in world trade, expand employment at home and strengthen the American dollar.

3. *Temporary suspension of full convertibility of dollars into gold for foreign treasuries and central banks and the start of international consultation and negotiations to achieve needed and lasting reform in international monetary arrangements.* In the process, changes in the exchange rate for the dollar and other currencies (but not the official dollar price of gold) may be anticipated. This will end excessive speculation and uncertainty about the future value of the dollar and other currencies and strengthen our international trading and financial position.

4. *Imposition of a temporary surcharge on imports into the United States, generally at a rate of 10 percent.* This surcharge is imposed under the authority of the Trade Expansion Act of 1962. Its purpose is to strengthen the U.S. balance of trade and payments during a period while more fundamental measures are coming into effect.

5. *Recommendation that Congress establish, effective August 15, 1971, a job development credit, an accelerated investment tax credit at the rate of 10 percent for 1 year, to be followed by a permanent credit at the rate of 5 percent.* This credit will encourage investments and thereby stimulate employment, economic growth and the improvement of productivity. The improvement of productivity will in turn make U.S. goods more competitive in world markets. The especially high rate of credit for investment during the first year will particularly accelerate employment now when it is below par.

6. *Recommendation that Congress repeal the excise tax on automobiles, effective August 15, 1971.* The tax rate is 7 percent of the manufacturer's price, so that the average tax per car is \$200. I shall insist that automobile manufacturers pass the reduction on to customers in lower prices. The purpose of this move is to reduce an important item in the cost of living—the price of automobiles—and to stimulate production and employment in the auto industry.

7. *Recommendation that Congress advance to January 1, 1972 the increase of personal income tax exemptions scheduled by present law to take effect on January 1, 1973.* This will be in addition to the exemption increase now scheduled to take effect on January 1, 1972. The additional exemption will be \$50 per person. This tax reduction will stimulate consumers' expenditures and employment.

8. *Reduction of Federal expenditures in fiscal year 1972 by \$4.7 billion.* The main items in this total are a 5 percent cut in Federal employment, a freeze for 6 months of the Federal pay increase scheduled for January 1, 1972, and the deferral for 3 months of the effective date of general revenue sharing, and of 1 year for welfare reform. These expenditure reductions, plus the revenue from the temporary import surcharge, will exceed the revenue loss in fiscal 1972 from the recommended tax reduction. Some of these expenditure reductions are recognition of delay in congressional action on the President's programs.

At the same time that the program reduces Federal expenditures relative to revenues it will be strongly expansionary as far as jobs and production are concerned. That is because the elements of the program which stimulate employment are extremely powerful in relation to the revenue loss they involve—more powerful per dollar than the expenditures which are being reduced. The strong anti-inflation program including the price-wage freeze will entail no revenue loss but will encourage consumers' spending and employment. The import surcharge will stimulate employment in the United States even while it yields budget revenue. The investment tax credit, with its new accelerated feature, will give business an incentive to spend money to create jobs in amounts greater than the revenue lost. The reduction in the price of automobiles will also have a powerful effect on employment. Thus the combined program strengthens the economy while strengthening the budget.

Effects of program on fiscal 1972 budget

	<i>Billions of dollars</i>
Revenue reduction:	
Accelerated investment tax credit.....	3.0
Accelerated increase of personal exemptions.....	1.0
Elimination of auto excises.....	2.3
	<hr/> 6.3
Revenue increase:	
Import surcharge.....	2.1
	<hr/> 4.2
Expenditure reductions:	
Freeze of Federal pay increase.....	1.3
Deferral of general revenue sharing.....	1.1
Reduction of Federal employment.....	.5
Deferrals of some special revenue sharing.....	.7
Deferral of welfare reform and others.....	1.1
	<hr/> 4.7
Excess of expenditure reductions over revenue reductions.....	.5

Wage-price freeze

President Nixon today instituted a 90-day freeze on wages and prices in the United States. The President, acting under the authority provided by the Economic Stabilization Act of 1970, established a ceiling on all prices, rents, wages, and salaries at a level not exceeding that which prevailed during the month ending August 14, 1971. The freeze on prices covers all commodities and services, with the exception of raw agricultural products. Increases in prices, rents, or wages scheduled under existing contracts will need to be deferred.

The President also established a Cost of Living Council, chaired by the Secretary of the Treasury, with responsibility for the general administration of the wage-price freeze and to recommend to the President additional policies, mechanisms and procedures to maintain a stable level of prices and costs and minimize unemployment when the freeze expires. In addition to the Secretary of the Treasury, the Council is comprised of the Secretary of Commerce, the Secretary of Labor, the Secretary of Agriculture, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, the Director of the Office of Emergency Preparedness, and the Special Assistant to the President for Consumer Affairs. The Chairman of the Board of Governors of the Federal Reserve System will serve as an adviser to the Council. The Chairman of the Council of Economic Advisers will serve as vice chairman of the Cost of Living Council. The Council staff will be headed by an executive director who will also be designated as a special assistant to the President.

In addition to the Council's responsibility for the overall administration of the freeze, it will consult with representatives of labor, industry, commerce, agriculture, and the public to promote voluntary action to control inflation and to solicit their views concerning the appropriate policies, mechanisms and procedures to control inflation and minimize unemployment at the expiration of the freeze.

The monitoring of the freeze and other efforts to insure compliance will be carried out by the Office of Emergency Preparedness, which has an existing field capability and has a continuing responsibility for the planning and implementation of economic stabilization programs.

Violations of the freeze will be handled by the Attorney General and may be enjoined by the courts or subject to a fine of up to \$5,000. Under the terms of the Executive order, the wage-price freeze expires November 12, 1971.

Budget and tax measures

The President's program provides a combination of tax and expenditure cuts:

1. We will ask repeal of the auto excise tax, effective August 15—revenue reduction will be \$2.3 billion in fiscal 1972.
2. We will ask Congress to advance to January 1, 1972, the increased personal income tax exemptions now scheduled to go into effect January 1, 1973—revenue reduction of approximately \$1 billion.

3. We will ask Congress to enact a job development tax credit of 10 percent effective August 15, 1971, reducing to 5 percent in 1 year—revenue reduction \$3 billion.

The total revenue reduction is about \$6.2 billion.

To ensure that these tax reductions will not be inflationary and to maintain fiscal responsibility, we will cut presently planned expenditures by more than \$4.6 billion in fiscal 1972; and we will gain \$2 billion in new revenue from the border tax surcharge.

Thus we will more than balance our tax reductions. Even more important, this action now will enable us to make even more substantial reductions in the 1973 budget we are now preparing.

The principal 1972 budget reductions follow:

1. Defer the effective date of general revenue sharing to January 1, 1972 instead of October 1, 1971.

2. Reduce Federal employment 5 percent within the year. This will be accomplished largely by attrition.

3. We will postpone for 6 months the Federal salary increase now scheduled for January 1, 1972.

4. We will delay the effective date of our welfare reform and some of the special revenue sharing bills variously from 3 months to 1 year.

5. Numerous other smaller reductions affecting most executive branch agencies.

The immediate and long-range problems of the American economy require important tax changes as part of a balanced program of stimulation and stability. The tax changes are designed to: Create additional jobs, improve the productivity of our workers, stimulate consumer spending, and strengthen American industry so that it can compete more effectively in domestic and foreign markets.

To accomplish these objectives, the following major changes in our tax laws should be enacted by Congress immediately upon its return from the current recess:

1. *Acceleration of tax cuts.* Tax cuts presently scheduled for January 1, 1973, should be advanced to January 1, 1972, to supplement the cuts already scheduled to take effect at that time. At the present time, the personal exemption is \$650 per person and will increase to \$700 on January 1, 1972. The standard deduction is 13 percent with a maximum of \$1,500 and will increase to 14 percent with a maximum of \$2,000 on January 1, 1972. The phaseout of the low income allowance is scheduled to be eliminated as of January 1, 1972, thus increasing the benefit of that provision also. Under present law, as of January 1, 1973, the personal exemption will increase to \$750 per person and the standard deduction will increase to 15 percent with a maximum of \$2,000.

These latter increases, presently scheduled for January 1, 1973, should be accelerated to January 1, 1972, so that effective that date the personal exemption will become \$750 per person and the standard deduction will become 15 percent with a maximum of \$2,000. The combined effect of the increases already scheduled and these accelerations will be total tax reductions of roughly \$4.8 billion per year for individuals effective January 1, 1972, of which roughly \$2.3 billion is attributable to the acceleration. This \$4.8 billion of additional purchasing power in the hands of the American public will be reflected in the form of increased take-home pay beginning January 1, 1972, because of reduced withholding tax. This additional purchasing power will provide a powerful stimulation to business activity. Employers may be expected to begin hiring additional workers at the present time in anticipation of the additional demand for consumer goods which will be generated by this change.

The budgetary impact of this acceleration (before giving effect to increased revenues from the resulting activity) would be a revenue loss of \$1 billion in the fiscal year ending June 30, 1972, and \$1.3 billion in the fiscal year ending June 30, 1973. These amounts are the additional revenue losses from the acceleration; the cuts already scheduled to take effect on January 1, 1972, have previously been reflected in the budget.

2. *Repeal of automobile excise tax.* The present 7-percent excise tax on automobile sales should be repealed with respect to all sales to consumers after August 15, 1971. It is anticipated that all of this tax reduction will be reflected in lower automobile prices. This will mean an average reduction in new automobile prices of \$200 per car, with secondary impacts reducing the cost of used cars. Until the repeal is enacted by Congress, the present tax must be collected. The repeal should provide, however, for prompt refund of tax (under procedures

similar to those used in 1965 when the tax was reduced) upon evidence that the refund will be given to automobile purchasers who have purchased cars on or after August 16, 1971.

Again, this will benefit a broad segment of American consumers—the entire automobile buying public. It should result in an immediate increase in demand for automobiles, serving as a powerful stimulus to business activity and thereby creating new jobs in the entire broad range of American industry supporting our automobile production.

The budgetary impact will be a revenue loss of \$2.3 billion in the fiscal year ending June 30, 1972, and \$2 billion in the fiscal year ending June 30, 1973, before giving effect to increased revenues from the fiscal stimulation it will provide.

3. *Adoption of a job development tax credit.* A tax credit should be provided equal to 10 percent of the cost of new machinery and equipment produced in the United States and placed in service on or after August 16, 1971. This credit will drop to 5 percent for new machinery and equipment placed in service after August 15, 1972, with appropriate transition rules as hereinafter described. No credit will be allowed with respect to machinery and equipment predominantly produced abroad so long as the import surcharge recommended for adoption at this time remains in effect. At the same time such import surcharge is terminated, a credit at the rate of 5 percent will be allowed with respect to such foreign-produced machinery and equipment. The credit will be in most other respects similar to the investment credit which was repealed effective April 18, 1969.

The credit for public utility property would be allowed at one-half the rates applicable to other property. No credit will be available for used machinery or equipment. The credit will not be allowable for machinery or equipment with a life of 4 years or less; will be only one-third of the amount otherwise allowable for machinery or equipment with a life of 4 to 6 years; and will be only two-thirds of the amount otherwise allowable for machinery and equipment with a life of 6 to 8 years. The credit will be limited to the taxpayer's tax liability up to \$25,000 plus 50 percent of the tax liability in excess of \$25,000. As under the investment credit, no basis adjustment will be required.

Transitional rules will be provided at the end of the period of the 10-percent credit so that new machinery and equipment then under contract or essential to facilities then under contract will be entitled to the 10-percent credit if placed in service by February 15, 1973, rather than the 5-percent credit. These transitional rules will be similar to those applicable to termination of the investment credit.

This job development credit should result in increased demand for capital equipment with the stimulus being greater during the next 12 months because of the larger credit for machinery and equipment placed in service during that period. There will be manifold effects. Our machine tool and other capital goods producers should experience the earliest impact, creating new jobs in these and supporting industries. On a long-term basis, the replacement of our productive facilities with new, modern equipment will increase the productivity of our workers, making our domestic industries more competitive in domestic and foreign markets. This will provide additional jobs, provide a sound basis for future wage increases where productivity has increased, and decrease inflationary pressures on prices.

The limitation on the credit for machinery and equipment which is predominantly produced abroad will create a preference in favor of U.S.-produced machinery and equipment. This will give our capital goods producers an opportunity to strengthen their capacities to meet the increasing level of foreign competition which they are experiencing.

This job development credit will result in a revenue loss of about \$3 billion in the fiscal year ending June 30, 1972, about \$4 billion in the fiscal year ending June 30, 1973, and about \$2.5 billion in the fiscal year ending June 30, 1974. These amounts do not take into account revenue increases from the additional jobs and increased level of business activity resulting from this change.

4. *Adoption of the DISC export incentive.* The DISC proposal, providing tax deferral for earnings from export sales, should be adopted effective January 1, 1972. This is essentially the same measure recommended to Congress in 1970 and which was favorably reported by the House Ways and Means Committee and adopted by the House of Representatives, except that the provisions for only partial adoption in the first and second years after enactment are undesirable

and the provisions should take full effect on January 1, 1972. One additional feature should be added to permit use of the DISC export earnings to finance industrial economic adjustments, including worker retraining, relocation, and adjustment assistance, without loss of the deferral benefit. This will facilitate in some measure assistance to industries and workers adversely affected by increased competition from imports and other causes.

The DISC measure will provide a substantial stimulus to U.S. producers to increase their export sales, with resulting favorable effects on our balance of payments. This will create additional jobs by strengthening the position of our companies in world markets. We estimate that the DISC will increase export sales roughly \$1.5 billion per year.

The effect of the DISC provisions has already been reflected in the budget so that there will be no revenue loss beyond that already anticipated. As proposed, the DISC provision will result in a revenue loss of \$100 million in the fiscal year ending June 30, 1972; \$400 million in the fiscal year ending June 30, 1973; and \$600 million in subsequent fiscal years. These amounts do not give effect to revenue increases resulting from additional jobs or the higher level of business activity attributable to adoption of the DISC provisions. When, as at the present time, the economy is not at full employment levels, the DISC will result in utilizing some unused productive capacity. Thus, the DISC should have favorable indirect revenue effects that will tend to offset the revenue loss. This is a particularly appropriate time to change the tax treatment of export income.

Temporary import surcharge

The rate of increase in imports will be stemmed through a broad temporary surcharge designed to achieve relatively quick benefits to our balance of trade. Accordingly, effective today all dutiable imports not subject to quantitative limitations imposed under statute by the United States will be subject generally to a surcharge of 10 percent.

Imports not subject to duty, and therefore excluded from the surcharge, are ordinarily products not available in the United States. Notably this exclusion would generally exempt coffee, fish, raw materials such as ores, and other items. To a large extent, this involves exports from the lesser developed countries of the world. The nature of these excluded products and our propensity to import them is such that the added cost of an import surcharge would be unlikely to significantly influence the rate at which products of this type are imported and only serve to raise the domestic price level.

Most of the products covered by mandatory quotas are also subject to tariffs. However, since imports of these products are already limited, the surcharge will not cover these items. The most important items in this category are crude oil, petroleum products, meat, sugar, dairy products, and cotton textiles.

Imports bearing the surcharge, that is, dutiable items not also subject to mandatory quantitative restrictions, represent about 50 percent of the value of total imports. With total imports running at a rate of over \$45 billion per year, annual revenues are estimated at \$2.1 billion.

The administration also plans to submit to the Congress promptly legislation providing for a Domestic International Sales Corporation (DISC). This will afford our exporters tax treatment more comparable to that provided many of their competitors abroad in the expectation it will contribute to a more vigorous export effort.

The General Agreement on Tariffs and Trade allows members to protect their trade positions when faced with severe balance of payments difficulties. The United States is prepared to confer on this temporary measure with other members of the GATT at their convenience.

The surcharge will be applied under the authority of the Trade Expansion Act of 1962.

International monetary arrangements

At the direction of the President, Secretary Connally has taken a series of actions to restrict the convertibility of the dollar by foreign monetary authorities into gold or other reserve assets. These technical actions do not in any way limit the convertibility of dollars into other currencies, but the exchange rate for such conversions will be influenced by market forces and the policies of other countries.

Specifically, Secretary Connally has:

(1) Notified the International Monetary Fund that, effective today, the United States no longer freely buys and sells gold for the settlement of international transactions.

(2) Strictly limited further use of U.S. international reserve assets (gold, SDR's, drawings on the IMF, or foreign exchange holdings) to settlement of outstanding obligations and, in cooperation with the IMF, to other situations that may arise in which such use can contribute to international monetary stability and the interests of the United States.

(3) Requested the Federal Reserve to suspend the virtually automatic use of its swap network for the purpose of converting dollars into other currencies; the future operation of these and other mutual credit facilities with foreign countries will be determined in the light of emerging developments.

These actions have been taken in view of widespread speculative activity in exchange markets, substantial conversions of dollars by other countries into gold and other reserve assets, and consequent strains on the U.S. reserve position. Underlying these circumstances has been a long period of erosion in the basic balance of payments and trade position of the United States.

A healthy, noninflationary domestic economy is essential to the external strength of the United States and to stability in the international monetary system. The President's total program is designed to achieve that result.

However, the present combination of circumstances also points up the need for some fundamental improvements in international monetary arrangements, and it is the view of the United States that the time has come to accomplish such improvements. As part of that process, some changes in the exchange parities of the U.S. dollar relative to other currencies may be anticipated. The objective is to promptly restore strength, stability, and confidence to the position of the U.S. balance of payments and to the functioning of the international monetary system.

The official U.S. dollar price of gold is not altered by the present action, and the President has directed that that price be maintained. Moreover, the functioning of the two-tier gold system decided upon in March 1968, should not be affected by today's action, nor is it intended to be.

U.S. officials will promptly be meeting with their colleagues from other countries to explain the background and details of the President's program. They will develop U.S. proposals for both dealing constructively with the immediate repercussions of today's decision and employing in an imaginative and cooperative manner the opportunity opened by today's actions for speeding the evolution in the international monetary system in directions that serve the common needs of trading nations.

While some immediate exchange market disturbance may ensue, the United States will be actively consulting with other countries and international organizations to deal with these immediate market uncertainties and to promote stability in the markets. In particular, the United States will be prepared to collaborate with countries with which swap or similar facilities exist that may find their exchange rates under downward pressure.

No new decision has been made with respect to the several restraints on capital outflows abroad maintained by the United States (i.e., the interest equalization tax, the voluntary foreign credit restraint program, and the foreign direct investment program). The restraints remain in effect, and their future disposition will be under review.

Today's decision with respect to the convertibility of the dollar is a part of immediate and longer term action to put our financial and economic position right both at home and abroad. That program recognizes that the international stability of the dollar must rest on the strength of our domestic economy.

Today's actions will stabilize the domestic price level and, therefore, the value of the dollar for our citizens. In some cases, changes in exchange rates may increase prices of imported goods. At the same time, job security and opportunities for employment will be improved.

As measures now underway or under consideration are fully implemented and take hold, we can confidently expect that the internal and external stability of the dollar will be reinforced in a context of expanding employment and production.

Exhibit 18.—Statement by Secretary Connally, August 16, 1971, at the opening of a news conference on the President's economic program

Good morning. I have a brief statement that I'd like to read if I might; then I have a brief announcement to make.

As most of you know, the President announced a group of major economic programs last night in his televised speech. There's no doubt that these administration initiatives will have a significant and favorable impact on most Americans and their economic well-being.

I personally believe the President's program contains the most sweeping, courageous and important economic proposals made in the last 40 years in this country. I say that for these reasons:

First, the programs are designed to create more jobs and reduce unemployment in this Nation.

Second, the job development tax credits will strongly stimulate the economy and the vitality of this country.

Third, repeal of the automobile excise tax should stimulate car sales by reducing auto prices by approximately \$200 each.

Next, the wage and price freeze will provide a period of stability to bring inflation under control and to provide additional consumer confidence.

Fourth, the program will give the American worker a chance to increase his productivity because companies will be encouraged to upgrade and modernize their equipment and facilities.

Both industry and labor will become more competitive with other countries and will be better able to maintain our standard of living, both literally and relatively.

Next, the temporary import surcharge, coupled with the job development credit will help return our balance of trade and balance of payments to a favorable position. The surcharge will help stem the flow of imports and stimulate the purchase of American goods made by American workmen.

The suspension of gold convertibility constitutes an opportunity for us and our principal trading partners around the world to begin negotiations, studies and explorations of methods of improving the international monetary exchange system upon which an expanding world trade depends.

And finally, the combined actions will give the Nation an opportunity to assess its position, weigh the alternatives, make the decisions and gather the strength to maintain our vitality and the high sense of moral purpose which has always characterized this Nation.

At the request of the President I want to announce to you this morning that he will have a meeting at 10 o'clock in the morning (Tuesday) with the bipartisan leadership of the Congress and with the additional presence of the chairmen and the ranking members of the House and Senate Banking and Currency Committees, the Senate Finance Committee, the House Ways and Means Committee, the House and Senate Appropriations Committees.

The President asked me additionally to tell you he had been in conversation with Mr. Wilbur Mills, Chairman of the Ways and Means Committee. They had a very fine telephone conversation, and he authorized me to say that he felt that Mr. Mills was in agreement with the major proposals which the President enunciated on last evening.

Exhibit 19.—Statement by Under Secretary for Monetary Affairs Volcker, September 13, 1971, before the Subcommittee on International Trade of the Senate Finance Committee

I welcome this opportunity to discuss with you the President's new economic program and the economic background which led to its introduction.

You will recall that when Secretary Connally appeared before you last May he warned that our competitive position was dangerously eroding, that world circumstances had changed drastically, and that in too many areas others were outproducing, outthinking, outworking, and outrading us.

Secretary Connally's message was clear. To meet the challenges of the seventies we needed to take action to improve our competitive position in world markets. Events since May have only reinforced this sense of urgency, culminating in the actions taken by the President on August 15. A brief review of the background of events leading up to August 15 may be useful.

On the international side, as you know, our balance of payments was in more or less continuous but not unmanageable deficit throughout the sixties. Then this already unsatisfactory position deteriorated sharply and dangerously in 1970 and 1971. The deficit in our basic balance—which includes all identified international transactions on current and long-term capital accounts—increased to \$3 billion in 1970. Then a further sharp deterioration brought the annual rate of deficit to an estimated \$9 billion in the first half of 1971.

At the heart of this deterioration in our basic accounts was a severe decline in our merchandise trade balance. In 1964, we had a more or less comfortable trade surplus of nearly \$7 billion—a surplus which just covered our expenditures overseas for military defense, for aid and capital flows to the developing countries, and the net of other items in the balance of payments. By 1968–69, this trade surplus had nearly vanished. Then following a limited and brief recovery in early 1970, the United States appeared to be headed into the first prolonged period of trade deficit in this century.

For the first 6 months of 1971 that deficit actually ran at a rate of \$1½ billion, even though domestic economic activity (and, therefore, the level of imports) was well below full employment levels. Thus, in a period of 7 years we moved fairly steadily from a trade surplus of nearly \$7 billion to a trade deficit of \$1½ billion. In the 4 most recent months for which data are available, the rate of deficit has been still larger, approximating an annual rate of \$3 billion. While temporary factors may help account for the rapidity of the decline in recent months, there can be no disguising an alarming decline in our external competitive position.

This erosion in our trade and basic balance has been accompanied by enormous outflows of short-term capital and by severe strain on our international financial position. Our holdings of reserve assets—gold, SDR's, foreign currencies, and IMF position—have fallen from a peak of \$26 billion in 1949 to \$12 billion. In relation to the volume of our trade and payments, our reserve position is now well below the average of other countries. It is totally inadequate in the light of our liquid liabilities to foreigners. Those liabilities have increased from \$21 billion in 1960 to nearly \$60 billion in mid-August. Liabilities to official holders alone had soared to almost \$40 billion, leading to large actual and potential demands for reserves. Speculation against the dollar was clearly aggravating the adverse underlying trends.

At the same time that these international economic developments approached a point of crisis, we still faced difficult problems of inflation and unemployment in the domestic economy. Some solid progress had been made against the rise in the cost of living—the rise in the index had been reduced from a high point of 6 percent in 1969 to 4 percent in the first half of 1971. The unemployment rate was below the average of the 4 peacetime years of the sixties. But progress was not fast enough. Ways needed to be found to spur growth and productivity, while speeding the return to price stability.

The President has moved in a comprehensive way to deal with these problems through mutually reinforcing steps in the international and domestic area. I believe each element of his program interlocks with other elements in such a way that the effectiveness of the whole will be greater than the sum of the parts, taken individually. The program has several objectives: To deal with our inflation problem and break the inflationary psychology, initially by imposing a 90-day freeze on prices and wages, to be followed by a second-stage program of price-wage stabilization now being developed; to stimulate the economy immediately and improve efficiency and competitiveness over the longer run by means of a tax program which will both generate new jobs and induce more modernization of our industrial plants; to clear the way toward strengthening our position in the world economy and improving the international monetary and trading system by suspending the convertibility of the dollar, accompanied by a temporary surcharge on imports to provide relatively quick balance of payments benefits.

The response to this comprehensive program has been encouraging. Obviously, the particular actions announced by the President on August 15 can, in important respects, only be a first step. They create the opportunity for dealing with our problems effectively; much remains to be done to assure that outcome.

On the international side, our broad goals are clear—to assure a healthy and secure payments position for the United States and to work toward an international monetary system that will provide a durable framework for further

expansion in trade and investment in the years ahead. Given our weight in the world economy, those goals are interrelated. A strong dollar and healthy U.S. payments position are essential elements of world financial stability.

Indeed, to assure that objective we must not be satisfied with halfway measures but only with a complete and convincing elimination of our deficits. In practical terms, this means we must, after years of deficits, restore our domestic competitive strength, achieve a needed realignment of exchange rates, assure fair competitive opportunities in world markets, achieve a substantial surplus in our trade position, and find a better sharing of the heavy costs of maintaining the security of the free world.

This is a large order. To be achieved, it will require a common understanding of the nature of problems among the leading trading nations, and a willingness to seek cooperative and mutually satisfactory solutions to extremely difficult economic questions. The necessary process of consultation has begun and will be intensified in coming weeks.

As you know, Secretary Connally, together with Dr. Burns, will this week be attending a meeting of the Ministers and Central Bank Governors of the 10 major trading countries in London. This will offer the opportunity for a face-to-face exchange of views. Further opportunities will be present at the annual IMF meetings later this month.

We should have no illusions that all these problems can be easily or quickly resolved. Basic decisions as to the nature and direction of our financial and trading arrangements are at stake, and the adjustments necessary in our own position have their counterpart in difficult adjustments by others.

But I am not at all pessimistic. The opportunity is at hand for a concerted attack on problems that have developed over many years. While disturbances in exchange markets were inevitably present in some degree, those markets are now functioning with considerable effectiveness. The need for forceful U.S. action has been widely accepted. I believe today there is a basic willingness on the part of governments to attack the problems in a forward-looking constructive spirit.

Let me add a final word about the temporary import surcharge. It is being smoothly implemented with an exemption for goods in transit having eased the initial impact. Of course, many of our trading partners are, understandably, deeply concerned with the surcharge and particularly the length of time that it might be necessary to maintain this extraordinary measure.

At the same time, most countries appreciate that it has been applied in a nondiscriminatory way and that there are a number of precedents for its use by countries in serious balance of payments difficulties.

The course we have set for ourselves is a challenge to the competitive spirit of America. The President's views are quite clear:

"We cannot remain a great Nation if we build a permanent wall of tariffs and quotas around the United States and let the rest of the world pass us by * * *. We cannot turn inward * * * and we cannot drop out of competition with the rest of the world."

I am confident that America will meet the challenge.

Exhibit 20.—Remarks by Secretary Connally, November 16, 1971, before the Economic Club of New York

I realize that Phase II has just opened, and I don't doubt that a great many of you bought your tickets in the hopes that I could furnish you some insight into it. But I have another text for tonight.

During most of last week, I found myself preoccupied with the international side of the President's new economic program. I found it a little hard to concentrate on Phase II in Tokyo—where I have just been—or in the European capitals. They are not worried about retroactive pay increases in Tokyo; they are worried about the import surcharge and the magnitude of currency realignments. And I find here at home that some of the more arcane aspects of the monetary system have become a staple for editorializing.

But for all this discussion—or perhaps because of it—the principal thrust and meaning of the President's program have become blurred. Yet clarity on this point is essential to our success and, I believe, to the prospects for a prosperous world order.

On August 15, President Nixon took actions that obviously have far-reaching implications. On the domestic front he invoked a wage-price freeze for 90 days affecting all segments of American society. He announced that he was proposing to the Congress a number of steps calculated to stimulate the economy and to reduce unemployment in the United States. Among those steps were significant tax relief for individuals and a job development credit to encourage businesses to acquire new plant equipment and machinery. He recommended the repeal of the excise tax on automobiles so that about \$200 on the average would be saved by the 10 million people who will buy cars during the upcoming year.

In the aftermath of the wage-price freeze he has created the Pay Board, the Price Commission and the Committee on Interest and Dividends to insure continuing price stability.

Much of this you all know. But out of these actions I think it is already fair to say that the wage-price freeze has been a resounding success.

There have been criticisms, perhaps among some of you, about the uncertainty that prevails today because of the orders or lack of orders, the regulations or lack of regulations, issued by the Pay Board and the Price Commission. I can't deny that uncertainties exist in the American economy today. But there are certain things of which you can be sure.

You can be certain that the rate of inflation is going down. You can be certain that price increases are going to level off. You can be certain that the rate of inflation will be cut roughly in half by the end of 1972.

You can be certain that the actions of the Pay Board are going to diminish the wage-cost push in this country. You can be certain that the stimulation from the President's recommendations to the Congress, and the Congress' action on all the proposals, will result in the stimulation of this economy. You can be certain 1972 is going to be a better year than the year 1971.

Now obviously in a free society there will be uncertainty. What are the alternatives to uncertainty? The alternatives are total and complete regimentation and control. With regimentation and control you would be certain.

What price do you want to pay for certainty? The inevitable price is loss of freedom—loss of freedom of imagination, loss of freedom of ingenuity. No one ever assumed that the operation of a free enterprise, competitive system such as ours would inevitably result in absolute certainty. The truth of the matter is that absolute certainty is the last thing we want if we do believe in a free system—and the President believes in a free system. That is why the control system is structured as it is with an enormous bureaucracy and yet with enough control to provide for basic equities while at the same time continuing to slow the rate of inflation.

It is not enough, however, just to talk about the actions of the Pay Board and the Price Commission in their fight against inflation. You must also consider, as I mentioned a few minutes ago, the impact of the proposals now pending in the Congress to stimulate this economy, to make possible the creation of new jobs, and to reduce the number of unemployed people well below the present unacceptable levels.

In taking these major steps, certainly there is room for questions. There is room for criticism too, but it seems to me that the time is past when we can satisfy ourselves with being mere critics. We can't sit on the sidelines and constantly harp about uncertainty and bemoan the fact that the thing is not cut-and-dried into neat little packages.

It is incumbent upon every one of us to be contributors to the solution of the problems. Each of us has a duty and a responsibility to help solve some of the difficulties that this nation faces.

There is a third leg to this stabilization stool. It deals with international monetary affairs.

On August 15, the President suspended the convertibility of the dollar and imposed the 10 percent surcharge as a means of moving toward a new balance in our trading and currency arrangements, and to make it possible to rebuild a stable monetary system for the future.

We are in the process of doing that by negotiations all over the world to this end. I have just returned from Japan and other countries in Asia. We have had a team in Canada talking with the Canadians. We have been talking with various European governments, looking toward an early solution of the problem. And you can be sure that the United States is using its efforts, using its time, to bring about the creation of a new system that will provide stability in the

international monetary field. But you can also be sure that we are doing it on a basis that will be fair and equitable for the United States and for other nations of the world.

All of the measures of the President's program are predicated on the simple truth that the economic strength and vitality of the United States must be maintained. This is absolutely necessary not just for domestic reasons but if we are to continue to carry our role of leadership in the international community. Since World War II, we have spent over \$150 billion in aid. We have kept our markets open. We have supported the stability of currencies. We have carried the defense shield for the free world.

But at the same time, for 20 years, imbalances in our international accounts have reduced our reserves and expanded our liabilities. That process could not go on.

For almost a decade, our once strong trade position has dwindled away, year after year, until we face not only the first deficit in this century but a growing deficit. This should be abundantly clear from the balance of payments figures released yesterday. This trend cannot go on.

For too long, we have had to build controls and restraints on the free flow of capital. This should not go on.

As a result, the international monetary system had been weakened and was prone to speculation. The public support so essential for liberal trade, for aid, for heavy military burdens was being undercut. Free trade was fast losing its constituency—as our weak competitive position meant loss of jobs. Our balance of payments deficits became an excuse for questioning our support for NATO.

In other words, we were, frankly, on a collision course with elements of a new isolationism—an isolationism nurtured in part by our own economic problems. In a very fundamental way, the President's program is designed to counter that threat, to avoid withdrawal from our responsibilities, and to maintain our international commitments in the decades ahead as in the years past.

Most emphatically, this is not a protectionist policy. Most emphatically, this administration does not intend to withdraw within our shores. The United States will continue to keep its international commitments in the decades ahead as it has in the decades gone by.

How strange then to see the complaints, not just from abroad but in some quarters at home.

In the last few weeks, predictions of catastrophe have appeared in the newspapers almost daily. We are risking a trade war, one seer says. We have turned protectionist, says another. The world stands on the edge of a recession or worse, says a third. To these critics and, I am afraid, to many who listen to them, the administration is a devil. It is accused of threatening international order for short-term advantage at home. Well, I want to appear before you tonight as the devil's advocate.

I'd like to talk with you tonight about the fears of the Japanese, of the Europeans, and of many Americans, that have been expressed to me in the last weeks. I'd like to clear away some of the misconceptions about the President's international economic policy that cloud the discussions about how best to realign America's world economic position and, very frankly, threaten its success.

The import surcharge has been branded by some as a protectionist device. It was not intended as such. It will not be used as such. It was invoked as a temporary measure to meet a critical situation in our international balance of payments while discussion took place over other essential measures that would replace it.

The United States, as the past 3 months amply demonstrate, does not have available the option of a unilateral exchange-rate adjustment. Any other country in the world could have invoked such an option under similar circumstances. A temporary import surcharge achieves much the same effect with respect to a large portion of our imports as would be expected from an exchange-rate adjustment. But the surcharge does not benefit our exports the way an exchange-rate adjustment would.

In a very real sense, the surcharge is no more than a temporary form of partial exchange-rate adjustment, to remain in effect only until necessary exchange-rate realignment and revisions of trade practices can be negotiated.

A temporary surcharge is not a new device. Such measures have been explicitly recognized by the International Monetary Fund as a means of temporarily redressing serious balance of payments difficulties. Other major countries

have used similar methods before—the French in 1955, the Canadians in 1962, and the British in 1964. Trade wars did not ensue. These countries acted, temporarily, in response to economic situations that they could no longer tolerate. That is precisely what we have done.

In the circumstances, I see no reason for spiraling retaliation or a trade war. Nor do I see any prospects of either. I do see a period of adjustment, with inevitable political as well as economic difficulties, but this adjustment cannot be escaped. The only legitimate question is how best to make it.

Our intentions in that respect ought to be plain to any student of our history. Since the Second World War, the United States has consistently taken the lead in creating a nondiscriminatory world monetary and trade system; through our efforts to form the General Agreement on Tariffs and Trade; through our efforts to facilitate the Bretton Woods agreement; through the Marshall plan; through maintaining relatively free access to our markets; and through our aid, bilateral and multilateral. As a Government, we are no less committed to these principles today.

But to maintain that commitment, we must—I emphasize that we must—maintain our economic strength on fair and reasonable terms with the other nations of the world. The past quarter century has seen a new balance of economic forces. Many nations which the United States sought to make strong have become strong. It is now time to make sure that the terms on which we do business with the rest of the world reflect this balance. We have no other option. For American business and American workers and American farmers will not be satisfied with discrimination or with unfair or unbalanced arrangements.

There are many here tonight as familiar with the substance and symbols of our complaints as I. As I indicated to the press in Japan, an American cannot help but be surprised that, while a Ford Pinto sells for \$2,200 in the United States, it sells for more than \$5,000 in Japan because of high tariffs and discriminatory commodity taxes. Its Japanese competitor, the Datsun, sells for less than \$2,000 in this country, even with the surcharge added.

Indeed, taxes by weight and horsepower bear heavily on American automobiles almost everywhere around the world. Even after the Kennedy Round cuts are complete, most of the nations of the Group of Ten will still have a tariff of 11 percent against the American rate of 3 percent.

The Japanese recently liberalized their quota system with respect to the importation of live cattle. But when they did, they put a tariff of \$135 on calves, which is equivalent to the total value of a 300-pound calf. Is this equitable at a time when Japan is increasing its reserves by a billion dollars a month, at a time when their exports this year ran 25 percent above what they were in 1970, at a time when they have foreign asset reserves of \$14.1 billion, the second highest in the world? Now I applaud them in their dedication. I applaud their efforts. We are not asking them to change their way of life. We are asking them to be fair and reasonable with us.

At the same time, are we wrong to point out that European discrimination diverts Japanese goods from those outlets into the American market? The Common Market countries, which make up a market comparable to the American market, now accept only 5 percent of all Japanese exports. The United States accepts 30 percent. Is that fair?

I will not tell you that all American trading practices are pure, for they aren't. But we do have an average tariff among the lowest in the world. Our nontariff barriers more or less mirror those of other countries. We have quotas but not an unreasonable number, and our quota levels are generally high and provide for orderly expansion. In some cases, the levels are so high the quotas go unfilled. The point is that we have sought to follow the rules in almost every instance, but many of our competitors have ignored them.

Let me emphasize the vital necessity of achieving more realistic currency rates. International exchange problems have a way of being so esoteric that they are ignored. For years the United States has stood, like some Atlas, underwriting the stability of the world's currency system so that trade could go on without uncertainty. But in that process in other countries, the exchange rates lost touch with competitive realities. Some countries achieved and maintained an artificially low relationship between their currency and the benchmark currency, the dollar. The disciplines and incentives did not work to correct the situation gradually. That must be corrected and a system found to maintain fair relationships in the future.

I cannot overemphasize the continuing desire of the administration to look outward toward a prosperous world in which the United States maintains its full share of responsibility and participation.

As President Nixon has stated:

"A weak United States will be isolationist without question. A strong United States will continue to play a role that is responsible in the world. That is the reason that I have to take some of these actions, actions that I know were distressing to some of you, but actions that we felt were essential to strengthen the position of the United States so that we could continue to be as forthcoming in world affairs in the future as we have in the past."

We do not intend to become provincial. We shall not resort to protectionism. We shall carry our burdens on the international scene. But to do so it is essential to attain an equilibrium in our overall financial balance with the rest of the world. We seek no advantage of others. We propose to suffer no disadvantage. We seek a balance which will be to the benefit of all the nations.

Our effort to this end touches the vital interests not only of the United States but of many other nations. The adjustments are not easy and, without understanding and patience, they cannot be achieved.

Let us make no mistake where the real threat lies: Certainly not in asking for balanced trade agreements, but in the failure to obtain such balance, thereby eroding support for outward-looking policies; not in temporarily floating exchange rates, but in failing to secure a realistic and needed realignment of currencies; not in a temporary and nondiscriminatory surcharge, but in a sudden slashing, across-the-board attack on foreign aid, thereby damaging both our security and our humanitarian instincts; not in asking for a fairer sharing of the military burden, but in unilateral European troop withdrawals, thereby undermining our credibility and prejudicing vital negotiations.

In truth, those who would withdraw from our world responsibilities are the true protectionists—the true isolationists.

I have just heard firsthand throughout Asia the cries of alarm over the efforts to scuttle the bilateral aid program and reduce our support of multilateral aid. I am aware of the deep concern to the Atlantic alliance, not from a surcharge that has ample precedent, but from the prospect of unilateral troop withdrawals. I am conscious that too often it seems a lonely effort to fight the forces in the Congress seeking to turn this Nation away from the principles of free and nondiscriminatory trade.

I come to you tonight to frankly seek your help.

Do not mistake our motives or our objectives.

Respect the firmness of our purpose.

Give us your advice and criticism.

Above all, during this difficult period of change, let us resist those temptations to turn inward upon ourselves, to strip our defenses, to withdraw our helping hand.

At stake are not narrow or selfish economic goals; beyond a fair balance of opportunity, we seek none. The basic issue is much broader. It is nothing less than rebuilding the economic foundation for promoting economic development, military security, and the free flow of commerce.

To fail in our effort would be to fail not only as an administration, nor even as a Nation. At stake is nothing less than the foundation for the freedom and security of this generation and those that follow.

Exhibit 21.—Statement by Secretary Connally, February 16, 1972, before the Joint Economic Committee

It is a pleasure to meet again with this distinguished committee. These annual sessions on the President's Economic Report provide a valuable opportunity to examine the full range of our economic policies, both domestic and foreign. My prepared statement is relatively brief and concentrates on what seem to me to be the major issues.

This year we meet some 6 months after President Nixon's broad and courageous economic actions of last August. The new economic program announced at that time was designed to move the economy toward goals we all desire: more jobs, less inflation, higher productivity and a stronger international com-

petitive position. While it has not all been smooth sailing since last August, I am confident we are on the right course and making good progress.

Your committee is already familiar with the official economic projections for 1972. I need not dwell on the details. Gross national product is expected to rise this year by about $9\frac{1}{2}$ percent, or by nearly \$100 billion. Of this, real growth is expected to be roughly 6 percent while prices may rise by about $3\frac{1}{4}$ percent. These figures compare with 2.7 percent real growth and 4.6 percent inflation in 1971.

The official projections are realistic and attainable. They lie well within the consensus range of private forecasts. Recent reports show that confidence in these forecasts is growing. From all indications this would be a year of strong economic expansion.

Fiscal and monetary policies are very much a part of the improved economic picture. Both are counted on to contribute importantly to the economic expansion. Given our present circumstances—with unemployment still near 6 percent and with inflationary pressures diminishing—strongly stimulative policies are fully appropriate.

Calculated on a full employment basis, the fiscal stimulus translates into a budget deficit of some \$8 billion in the current fiscal year to be followed by approximate balance in fiscal 1973. What we actually expect, of course, are budget deficits of almost \$39 billion this fiscal year and \$25½ billion next year. Sizable deficits are inevitable given the slack in the economy and the administration's determination to eliminate it. Any attempt to force the budget into balance at this time would only force the economy further out of balance. I will not, however, pretend to be happy with deficits of this size. The sooner they are gone, the better.

Fortunately, the Government's financing needs arising out of these deficits will not impinge on overloaded credit markets as was the case in some earlier years. Last year a record volume of funds—perhaps \$150 billion—was raised by all private and public borrowers in U.S. financial markets at generally falling interest rates. An ample flow of credit should continue through the balance of this year. We believe that Federal borrowing requirements, sizable as they are, can be met without a pronounced upward impact on yields in the capital markets. In fact, long-term rates may recede as we continue to make progress in curbing inflation.

Domestic economic policy has two prime objectives this year: To reduce both the rate of unemployment and the rate of inflation. A 6-percent rate of unemployment—nearly 5 million people—is clearly excessive. We must do better and we will do better. By the end of this year, we expect to reduce the unemployment rate to the neighborhood of 5 percent.

The stabilization program

On the price front, we have a good chance to achieve our goal of moderating the rate of inflation to below 3 percent by the end of this year. The wage-price freeze was a resounding success, but that doesn't tell us how Phase II is doing. At present we are seeing the price bubble that was expected in the first months after the freeze. Once this interim period is behind us—in a month or two—we can begin looking for the true impact of the Phase II controls.

One interesting set of figures on the stabilization program—while some of these have been reported, they have not received much attention—relates to the first 41 prenotification pay settlements approved by the Pay Board. These approvals are comprised of 26 new settlements covering half a million workers and 15 settlements involving retroactive and deferred payments covering 800,000 workers, including the coal and aerospace settlements, both of which called for increases in excess of the general 5.5-percent guideline and both of which received very great attention. However, in total these 41 settlements showed an average increase in pay of 5.9 percent. The increases in existing contracts and those involving retroactive pay averaged $6\frac{3}{4}$ percent, while the average increase on new contracts was just $4\frac{1}{2}$ percent.

Now these figures are significant, not because they tell us what the average pay settlement is likely to be for all of 1972; this is too small a sample for that. These averages are significant, rather, because they indicate the wide range of results we are sure to experience during the Phase II controls. Even before Phase II got underway, we knew there would be some settlements in excess of the general guideline that would be approved by the Pay Board. By the same reason-

ing, we should also expect—and this is what many people forget—that some settlements will fall below the general standard. I am told, in fact, that there have been a few labor contracts negotiated recently that called for no increase in wages (though none of these were included in the 41 settlements mentioned above).

What this reminds us, it seems to me, is that our economy is one that always exhibits great diversity of wage and price experience. We must, therefore, be careful to judge the stabilization program not on any one or handful of decisions but on the basic thrust and results of the program over an extended period of time.

The Pay Board and the Price Commission are wrestling with a large number of difficult problems. They deserve our full support. In my opinion, there simply is no satisfactory alternative to making these controls work. The stabilization program can be dispensed with only when the threat of serious inflation has been eliminated. We cannot allow inflation to become a way of life.

In the last analysis, our domestic objectives translate into a need for less inflation, more jobs, and higher productivity. That requires a strongly expanding economy and high levels of investment in modern plant, equipment and techniques. This good performance domestically will also provide the foundation for a much more competitive performance in international markets.

International developments

These past 6 months have been a very difficult period in the international as well as the domestic economic sphere—a period of searching reassessments, major changes and strenuous international bargaining. But initial progress has been made and I am confident that we are now on the right path. I admit to some optimism about the future.

The problems we faced on August 15 were indeed formidable. The difficulty was not just that we confronted a seriously deteriorating balance in trade and payments and a dangerous strain on our reserve assets. Those were the symptoms of our problem. The fundamental issue was how to revise the habits and institutions that had allowed the problem to arise. That required changing people's ways of thinking, revising basic premises, and modernizing outmoded but entrenched structures and institutions. Inevitably that is a slow and labored process. It will take a long time to complete. But a beginning has been made.

Our approach has covered the entire range of trade policy, financial policy and military burden sharing. In trade policy our objective has been to assure fair access for our exporters in international markets. We have sought this progress not through defensive or protectionist measures but through programs aimed at expanding trade and removing inequities that may once have been acceptable but which are inappropriate in light of today's economic realities.

We followed a dual approach: Negotiations with our major trading partners, the European Community, Japan, and Canada, to resolve certain short-term obstructions at the earliest possible date; and more comprehensive negotiations looking toward the removal of more intractable trade barriers in 1972 and 1973.

The short-term negotiations have brought mixed results. The Japanese Government has announced certain trade liberalization steps of immediate and tangible value to the United States. The European Community has agreed to some limited measures. Regrettably, however, negotiations with Canada have not been brought to a successful conclusion, and we will seek appropriate means of reducing imbalances in our trade agreements with that country.

Looking ahead, both Japan and the European Community have agreed to join with the United States and others in more comprehensive negotiations commencing in 1973 and to continue solving trade problems in 1972.

In defense financing, we have sought to maintain fully the strength of our alliances while proposing that our allies carry a larger share of the common defense burden in keeping with the great improvement in their financial strength. There have been some results. Last December our European NATO partners announced increases of about \$1 billion in their defense contribution for 1972. They will do this by increasing the weapons they make available to the alliance. Also, in Germany, where most of our forces are concentrated, a substantial portion of our local currency expenditures are now covered through an offset agreement with the German Government.

Nonetheless, the burden sharing problem has not yet been solved, and our military expenditures represent a large cost to our balance of payments. We must

work toward more comprehensive arrangements for equitable sharing of this burden, to neutralize the balance of payments issue and allow the alliance to plan its forces solely on the basis of security criteria.

In the monetary sphere, after 4 months of intensive bargaining, the United States and 10 other industrial nations negotiated a realignment of the pattern of exchange rates. Legislation is now before the Congress to implement the U.S. portion of that realignment. The realignment provides the dollar a competitive improvement of approximately 12 percent against its major competitors—leaving aside Canada, whose exchange rate is floating and thus cannot be included in the measurement. The Smithsonian agreement also introduced some badly needed flexibility in the system by widening the margins within which exchange rates can fluctuate, and brought agreement to begin work promptly on longer term reform of the international monetary system.

There has been much debate about whether that 12-percent change in the pattern of exchange rates is too little, too much, or just right to restore market stability and international payments equilibrium. There have also been calculations purporting to measure the benefits which it might bring to the U.S. balance of payments. I have seen widely varying estimates of the first-year benefit to our trade and current accounts and widely varying estimates also of the eventual benefit after the rates have been in operation for 2 or 3 years.

I have no great confidence in such estimates. Economic science has not progressed to the point where anyone can determine the precise pattern of exchange rates that will produce world payments equilibrium. Nor can anybody forecast with accuracy the trade effects which will result from the recent realignment.

Clearly the 12-percent exchange rate realignment provides an important opportunity for improving our balance of payments but it does not determine how well we shall make use of that opportunity. Our progress toward a viable position will depend on how well we manage our economy—on our ability to stimulate expansion without rekindling inflation. Much will also depend on our ability to gain full access to international markets through more equitable and balanced trading arrangements. Progress will also depend on how vigorously our producers compete both in the U.S. market and overseas.

I can assure you that in the negotiations on this exchange rate realignment last December there were many who were concerned that the realignment agreed to might yield too great a competitive advantage to the United States. Needless to say, we on our side saw the problem differently. Inevitably, with vital interests at stake all around, tough bargaining occurred. In the end I think it was encouraging that the settlement reached was accepted by all parties—and the general public as well—as a fair settlement that benefited all nations. It was my view in December that the settlement had made a real contribution toward the achievement of a lasting equilibrium in world trade payments. That is still my view.

The Smithsonian agreement was not expected to bring an instant and miraculous turnaround in our balance of payments. Experience with exchange rate changes by other nations had warned us that the initial effects may even be perverse, until traders can take account of the new rates in commercial decisions. Time is needed for our exporters to seek out new markets and for our importers to find new sources of supply.

We would therefore expect the U.S. balance of payments to remain in substantial underlying deficit throughout 1972, although significantly less than last year's basic deficit of \$10½ billion. But we should begin to see effects of the new rate structure before the end of 1972, even though the full effects may not be felt for 2 years or more. Over time other policies now coming into effect will also help—both the new Domestic International Sales Corporations and the job development credit will be helpful in increasing the attractiveness of investing in the United States rather than abroad.

Since August 15 we have laid a foundation for restoring a stable international financial system and for restoring the strong external position we need to permit us to play our proper role as a provider of aid, as a supplier of capital, and as a defender of the free world. We must now build on that foundation. We must manage our domestic economy soundly, without inflation. We must press for more intensive negotiations to eliminate overseas trade barriers and improve burden sharing. In short, we must not relax but rather push ahead.

In conclusion, let me repeat the four primary economic goals of this administration for 1972: More jobs, less inflation, higher productivity, and a better balanced international economic position.

At the same time I want to make clear my belief, that the Congress and the American people should not now—or ever—assume that these economic problems should just be turned over to the Federal Government for solution, because Government by itself does not have the solutions. The Congress does not have them. The administration does not have them. It will take all the Nation working together to provide the solutions.

I am one of those who has never believed that all of the wisdom in this Nation resides on the banks of the Potomac River in Washington, D.C. I do not think it has; I do not think it will. I am one of those who believes in the vitality and productive capacity and ingenuity and enterprise of this Nation as a whole.

Despite all our difficulties, we still live in a Nation that all the world envies. And we shall continue in leadership if we work for productivity and growth and do not let our problems—economic or otherwise—deter us from reaching for a greater future for this land.

Exhibit 22.—Excerpt from statement by General Counsel Pierce, September 24, 1971, before the Commonwealth Club of California, San Francisco, Calif., on "The Lockheed Story"

1971 has been an extremely busy year at the Treasury. The Department was fundamentally responsible for the Lockheed project and had much to do with the development, and subsequently, with the implementation of the President's new economic program. As a consequence of all of this activity, few, if any, of the Treasury's top officials have enjoyed the luxury of a vacation this year.

At a small staff meeting last March, Secretary John B. Connally informed his highest ranking aides that President Nixon had requested him to look into the Lockheed situation and to report back to the President with a recommendation as to what action, if any, should be taken. The Secretary selected a small group of Treasury executives to assist him in this task. It soon became obvious to all of us who toiled with this problem that it was a knotty one, incapable of easy or quick solution.

Lockheed Aircraft Corporation began work on the L-1011 (sometimes called the TriStar) in early 1968 to diversify into commercial aircraft production and thereby lessen its reliance on military sales. The L-1011 is an intermediate range airbus using Rolls Royce RB-211 engines.

As it progressed with the L-1011 program, Lockheed began to run into costly problems on four of its military programs: The C5A cargo plane, the Cheyenne helicopter, the SRAM missile engine, and certain ship construction. In January of this year, Lockheed reached agreement with the Department of Defense on a basis for settling the four programs in question. The settlement would cost Lockheed approximately \$500 million.

In February, shortly following agreement on terms of settlement between Lockheed and the Defense Department, Rolls Royce went into receivership. This was the straw that broke the camel's back as far as Lockheed was concerned. If Rolls had not failed, Lockheed might have been able to weather the storm. In fact, just prior to the time Rolls Royce went into receivership, the consortium of 24 banks which had been financing Lockheed's L-1011 program had arranged to loan Lockheed another \$150 million. When the banks learned of Rolls Royce's failure, they did not go through with the loan. With its working capital and net equity greatly reduced because of its costly settlement with the Department of Defense, Lockheed was in deep financial trouble. It desperately needed additional borrowings to carry on the L-1011 program and to avoid being forced into bankruptcy or receivership.

It was painfully clear to those of us working on this matter that the financial failure of Lockheed would have serious repercussions on the Nation's economy. It was estimated that 60,000 workers would become unemployed; that more than a billion dollars in inventory would have only scrap value; that competition in the manufacturing of aircraft would be seriously reduced, to the detriment of private purchasers as well as the Government; and, as Lockheed makes substantial sales to purchasers in foreign countries, the U.S. balance of trade would be adversely affected.

In addition, airlines could lose \$240 million in progress payments they had already advanced to Lockheed. Lockheed's 35,000 suppliers could lose about \$350 million, which would force many of these suppliers into bankruptcy. Lockheed's

debenture holder could lose over \$125 million and its stockholders approximately \$250 million. The banks, which had already loaned Lockheed \$400 million, stood to lose from about \$250 to \$300 million, depending on what they could sell their collateral for. The Treasury would suffer a substantial reduction in tax revenues.

We believed that a Lockheed failure would mean much more than a huge monetary loss. We felt that such a failure would deal a stunning blow to the confidence of investors and consumers, and this loss of confidence would have a substantially adverse impact on our Nation's economy. Something had to be done.

Lockheed claimed that it could work its way out of its financial difficulties if it could borrow an additional \$150 to \$250 million. The consortium of 24 banks which had been financing the L-1011 project refused to lend any more money to Lockheed unless the additional loans were guaranteed by the United States.

The British Government undertook to pay all costs incurred by Rolls Royce in connection with the research, production, and manufacture of RB-211 engines until August 8, 1971. The understanding was that if legislation to guarantee up to \$250 million in loans to Lockheed was not passed by the Congress by that date, the British Government would no longer be obliged to finance the production of RB-211 engines.

Before deciding to go ahead with the Rolls Royce engine, Lockheed and its airline customers spent a good deal of time determining whether it would be feasible to use an American manufactured engine in place of the RB-211 in the TriStar. It was clear that it would be economically impractical to substitute an American engine for the RB-211 at this stage. It simply would cost too much money.

After carefully considering the entire situation, President Nixon told Secretary Connally to have legislation drafted which would allow the United States to guarantee loans to Lockheed of up to \$250 million, and to submit the proposal to Congress.

We at the Treasury were most interested in getting as much security for the United States as possible. We wanted to try to make absolutely certain that the United States did not lose any money in guaranteeing the loans to Lockheed. In this connection—many weeks before the legislation was enacted—I worked out a written memorandum of understanding with Lockheed and the banks. This memorandum provided that the banks' loan to Lockheed—their existing \$400 million loan plus any additional loans up to \$250 million—would be secured by a single collateral pool. This pool would include all of the collateral the banks had as security for the \$400 million they had advanced to Lockheed plus any additional property that might be taken as security against the new loans of up to \$250 million. In case of bankruptcy, the collateral would be used first to satisfy the portion of the bank loan guaranteed by the Government. It was and still is the opinion of those executives at Treasury who worked on this matter that Lockheed has sufficient assets to secure fully the \$250 million that may be guaranteed by the Government.

Lockheed has approximately \$10 million of secured debentures presently outstanding. Therefore, something had to be done about them. The memorandum provided that the banks would see to it that in the event of bankruptcy these claims would be satisfied so that they would not endanger the Government's security. In short, the Government's claim would be paid off first from whatever assets there are in the collateral pool at the time of bankruptcy.

Soon after the Emergency Loan Guarantee Act, the so-called "Lockheed Bill" was submitted to Congress, I started negotiating the loan guarantee agreement with Lockheed and the banks in anticipation that the bill would be enacted. We had to do this because to negotiate such a complex agreement takes so much time that if we waited until the bill passed to commence the negotiations, Lockheed would have been put into bankruptcy by the failure of lawyers to agree.

In early August, shortly before Congress adjourned and prior to the August 8 deadline set by the United Kingdom, the Emergency Loan Guarantee Act was passed by a very narrow margin in the House—three votes—and by the narrowest of margins in the Senate—a single vote.

The act empowers a three-member board, consisting of the Secretary of the Treasury, as chairman; the Chairman of the Federal Reserve Board; and the Chairman of the Securities and Exchange Commission, to guarantee loans of up to \$250 million. On September 9, the Emergency Loan Guarantee Board

approved Lockheed's application to have up to \$250 million in loans to that company guaranteed by the United States.

On September 14, the loan guarantee agreement¹ was closed. Incidentally, this closing was so complicated that it took 2 days. The first day, September 13, was a rehearsal, and the actual closing took place on the following day. Immediately upon closing, Lockheed borrowed \$50 million from the banks.

The Lockheed story has been a long, complicated, thrilling, and most interesting one which has not ended yet. We hope it will have a happy ending. If it does, it will be one of the most rewarding financial and economic transactions the United States ever participated in. For guaranteeing up to \$250 million in loans to Lockheed, thousands of jobs will be saved, many small suppliers will avoid bankruptcy, more than \$1 billion in otherwise almost useless inventory will be converted into usable equipment, the Nation's largest defense contractor will be able to continue as a going concern, our future export position will be strengthened, and competition in the aircraft manufacturing industry will be maintained. All of this will be done without the U.S. Government losing one penny. In fact, if all goes well, the United States will make millions of dollars in guarantee fee payments from Lockheed for guaranteeing these additional loans.

Exhibit 23.—Excerpt from statement by General Counsel Pierce, November 3, 1971, before the Labor Law Committee of the Federal Bar Council, New York, N.Y., on Phase II of the President's anti-inflation program

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The power of the President to freeze and control wages is based on the Economic Stabilization Act of 1970. In reviewing that act and considering the various legal aspects of the Phase II program, several of us, having an official interest in it, concluded that the program would operate much more smoothly and have greater chance of success if the Economic Stabilization Act were substantially amended. Consequently, a proposed bill to amend the Economic Stabilization Act of 1970 was drafted in my office by members of my staff, the general counsel of the Cost of Living Council, members of his staff, and myself. This legislative proposal, though changed to some extent by subsequent redrafting, was the one submitted by Secretary Connally to Congress on behalf of the administration.

The administration bill, if enacted, would amend the Economic Stabilization Act of 1970 in a number of respects.

The present act contains no statement of findings of Congress as to why Congress delegated to the President the power to exercise controls over the economy. This omission has been at least partially responsible for the current law being under court attack on the ground that it is an unconstitutional delegation of legislative authority to the executive branch. Section 1 of the administration's bill seeks to strengthen the constitutional foundation of the Economic Stabilization Act by setting forth findings of Congress which explain the basis for the stabilization legislation and why discretion to act is given to the President to implement this legislation.

The administration's bill would give the President authority to control interest rates and dividends in addition to prices, rents, wages, and salaries. At the present time, the President does not have the power to stabilize interest rates and dividends. I hasten to add, however, the administration does not expect to use this power assuming it is granted by the Congress. It is hoped that companies will voluntarily restrict the amounts of their dividends and that lending institutions will voluntarily limit interest rates. Actually, interest rates have been declining rather sharply.

The bill would amend the current law to make it clear that the President can delegate authority to boards and commissions to administer the stabilization program. Where these boards and commissions include members who serve on a part-time basis, the legal authority is lodged in their chairmen, who are full-time employees of the United States. As such, the President may delegate

¹ The term "loan guarantee agreement" is used generically to refer to all of the agreements involved in the Lockheed closing; namely, the credit agreement, the security and pledge agreement, and the guarantee agreement. Each of these documents is incorporated by reference into the other so that there is in fact one single agreement.

authority to them. Furthermore, conflict of interest laws would be made inapplicable to part-time members of the Phase II entities.

The current law would also be amended to provide for injunctions, a criminal fine of not more than \$5,000, and a civil penalty of \$2,500. Each of these sanctions would be enforced by the Justice Department. In addition, the proposed legislation would confer authority to issue subpoenas in connection with any investigation or proceeding connected with the stabilization program.

Under the administration's bill, any agency administering the stabilization program would be generally exempt from the Administrative Procedure Act. The rationale for this is that the ordinary procedures of the APA would involve undue delay and a great deal of manpower. Without the restrictions of the APA, Phase II agencies would be allowed to develop streamlined procedures more satisfactory to the needs of those agencies than those required under the APA.

The proposed legislation would establish a Temporary Emergency Court of Appeals designed to serve two functions: (1) To exercise judicial review of wage-price cases from Federal district courts and (2) to have exclusive jurisdiction to rule on the constitutional validity of the Economic Stabilization Act or any regulation or order of Phase II agencies. With regard to this second function, in any civil action in a district court of the United States in which the court determines that a substantial constitutional issue exists, the court would certify such issue to the Temporary Emergency Court of Appeals. Upon such certification, the Court of Appeals would determine the appropriate manner of disposition, which might include that the entire action be sent to it for consideration or that the matter be remanded to the certifying court for further disposition pursuant to instructions from the appellate court.

In a criminal action, the entire case, including any constitutional issue, would initially be decided by the district court. The constitutional issue would only be decided by the Temporary Emergency Court of Appeals when and if the criminal case was appealed.

The administration's proposal would also provide for the President to hire the necessary personnel for the Phase II program and would authorize funds to be appropriated to the President to carry out the program.

In addition, the Economic Stabilization Act would be extended for 1 year to April 30, 1973, and actions already taken by the President in carrying out Phase I of the anti-inflation program would be ratified by Congress. Finally, the bill contains a severability clause which provides that if part of the Economic Stabilization Act is struck down, the rest of the act would remain valid.

Well, there it is. The stage for Phase II has been set. The overall plans have been made, the price-wage mechanisms have been determined, and it is expected that Congress will enact the amendments to the Economic Stabilization Act proposed by the administration. The principal actors—those basically responsible for carrying out the program—have been chosen. In my opinion, just how good the performance will be will depend in large measure on the quality of the rules and regulations promulgated by the Pay Board and Price Commission and the degree to which they are voluntarily complied with by the American public.

Exhibit 24.—Statement by General Counsel Pierre, February 23, 1972, before the Senate Committee on the District of Columbia on S. 2196, a bill to establish a District of Columbia Development Bank

Mr. Chairman, I am pleased to be here today to express the administration's strong support of S. 2196, a bill to establish a District of Columbia Development Bank. This proposal would mobilize the capital and expertise of the private community to provide for an organized approach to the problems of economic development in the District of Columbia.

In his April 7, 1971 message on the District of Columbia, the President proposed that the Federal Government give special attention to helping the District government help itself in such areas as mass transit, clean water, and human resources development. These proposals support a vigorous, expanding economy in the Nation's Capital and would help create a climate that favors economic growth. To assist business and industry in taking advantage of that climate, the President urged creation of a Development Bank for the District of Columbia. The President stated:

"Such a Development Bank, forging a new partnership among Federal officials,

local officials, and representatives of the private sector, would serve as an action center in assembling the necessary combinations of capital and management skills so that economic development opportunities do not go begging as they have sometimes done in the past.

"Washington has been called, not too kindly but with a measure of truth, a 'company town.' Inevitably the Federal Government will remain a dominant factor in the metropolitan economy, but one-industry communities all over the Nation are seeing the wisdom of diversifying, and often it is the major employer in the community which takes the lead in broadening the economic base to create new jobs and wider prosperity. Certainly that should be the case in Washington, and can be if we move to establish the Development Bank."

In his October 13, 1971 message on minority enterprise, the President repeated his recommendation for enactment of the District of Columbia Development Bank Act of 1971. Legislation to implement the President's recommendation was transmitted to the Congress by Secretary Connally on June 10, 1971. Mr. Chairman, we appreciate your introducing this proposal as S. 2196.

This legislation would create a corporate body to be known as the District of Columbia Development Bank, which would not be an agency of the United States. The bank would have a board of directors consisting of 11 persons: The Commissioner of the District of Columbia, the Chairman of the City Council of the District of Columbia, three officers or employees of the United States or the District government designated by the President, and six directors elected by the shareholders of the bank. I should like to point out that the House bill, H.R. 11313, provides for 13 directors, with eight elected directors, and that we have no objection to the larger board provided in H.R. 11313. Under both versions, one of the elected members would be selected by the board to serve as its chairman, and the board would appoint a president of the bank to serve as the bank's chief executive officer.

The bank would assist economic development projects embracing housing, commerce, and industry by mobilizing the capital and expertise of the private sector, serving as catalyst and lender of last resort.

We have often found that the part of the private sector which would be willing to attempt some form of economic development within the city is so fragmented, lacking in technical and financial expertise, or lacking in start-up funds, that it cannot get a project started. This especially is true for large projects, projects which are innovative, or projects which involve special risk situations. The bank would determine the feasibility of a proposed project, organize the sponsors—no one of which might be able to take on the project individually—into a cohesive group, and mobilize and combine the private, Federal, and municipal planning and resources. The bank would pull together the many separate public, commercial, technical, and financial elements necessary to get any major development projects "off the ground."

The bank also would be authorized to provide technical assistance and training in the preparation and implementation of comprehensive development programs, including formulation of specific project proposals.

The bank would be authorized to purchase debt obligations and equity instruments and to guarantee debt obligations. Loans and equity investments would be made in accordance with sound and prudent development banking principles and would be made with the objective of assuring a reasonable return on the invested funds, consistent with the achievement of economic development goals.

To be effective in mobilizing the maximum amount of direct private financial participation, the bank would project an image as the local lender of last resort. Using its capital and borrowed funds as start-up or seed money, the bank would seek to induce other lenders and investors to support development projects through loans to and purchase of equity shares in the projects, or a combination of these methods.

The bank's function, thus, would be to assume the lead role in putting the project "package" together, through assistance in obtaining any necessary Federal and District approvals, infrastructure grants, or other public investment. Then the bank would help arrange for private financing and equity, and, if necessary, provide bank loan funds and equity participation.

The bank would not be in competition with private bankers, developers, businessmen, government agencies, or community groups. Rather, it would be a logical and necessary complement to their efforts in obtaining the necessary approvals and financing for projects of difficult implementation.

The bank would be expected to obtain its capital entirely from private sources through the sale of common stock and issuance of debt obligations. At least one-half of the amount of common stock subscriptions would be paid the bank at the time of subscription with the remainder to be paid within two years after subscription. The bank would be authorized to borrow up to 15 times the bank's capital and surplus.

In addition, the bank would be authorized to issue obligations to the Treasury after the bank has at least \$2 million in paid-in capital. This source would be used only as standby support for the bank's borrowings in the public market. The Treasury's purchases could not exceed the lesser of twice the amount of the bank's capital, or \$10 million. The interest rate on these issues to the Treasury would be based on the rates paid by the bank on its other obligations of similar maturity, but not less than the average yield on outstanding Treasury obligations of comparable maturity.

In years that the bank has net earnings and has no outstanding borrowings from the Treasury, it would be allowed to pay its stockholders dividends limited to 6 percent on the amount of paid-in capital. The bank's earnings and dividends and interest on the bank's obligations would be fully subject to local and Federal taxes.

Frequently, in the past, proposed solutions for the problems of community economic development were simply proposals to appropriate increasing amounts of Federal funds. Too little thought and attention was given to the availability of private financial resources or to the capacity of the intended recipients of the proposed Federal financial assistance to match such assistance with community development needs. The proposed D.C. Development Bank would seek to fill the gap between needs and available resources and to catalyze local efforts. Thus the bank would provide technical assistance and mobilize the private expertise and capital necessary to guide local project sponsors through the steps necessary for successful project development and implementation.

The Federal role would be limited. No Federal appropriations to the bank are contemplated. Rather, the Federal charter provided by the enactment of the bill would be indicative of general Federal support; the modest standby authority for the bank to borrow from Treasury would help to provide the assurances necessary for the bank to issue its own obligations in the market; and the provision in the bill for possible designation of Federal officers or employees to the board of directors of the bank would be a formal means for the bank to maintain direct contact with the Federal Government.

In conclusion, Mr. Chairman, the D.C. Development Bank is sound and constructive legislation from the standpoint of both the Federal Government and the District of Columbia. This legislation will fill a serious gap in our present delivery system and will further our common efforts to promote the economic development of the District of Columbia. I am happy to assure you of the administration's strong support for S. 2196 and to urge its prompt passage by your committee.

Exhibit 25.—Remarks of Assistant Secretary Fiedler, April 27, 1972, before the Mid-Year Economic Outlook Conference of the Conference Board, San Francisco, Calif.

Those of us involved in the financial markets on a day-to-day basis necessarily and understandably center our attention heavily on short-term developments. Events like the latest success or failure of a bond underwriting and the most recent 20-basis-point "wiggle" in the Treasury bill rate come to be the main focus of our work. Accordingly, anticipating or avoiding or exploiting those events becomes the purpose of our efforts.

Unfortunately, in this hubbub of our workaday world, the longer run purposes of the financial system are frequently lost sight of. We tend to forget that the basic function of the credit markets is to bring lenders and borrowers together at minimum cost and with maximum benefits, not only to the lenders and borrowers but also to society as a whole. We tend to forget also that the lenders and borrowers are not merely the Government and large private institutions that most of us represent directly, but include the millions and millions of individuals who now have or want mortgage loans, savings accounts, and so on.

As we look back over the past half decade, it is clear that our financial sys-

tem has not always served these longer run purposes well. The most dramatic examples were the severe disruptions experienced by the financial markets in 1966 and 1969-70.

Looking ahead

As we look ahead to the next 5 or 10 years, it is equally clear that we must avoid repeating this kind of experience. Both the demand for and the supply of credit will increase sharply. To meet our private and national objectives for housing, pollution control, productivity enhancement, etc., we will need a financial system that can channel enormous flows of savings to a multitude of investors smoothly and efficiently—and without the large and frequent swings in interest rates that have so dominated the past half-dozen years.

To help us achieve this important function, I believe we will want to consider carefully the work of the Hunt Commission (known formally as the President's Commission on Financial Structure and Regulation), which was appointed by the President early in 1970 and submitted its report at the end of 1971. Without commenting on all of the Hunt Commission's recommendations, I believe that some of their proposals can make a very useful contribution to the financial environment in which we will be living for the balance of this decade.

We have to plan for a financial structure that will not only have the capacity to accommodate extremely large flows of credit in the years ahead, but will at the same time have the flexibility to cope with monetary restraint—should it again be necessary—without putting undue strain on the mortgage or municipal securities markets.

We need to keep two primary objectives in mind for the proper functioning of our financial markets:

1. As the Hunt Commission recommends, we must make changes in the financial structure and its regulatory system in order to avoid the pressures on some financial institutions, as well as on whole sectors of the economy, that are produced during prolonged periods of monetary restraint.

2. We should increase competition among financial units and broaden the powers of the thrift institutions. We want a financial structure that permits more branching than is now the case. We want financial institutions to be free to offer a wide variety of services in a highly competitive environment so that the cost to the consumer is reduced at the same time that the institutions gain additional safety through a diversification of assets.

In my view, some of the Hunt Commission's recommendations go a long way toward fulfilling these objectives. Several of the Commission's recommendations, for example, would increase competition among financial institutions by granting thrift institutions the power to offer several financial services, including checking accounts, that are now the exclusive functions of commercial banks. In return, however, those thrift institutions would have to shoulder the same tax burden and the same regulations that are now carried by the commercial banking system.

I also think the Commission's recommendation of empowering financial institutions to branch statewide is a sound longer run goal that would have strong procompetitive effects, although the state-by-state impact would, of course, vary. If adopted, as I believe it should be, the statewide branching provision would broaden the package of financial services available to the public and to small businesses—especially in small communities of such States as Illinois. Entry into local markets by a number of competing financial institutions should lower the cost and improve the quality of financial services.

The Hunt Commission also recommended a number of worthwhile changes in the regulatory environment. It would be helpful to place all commercial banks—whether national, State, or nonmember banks—on a common footing and also to close the regulatory gap that exists now between various types of banks and thrift institutions. These changes would reduce the disruption that is produced during periods of policy restraint.

As significant as these changes are, however, we must remember the overriding importance of avoiding the economic excesses that were responsible for the prolonged periods of monetary restraint in the latter half of the 1960's. It is doubtful that any financial structure can be designed that would not develop a few cracks under the stress conditions of 1966 and 1969-70.

Accordingly, as we now move into an era of increasing demands for credit, we must be sure that economic growth remains orderly and balanced and that it is

accompanied by an appropriate mix of monetary and fiscal policies. We have seen quite clearly that monetary restraint by itself, without supportive budget policies, requires a great deal of time to work and produces many hardships and distortions. A key to the achievement of our economic objectives is the efficient allocation of credit by free markets. This can be attained, however, only by avoiding the need for excessive monetary restraint. The business expansion of 1971 and 1972 has, I believe, been built on a foundation of sound monetary and fiscal policy stimulus, and it is important that these policies be kept in tune with the course of economic development in the future.

"The Great Overwithholding Caper"

In the context of these longer run goals, the credit conditions with which we are dealing in 1972 are unusual in several ways. One special feature of the current situation is the swing that has taken place in expectations for Federal demands on the financial markets. We started the year anticipating a budget deficit for fiscal 1972 of \$38.8 billion, a level that startled quite a few people. Today, however, just 3 months later, we are looking for a much lower deficit. This development has come to be known in the Treasury (with a wry and slightly embarrassed smile) as "The Great Overwithholding Caper."

This situation is a direct outgrowth of the underwithholding of taxes that developed out of the 1969 Tax Reform Act. To correct this, the December 1971 tax legislation changed the withholding schedule in an attempt to bring taxes withheld closer to the actual tax liability. First, the schedule was changed to correct the underwithholding that had been taking place for two-earner families. Second, an additional withholding bracket was added at the upper end of the income range. And third, where the old schedule had utilized a straight 13-percent deduction at all levels of income, the new schedule provides for a maximum deduction of \$2,000.

These changes meant that a majority of workers—almost all who are the only earner in the family and most high-bracket taxpayers—would have to adjust their withholding allowances by filing revised W-4 forms with their employers. Despite an intense campaign by the Internal Revenue Service to make this requirement known, and despite the actual increase in taxes withheld that almost every employee felt in late January (and it was this that we expected to have a big impact), the number of revised W-4 forms submitted was surprisingly small.

The arithmetic of the overwithholding situation, as best we can estimate it, is as follows: If no taxpayers were to change their withholding allowances, the revised schedules would result in an increase in taxes withheld by some \$10 or \$11 billion annually. Approximately \$6 billion of this relates to the single-earner factor, and the remainder relates to the two changes that primarily affect higher bracket taxpayers. The revenue estimates included in the budget allow \$2 billion for the impact of the new withholding schedules. That is, it was assumed that most taxpayers would change their W-4 withholding forms as required, which would neutralize \$8-\$9 billion of the maximum \$10-\$11 billion impact.

It is now clear that our assumption was far wide of the mark. Our experience to date and special surveys suggest that overwithholding in calendar year 1972; i.e., for the full year, will run some \$6 to \$7 billion above the budget estimates.

Art Buchwald had a clever article recently that may give us a clue to the lack of taxpayer response. Buchwald's column, which was in the form of a prayer to our Heavenly Father, included the statement:

"Those of Your humble servants on straight salary beg Thee to withhold more than we owe, so at the end of the fiscal year we will be granted a much deserved refund. And, dear God, make sure that which is refunded by the Federal Government is not taken away from us by the State, and that which is refunded by the State is not taken away from us by the county, and that which is refunded to us by the county is not taken away by the town."

Evidently there are quite a number of taxpayers who share Buchwald's point of view and who are happy to have a tax reserve accumulate in their friendly IRS "bank account," despite the fact that they receive no interest.

Fortunately, from the standpoint of economic policy, there are some built-in offsets to the overwithholding. First, many taxpayers may have filed new W-4 forms just these past couple of weeks, after they calculated their final 1971 tax return and looked at their particular situation for 1972. Second, many higher income taxpayers file quarterly estimated tax returns, and they are likely to make the needed corrections by making smaller estimated tax payments, or none at

all, while continuing the higher withholding from their paychecks. Third, those taxpayers who have chosen not to file new W-4 forms and who realize they are being overwithheld, are not likely to reduce their consumption patterns downward accordingly. For these three reasons, the economic impact of "The Great Overwithholding Caper" of 1972 will be much less than might otherwise be expected.

In addition to the tax revenues that have been generated by the overwithholding, Treasury receipts are higher than expected. Both individual and corporate income tax collections have been coming in stronger than budgeted. In total, as we view it today, this increase in receipts will reduce the Federal budget deficit for fiscal 1972 by more than \$6 billion compared to our expectations in January.

On the expenditure side of the budget, I have no news to report. We are still using the expenditure totals contained in the budget last January. The uncertainties about legislative actions that affect the budget, notably the timing of revenue sharing, are still with us. But however this works out, whether revenue sharing funds (or any others) are disbursed in June or in August, makes little real difference. The only place that there will be a noticeable difference will be in the Federal Government's accounting records.

This difference is merely a matter of which fiscal year the disbursements are recorded in. As to what I would regard as the important question—the effect on the economy and the financial markets—it appears to me that there is practically no difference in the impact between June and August.

The stabilization program

Another special feature of the current situation and a more crucial matter for the behavior of our financial markets during the remainder of 1972 is the economic stabilization program and the outlook for inflation. A successful fight against the price disease will encourage saving and lending and will eliminate much of the large inflation premium that is now built into our interest rate structure.

It is too early to say with any assurance how successful the stabilization program will prove to be. The evidence that will enable us to judge the underlying impact of Phase II is simply not yet available. What evidence we have for the economy as a whole is summarized in the table below. From that, I think we can say with confidence that inflation has been lower since the stabilization program began than it was previously. We cannot, however, judge what the eventual impact of Phase II will be.

Price and wage changes before and during the stabilization program

(Percent change, seasonally adjusted annual rate)

Price or wage measure	Six months prior to the program: Feb. to Aug. 1971	During the program: Aug. 1971 to March 1972
Consumer price index:		
All items.....	4.1	2.8
Food.....	5.4	4.9
Commodities less food.....	3.7	1.2
Services ¹	4.5	3.5
Rent ¹	3.9	2.8
Wholesale price index:		
All commodities.....	4.6	3.1
Farm products, processed foods and feeds ²	2.3	6.7
Industrial commodities.....	5.7	1.8
Earnings of private nonfarm production workers:		
Earnings in current dollars:		
Adjusted hourly ³	6.8	6.1
Gross weekly.....	6.1	7.0
Spensible weekly ⁴	5.4	8.8
Earnings in constant dollars:		
Adjusted hourly ³	2.6	3.1
Gross weekly.....	1.9	4.1
Spensible weekly ⁴	1.3	5.9

¹ Not seasonally adjusted; data contain almost no seasonal movements.

² Raw agricultural products are exempt from price controls.

³ Adjusted for overtime (manufacturing only) and for interindustry employment shifts.

⁴ Worker with three dependents.

SOURCE.—Department of Labor, Bureau of Labor Statistics.

It may be useful to review the basic arithmetic of the economic stabilization program. The Pay Board started with a general standard of 5.5 percent and the Price Commission selected a goal of 2.5 percent. These, coupled with the 3-percent historical trend growth of productivity, make for a happy combination of consistent standards—consistent with one another and consistent with the goals of the program.

What has happened since then at both the Pay Board and the Price Commission appears to be in line with their general goals. Despite some highly publicized wage increases that far exceeded the general standard, and despite some loosening of that standard by the Pay Board, the tier I settlements acted upon by the Board to date have averaged about 5 percent. From what we hear about the backlog of cases now at the Pay Board, this figure may rise slightly, but the best guess at the moment is that tier I settlements will remain within or close to the general standard.

The Price Commission's decisions to date for tier I firms have permitted increases that have averaged 3.2 percent of applicable sales. When total sales of those firms are included in the calculation, the average price increase drops to 1.6 percent. Moreover, when the sales of those tier I firms that have not yet been granted any price increases are added, the average price increase is only about 1 percent. What the underlying impact of the Commission's action on tier I firms will eventually be is thus still difficult to say. Presumably it is somewhat higher than 1 percent but smaller than 3.2 percent.

More significant for the overall stabilization program, however, is the forthcoming impact of two recent developments at the Price Commission. First, the Commission's profit margin rule is taking effect. This rule, which was always thought of by the Commission as its basic second line of defense, limits the profit margin of any company that has been granted a price increase to its base period level. Thus, if a company's profit margin rises above its base period level and if the increase is not explainable in terms of a seasonal pattern or other special factors, the price increases that the company received may have to be cut back. With the filing of first-quarter profit reports at the Price Commission, this process has now begun.

The second recent development at the Price Commission will have an even greater impact. The Price Commission's rules require that productivity gains be subtracted from cost increases before any price increase is permitted. Until just recently, the Price Commission has been using company projections on productivity in their calculations. They found, however, that these figures were too low compared to the kind of productivity performance that we have seen in American industry on average in the past. Thus, many of the increases granted by the Price Commission were probably too generous in terms of the Commission's basic goal.

Accordingly, the Commission is changing its rules. Instead of using company productivity figures, they are going to use industry calculations made by the Bureau of Labor Statistics from data for the past 10 years. This, they estimate, will reduce the average price increase that is approved by about one full percentage point—a very constructive change that will contribute importantly toward meeting our goal for inflation.

These two developments at the Price Commission, coupled with the pay and price actions taken thus far for Tier I firms, suggest, to me at least, that the stabilization program will achieve its interim target of cutting the rate of inflation below 3 percent by the end of the year. This prospect will, I believe, become more widely accepted in the months ahead as the indicators of prices and wages begin to home-in on our goal.

I want to emphasize, however, that should we find that the program is not headed for its target, we will not hesitate to make whatever alterations in the program may be necessary. The Price Commission's action on its productivity rule is a fine example of how the program will be changed to make sure that the goal is met.

Current financial prospects

Over the remainder of the year, developments in the financial markets are likely to reflect most importantly two features of the current situation. First, although business activity is rising rapidly, there is still a significant volume of

unused resources—both labor and capital—available in the economy. Accordingly, the flow of new money and credit into the economy can and will be relatively larger than would be appropriate in more normal circumstances, and credit conditions generally can be more accommodative.

Second, despite the stabilization program, the financial markets are still feeling the hangover brought on by the monetary overindulgences and other economic excesses of the middle and late 1960's. Accordingly, long-term bond yields still retain a large inflationary premium.

The implication of these two features of the present situation is, it seems to me, that large flows of credit should continue to flow smoothly through the financial markets this year without wide movements in the general level of interest rates, particularly long-term yields. Normally, a vigorous business expansion brings with it a marked rise in interest rates. In the present situation, however, the fact that the economy is still a considerable way from full employment—in the financial markets as well as the labor markets—and the prospect that inflation will slow suggest a noticeable absence of upward pressures on long-term yields.

Exhibit 26.—Other Treasury testimony published in hearings before congressional committees, July 1, 1971–June 30, 1972

Secretary Shultz

Statement on revenue sharing, before the Senate Committee on Finance, June 29, 1972.

Secretary Connally

Statement on H.R. 8432, a bill to provide loan guarantee authority to assist the Lockheed Aircraft Corporation, before the House Committee on Banking and Currency, July 20, 1971.

Deputy Secretary Walker

Statement on S. 2022, a bill which authorizes emergency loan guarantees to major business enterprises, before the Senate Banking, Housing, and Urban Affairs Committee, July 9, 1971.

Statement on the Federal budgetary position, before the Senate Committee on Appropriations, February 2, 1972.

Under Secretary Cohen

Statement on the impact of DISC on small business, before the Subcommittee on Government Procurement of the House Select Committee on Small Business, June 14, 1972.

Under Secretary for Monetary Affairs Volcker

Statement on H.R. 5970, a bill to establish an Environmental Financing Authority, before the House Public Works Committee, July 14, 1971.

Statement on S. 1015, the Environmental Financing Act; S. 1699, The National Environmental Financing Act; S. 3001, the Federal Financing Bank Act; and S. 3215, the Municipal Capital Market Expansion Act, before the Senate Committee on Banking, Housing, and Urban Affairs, May 15, 1972.

Deputy Under Secretary for Monetary Affairs Bennett

Statement on the financing plans which would be implemented under H.R. 11877 and S. 2297, the National Capital Transportation Act of 1971, before the House and Senate Committees on the District of Columbia, March 1, 1972.

Assistant Secretary Weidenbaum

Statement on the needed upturn in research and development, before the Subcommittee on Science, Research, and Development of the House Committee on Science and Astronautics, July 29, 1971.

Assistant General Counsel Lloyd

Statement on the Freedom of Information Act before the Subcommittee on Foreign Operations and Government Information of the House Committee on Government Operations, April 14, 1972.

Federal Debt Management

Exhibit 27.—Statement by Secretary Connally, January 31, 1972, before the House Ways and Means Committee on the public debt limit

The borrowing authority which the Congress last year provided the Treasury Department will shortly be exhausted. I am therefore requesting that the present temporary debt limit of \$430 billion be increased promptly to \$480 billion. On the basis of our current estimates, this will be sufficient to carry us through the balance of the current fiscal year and to about this time next year. At that time it will again be appropriate to review the financing requirements of the Government.

The President's fiscal 1973 budget projects, on the unified budget basis, a deficit of \$38.8 billion for fiscal 1972 and a deficit of \$25.5 billion for fiscal 1973.

These are huge deficits and no one can be happy about them. However, Federal budgets must be analyzed in the context of economic conditions and national objectives. The pace of our economic growth, while now substantial, has not been fast enough to produce the desired reduction in unemployment. Our objective, therefore, is to stimulate economic growth—sustainable economic growth—in order to reduce unemployment while at the same time continuing to brake inflation.

We believe that the spending and taxing decisions set forth in the budget are appropriate in the light of present circumstances and objectives. Moreover, if this plan is carried out with discipline and determination it will help lead to an improved budget position as we achieve our national goals.

Our fiscal 1972 budget deficit, projected at \$38.8 billion, is substantially higher than the original estimate of \$11.6 billion made in January 1971. The figures represent an adverse swing of \$27.2 billion. The major portion of the change—\$19.8 billion of it—results from a shortfall in estimated revenues. Some of this shortfall, \$6.7 billion, reflects tax changes not contemplated in the budget a year ago. But apart from the consequences of legislation, our economic forecast for calendar 1971, on which the fiscal 1972 budget was based, was simply too optimistic. Total GNP, personal income, and corporate profits were all significantly below forecast. As a result, tax collections are falling short in most categories including the big items: Personal and corporate income taxes.

On the expenditures side which Director Shultz will discuss in detail, we are projecting in the current fiscal year expenditures of \$236.6 billion, or \$7.4 billion above the original estimate.

For fiscal 1973 we are estimating outlays of \$246.3 billion, only 4 percent higher than this year. At the same time, revenues are anticipated to rise to \$220.8 billion, which results in a unified budget deficit of \$25.5 billion.

This budget will return us to a "full employment" balance. In other words, budget expenditures are set at a level which is about equal to the revenues our present tax structure would produce at "full employment" of our economic resources. While actual full employment is not a realistic expectation for fiscal 1973, if expenditures can be held on this path the deficit will shrink as the economy grows and will disappear when we fully achieve our goals.

The size of the debt ceiling increase needed is determined not only by the results of the unified budget (which reflects transactions with the general public) but also by the amount of Treasury debt held by the Federal trust funds and other Government agencies. Since the trust funds are in substantial surplus and therefore acquiring Treasury debt, the necessary increase must be in excess of the size of the unified budget deficit. Changes in the debt are more closely reflected in the so-called Federal funds budget which excludes the operations of the trust funds.

As the budget document shows, the Federal fund deficits for fiscal 1972 and 1973 are now estimated at \$44.7 billion and \$36.2 billion, respectively. As shown in tables I and II, these forecasts can be translated into estimated Federal debt subject to limitation. On the assumption of a constant \$6 billion cash balance, our peak fiscal 1972 level is \$450 billion. By early 1973, this level, including the usual \$3 billion allowance for contingencies, will rise to around \$480 billion.

I am for this reason proposing to this committee that a new temporary debt limit be set at a minimum of \$480 billion for the period through June 30, 1973. I recognize that this ceiling will probably not be adequate to meet our requirements beyond February of 1973. However, that should be an appropriate time to review the budget and debt limit situation with you, against the background of actual experience in the first half of fiscal 1973 and in relation to the fiscal 1974 budget outlook.

I shall not belabor the consequences for the Nation if the Treasury's borrowing capacity should be exhausted. A failure to obtain an increase in the debt limit

will in a very short time force us to move to costly and uneconomic expedients to meet our obligations and then to an abrupt cutting off of Government expenditures. As Secretary of the Treasury, I do not wish to contemplate such a possibility. Therefore, as our projections indicate, it is essential that the Congress take action to lift the debt limit in time for us to arrange an early March borrowing.

Responsible financing of the budget is a primary goal of mine, and in this connection you may be interested in the use that has been made so far of the authority which Congress granted last year to issue Treasury bonds with coupons in excess of $4\frac{1}{4}$ percent. We have moved with great care to take the first steps to restore a broad market for longer term Treasury securities in order to improve the structure of the debt. Following two issues of about one-half billion each to private holders in 1971, we have just announced our third issue of longer term securities. It is in the form of a new 10-year bond, offered in exchange for securities maturing this February 15 and to advance refund securities maturing in the first half of 1974.

Our use of this authority has been cautious since we are determined not to engage in Treasury financing operations which would disturb credit markets or make more difficult the achievement of the economic goals of this administration. I think I can say without equivocation that our first steps have had no such adverse consequences. Indeed we are now reassured that we can proceed with a moderate amount of long-term-bond sales without undesirable consequences.

In the context of this review of our debt situation, I would also like to emphasize the importance of setting an effective limit on budget expenditures. It is the firm policy of this administration as enunciated by the President in his budget message that "Except in emergency conditions, expenditures should not exceed the level at which the budget would be balanced under conditions of full employment." This concept of a full employment balance was central to the budget decisions for fiscal 1973. Its meaning is simple. If one adheres to that objective our deficits will disappear as the slack in the economy disappears.

Success in this effort is essential if our progress against inflation is not to be jeopardized. The result can and will be achieved by exercising vigorous restraint on spending. Our deficits must be reduced.

I believe a tight, effective, overall limit on expenditures binding on both the executive branch and the Congress would help assure that goal.

TABLE I.—*Public debt subject to limitation, fiscal year 1972*

(In billions of dollars)

	Operating cash balance	Public debt subject to limitation
ACTUAL		
<i>1971:</i>		
June 30.....	8.7	399.5
July 15.....	7.3	407.3
30.....	7.1	406.6
Aug. 18.....	4.6	410.8
31.....	9.4	415.9
Sept. 15.....	5.5	416.2
30.....	9.9	413.6
Oct. 15.....	4.6	413.9
29.....	6.5	413.3
Nov. 15.....	4.1	416.5
30.....	4.2	416.0
Dec. 15.....	5.2	422.2
31.....	11.2	425.5
<i>1972:</i>		
Jan. 17.....	7.4	426.4
31.....	11.1	424.2
Feb. 15.....	6.4	425.7
ESTIMATED (based on constant minimum cash balance of (6 billion))		
Feb. 29.....	6.0	426.1
Mar. 15.....	6.0	433.6
31.....	6.0	431.6
Apr. 17.....	6.0	440.3
28.....	6.0	432.3
May 15.....	6.0	440.8
31.....	6.0	442.1
June 15.....	6.0	450.0
30.....	6.0	443.4

TABLE II.—*Estimated public debt subject to limitation, fiscal year 1973*

[In billions of dollars]

	Debt with \$6 cash balance	With \$3 margin for contingencies
<i>1972</i>		
June 30.....	443.4	446.4
July 17.....	450.0	453.0
31.....	453.0	456.0
Aug. 15.....	457.5	460.5
31.....	461.1	464.1
Sept. 15.....	462.3	465.3
29.....	457.9	460.9
Oct. 16.....	461.0	464.0
31.....	462.1	463.1
Nov. 15.....	466.3	469.3
30.....	468.7	471.7
Dec. 15.....	469.7	472.7
29.....	469.8	472.8
<i>1973</i>		
Jan. 15.....	470.8	473.8
31.....	470.6	473.6
Feb. 15.....	475.3	478.3
28.....	478.1	481.1
Mar. 16.....	483.1	486.1
30.....	482.5	485.5
Apr. 16.....	484.5	487.5
30.....	478.2	481.2
May 15.....	483.8	486.8
31.....	486.8	489.8
June 15.....	486.0	489.0
29.....	479.3	482.3

TABLE III.—*Budget receipts, outlays, and surplus or deficit (—) by fund*

[In billions of dollars]

	Fiscal year		
	1971 actual	1972 estimate	1973 estimate
Receipts:			
Trust funds.....	66.2	73.2	83.2
Federal funds.....	133.8	137.8	150.6
Deduct: Intragovernmental receipts.....	-11.6	-13.1	-13.0
Total unified budget.....	188.4	197.8	220.8
Outlays:			
Trust funds.....	59.3	67.2	72.5
Federal funds.....	163.7	182.5	186.8
Deduct: Intragovernmental outlays.....	-11.6	-13.1	-13.0
Total unified budget.....	211.4	236.6	246.3
Budget Surplus, or Deficit (—):			
Trust funds.....	6.9	5.9	10.7
Federal funds.....	-29.9	-44.7	-36.2
Total unified budget.....	-23.0	-38.8	-25.5

TABLE IV.—*Unified budget receipts, outlays and deficits (—), fiscal year 1972*

[In billions of dollars]

	January 1971 estimate	Change to September 1971 estimate	September 1971 estimate	Change to January 1972 estimate	January 1972 estimate	Change to January 1972 over January 1971
Receipts.....	217.6	-13.1	204.5	-6.6	197.8	-19.8
Outlays.....	229.2	+2.8	232.0	+4.6	236.6	+7.4
Deficit (—).....	-11.6	-15.9	-27.5	-11.2	-38.8	-27.2

NOTE:—Figures are rounded and may not necessarily add to totals.

TABLE V.—Changes in estimates of fiscal year 1972 receipts from January 1971 budget document

(In billions of dollars)

	January 1971 budget	Change to September estimate				Septem- ber 1971 estimate	Change to January 1972 budget				January 1972 budget
		Economic and re- estimate	Legis- lation	Other	Total		Economic and re- estimate	Legis- lation	Other	Total	
Individual income tax.....	93.7	-2.4	-1.3	¹ +0.7	-3.0	90.7	-1.1	-0.6	¹ -2.5	-4.2	86.5
Corporation income tax.....	36.7	-4.6	-2.2		-6.8	29.9	-2.0	+2.2		+0.2	30.1
Employment taxes and contributions.....	50.2	-0.8	-1.7		-2.5	47.7	-0.4	-0.9		-1.3	46.4
Unemployment insurance.....	4.2					4.2			+0.2	+0.2	4.4
Contributions for other insurance and re- tirement.....	3.2					3.2			+0.2	+0.2	3.4
Excise taxes.....	17.5	-0.1	-2.2		-2.3	15.2	+0.3	-0.3			15.2
Estate and gift taxes.....	5.3	-0.1			-0.1	5.2					5.2
Customs duties.....	2.7	-0.1	+1.7		+1.6	4.3	+0.1	-1.2		-1.1	3.2
Miscellaneous receipts.....	4.1					4.1		-0.2	-0.4	-0.6	3.5
Total budget receipts.....	217.6	-8.1	-5.7	+0.7	-13.1	204.5	-3.1	-1.0	-2.5	-6.6	197.8
<i>Underlying income assumptions—calendar year 1971</i>											
Gross national product.....	1,065.0										1,047.0
Personal income.....	868.0										857.0
Corporate profits before tax.....	² 98.0										³ 85.0

¹ Change in capital gains tax estimate.² Before the effect of asset depreciation range system (ADR).³ After the effect of ADR. Before the effect of ADR, the estimate would be \$85.9 billion.

NOTE: The figures are rounded and may not necessarily add to totals.

TABLE VI.—*Comparison of fiscal year 1972 receipts as estimated in January 1971 and in January 1972*

(In billions of dollars)

	January 1971 budget	Change to January 1972 budget				January 1972 budget
		Economic and re-es- timate	Legis- lation	Other	Total	
Individual income tax.....	93.7	-3.5	-1.9	¹ -1.8	-7.2	86.5
Corporation income tax.....	36.7	-6.6			-6.6	30.1
Employment taxes and contribu- tions.....	50.2	-1.2	-2.6		-3.8	46.4
Unemployment insurance.....	4.2			+0.2	+0.2	4.4
Contributions for other insurance and retirement.....	3.2			+0.2	+0.2	3.4
Excise taxes.....	17.5	+0.2	-2.5		-2.3	15.2
Estate and gift taxes.....	5.3	-0.1			-0.1	5.2
Customs duties.....	2.7		+0.5		+0.5	3.2
Miscellaneous receipts.....	4.1		-0.2	-0.4	-0.6	3.5
Total budget receipts.....	217.6	-11.2	-6.7	-1.8	-19.7	197.8
<i>Underlying income assumptions—calendar year 1971</i>						
Gross national product.....	1,065.0					1,047.0
Personal income.....	868.0					857.0
Corporate profits before tax.....	² 98.0					³ 85.0

¹ Change in capital gains tax estimate.² Before the effect of asset depreciation range system (ADR).³ After the effect of ADR. Before the effect of ADR, the estimate would be \$85.9 billion.

NOTE:—The figures are rounded and may not necessarily add to totals.

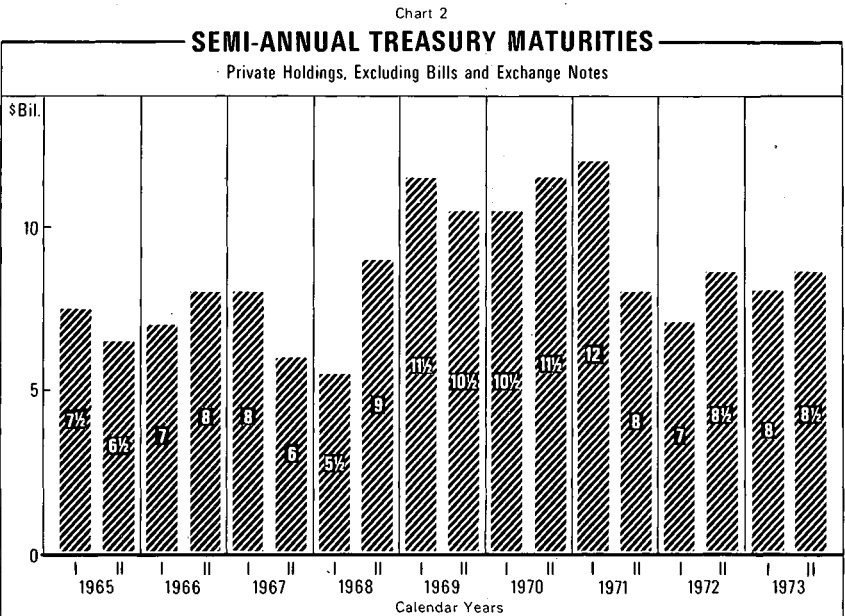
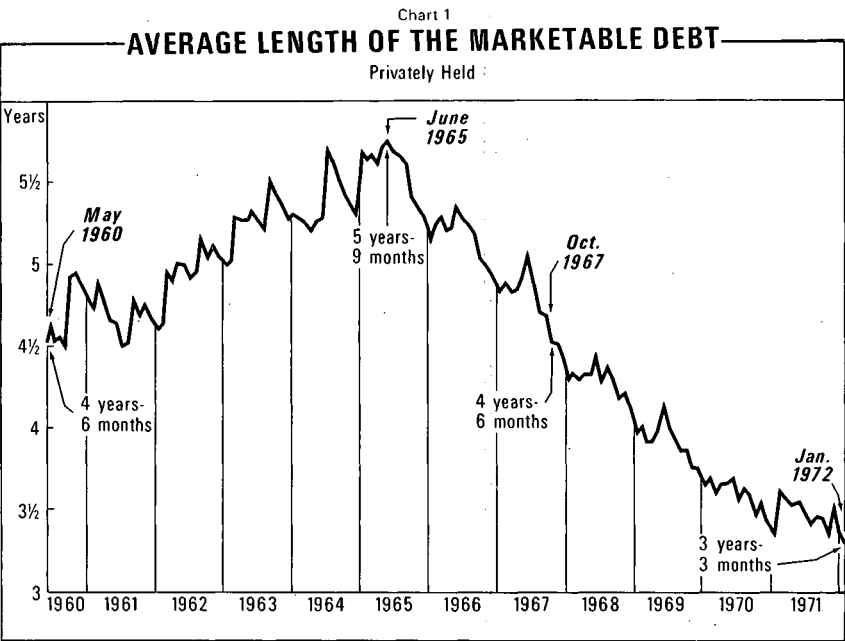


Chart 3

**UNDER 1-YEAR TREASURY MARKETABLE
DEBT BY TYPE**

Privately Held

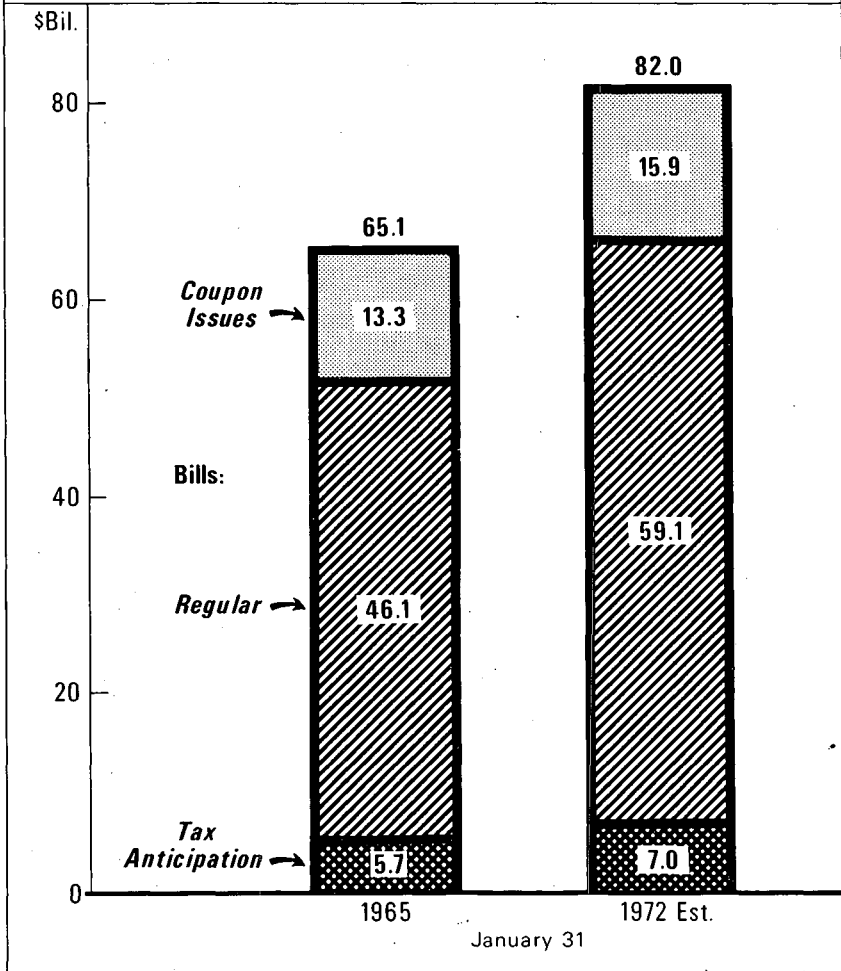


Chart 4

1 TO 7 YEAR TREASURY MARKETABLE DEBT

Privately Held

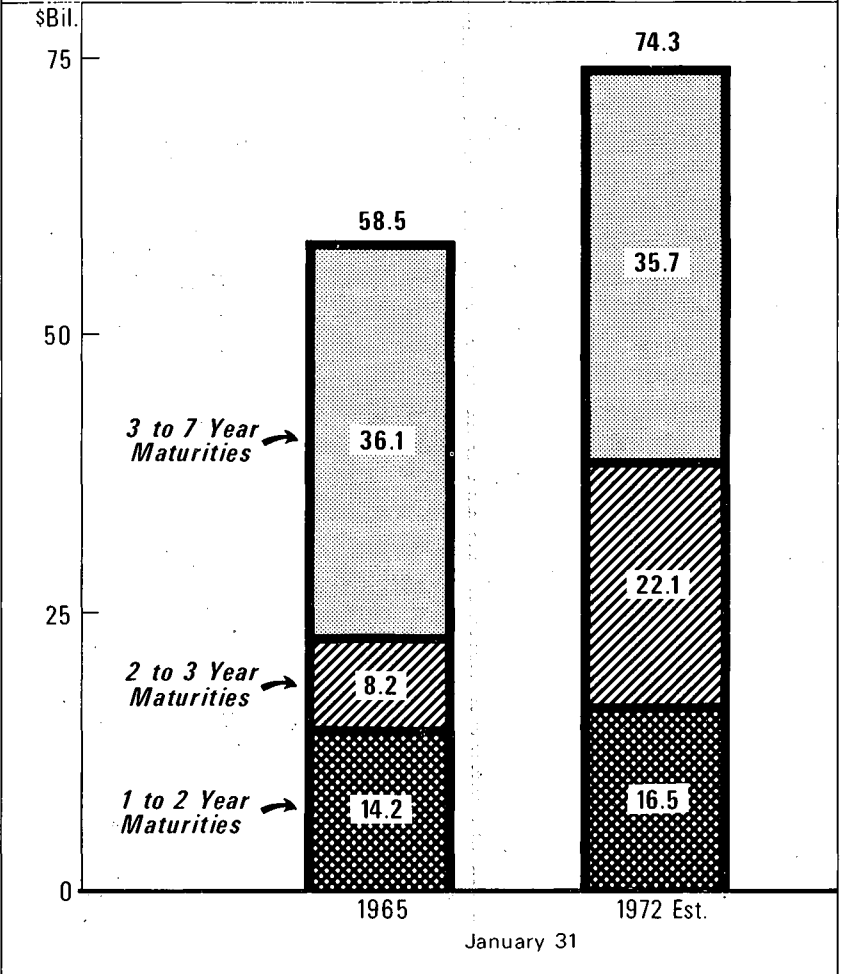


Chart 5

OVER 7 YEAR MATURITIES

Privately Held

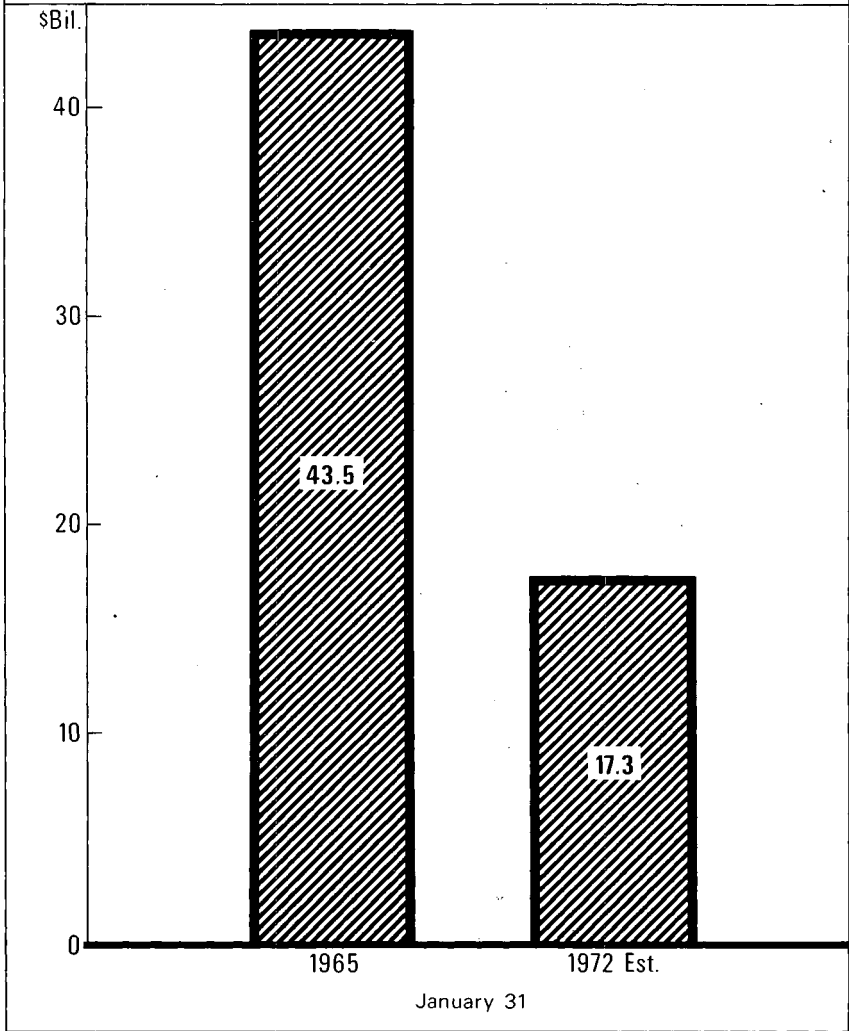


Chart 6

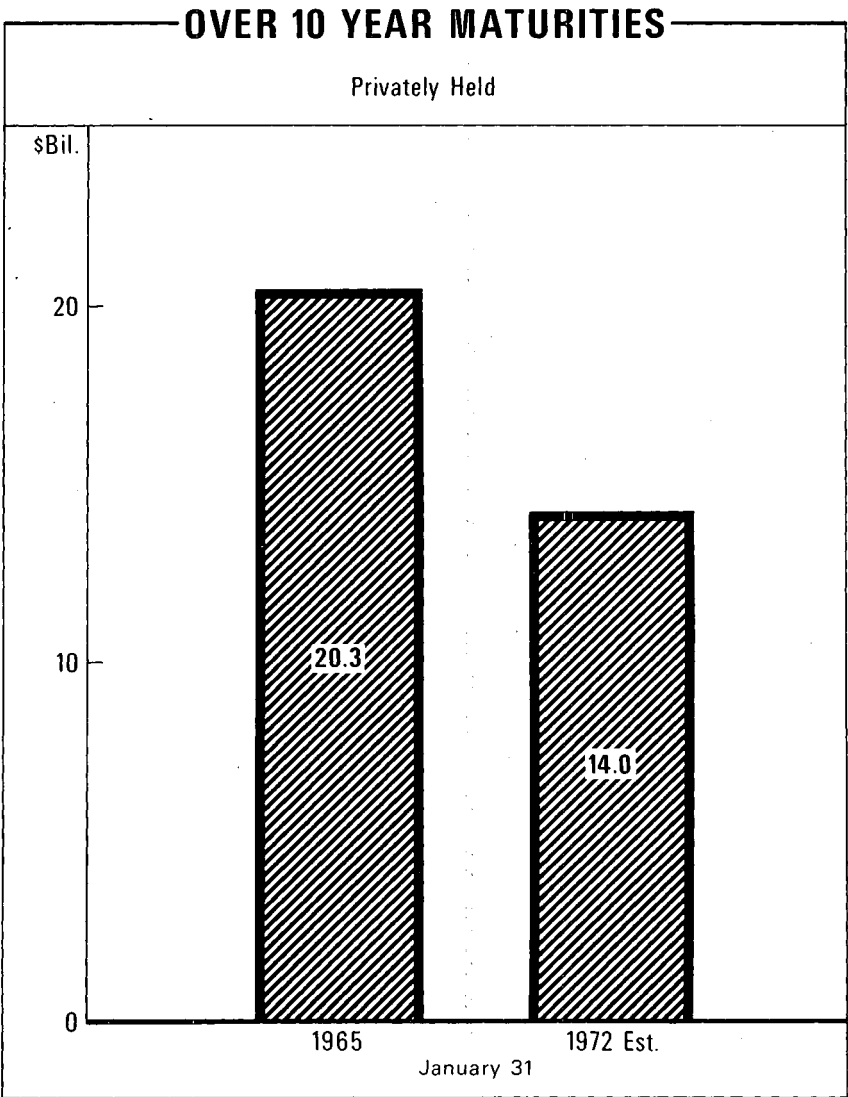


Chart 7

TREASURY MARKET YIELDS

January 1965 to Date

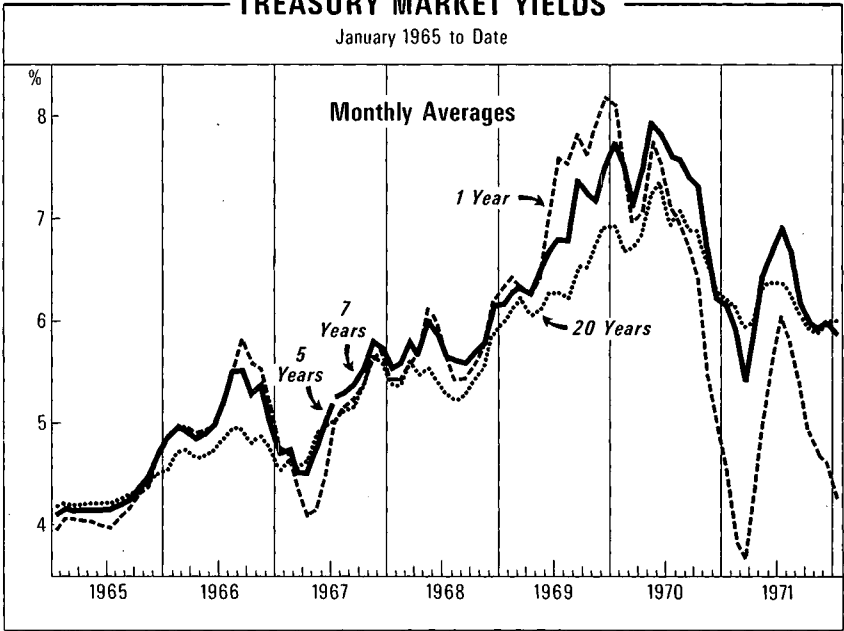


Exhibit 28.—Statement by Secretary Connally, February 28, 1972, before the Senate Finance Committee on the public debt limit

The temporary debt limit of \$430 billion which the Congress last year provided the Treasury will soon be exhausted. Anticipating a need for an increase in Treasury borrowing authority, I appeared on January 31 before the House Ways and Means Committee to request that the temporary debt ceiling be increased by \$50 billion to \$480 billion through June 30, 1973. On the basis of our projections, this increase would have been adequate to meet our requirements through early 1973.

On February 9, the House passed H.R. 12910 which provides for a \$20 billion temporary increase in the debt limit to \$450 billion through June 30, 1972. Although the House of Representatives did not approve our request for the larger \$50 billion increase, H.R. 12910 will meet our estimated needs through June 30 of this year. It is therefore a satisfactory resolution of the current need, assuming the Congress wishes to deal with this matter again before midyear. We therefore specifically request that your committee and the Senate act, as a matter of urgency, to approve H.R. 12910 as passed by the House, raising the temporary debt limit to \$450 billion through June 30, 1972.

As background for this request, the President's budget projects, on the unified budget basis, a deficit of \$38.8 billion for fiscal 1972 and a deficit of \$25.5 billion for fiscal 1973.

These are huge deficits and no one can be happy about them. However, Federal budgets must be analyzed in the context of economic conditions and national objectives. The pace of our economic growth, while now substantial, has not been fast enough to produce the desired reduction in unemployment. Our objective therefore is to stimulate economic growth—sustainable economic growth—in order to reduce unemployment, while at the same time continuing to brake inflation.

We believe that the spending and taxing decisions set forth in the budget are appropriate in the light of present circumstances and objectives. Moreover, if this plan is carried out with discipline and determination, it will help lead to an improved budget position as we achieve our national goals.

Our fiscal 1972 budget deficit, projected at \$38.8 billion, is substantially higher than the original estimate of \$11.6 billion made in January 1971. The figures represent an adverse swing of \$27.2 billion. The major portion of the change—\$19.8 billion of it—results from a shortfall in estimated revenues. Some of this shortfall, \$6.7 billion, reflects tax changes not contemplated in the budget a year ago. But apart from the consequences of legislation, our economic forecast for calendar 1971—on which the fiscal 1972 budget was based—was simply too optimistic. Total GNP, personal income, and corporate profits were all significantly below forecast. As a result, tax collections are falling short in most categories including the big items: Personal and corporate income taxes.

On the expenditures side, we are projecting in the current fiscal year expenditures of \$236.6 billion or \$7.4 billion above the original estimate.

For fiscal 1973 we are estimating outlays of \$246.3 billion, only 4 percent higher than this year. At the same time, revenues are anticipated to rise to \$220.8 billion which results in a unified budget deficit of \$25.5 billion.

This budget will return us to a "full employment" balance. In other words, budget expenditures are set at a level which is about equal to the revenues our present tax structure would produce at "full employment" of our economic resources. While actual full employment is not a realistic expectation for fiscal 1973, if expenditures can be held on this path the deficit will shrink as the economy grows and will disappear when we fully achieve our goals.

The size of the debt ceiling increase needed is determined not only by the results of the unified budget (which reflects transactions with the general public) but also by the amount of Treasury debt held by the Federal trust funds and other Government agencies. Since the trust funds are in substantial surplus and therefore acquiring Treasury debt, the necessary increase must be in excess of the size of the unified budget deficit. Changes in the debt are more closely reflected in the so-called Federal funds budget which excludes the operations of the trust funds.

As the budget document shows, the Federal fund deficits for fiscal 1972 and 1973 are now estimated at \$44.7 billion and \$36.2 billion, respectively. As shown in tables I and II,¹ these forecasts can be translated into estimated Federal debt

¹ See exhibit 27.

subject to limitation. On the assumption of a constant \$6 billion cash balance, our peak fiscal 1972 level is \$450 billion.

For this reason, H.R. 12910, setting a new temporary debt limit at \$450 billion for the period through June 30, 1972, is fully acceptable to us. It should be recognized that this ceiling provides no allowance for unanticipated contingencies and will meet our requirements only through June of 1972.

I shall not belabor the consequences for the Nation if the Treasury's borrowing capacity should be exhausted. A failure to obtain an increase in the debt limit will in a very short time force us to move to costly and uneconomic expedients to meet our obligations and then to an abrupt cutting off of Government expenditures. As responsible public officials we do not wish to contemplate such a possibility. Therefore, as our projections indicate, it is essential that the Senate take action to lift the debt limit in time for us to meet our early March borrowing requirements.

In the context of this review of our debt situation, I would also like to emphasize the importance of setting an effective limit on budget expenditures. It is the firm policy of this administration as enunciated by the President in his budget message that "except in emergency conditions, expenditures should not exceed the level at which the budget would be balanced under conditions of full employment." This concept of a full employment balance was central to the budget decisions for fiscal 1973. Its meaning is simple. If one adheres to that objective our deficits will disappear as the slack in the economy disappears.

Success in this effort is essential if our progress against inflation is not to be jeopardized. The result can and will be achieved by exercising vigorous restraint on spending. Our deficits must be reduced.

I believe a tight, effective, overall limit on expenditures binding on both the executive branch and the Congress would help assure that goal.

Mr. Chairman, as in previous years we are furnishing your committee with updated statistical tables which relate Federal debt to GNP, private debt, population, and prices.

Exhibit 29.—Statement by Secretary Shultz, June 28, 1972, before the Senate Finance Committee on the public debt limit

On July 1, 1972, the debt limit will revert to its permanent ceiling of \$400 billion. The debt subject to statutory limit stood at \$426.8 billion on June 27 and will be approximately \$425 billion on July 1. In addition, assuming an operating cash balance of \$6 billion, we expect the debt to rise to approximately \$460 billion next February.

Accordingly, in order both to provide a margin for contingencies and to assure the new Congress an early opportunity to review the debt limit matter, we recommended to the House Ways and Means Committee that the temporary ceiling be increased to \$465 billion and extended to March 1, 1973.

However, the committee recommended and the House adopted an extension of the existing \$450 billion ceiling only through October of this year.

The 1972 fiscal situation has improved significantly in recent months. In our mid-session review, we estimated that the fiscal 1972 deficit would be in the range of \$26 billion—almost \$13 billion less than the January estimate. This improvement is primarily the result of a \$9.2 billion increase in revenues, largely due to higher individual income tax receipts. Outlays also are now expected to be some \$3.6 billion below the January estimate. Almost two-thirds of the reduction in outlays results from the delay in enactment of the President's revenue sharing measure, which would have added some \$2.2 billion to fiscal 1972 expenditures.

About two-thirds of the expected increase in individual income tax receipts is in withheld taxes and largely reflects the overwithholding resulting from the Revenue Act of 1971.

Looking ahead to fiscal 1973, we now see a unified budget deficit of \$27 billion, \$1.5 billion over the January estimate of \$25.5 billion. Total outlays, including the \$2.2 billion in revenue sharing which we expect to be spent in fiscal 1973 rather than this year, are \$3.7 billion higher. Despite heavy refunds, receipts will also be higher than thought in January.

Taken together, the deficits for fiscal years 1972 and 1973 are now expected to be about \$11 billion less than anticipated last January.

The needed increase in the debt ceiling is determined not only by the deficit in transactions with the general public (the unified budget) but also by the

amount of Treasury debt held by the Federal trust funds and other government agencies. Virtually all of the reduction from our January estimates in our projected deficits for the two years, fiscal 1972 and 1973, has occurred in the Federal funds sector of the budget. The trust funds are in surplus and therefore acquiring Treasury debt. However, contrary to popular belief, the trust funds are in surplus only because they receive substantial amounts of Federal funds each year.

The following table is of interest in this connection:

	<i>Actual 1971</i>	<i>[In billions of dollars]</i> <i>Estimated</i>	
		<i>1972</i>	<i>1973</i>
Trust fund receipts from the public.....	54. 8	60. 1	70. 6
Trust fund receipts of Federal funds.....	11. 4	13. 1	13. 0
Total.....	66. 2	73. 2	83. 6
Trust fund outlays.....	59. 4	67. 0	72. 8
Trust fund surplus.....	6. 8	6. 2	10. 8

Table I (attached)¹ shows our estimates of Federal debt subject to limitation by months through June 29, 1973. Assuming a constant \$6 billion cash balance, the calendar year 1972 peak level will be \$453.2 billion on December 15. On February 27, 1973, the level will rise to \$460 billion.

In proposing to the Ways and Means Committee a new temporary debt ceiling of \$465 billion for the period through February 1973, we recognized that it will again be appropriate at that time for the Congress to review the budget and debt limit situation against the background of actual experience in the first half of fiscal 1973 and in relation to the fiscal 1974 budget outlook. As already noted, the House has passed a bill which will merely extend the \$450 billion temporary limit to November 1, when further action would again be essential.

I view this intention as unfortunate in view of the many other obligations facing the Congress. We would very much prefer that the Congress accede to our original request. However, we must defer to the exigencies of the situation and ask you to report a bill identical to H.R. 15390, the bill passed by the House of Representatives. Otherwise, I am concerned that June 30 will pass without final congressional action.

I am sure I need not belabor before this committee the need for congressional action on the debt ceiling by June 30. The result of inaction on this matter would be a reversion to a debt ceiling some \$25 billion below the level of the debt actually outstanding. This would create an extremely difficult situation for the Government in paying its bills and conducting its business.

I therefore recommend prompt and favorable consideration of this request for a \$450 billion temporary debt ceiling through October 1972.

Mr. Chairman, in concluding my statement I would be remiss if I did not express my deep and growing concern about the emerging fiscal situation in this country. With deficits this year and next the Federal budget will continue appropriately to stimulate an economy in which unemployment is too high and plant utilization too low. My concern is not that such deficits will not occur, but that our seeming inability to master the Federal budget will swell them much beyond proper economic limits. If this unhappy event is allowed to occur, then we shall likely find ourselves overwhelmed once again by the ravages of demand-pull inflation.

We must not undo the good work of recent years. The difficult and courageous efforts to cool an overheated economy and restore healthy economic growth with high employment and stable prices must not be negated by a ballooning Federal budget which no one can control.

The administration is firmly convinced that the Congress must face up to this problem in this session. It can do so by enacting the tough, no-exceptions ceiling on outlays which the President first proposed in July 1970, and again in 1971 and January 1972. Adjusted for the delay in revenue sharing, that ceiling should be set no higher than \$250 billion for the coming fiscal year, a level that approximates the revenues we would receive if the economy were at full employment.

¹ See exhibit 30.

Although it would normally be appropriate to add such a measure to the debt ceiling legislation, time does not so permit. The bill you are considering must be on the President's desk before midnight, June 30. Therefore, a bill identical to that which passed the House yesterday is essential.

But there will be ample time and opportunities to enact the President's outlay ceiling before final adjournment of this Congress. Indeed, the expiration of the temporary debt ceiling on October 31 assures just such an opportunity—and without the exigencies of the current situation.

We therefore recommend—and urgently—that this committee report out H.R. 15390 without amendment.

Exhibit 30.—Statement by Acting Secretary Walker, June 5, 1972, before the House Ways and Means Committee on the public debt limit

On July 1, 1972, the \$450 billion temporary debt ceiling will revert to the permanent ceiling of \$400 billion. The debt subject to statutory limit stood at \$429.2 billion on May 31 and will approximate \$425 billion on July 1. In addition, we now expect the debt to rise to approximately \$460 billion next February. (This figure assumes an operating cash balance of \$6 billion.)

Accordingly, in order to provide a margin for contingencies and in order to give the new Congress an opportunity to review the debt limit matter early in the next session, we recommend that the temporary ceiling be raised to \$465 billion and extended to March 1, 1973.

The Federal fiscal situation has improved significantly in recent months. The fiscal 1972 unified budget deficit is now expected to be about \$26 billion—almost \$13 billion below the January estimate. This \$13 billion decline reflects primarily a \$9.2 billion increase in revenues—largely because of higher individual income tax receipts—and outlays some \$3.6 billion below the January estimates. Almost two-thirds of this outlay shortfall results from the delay in enacting the President's proposed revenue sharing measure, which would have added some \$2.2 billion to fiscal 1972 expenditures.

I might note in passing that about two-thirds of the expected \$9.2 billion increase in individual income tax receipts constitutes withheld taxes and largely reflects the overwithholding resulting from the Revenue Act of 1971.

Looking ahead to fiscal 1973, we now expect a unified budget deficit of \$27 billion, some \$1.5 billion above the January estimate of \$25.5 billion. It is noteworthy that this \$1.5 billion is some \$700 million less than the \$2.2 billion in revenue sharing funds which we expect to be spent in fiscal 1973 rather than this year.

Taken together, the deficits for fiscal years 1972 and 1973 are now expected to be about \$11 billion less than anticipated last January.

The figures that I have recounted, along with those that Director Shultz will submit, will actually materialize only if stern and continuous efforts are made to bring Federal spending under firm control. With deficits this year and next the Federal budget will continue, appropriately, to stimulate an economy in which unemployment is too high and plant utilization too low. But over the same period we can and must prove that man is the master of the Federal budget, that the spending restraint necessary to guard against the return of demand inflation can be exercised. If we fail in this we shall undo much of the good work of recent years—efforts which are moving us steadily towards our ultimate goal of high economic growth with low unemployment and stable prices.

Let me direct my remaining remarks to two matters: Some specifics on the debt limit problem and some comments on the recurring calls for tax legislation which both this committee and the administration have heard in recent months.

The size of the needed increase in the debt ceiling is determined not only by the deficit in the unified budget (which reflects transactions with general public) but also by the amount of Treasury debt held by the Federal trust funds and other Government agencies. Since the trust funds are in substantial net surplus (that is, when transfers of Federal funds are added to receipts from social security taxes and then balanced against outlays) and therefore acquiring Treasury securities, the necessary increase must exceed the size of the unified budget

deficit. Table I shows our estimates of Federal debt subject to limitation by months through June 29, 1973. Assuming a constant \$6 billion cash balance, our peak calendar year 1972 level is \$453.2 billion in December. In February 1973 the peak level rises to \$460 billion.

In proposing to this committee that a new temporary debt ceiling of \$465 billion be set for the period through February 1973, we recognize that early 1973 will again be an appropriate time for Congress to review the budget and debt limit situation against the background of actual experience in the first half of fiscal 1973 and in relation to the fiscal 1974 budget outlook.

I am sure I need not belabor the need for congressional action on the debt ceiling by June 30. The result of inaction on this matter would be a reversion to a debt ceiling some \$25 billion below the level of the debt actually outstanding. This would create an extremely difficult situation for the Government in paying its bills and conducting its business. I therefore recommend prompt and favorable consideration of this request for a \$465 billion temporary debt ceiling through February 1973.

In the context of this review of our debt situation, I would again like to emphasize, as did Secretary Connally before this committee last January, the importance of setting an effective limit on budget expenditures. The budget policy of this administration continues to be as the President stated it in his budget message: "Except in emergency conditions, expenditures should not exceed the level at which the budget would be balanced under conditions of full employment." If we adhere to that objective our deficits will shrink and disappear as the economy grows.

We have proposed that the Congress enact a limit of \$246.3 billion on expenditures for fiscal 1973—a ceiling which would be binding both on the executive branch and the Congress. If we are to gain control of budget expenditures it will require a strong mutual effort by both the executive branch and the Congress. Achievement of that control is essential if we are not to undermine the progress which we have made against inflation and toward our other economic objectives both domestically and internationally.

Mr. Chairman, I would also like to comment on our use of the authority to issue \$10 billion of bonds without regard to the 4¼-percent interest rate limitation.

We have now utilized the authority on four occasions to issue a total of \$4.7 billion of bonds with original maturities of 10 to 15 years. On the first three occasions—in August and November 1971 and February 1972—the new bonds were issued in exchange for maturing securities. In accordance with our agreement with this committee we gave individuals the right to subscribe for cash for up to \$10,000 face value of bonds. In these three offerings individuals subscribed for cash to \$285 million of bonds.

The May 1972 operation was handled entirely as a cash offering with the new securities sold at auction. Tenders for up to \$50,000 of bonds, however, were accepted on a noncompetitive basis at the average price, and there were \$15 million of noncompetitive tenders submitted by individuals.

I should be happy, if the committee desires, to submit for the record copies of our announcements of these offerings and summaries of the results of these four financing operations.

Mr. Chairman, on February 7 you wrote the President inquiring as to whether he intends to request major tax legislation this year. The President firmly believes that the administration and the Congress should constantly strive to improve the tax structure, to increase its fairness, to make it simpler to understand and administer, and to improve its effectiveness in furthering the economic and social goals of the Nation.

The President intends to make recommendations to the Congress to this end at the appropriate time, and the Treasury will stand ready to devote its full resources to working with the committee to achieve this goal as it did in the major tax legislation enacted in 1969 and 1971.

We do not believe, however, that it is appropriate to embark on such an extensive effort at this particular time and in connection with revision of the debt ceiling. The basic issues are deep and intricate, and the judgments that must be made require calm and deliberate reflection. In short, we firmly believe that the matter of further tax revision should be dealt with in the next Congress.

TABLE I.—*Estimated public debt subject to limitation, fiscal year 1973*

[In billions of dollars]

		With \$6 cash balance			With \$6 cash balance
1972			1973		
June	30.....	426.4	Jan.	15.....	1 455.4
July	17.....	434.0		31.....	449.4
	28.....	1 435.5	Feb.	15.....	458.4
	31.....	432.0		27.....	1 460.0
Aug.	15.....	439.1		28.....	456.8
	30.....	1 440.7	Mar.	15.....	463.5
	31.....	439.4		29.....	1 469.8
Sept.	15.....	1 446.4		30.....	465.8
	29.....	439.0	Apr.	16.....	1 473.2
Oct.	16.....	444.7		30.....	463.3
	30.....	1 447.3	May	15.....	470.2
	31.....	441.8		30.....	1 475.4
Nov.	15.....	448.9		31.....	371.8
	29.....	1 451.5	June	15.....	1 477.9
	30.....	447.1		29.....	464.8
Dec.	15.....	1 453.2			
	29.....	449.7			

1 Peak level of month.

TABLE II.—*Budget receipts, outlays, and surplus or deficit (—) by fund*

[In billions of dollars]

	Fiscal year		
	Actual	Current estimate	
	1971	1972	1973
Receipts:			
Trust funds.....	66.2	73.2	83.6
Federal funds.....	133.8	147.1	162.6
Deduct: Intragovernmental receipts.....	11.6	13.3	13.2
Total unified budget.....	188.4	207.0	223.0
Outlays:			
Trust funds.....	59.4	67.0	72.8
Federal funds.....	163.7	179.3	190.4
Deduct: Intragovernmental outlays.....	11.6	13.3	13.2
Total unified budget.....	211.4	233.0	250.0
Budget surplus or deficit (—):			
Trust funds.....	6.8	6.2	10.8
Federal funds.....	-29.9	-32.2	-37.8
Total unified budget.....	-23.0	-26.0	-27.0

TABLE III.—*Unified budget receipts, outlays and deficit (—)*

[In billions of dollars]

	Fiscal year 1972			Fiscal year 1973		
	January 1972 estimate	Change from January 1972 estimate	Current estimate	January 1972 estimate	Change from January 1972 estimate	Current estimate
Receipts.....	197.8	+9.2	207.0	220.8	+2.2	223.0
Outlays.....	236.6	-3.6	233.0	246.3	+3.8	250.0
Deficit (—).....	-38.8	+12.8	-26.0	-25.5	-1.6	-27.0

NOTE.—Figures are rounded and may not necessarily add to totals.

TABLE IV.—*Comparison of fiscal year 1972 receipts as estimated in January 1972 and currently*

[In billions of dollars]

	January 1972 budget	Change from January 1972 budget				Current estimate
		Economic and reestimate	Legislation	Other	Total	
Individual income tax.....	86.5	+6.4	.....	¹ +1.5	+7.9	94.4
Corporation income tax.....	30.1	+1.5	.....	.....	+1.5	31.6
Employment taxes and contributions.....	46.4	.....	-0.1	.....	-0.1	46.3
Unemployment insurance.....	4.4	-0.1	.....	.....	-0.1	4.3
Contributions for other insurance and retirement.....	3.4	+0.1	.....	.....	+0.1	3.5
Excise taxes.....	15.2	.....	.....	.....	.....	15.2
Estate and gift taxes.....	5.2	-0.1	.....	.....	-0.1	5.1
Customs duties.....	3.2	.....	.....	.....	.....	3.2
Miscellaneous receipts.....	3.5	.....	.....	.....	.....	3.5
Total budget receipts.....	197.8	+7.8	-0.1	+1.5	+9.2	207.0

Underlying income assumptions, calendar year 1971

Gross national product.....	1,047.0	.....	.....	.....	.....	1,047.0
Personal income.....	857.0	.....	.....	.....	.....	857.0
Corporate profits before tax.....	86.0	.....	.....	.....	.....	85.5

¹ Change in capital gains tax estimate.

NOTE.—The figures are rounded and may not necessarily add to totals.

TABLE V.—*Comparison of fiscal year 1973 receipts as estimated in January 1972 and currently*

[In billions of dollars]

	January 1972 budget	Change from January 1972 Budget				Current estimate
		Economic and reestimate	Legislation	Other	Total	
Individual income tax.....	93.9	+0.1	.....	¹ +1.5	+1.6	95.5
Corporation income tax.....	35.7	+0.3	.....	.....	+0.3	36.0
Employment taxes and contributions.....	55.1	.....	+0.1	.....	+0.1	55.2
Unemployment insurance.....	5.0	.....	.....	.....	.....	5.0
Contributions for other insurance and retirement.....	3.6	+0.1	.....	.....	+0.1	3.7
Excise taxes.....	16.3	.....	.....	.....	.....	16.3
Estate and gift taxes.....	4.3	.....	.....	.....	.....	4.3
Customs duties.....	2.8	+0.1	.....	.....	+0.1	2.9
Miscellaneous receipts.....	4.1	.....	.....	.....	.....	4.1
Total budget receipts.....	220.8	+0.6	+0.1	+1.5	+2.2	223.0

Underlying income assumptions, calendar year 1972

Gross national product.....	1,145.0	.....	.....	.....	.....	1,145.0
Personal income.....	924.0	.....	.....	.....	.....	924.0
Corporate profits before tax.....	99.0	.....	.....	.....	.....	99.0

¹ Change in capital gains tax estimate.

NOTE.—The figures are rounded and may not necessarily add to totals.

TABLE VI.—*Unified budget estimated receipts, fiscal years 1972 and 1973—January 1972 budget and current estimate*

[In billions of dollars]

	Fiscal year 1972					Fiscal year 1973				
	Total receipts		Increase, or decrease (—)			Total receipts		Increase, or decrease (—)		
	January budget	Current estimate	Current estimate over January estimate			January budget	Current estimate	Current estimate over January budget		
			Total	Legislation	Other			Total	Legislation	Other
Individual income tax:										
Gross:										
Withheld.....	76.2	82.5	6.3	.....	6.3	84.3	94.8	10.5	.....	10.5
Other than withheld.....	24.8	25.8	1.0	.....	1.0	26.6	24.9	-1.7	.....	-1.7
Total gross.....	101.0	108.3	7.3	.....	7.3	110.9	119.7	8.8	.....	8.8
Less: Refunds.....	14.5	13.9	-0.6	.....	-0.6	17.0	24.2	7.2	.....	7.2
Net individual income tax.....	86.5	94.4	7.9	.....	7.9	93.9	95.5	1.6	.....	1.6
Corporation income tax.....	30.1	31.6	1.5	.....	1.5	35.7	36.0	0.3	.....	0.3
Employment taxes and contributions.....	46.4	46.3	-0.1	-0.1	.....	55.1	55.2	0.1	1 0.1	.....
Unemployment insurance.....	4.4	4.3	-0.1	.....	-0.1	5.0	5.0	.....	.....	.....
Contributions for other insurance and retirement.....	3.4	3.5	0.1	.....	0.1	3.6	3.7	0.1	.....	0.1
Excise taxes.....	15.2	15.2	(*)	.....	(*)	16.3	16.3	.....	.....	.....
Estate and gift taxes.....	5.2	5.1	-0.1	.....	-0.1	4.3	4.3	.....	.....	.....
Customs duties.....	3.2	3.2	(*)	.....	(*)	2.8	2.9	0.1	.....	0.1
Miscellaneous receipts.....	3.5	3.5	(*)	.....	(*)	4.1	4.1	.....	.....	.....
Total receipts.....	197.8	207.0	9.2	-0.1	9.3	220.8	223.0	2.2	0.1	2.1

1 Effect of delaying of increase in wage base from \$9,000 to \$10,200 past June 30, 1972.

*Less than \$50 million.

NOTE:—Figures are rounded and may not add to totals.

Exhibit 31.—Remarks by Under Secretary for Monetary Affairs Volcker, March 7, 1972, before the Money Marketeers at the Bankers Club, New York, N.Y., on "A New Look at Debt Management"

My intention is to talk about a subject that has gotten much less attention in recent years than when Marcus Madler was here: Federal debt management. My reason is only partly that debt management is at the moment one of our leading growth industries. There are, in addition, a number of longer term questions and issues that seem to me to need more ventilation in the financial community as we shape a debt management philosophy for the 1970's.

In the perspective of the whole postwar period, the decline in emphasis on debt management has been striking. When I first went to work in Wall Street—not so long ago—monetary policy, fiscal policy, and debt management were considered more or less equal building blocks of national economic policy. As Aubrey Lanston used to put it, it was a three-legged stool, and we would forget one leg at our peril.

Somewhere along the line, though, debt management seems to have been dropped from the triumvirate. Moreover, if my antennae are at all sensitive, we hear much less concern today about the traditional canons of "sound" finance that used to be pronounced with such feeling about the Government debt—even if no one was quite agreed as to what they were.

This may be partly a matter of fashion. In little more than a decade we have seen first the "fiscalists" and then the "monetarists" riding high, each in turn, in my view, overemphasizing the contribution and potential of one policy instrument. But in the case of debt management it has been more than fashion that accounts for the diminishing attention.

The simple fact is that, if attention is directed solely toward the conventional direct Treasury debt, it has declined drastically in relation to the size of our economy and our financial markets. At the end of World War II, the Treasury debt was fully half of the net public and private debt in the United States and equalled about two-thirds of the GNP. Then—to paraphrase one dead (and inaccurate) politician—as went the Treasury debt, so went the Nation. Today that debt, while absolutely 22 percent larger, is only one-seventh of total debt and amounts to less than one-third of the GNP.

Moreover, while Treasury debt once was important in every maturity area, the protracted absence of the Treasury from the long-term market because of the 4¼-percent interest rate ceiling has concentrated our debt at the short and intermediate area. With only a few long-term issues outstanding—all closely held and with special advantages for limited purposes—it appears the Treasury has more or less lost touch with the capital markets, leaving them to the exclusive province of other public and private borrowers.

Finally, experience has not been encouraging with respect to the vigorous countercyclical use of conventional debt management policy. There are theoretical doubts as to its effectiveness and, even more, practical obstacles to its implementation.

Looking at debt management more broadly, there is a striking phenomenon working in the opposite direction—but a phenomenon still submerged in the public consciousness. I am thinking of the exceptional rise in the size and impact of Federal agency programs, mostly of an extra-budgetary character. These agencies in combination have assumed a massive role in economic stabilization most obviously, but certainly not exclusively, in the housing area. In the process, the Treasury has consciously given priority to their needs, including encouragement of longer term financing where needed to support the program objectives and preserve the integrity of the agencies' individual financial structures. The proliferation of these agencies has given rise to problems of coordination and policy unknown in the days when the direct Treasury debt loomed relatively much more important, a problem to which I shall return later.

Whatever the reasons for diminishing public concern with debt management in past years, there is ample reason to pay attention today. We are faced with the need to finance back-to-back deficits totaling over \$60 billion in 2 consecutive fiscal years. On top of those deficits, the expansion of Federal credit programs means that perhaps half of the net increase this year in all credit market instruments will in one way or another be associated with the programs of the Federal Government.

That is a chilling projection. It more than justifies a careful look at past

policies and intensive exploration of new approaches and new techniques. Nor can we intelligently approach the current problem without concern for the whole range of economic goals and without thinking through the longer run implications for debt management itself.

Our first task in the Treasury debt management area, of course, is simply to raise very substantial amounts of money in the market without undercutting the desired stimulus inherent in the deficits themselves. Simultaneously, we must handle maturing securities, although that task is not especially heavy this year. Thirdly, we want to achieve these essentials in a way consistent with orderly and efficient handling of the debt in the longer run. That requires attention to maturity areas that may now be overloaded, avoiding undue concentrations of new debt, and consideration of techniques that may facilitate and minimize the cost of the eventual refunding of that debt.

In all of this there must, I believe, be an underlying presumption that our debt operations cannot be considered exclusively a matter of economical and efficient financing. As a public responsibility, they must be geared to support our broader economic objectives, domestic and international. I recognize there is a sharp disagreement over what that glittering generality should mean in practice. Indeed there is one vocal school of thought which goes to the extreme of arguing that the best the debt managers can do is "be neutral." Stay "out of the way" they seem to be saying, out of the Fed's way, out of the Budget Bureau's way, and certainly out of Fannie Mae's and Ginny Mae's and Sally Mae's way, maybe even out of the way of the men like AT&T and GMAC.

The trouble with that counsel seems to me obvious. When we have large deficits to finance there are no mechanical guidelines for keeping debt management neutral. The securities have to be placed somewhere, and that "somewhere" will make a difference to other borrowers and to monetary policy. Naturally we want to be conscious of the impact and, where possible, turn it to our advantage. At the same time—and this is the real challenge in dealing with debt—we cannot singlemindedly focus on our problems today without thought for all those tomorrows when our successors will need to deal with what we have wrought.

The central fact for the debt managers in 1972 is that we will need to raise some \$35 billion of new money, assuming the budget estimates are realized and we end the year with a reasonable cash balance. We have expressed the view that in the current and foreseeable economic environment that task can be managed without either rekindling inflation or an escalation in longer term interest rates. The basic element in our thinking is, of course, the fact that there is slack in the economy and related slack in financial markets—a high savings potential, and a tempering of competing credit demands.

Long-term rates, in particular, are still historically very high, producing an exceptionally sharp yield curve, a phenomenon certainly explained in part by remaining inflationary expectations. A priority task of our total policies is to reduce and eliminate those expectations. We can go a long way in that direction this year. As we do so declines in long rates could help restore what by past standards would be a more normal interest rate alignment.

There are more technical reasons to suggest the added Federal debt can potentially be "shoehorned" into the market reasonably smoothly. Specifically our analyses do not bear out predictions that we will inevitably need to draw out large volumes of individual money to accomplish the job.

Given the slack in the economy a relatively strong expansion in bank credit and the money supply should be both desirable and anticipated. With corporate liquidity more comfortable we anticipate much more of that credit base can and will be employed in Government securities.

Corporations themselves will probably be in a position to resume large-scale buying. In part this reflects their rising liquidity. The concentrated attention given last year to large foreign central bank purchases of governments often ignored the fact that those dollars originally came from the United States—importantly from corporations. If we cannot look forward to renewed foreign buying—and I do not—I also do not look forward to the related drain of funds from domestic markets.

We also anticipate more active State and local purchases. Indeed, to the extent revenue sharing adds to our deficit and their liquid resources, the immediate impact will be to provide an offsetting demand for our securities.

Altogether—and allowing for Federal Reserve purchases—the statistical analysis suggests we can manage equably without sizable purchases either by individ-

uals or foreigners. There are always uncertainties about whether in practice it works out so smoothly. Certainly the recurrent scarcity of short-term debt in the past year should evaporate. Stability depends critically on the course of the economy and prices. But, in the light of the facts now at hand, the collective market judgment embodied in the relative stability of interest rates since the budget announcement seems to me fully supportable.

The second of the problems I mentioned earlier, refunding, is fortunately limited. Our quarterly maturities average only \$4 billion below recent years and an amount that in itself is not troublesome. Consequently, we have considerable flexibility in handling those requirements, including a potential for combining refundings with cash generating operations or with operations to improve the debt structure, as was done in February.

Neither the cash raising nor the refunding problem can be separated from the longer range problem of maintaining a reasonably spaced maturity structure and efficient techniques for rolling over our debt with minimal disturbance. The striking innovation in debt management technique recently has been the extension of the auction process beyond the bill area. I cannot claim that approach has yet been fully tested in adversity. But I can say it has met or surpassed every expectation so far, to the advantage of the Treasury and the market. I am confident it will pass further testing with larger amounts and longer maturities. In the process, we are prepared to explore further variants including (as the maturity is extended) the possibility of awarding all bids at the stop-out price to encourage wider investor participation.

Perhaps more importantly, we are considering whether the successful experience with auctioning offers an opportunity to routinize or regularize the handling of more of our debt, as we have done for many years in the bill area. Against the day when truly long-term financing may again be appropriate, we should also consider the wisdom of providing more notice to the market of such an offering than has been the practice in the past; there are advocates of repetitive small sales several times a year or simply longer advance notice prior to a more sizable sale.

These are matters upon which we want and need more advice from those participating in the markets. We have already had discussion with our regular advisory groups. They have prodded our own thinking. Without attempting final judgments this evening, I would like to review some of the ideas for public discussion.

The regular auction of Treasury bills is often pointed to as a model for the relatively routine, trouble-free handling of substantial blocks of securities. Given the substantial cash needs ahead of us, I think you can anticipate, as our recent operations suggest, placement of more debt in this area. As we do so we want to consider the desirability of phasing out the 9-month issue in favor of the 1-year maturity and perhaps shifting the annual issue from monthend dates into a 52-week pattern. In considering these technical possibilities there appears to be room for substantial increases in the bill issue without overloading the supply going to private holders. The increased size of the Federal Reserve portfolio and large foreign holdings have actually reduced the supply of bills to private domestic buyers over the last 2 years. Relative to other forms of short-term debt, the Treasury bill has actually been declining in importance.

More basic questions arise in connection with extending essentially the same technique of regular auctions to longer paper of 2- or 3-year, or even longer, maturities. In contrast to building up the present concentration of note and bond maturities at quarterly intervals, to be handled flexibly at the Treasury's discretion at maturity, it is contended the practice of more frequent but also more routine rolling over of relatively short-term notes might: Reduce market uncertainties and adjustments caused by large intermittent financing operations; create sustained and broadened buyer interest through greater assurance as to the future availability of securities of a given type; and reduce the periods when the Federal Reserve may feel constrained from major policy changes by the fact the Treasury is approaching, in, or just completing a major refunding.

Obviously many technical questions arise as part of any such judgment.

Should the new maturities be monthly or quarterly?

How large should the issues be?

Should the auction technique be changed?

How can the needs of the less sophisticated investors who may not wish to engage in frequent auctions be accommodated?

Further steps toward regularization could potentially be made through a commitment regularly to refund present quarterly maturities into prespecified areas of the market. As I suggested a moment ago, we could also extend the logic to the regular sale of small issues of long-term bonds.

But when I press the logic of that approach to its extreme some of the drawbacks are obvious. Regularization and routinization are nice sounding words; straitjacket and rigidity are not.

From where I sit I cannot help but be conscious of the number of times in which particular market or economic objectives may influence the Treasury's thinking as to the form of a particular financing. I need look back no further than the past few weeks. For some time in our tentative planning we had felt the logic of our cash and debt management needs suggested the desirability of offering a short- or medium-term note late in February or early in March. When the time came to raise the money, however, a different logic prevailed.

Meeting our near-term cash needs through a sizable offering of bills, tailored precisely to fit within the remaining leeway under the debt limit, was in accord with both our international and domestic market objectives. Specifically, the immediate impact of the offering could more appropriately come in the short bill area, where rates relatively were quite low, than in an area that might risk interfering with a welcome firming tendency in the note and bill markets.

Of course there are potential pitfalls in the exercise of this type of flexibility. The discipline of regularization and future commitments may be needed, some would argue, to meet the longer range objectives of debt management by offering protection against what in retrospect might sometimes appear to be "taking the easy way out."

You will not expect me to confess to personal sins in that respect! I would contend the progress toward redeveloping the market in the 10- to 15-year area and the persistence of longer term options on our regular refunding operations speaks for itself. At the same time I would concede there is a recurrent tension between longer range debt management objectives and the desire to tailor each operation to fit the economic circumstances of the moment. The proper balance between a relatively routine scheduling of debt operations to meet continuing objectives and the desirability of retaining adequate short-term flexibility in the hands of the Treasury can and should be reexamined.

Finally, a few words on the problem of the really long-term bond market. It seems to me that, looking down the road, the Treasury will want to have continuing contact with that area of the market. In my judgment this is not primarily a matter of achieving some target average maturity or even of proper maturity spacing. More importantly, we should retain the potential for directly influencing that market, however infrequently we wish to use our influence. To accomplish this purpose at least a minimum number of readily tradeable issues are probably necessary.

In concept, the task of reestablishing such a market does not look forbidding. After all, in the last 3 years alone private and State and local borrowers have raised some \$135 billion in the capital markets. The purposes I have in mind could be accomplished with only a relatively tiny fraction of that flow.

The practical difficulty is the familiar cliché: No time seems to be a good time for offering long-term Treasury securities—either rates are too high or there is a desire to maximize the flow of funds to other borrowers. Today we have some of both. So here too is an area where we would invite your thinking and your reactions in shaping our longer term program.

Before concluding I do want to say a few words about the hottest new item in thinking about debt management in Washington these days.

As I indicated at the start, the coordination and control of the market borrowing activities of the numerous Federal and federally sponsored agencies has become both more important and more difficult. As these agencies have proliferated in number and scope, some Federal activity in the securities markets is occurring on roughly every 2 out of 3 business days. The aggregate volume of funds absorbed by these agencies is about as large as the Federal deficit, even in this period of swollen deficits.

We have proposed legislation in the form of the Federal Financing Bank Act to help bring order out of the actual and potential confusion and congestion in the Federal agency markets. The legislation has three main purposes:

First, the bill would establish a new financing vehicle, the Federal financing bank, which would consolidate the financing of a number of Federal programs

which are now financed individually in the private securities market. By reducing the number and types of separate issues we will achieve a substantial savings in borrowing costs.

Second, the bill would provide for better coordination by the Secretary of the Treasury of Federal agency financing plans consistent with better satisfaction of their requirements. This will be achieved by assuring early focus on the market financing requirements for Federal programs and then, in many cases, substituting the broader and more efficient financing potential of the financing bank for the market entry of individual agencies. Better overall coordination will be possible of the market borrowings by the Treasury, the Federal financing bank, and those federally assisted borrowings not financed directly through the bank.

Third, the bill would provide for submission to the President of budget plans for loan guarantee programs. This will assure more effective coordination of loan guarantee programs with other Federal programs and with overall economic and financial policies.

In preparing the Federal financing bank legislation for submission to Congress and subsequently, we have had extensive discussions with the various Federal agencies involved, with public interest groups representing State and local governmental authorities, and with various associations representing industry, banking, and the securities industry. We are gratified by the degree of support among those in the financial community dealing with the problem on a daily basis. Indeed we find few opposed to the basic concept in or out of Government.

Quite naturally there are those who while welcoming the concept in general would beg out for themselves on grounds that their case is "special." Of course, it is precisely the proliferation of special cases that makes the problem! There are also some specific areas of concern which reflect lack of full understanding and, therefore, warrant comment.

First, the Federal financing bank is a financing vehicle only. The bank will not add to or subtract from existing Federal credit programs. It would simply exist to facilitate the financing of the programs which Congress has created or will create in the future.

The bank is not a device to remove programs from the Federal budget. It does not affect the existing budget treatment of Federal credit programs.

The Federal financing bank in no way infringes on the prerogatives of State and local governments in their access to the tax-exempt municipal bond market; it is not an Urbank. The financing bank will acquire securities only in instances where the Federal Government is otherwise involved through guarantees or other forms of financial backstopping. Some tax-exempt issues such as Public Housing Authority and Urban Renewal Authority obligations do fall into that category. By removing this source of pressure on the municipal bond market, State and local borrowers should find a more receptive market for their other issues.

We are strongly convinced that enactment of the Federal Financing Bank Act will substantially improve the efficiency with which the Government's borrowing is accomplished without any significant detrimental effect on other securities markets or on the way the securities industry serves its basic function of mobilizing capital. Our principal opponent, particularly in a year in which the Congress is easily distracted by issues with more political appeal, is apathy. To overcome that we will need the support of all of those professionally concerned with the problem of Government finance.

I make this "pitch" to you with no apologies. The concern of the Money Marketeers with economic policy and the problems of Government finance is well established.

Indeed there is no group that has more successfully combined business and education through the years with the pleasures of professional companionship. Thank you for having me.

Exhibit 32.—Remarks by Special Assistant to the Secretary Adams, January 27, 1972, before the U.S. savings bonds campaign meeting on the savings bonds program

Some of you may have wondered just where savings bonds fit into our economic picture, in light of the Government's new economic policies and our desire to stimulate consumer spending for goods and services.

To get at the answer to that question let's look briefly at the new economic policy, its objectives, and at our progress since August 15 in meeting these objectives.

The President, as we all know, announced a new set of economic initiatives on August 15 which have as basic objectives: (1) Breaking the back of inflation and inflationary expectations, (2) creating jobs and promoting longer run economic expansion, and (3) balancing our international accounts and restructuring the international monetary system. To accomplish these objectives the President took steps both domestically and on the international side.

Here at home we had the price-wage freeze, which has to be recognized as a resounding success. It virtually stopped inflation during the freeze period and restored confidence in the economy. It also gave the administration time to formulate the longer run economic stabilization plan which is Phase II. I am confident that the system of wage-price restraint that has been developed will in the months ahead prove to be a meaningful anti-inflation program that will work without unduly restraining economic expansion.

In order to further the second objective of the new economic policy which is to create jobs and promote long-run economic growth, the Government has enacted a comprehensive tax program designed to stimulate the economy through business and personal tax cuts. We can expect these important tax changes to have a major beneficial effect on economic activities in the months and years ahead.

On the international side, the suspension of gold convertibility and the 10-percent surcharge on imports was intended to create a climate in which basic changes can be negotiated in international monetary and trading relationships which will put the United States in a much improved competitive position in world markets and make overall balance in our international accounts possible. The December 18 Smithsonian accord goes a long way toward allowing us to meet these objectives. Serious negotiations in the trade area are in progress. But it is evident that some broad international agreements have emerged that should make progress toward a solution of international monetary and trade problems possible in the near future.

Now, against this background of positive action to improve our economic well-being, how is the economy doing? I think it is safe to say almost all of the recent economic developments are encouraging as we look ahead into 1972 and beyond. In fact, the U.S. economy is now taking on a bright new look. Some specific items:

On inflation, both wholesale and consumer price indexes since August show a clear curbing of the inflationary momentum that existed this year. This is true despite jumps in these indexes in December following the lifting of the freeze. As a matter of fact, the GNP deflator rose at only a 1.5-percent annual rate in the fourth quarter while wholesale prices rose at a 0.3-percent annual rate and consumer prices at a 2.3-percent annual rate.

Real GNP is showing broad-based strength, rising at an annual rate of 6.1 percent in the quarter ending December 31.

Durable goods orders are growing, particularly producers' capital goods. The improvement here is supported by the latest Commerce-SEC survey of plant and equipment expenditures which suggests a rise in these outlays of 10 percent or more in 1972.

Retail sales are strong. Excluding automobiles, retail sales in December were 5 percent higher than a year ago. With inflation slowing, much more of these sales gains are now real gains, rather than simply a reflection of higher prices.

We also have areas of continuing strength in housing, which is setting records this year. In addition, expenditures for new construction increased about 15 percent and were at an alltime high in 1971.

All of this points to a year of strong economic growth in 1972, accompanied by reduced rates of inflation and unemployment as real output and productivity accelerate and the Government's program of wage-price restraint operates effectively.

In this environment of improving economic conditions I can say, without equivocation, that the savings bonds program will continue under the new economic plan to fill an important role. Those who buy savings bonds regularly, systematically, will benefit as always from the family security derived from the payroll savings plan. By the same token, the Government, and the Nation at large, will gain from an ongoing flow of these stable, noninflationary savings funds.

Thrift is still a virtue, a habit which sometimes takes a long time to form and certainly a habit which needs constant encouragement. The payroll savings plan has for years performed a valuable service in making it easy for our citizens to put aside small sums on a regular basis for emergency needs and future opportunities. For the self-employed, the professional man and woman, the bond-a-month plan has been a beneficial program.

It would be unfortunate and unnecessary to reduce our efforts in the promotion of savings bonds sales—even temporarily. We do not wish to see the habit of thrift diminished. We do not desire a reduction in this sound source of funds to the Treasury.

As of December 31, the cash value of E and H bonds outstanding amounted to \$54.3 billion. With the inclusion of Freedom Shares which were withdrawn from sale on July 1, 1970, holdings total \$54.9 billion, an alltime peak.

This is a huge sum of money in the hands of tens of millions of Americans who now own savings bonds. It represents 22 percent of the privately held portion of the public debt.

But the importance of savings bonds in terms of managing the national debt is not fully reflected in this single fraction, significant though it is. The fact is that savings bonds today, even with their shorter initial maturities, constitute a very stable portion of the Government debt.

Because of the 4¼-percent interest rate ceiling on Government bonds that dates from World War I, the Treasury had from 1965 until this year been prevented from issuing any securities of more than 7 years to maturity. We now have \$10 billion of authority from Congress to issue bonds longer than 7 years without regard to the 4¼-percent ceiling. Nevertheless, this authority will be used gradually and savings bonds will remain important in the overall structure of the Treasury's debt.

Thus it is not difficult to understand why we are concerned that we continue to be able to count on a solid base of funds provided to the Government in the form of savings bonds dollars. On the basis of past experience, we can predict that the savings bonds sold today, on the average, will not be redeemed for 5½ years, which is considerably longer than the average maturity of our marketable issues.

This may sound a bit strange since one hears so often that savings bonds are cashed in practically as soon as they are bought. It is true that there are those who turn them in after the minimum waiting period, and early redemptions are a problem. But by and large our buyers hold onto their savings bonds. Every analysis we have made shows that in comparison with deposits at commercial banks, savings and loan associations, and mutual savings banks, people hold their savings bonds.

We no longer need to apologize for the savings bonds interest level. Savings bonds now earn 5½ percent when held to maturity. This is a good return, a sound return, a guaranteed return.

From the beginning of the savings bonds program, the industry-oriented payroll savings plan has been the backbone of the program. Today more than 40,000 companies, large and small, operate the plan and the savings bonds purchased by their employees account for more than two-thirds of total sales.

The U.S. Industrial Payroll Savings Committee, with the support of organized labor and the vast army of savings bonds volunteers, has accomplished a formidable task in promoting the sales of E bonds. The 1972 committee has taken on a challenge just as formidable. We are confident that it too will not only meet, but exceed its goal.

Those of you who are spearheading our 1972 campaign are selling a product that is tried and true—one that is good for the Nation and good for each of us as individuals.

Exhibit 33.—Remarks by Special Assistant to the Secretary Adams, March 8, 1972, before the Conference of the Mid-Continental District Securities Industry Association on Federal debt management

It is a pleasure to be here in Chicago today at this conference of the Mid-Continental group of the Securities Industry Association.

By way of background, I might explain that the Treasury Special Assistant for Debt Management works in the area of planning the Treasury's financing operations and works also with various Federal agencies in coordinating their market

borrowing activities. I came to the Treasury about 9 months ago from commercial banking where I had been managing a bank bond portfolio. A move of this sort is something like moving to the other side of the same counter. As bankers we were always trying to figure out what the Treasury and the Federal Reserve were going to do that would affect the bond market, and at the Treasury we are trying to guess what the banks will do about buying Treasury issues. Of course what we at Treasury call debt management the banks have developed a euphemism for. They call the management of their debts liability management. Maybe that's what we should call it in Government—liability management somehow has a little nicer ring to it.

In any case, we do have a Federal debt to manage—about \$426 billion of it now and it's heading higher, as you have no doubt seen with the unified budget deficit for this fiscal year projected at \$38.8 billion and for 1973 a further deficit of \$25.5 billion. We are not happy about the need for deficits of this size. But this is one of these bad news/good news situations. The bad news is, of course, the absolute size of the projected deficits which rubs against the grain of our traditional ways of thinking about fiscal policy. The good news, on the other hand, is that these deficits will provide a needed economic stimulus and that the deficits are manageable in the sense that financing them will not impinge on an already overburdened money and capital market.

In talking about Federal debt management today, I would like to say something further on this matter of the budget, then to talk about the debt management aspects of these deficits, and finally to cover briefly the matter of the financing of Federal agency and federally guaranteed borrowings. This last item involves the administration's proposal to create a Federal financing bank.

Now on the Federal deficits for fiscal years 1972 and 1973, there is no question that the budget numbers that were released in late January caused concern in the financial markets. The concern stemmed from a widespread feeling that: (1) Deficits of this size are in and of themselves going to intensify our inflation, and (2) that at the very least financing these deficits will have the effect of driving up interest rates. Both of these assumptions are worthy of a further examination.

Budget deficits or budget surpluses are just one of a number of forces at work in the economy at any given time. There are usually more important fundamentals affecting prices and interest rates, and the budget has to be viewed in the context of underlying economic conditions. Looking at the history of our Federal budgets, you discover that there is no reason to conclude that budget deficits automatically lead to inflation and escalating interest rates or, for that matter, that surpluses mean low interest rates and less inflation. In looking at the record what stands out is the fact that our major inflations in the United States are associated with wars and that peak interest rate levels are related to our inflations. As far as budget deficits or surpluses in and of themselves are concerned, there is no one-to-one relationship between them and inflation and money rates.

Taking the last 20 years or so, we ran surpluses during two out of the three Korean war years and nevertheless had a sharp inflation and substantial increases in interest rates. A recession followed the Korean war in 1953-54 and inflation and interest rates subsided despite a large budget deficit in fiscal year 1954. As the economy expanded in 1955-57, a sharp rise in prices and interest rates occurred even though the Government ran sizable surpluses during most of the period.

In all but one of the eight fiscal years, 1958 through 1965, Federal deficits were incurred. These years were characterized by the existence of unutilized resources and unsatisfactory levels of unemployment. Inflation was virtually dormant, and interest rates after 1959 were remarkably stable.

More recently, the 1965-69 period was a time of inflationary boom—again associated with war. Inflation and interest rate levels became intolerable. Here in this superheated climate very large deficits did indeed aggravate the inflation and the rise in interest rates of the late 1960's.

This quick review of recent history suggests clearly, I think, that it is one thing to run a large deficit in an overheated, full employment economy like fiscal year 1968 but quite a different proposition in the present environment when we are moving in transition from war to peace and when fiscal stimulation is needed to speed the transition.

Now to put the fiscal years 1972 and 1973 budgets in their proper context, we

have to look at our economic objectives and our current progress toward these objectives. Our objectives are as the President stated them last August: (1) To break the back of inflation, (2) to promote sustainable economic growth, (3) to create jobs and reduce unemployment, and (4) to work toward restructuring the international monetary system.

The steps already taken in furtherance of these objectives are well known: A major reduction in personal and business income taxes, an automobile excise tax cut, an international currency realignment, and a coherent wage-price stabilization program which we know as Phase II.

These steps are producing good results, evidenced by a real growth rate in the economy of nearly 6 percent in the last quarter of 1971. Further substantial gains in economic activity are occurring so far this year. However, we must sustain this developing business expansion. The Federal budget in fiscal years 1972 and 1973 will act to reinforce the major economic policy initiatives taken in recent months.

In summary, we regard the budgets for fiscal 1972 and 1973 as appropriate stimulants for the economy. We do not regard these budgets as inherently inflationary nor do we believe that financing these deficits will produce a major escalation in interest rates.

All of this is not to say, however, that we do not have a large financing job ahead of us over at least the rest of this year. The new budget figures put a greater emphasis on debt management.

Based on our projections for the weeks ahead, our remaining gross market borrowing requirements through April will be about \$5.4 billion, including \$2.4 billion to be raised via continued \$300 million weekly additions to the bill auctions. Our May and June requirements will depend on actual budget developments but will be fairly large in any case. The period we are in now, March-June, is where the unusual Treasury borrowing pressures on the market will occur. Normally in the first half of the calendar year, the Treasury retires some debt out of seasonally heavy tax collections but this will not be the case this year. Fortunately, these unusual borrowing requirements will not be impinging on already overloaded credit markets. The present relatively low short-term rate structure indicates a substantial capacity to accommodate the Treasury. It reflects the low level of credit demand in the private sector, the substantial foreign purchases of short-term Treasury securities in recent months, and an accommodative monetary policy. These conditions are generally expected to persist at least until the present business expansion has progressed far enough to absorb a significant portion of the unutilized resources existing in the economy.

Moving into the first half of fiscal year 1973, we will continue to be active borrowers in the capital markets as we finance the seasonally heavy portion of the deficit for the fiscal year. However, the size of the financing job during that period will be more in line with that of previous years, and as such, it will be seasonally heavy but not extraordinarily so.

In addition to the cash raising job ahead of us, we have three quarterly refunding operations in the balance of the year. We are fortunate that the size of these operations is not large. Securities that will have to be refunded this year total \$12.2 billion privately held or about \$4 billion per quarter. These amounts are quite manageable and should cause no special difficulty.

In our cash financing and refunding operations this year, we do have to recognize and deal with the problem of debt structure. In recent years, our deficits and our inability to sell Treasury securities beyond 7 years because of the 4¼-percent interest rate ceiling have resulted in a substantial decline in the average length of the privately held debt. In mid-1965, the average length was 5 years 9 months and it is now 3 years 3 months. This is not as alarming as it may seem since during the past 6½ years the privately held marketable debt has increased very little as the Federal Reserve and the various Government accounts on balance have acquired most of the new Treasury issues. So the debt structure problem is really that of avoiding having big, unwieldy maturities coming due at any one time. With our quarterly maturities this year fairly light, we should find it possible to couple our regular refunding operations with other operations designed to relieve congestion in specific maturity areas and to accomplish some lengthening into the 10-year and longer area.

The reception of the advance refunding of the February and May 1974 maturities and the size of the exchange into 10-year obligations suggests that the market is receptive to moderate-sized issues of longer term Treasuries now that we have

authority to issue a limited amount of bonds without regard to the 4¼-percent interest rate ceiling.

With the large financing requirements arising from our deficits, there is considerable thought among Government securities market participants from whom we have received helpful advice that our financing operations should become more regularized and routine in the manner, for example, of our weekly Treasury bill auctions.

The main arguments in favor of this are said to be: (1) It would reduce market disturbances, (2) it would remove an element of uncertainty from the market, and (3) it would reduce the need of the Federal Reserve to act in special ways to accommodate Treasury financings. In other words, it would reduce the need for "even keel."

Offsetting the advantages of regularizing debt management, however, is a resulting loss of flexibility. To debt managers it is not so clear that automatic and inflexible procedures are completely desirable. Flexibility is needed to permit taking advantage of market demands in specific maturity areas or conversely to avoid putting undesirable pressure on unresponsive market sectors. Our recent offering of short-term bills is a case in point. Here market demand as evidenced by relative interest rate levels was strongest in the short-term sector of the market. At the same time, it was also desirable to minimize pressures in the intermediate and longer term market. The short-market therefore represented the best opportunity.

As a practical matter in financing our large budget deficits during the months ahead, we will almost automatically be tending to regularize more of our debt. This is because a substantial portion of the deficit will be financed in the short-term market simply because this is where the greatest absorptive capacity is. To the extent that we sell bills, which will be routinely rolled over, we are moving in the direction of automating debt management. We may further this tendency by issuing short-term securities other than bills on a regular basis because we recognize that in present circumstances some degree of regularization has merit. At the same time, however, we will wish to retain flexibility in handling our quarterly refundings and in interim cash raising operations in intermediate and longer term maturities.

Now there is one other new item in debt management which I would like to discuss and that is the administration's proposal to improve the borrowing efficiency of the Federal agencies through the proposed Federal Financing Bank Act of 1972. This pending legislation, as many of you know, has three main features:

First, the bill would establish a new financing vehicle, the Federal financing bank, which would consolidate the financing of a number of Federal programs which are now financed individually in the private securities market. By reducing the number and types of separate issues we will achieve a substantial savings in borrowing costs.

Second, the bill would provide for coordination by the Secretary of the Treasury of Federal agency financing plans. This will assure early focus on the market financing requirements for Federal programs and better overall coordination of the market borrowings by the Treasury, the Federal financing bank, and those federally assisted borrowings not financed through the bank.

Third, the bill would provide for submission to the President of budget plans for loan guarantee programs. These programs would continue to be excluded from the Federal budget totals, but the President would be permitted to place limits on them when necessary in view of overall fiscal requirements and demands for credit. This will assure more effective coordination of loan guarantee programs with other Federal programs and with overall economic and financial policies.

I won't belabor the need for the Federal financing bank. I know this audience is well aware of the Federal debt management problems arising from the current fragmentary approach to Federal financing.

During the course of our discussions of the Federal financing bank with the various agencies involved, with public interest groups, and with capital market participants, considerable support for the legislation has developed. Most people agree that the economical financing of the Government's activities and programs is clearly in the public interest. However, there are some specific areas of concern with respect to this legislation which have come up and which warrant emphasis and comment here.

The bank would not be a program agency. That is, it would neither add to nor

subtract from existing Federal credit assistance programs. The bank would not be authorized, nor would the Secretary of the Treasury be authorized, to make any judgments with respect to the recipients of Federal credit aid. The bank is designed merely to improve the financing of programs otherwise authorized by the Congress.

The Federal financing bank would not be another big bureaucracy. It would rely upon the existing staff and facilities of the Treasury Department and the Federal Reserve banks in its borrowing operations. In fact, the establishment of the bank would reduce Federal bureaucracy since it would eliminate the need for establishing new financing staffs for each new Federal credit program or agency.

The Federal financing bank is not a device to remove programs from the Federal budget nor is it a device to bring programs back into the budget. The bank would in no way affect the existing budget treatment of Federal credit programs. If a program is now financed outside of the budget, that treatment would continue. If a program is now financed in the budget, that treatment would continue. How these programs should actually be treated in the budget may be debatable. But that debate involves more than just financial questions; it goes to the heart of budget policy and resource allocation. Pending the resolution of these broader questions, I think that we in the financial community have a responsibility to do the best job possible in the financing of the Government's programs.

This legislation would in no way change the financing of those federally sponsored agencies which are now completely privately owned and which issue obligations not directly guaranteed by the Government. Those agencies, namely FNMA and the institutions of the home loan bank system and the farm credit system, would continue their present practice of consulting with the Secretary of the Treasury and borrowing directly in the private market. Those agencies would not be authorized to borrow from the bank but would undoubtedly benefit from this legislation because the Federal financing bank would reduce the number of names and competing issues in the agency securities market and would contribute generally to more orderly market conditions.

The bank would not heap new demands on the securities market. Most guaranteed loans, such as the regular FHA and VA mortgages, are generally originated, serviced, and financed by widely dispersed lenders rather than in the securities market, and these practices would continue. The programs which would be financed through the bank are the ones which are already being financed in the securities market. By consolidating this financing and replacing a variety of less efficient securities with a single more marketable instrument, the bank would actually reduce the market impact of Federal borrowing activities.

The Federal Financing Bank Act is not an assault on the tax-exempt municipal bond market. Rather than involving the Federal Government in the tax-exempt market, the bank would permit the Federal Government to withdraw from that market. Under existing arrangements Federal agencies finance some of their programs in the municipal market by means of Federal guarantees and debt service subsidies on tax-exempt obligations, e.g., for public housing and urban renewal. These programs currently require about 1 out of every 8 dollars invested in tax-exempt obligations. The Federal financing bank would permit the removal of the financing of these programs from the tax-exempt market, thus reducing pressures on that market. Consequently, State and local governments should benefit, in terms of more receptive markets for all their borrowings, by enactment of this legislation.

Concern has been expressed about other legislative proposals which would permit the Federal Government to subsidize all municipal bonds either through a new central financing institution or through interest subsidy payments on taxable municipal bonds. The concern, as I understand it, is that the Federal subsidy will be so irresistible to local officials that it will lead to a drying up of the tax-exempt bond market, to Federal control over municipal finance, and to federally imposed restrictions on the volume or purpose of municipal borrowing. We feel strongly, as is evident from our revenue sharing proposals, that State and local governments should have more, rather than less, financial independence.

Yet in the case of certain high priority national programs where the Congress has in fact determined that Federal credit aid is essential, e.g., for public housing, Federal controls and subsidies are already facts of life. Financing those programs through the Federal financing bank will result in significant savings to government at all levels and will not involve the Federal Government in any municipal borrowing or project it is not already involved in.

If the Congress should determine at some future date that direct Federal subsidies or guarantees should be made available for all of the bonds or notes of all 50 States or just for municipalities or just for the weaker borrowers or just for general obligations rather than revenue bonds or just for certain essential public facilities, then, in that legislation decisions must be made with respect to the degree of Federal control, the degree of subsidy, and the method of financing. The Federal Financing Bank Act does not prejudice those issues.

I hope these comments have been helpful in clarifying our intent in proposing the Federal financing bank legislation. We have attempted in drafting this bill to assure the best possible market for the financing bank issues. These securities will be full faith and credit obligations of the United States and will be backed by the Treasury so as to assure timely payment and minimize borrowing costs. We expect these issues to be second only to the Treasury's direct issues in marketability. We solicit your support in gaining early enactment of this legislation by the Congress.

Law Enforcement Developments

Exhibit 34.—Statement by Assistant Secretary Rossides, August 5, 1971, before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations on joint efforts by the United States and Vietnam to halt illegal financial activities

I am pleased to appear here today to discuss the activities of the Treasury Department as a part of the overall effort of this administration to deal with illicit financial transactions in Vietnam to which the combination of war and inflation give rise. We believe that a good deal of progress has been achieved by U.S. Government action and the actions of the Government of Vietnam.

Activities of agencies of the U.S. Government

Significant strides have been made in the last year and a half by State, Treasury, Defense, and AID to deal with black marketing—the illegal importation or exchange of commodities and the illegal exchange of piasters for dollar instruments at a rate in excess of that established by law—and currency manipulation. The Interdepartmental Action Task Group, Vietnam (IATG), composed of the State, Treasury, and Defense Departments and the Agency for International Development, is coordinating action at the Washington level. The IATG was established in December 1969 for the purpose of improving Government agencies' existing procedures and practices in the administration of programs in Vietnam so as to eliminate opportunities for black marketing and currency manipulation and for the purpose of exploring the broader aspects of economic conditions which spawn black marketing and currency manipulation. I have, for the record, a copy of the Memorandum of Understanding, which created the IATG.

The American Mission in Saigon, under the leadership of the State Department and Ambassadors Bunker and Berger, has spearheaded adoption and implementation of a number of effective policies and new or revised regulations and procedures applicable in Vietnam.

Importance of the economic situation and related financial factors

Basic to the success of efforts to control illicit activities is the degree of instability which affects a nation's economy. Economic instability in Vietnam over the years has been affected by the fact that Vietnam is a small country engaged in a large war, with its own territory the site of military combat. Also, large numbers of troops have been located in the country, with heavy war-related expenditures sharply affecting the economic and financial situation. History shows that inflation and economic disruption and black marketing have never been easily dealt with in a country engaged in a major war taking place in its own territory. Examples of this are Europe in World War II, Korea during the Korean war, and the United States during the Civil War.

The economic environment in Vietnam impacts fundamentally upon incentives and opportunities for corrupt activity by Americans and other foreign nationals who serve there, as it does upon corrupt activities of the Vietnamese themselves. There appears to have been a considerable improvement in the economic situation in Vietnam since March 1970. Retail prices and the black-market price of the

piaster have been relatively stable since July 1970, reflecting resurgent national confidence as well as the impact of certain economic measures undertaken by the Government of Vietnam in September and October 1970. Among the economic measures was a change in the exchange rate for piasters purchased by foreigners for their personal accommodation, an action which substantially reduced incentives to engage in currency black marketing.

GVN economic policy

The short-term objective of GVN economic policy, as reflected in the measures undertaken in September–October 1970 and in March 1971, has been to achieve and maintain relative price stability.

The measures undertaken by the GVN in September and October 1970 removed nearly 20 billion piasters from general circulation by requiring large advance deposits on licensed imports and by increasing savings deposits through higher interest rates. The objective of the March 1971 measures is to remove another 20 billion piasters from circulation by permitting anonymous time deposits and by sales of GVN Treasury bills to commercial banks. Over a period of approximately 1 year, therefore, the GVN expects to have “neutralized” a sum of piasters approximately equal to its entire budget deficit in 1970 as well as to have increased GVN piaster revenues somewhat. The possibility of a resurgence of inflationary pressures always exists, however, and further economic reforms should be taken in due course if reasonable stability is to be maintained.

On October 5, 1970, the rate of exchange for piasters for personal accommodation of U.S. personnel and other foreigners in the RVN was changed from 118 to 275 to the dollar. By July 1971, piaster sales to individuals through official U.S. currency exchange facilities had risen to over \$262.32 per capita per month for civilians and \$26.96 per capita for all U.S. military personnel compared to sales of \$45.98 and \$3.95 to those categories of personnel, respectively, in September. Although the black-market rate remained at about 400 piasters per dollar for U.S. currency or dollar instruments (the rate for a 10-dollar bill as of July 19, 1971, was 371 to 1), the MPC piaster rate in the black market has been near the 275 to 1 rate or lower. The individual, therefore, has no incentive to negotiate his MPC for piasters other than through legal channels.

GVN foreign exchange receipts from accommodation sales have increased substantially despite the decline in U.S. personnel because the much higher exchange rate provided an incentive to buy through legal channels. Accommodation purchases of piasters totaled \$3 million in September 1970, compared to \$11.6 million in May 1971.

The reduction in the black-market rate for a 10-dollar bill has fallen from 426 to 1 in September 1970 to 371 as of July 19, 1971, and this means the premium over the official rate has dropped from 261 percent to 35 percent. The premium on conversion of MPC has turned into a discount with a 10-dollar MPC at a 267 to 1 rate on July 19, 1971.

U.S.-financed procurement

The size of U.S.-financed procurements in support of the U.S. effort in Vietnam has afforded opportunities for black marketing, illegal currency manipulation or other corrupt or undesirable practices and has demanded particular attention to prevent, insofar as possible, adverse effects on the GVN economy. The total dollar volume of U.S. procurements in the Pacific command area during fiscal year 1970 approximated \$1 billion. The magnitude of contract activities by the principal U.S. contractors furnishing logistical support in that area continues to be substantial.

To achieve a balance between the delegated procurement responsibilities of the component military service and the coordinating role of the unified commands, the Commander-in-Chief, Pacific (CINCPAC) has established a Joint Procurement Coordinating Board (JPCB). Such boards are established both at the CINCPAC level and in-country at the level of the unified commands.

Defense Procurement Circular (DPC) 81

DPC 81 was promulgated on August 21, 1970. It not only restated the contract clauses with respect to the method of payment to third country nationals but also tightened the requirement that all piaster exchanges by contractors be accomplished at military banking facilities or military disbursing offices. In addition, it required that satisfactory proof of such exchange be furnished in connection with

any piaster payments under the contracts. The circular also added the requirement that all fixed-price contracts include a provision that U.S. dollar payments must be made to a bank in the contractor's country of origin; that the contractor provide an estimate of his piaster needs and thereafter provide proof of purchase of that amount from authorized sources; and that U.S. nationals and third-country nationals (TCN's) employed by contractors will be permitted to draw only a limited amount of military payment certificates (MPC) per month and that they will be provided by the contractor with piasters for their minimum normal piaster living expenses each payday. New contracts, with very few exceptions, now contain the required clauses, and acceptance of the clauses in the remaining contracts are expected in due course.

The administration of these clauses is a most critical area of the procurement environment. MACV, working through the members of the JPCB Vietnam, is making a concerted effort to obtain full compliance. All major contractors have indicated that they have taken steps to enforce the cost of living clauses requiring payments to employees in piasters. Backed up by mandatory Defense Contract Audit Agency (DCAA) audits on cost contracts, satisfactory compliance should be assured.

Policing and enforcement of such clauses create a new obligation and establish a record and reporting requirement not normally associated with fixed-price contracting. Nevertheless, the addition of those requirements as clauses in fixed-price contracts has proved feasible. Because even fixed-price contractors are required to maintain books and records for audit purposes, compliance with DPC 81 clauses in fixed-price contracts is now the subject of spot checks by the DCAA. An audit trail is provided and the followup of information obtained from the DCAA audits provides a possible means of enforcement, the threat of which, at least, is frequently an effective sanction.

Third country nationals (TCNs)

Problems stemming from use of third country national (TCN) employees have been the subject of continuing attention. A major concern related to the possible impact on the currency black market by reason of the method of payment of contractor-employed TCN's. It was believed, in view of the very high black-market exchange rate, that TCN access to U.S. dollar instruments was a real or potential source of entry into the blackmarket. It has, therefore, been made mandatory in Vietnam that TCN's be paid in piasters for their piaster needs (necessary expenditures on the Vietnamese economy) and that the remainder of their wages be paid in U.S. dollars remitted directly to a bank in their country of origin.

Treasury's role and activities

The Treasury has an important role to play in the control of illicit financial transactions in Vietnam and has: (1) Served in an advisory capacity regarding the establishment of appropriate regulations and regarding local enforcement, and (2) offered its full facilities in actual enforcement, primarily through the Internal Revenue Service in terms of evasion of U.S. taxes, and through the Bureau of Customs in terms of monitoring the AID-funded commercial import program (CIP) and advisory assistance to the Vietnamese Customs Service.

Let me note that law enforcement is complicated by the fact that the U.S. Government must provide efficient and effective facilities to assure that our citizens, and especially our combat troops, are able freely to discharge legitimate financial and other transactions. To help meet this objective, Treasury assisted in the establishment of U.S. commercial banking branches as well as military banking facilities in Vietnam and has maintained an active interest in their operation. Treasury has also assigned a financial attache to the Embassy.

In 1965, Treasury participated in the establishment in Vietnam of institutional procedures and facilities to tighten control over illegal activities involving U.S. money, supplies, and personnel. These include the use of military payments certificates (MPC) as the circulating medium in U.S. official facilities.

U.S. banking facilities in Vietnam

The Treasury Department and the appropriate armed services supervise the military banking facilities operated in Vietnam, and the Treasury maintains control over the activities of the United States Disbursing Officer at the American

Embassy in Saigon. The Bank of America, Chase Manhattan Bank, and the American Express International Banking Corporation maintain military banking facilities throughout Vietnam. Military facilities of the national banks are subject to examination by the Departments of the Treasury and Defense. All are considered to be operating in accordance with applicable U.S. laws.

The military banking facilities permit U.S. dollar checking accounts for authorized personnel; however, local withdrawal can be only in MPC. Treasury has authorized the military banking facilities to pay interest on demand accounts at the rate of 5 percent per annum on monthly balances of \$100 or more to encourage savings while at the same time providing maximum flexibility in the use of accounts. As of December 31, 1970, military banking facilities in Vietnam maintained 130,831 accounts for individuals, with balances totaling approximately \$48,692,000.

Military payments certificates (MPC)

The MPC system, which is administered by the Department of the Army, helps control illegal transactions by restricting use of dollar currency by U.S. military and civilian personnel and foreign military personnel. MPC's can be used, within prescribed limits, for remittances outside Vietnam or for conversion without limit into piasters at official facilities. It is against U.S. regulations in Vietnam for unauthorized persons to hold MPC's, and any held illegally are not redeemed by the U.S. Government.

MPC issues are changed from time to time, with conversion to new series limited to authorized holders. The most recent such conversion was on October 6, 1970. At each such conversion substantial amounts of the supplanted MPC series have not been converted and have thereby become worthless. (The dollar backing for the unredeemed MPC's eventually accrues to the miscellaneous receipts of the Treasury.)

I might note that the sales of piasters to individuals through official facilities against MPC's have recently been running at about \$10 million per month. This is somewhat more than twice the monthly rate existing before the introduction of the 275 piaster rate of exchange, and should it continue, about \$120 million in foreign exchange earnings per year will be generated for the Government of Vietnam from this source.

Money orders

For remittances outside Vietnam, authorized personnel may purchase U.S. dollar money orders at base post office facilities or at military banking facilities. Money orders are also sold by the Army/Air Force Exchange Services, which orders are drawn on a bank in the United States.

On January 15, 1970, a new postal money order was adopted for issuance at overseas military post offices. These money orders are issued in Vietnam without fee. The new postal money orders are not payable through banks outside the United States other than through military banking facilities. If they are cashed at a foreign bank the Post Office Department will not accept them. The limitation on the negotiability of this instrument is intended to help strengthen efforts to stem the exchange of dollar instruments (purchased with MPC's) for piasters in the black market.

Financial control measures

U.S. currency controls in Vietnam are designed to make the risk so great that individuals won't attempt to engage in black-market operations. The financial controls are designed first to restrict the flow of MPC's to within authorized channels thereby inhibiting leakages of MPC's into the hands of unauthorized persons and, second, to control the conversion of MPC's into U.S. dollars. Currency transactions in which the individual uses MPC's to purchase dollar instruments, make deposits to a military banking facility account or to the savings deposit program, or convert to U.S. currency upon departure from the RVN, are controlled.

There is a \$200 monthly limitation on the total of all such transactions. Exceptions to the limitations are authorized only when a bona fide personal emergency arises.

The authorized system used to monitor controlled currency transactions is called CABOTS. CABOTS was devised and became fully operational in September 1969 and has been providing a strong deterrent to illegal transactions.

CABOTS was designed to place a roadblock at one point in the cycle essential to the illegal operation. It does not stop everyone in the act, but it does identify illegal operations and provides the data and evidence necessary to detect, apprehend, and convict.

A computer record is maintained on each individual who is authorized to make controlled transactions. At the operating level, credit-card-type equipment and forms are used. An addressograph data recorder machine is used at all facilities to prepare the transaction form.

All transactions from MPC to dollar and/or dollar instruments must be supported by a three-part form which identifies the individual and the amount of the transaction. One copy is a card form which creates input to a computer, pulling together all transactions for an individual to allow for the detection of those who exceed the monthly limit.

A further control of significant importance was the establishment in October 1969 of a requirement that money orders issued through military post offices and banking facilities in Vietnam must immediately be mailed by the postal or bank clerk to an address in the United States. This requirement and the new money order form recently adopted has helped to reduce the use of money orders as a vehicle for black-market operations.

Income tax violations, investigations, and prosecutions

Violations of the currency laws of Vietnam and other illegal activities by U.S. civilians temporarily in Vietnam were brought to the attention of the Treasury's Internal Revenue Service early in 1966. These violators were able to operate with impunity because they were not subject to U.S. military authority and because the Republic of Vietnam was reluctant to investigate and to prosecute U.S. citizens present in Vietnam due mainly to the efforts of the United States to assist in the country's defense. Defense Department officials, therefore, asked the Treasury to send several IRS agents to Saigon to inspect data that had been compiled there and to initiate tax proceedings against some of the civilian violators.

In the latter half of 1969, illegal operations disclosed in Vietnam indicated a need for more intensive enforcement activity by the IRS. In August, at the request of the U.S. Embassy in Vietnam, an agent of the IRS was sent to Saigon to examine data on currency violations by U.S. civilians in Vietnam. This information included the now famous Prysumeen data as well as information relating to alleged frauds in the operation of NCO clubs in Vietnam. Also at about this time, the alleged frauds on the NCO clubs in Vietnam were brought to the attention of IRS by representatives of the Department of Defense, who also sought assistance in determining what income reports had been made to IRS by the alleged perpetrators of the NCO club frauds.

On the basis of the new information and the indicated impact of illegal activities by U.S. civilians in Vietnam on the achievement of U.S. objectives there, Treasury initiated through the IRS new investigations into the income tax affairs of all persons known to be or suspected of being importantly involved. Also, the Saigon post was opened for the purpose of implementing the IRS service-wide Vietnam enforcement program. Three revenue agents were permanently assigned to Saigon for a period of 18 months in February 1970. Two additional agents were assigned on temporary detail in November 1970.

The Revenue Service representative, Saigon, is a member of the Irregular Practices Committee of the Embassy in Saigon. This committee is composed of key officials of the Embassy and the heads of all U.S. investigative agencies in Vietnam. It operates as a team to combat black-market and other illegal activities. It is chaired by the able and distinguished Deputy Ambassador Berger, who did such an outstanding job in this area while Ambassador in South Korea.

The IRS Vietnam team has concentrated its efforts on servicing collateral requests by IRS stateside offices for information important to the development of audits and intelligence investigations as well as furnishing informational leads. In addition, audit examinations have been accomplished in Vietnam, and in one instance the audit resulted in a tax deficiency of \$1,600,000 now pending in the Tax Court.

The IRS has considered criminal investigations of more than 50 persons alleged to have received significant amounts of income from illegal activities in Vietnam. In 31 cases field investigations were initiated.

The IRS currently has 10 criminal investigations in process and it appears

that a number of them should result in prosecutions. In addition, IRS has completed the civil examinations of more than 35 persons and has more than 60 civil examinations currently in process. The proposed assessments and penalties total more than \$7 million, including more than \$4 million in jeopardy assessments in connection with two of the criminal cases.

Many items of information concerning individuals who may have omitted small amounts of income from a source in Vietnam have been referred to field units for appropriate action and have not been included in the above figures.

The IRS is continuing its efforts to gather intelligence which will enable it to identify persons who have failed to report significant amounts of income from activities in Vietnam. As a result, new examinations and criminal investigations are being initiated from time to time on a selective basis. Because of the very detailed documentation required for proof of tax evasion, some investigations require a year or two to complete. Therefore, it will not be possible to determine the full effect of the IRS Vietnam-related investigations for some time.

The Internal Revenue Service has had a tax administration advisory team in Vietnam since 1966. This team has been engaged in advisory work in functional areas of audit, collection and training, particularly. We have been instrumental in the installation of a withholding tax system, the development of an audit program, and the training of auditors and of a collection force. The collections of internal revenues have increased from approximately \$7 billion piasters in 1967 to approximately \$38 billion in 1970. An estimated 25-percent increase will occur during the current year.

Use of bank accounts for currency manipulation in Vietnam

This subcommittee is concerned about the problems for law enforcement which can arise from the use of the domestic deposit account facilities of any U.S. bank. Except for the prohibitions contained in the Foreign Assets Control Regulations, banks in the United States can, at their option, accept deposits from anyone capable of making a contract. Such deposit contracts accepted can usually be terminated by the accepting bank on its option. However, once accepted, the bank must honor properly prepared and presented withdrawal orders. Such withdrawal orders can include written instructions to withdraw funds from one account and to deposit the same funds in any other account. The banks are obligated to comply with such instructions. They occur by the millions and they are a longstanding public banking service.

Parties involved in Vietnam in illegal currency transactions do legitimately use their bank accounts in the United States and other countries to accomplish their objectives. For example, party A wants payment in the form of a U.S. dollar credit to his account in a bank in the United States. Party B has a deposit account in the United States and he can simply instruct his U.S. bank to charge his account and transfer the proceeds to another U.S. bank for credit to the account of party A. When party A receives an advice from his bank that his account has been credited, he pays piasters to party B.

The instructions from party B to his bank can be made in various ways. They can be made through any bank in Vietnam which has an office or a correspondent banking relationship with a U.S. bank. The instructions can be in a letter or in a cable. The U.S. dollar transfer can end with the second U.S. bank or it can continue on to a foreign bank. It is believed that a substantial part of the funds channeled into U.S. banks in furtherance of suspected illegal transactions in Vietnamese currency were ultimately transferred to foreign banks.

In the 91st Congress, Treasury supported legislation, now known as Public Law 91-508, the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970, designed to deter use of secret foreign bank accounts for illegal purposes by U.S. citizens and residents. The administration supported the legislation. Treasury, in testimony, emphasized three fundamental concerns that we weighed in developing each of our recommendations for obtaining improved law enforcement.

First, we in no way wanted to restrict the regular and efficient flow of domestic and international business or diminish the willingness of foreigners to hold and use U.S. dollars.

The second consideration is our determination to deter tax and other evasion by U.S. persons through foreign financial transactions. We have sought to develop proposals under which the benefits to our law enforcement objectives exceed the direct and indirect costs which these proposals bring about.

Finally, we have been sensitive to the issue of traditional freedoms, many of which are set forth in our Constitution, others which have become identified with our way of life. In reinforcing our enforcement activities we must not jeopardize these principles.

On June 10, 1971, the Department of the Treasury published in the Federal Register for public comment regulations proposed to implement Public Law 91-508. We are now receiving the comments and expect to publish finally effective regulations on November 1, 1971.

Public Law 91-508 and the implementing regulations constitute another step forward on the part of the Nixon administration to deter the use of secret foreign financial accounts to assist in concealing the substantive violations of securities, gambling, gold trading, currency and drug smuggling laws, and the untaxed income generated from these and other illegal activities.

Major parts of the proposed regulations will affect purely domestic as well as foreign-related matters. The proposed regulations in principal part would require: Increased recordkeeping on the part of banks and other financial institutions of both domestic and foreign-related items; domestic financial institutions to report currency transactions in amounts in excess of \$5,000; reports of transportation of currency or its equivalent in amounts exceeding \$5,000 on any one occasion to or from the United States; maintenance of records by persons having financial interests in foreign financial accounts; recordkeeping for financial institutions including banks, and brokers and dealers in securities and commodities; and retention for a 6-year period of records to be maintained.

The regulations are designed to insure that those records kept in the normal course of business are retained and available for a period of 6 years. These proposed regulations are only one part of a comprehensive four-part program launched by this administration:

First, we have elevated this problem to the foreign policy level. We have initiated discussions with foreign governments to define more precisely where cooperation can be provided to the United States in criminal matters involving foreign bank accounts.

Second, we have conducted and are continuing with a comprehensive review of current procedures to define and determine what further actions can be taken pursuant to existing statutes and treaties. The question on the 1970 tax return, inquiring if the taxpayer has any interest in or authority over an account in a foreign country, is one of the measures we have taken, authorized under previously existing legislation.

Third, we encouraged, supported, and considerably strengthened Public Law 91-508 and made recommendations which the Congress adopted to eliminate from the original bill several provisions which would have permitted unwarranted invasions of privacy and would have required unjustifiably burdensome paperwork.

Fourth, we have cooperated with the private sector in analyzing and developing appropriate means of dealing with this type of illegal activity.

Foreign Assets Control Regulations

The Foreign Assets Control Regulations prohibit all unlicensed transactions involving U.S. dollar accounts and U.S. dollar instruments if there is any interest in the transaction of North Korea, North Vietnam, or nationals thereof. The Treasury's Office of Foreign Assets Control has legal responsibility to act if there is evidence indicating possible violation of the regulations—in an instance, for example, of dealings by the North Vietnamese in U.S. dollar instruments emanating from Vietnam.

In this connection, information is obtained from banking and commercial sources concerning activities related to illegal dealings in piasters and the piaster market in Hong Kong, and particularly information as to persons dealing in U.S. currency and instruments. Treasury makes investigations, as appropriate, in Hong Kong and checks all information available in its files to determine if any of the persons known to be handling U.S. dollar instruments emanating from Vietnam are designated nationals of North Vietnam. The findings to date have been negative.

Counterfeiting and the role of the Secret Service

Counterfeiting of U.S. currency in the Far East during recent years has not constituted an enforcement problem of significant magnitude. Contrary to reports frequently received from various intelligence sources concerning counterfeiting

conspiracies allegedly backed by the Red Chinese, there are very few counterfeit issues stemming from that area and all those that have been identified as purely criminal operations are for the most part concentrated in Hong Kong and the Republic of the Philippines.

Obtaining accurate statistical data concerning counterfeiting activities in the Far East is most difficult. Few countries, with the notable exception of Australia, Japan, and Hong Kong, have established national counterfeiting bureaus as recommended by the International Organization of Criminal Police (INTERPOL). As a result, enforcement agencies in the other countries of the Far East know little about counterfeiting and do not report statistics to INTERPOL Headquarters in Paris. However, liaison has been established with other U.S. Government agencies, Embassies and consulates throughout the area, and Treasury receives a constant flow of information from this source concerning cases involving counterfeit U.S. currency.

Therefore, all reports are investigated. For example, an episode of counterfeiting of U.S. currency in Vietnam occurred in January 1968 when the South Vietnamese National Police arrested several individuals and seized \$250,000 in partially completed counterfeit \$5 Federal Reserve notes. Early press releases identified the violators as Red Chinese agents, and the Department immediately dispatched a Secret Service agent to investigate. Inquiries disclosed that the conspirators were criminals first and Chinese second.

It is my firm opinion that the counterfeiting problem in Vietnam is minimal at present and has been so in the past. Nevertheless, Treasury will continue to monitor closely the counterfeiting situation in Vietnam and will make certain a prompt and thorough investigation is made of all violations of this type which come to its attention.

Customs activities in Vietnam

Treasury is cooperating with the AID mission in Vietnam by assisting in the institutional development and reorganization of the Vietnamese Customs Service and by providing technical assistance to AID officials concerned with the commodity import program.

In late 1965, the Bureau of Customs was requested to conduct a survey of the situation in Vietnam with a view to setting up a commodity control program for the U.S. AID commercial import program (CIP). Shortly thereafter, in the spring of 1966, a Customs advisory group was established. The Customs advisor positions, as well as the backup activities performed by the Office of Foreign Customs Assistance in Washington, are all funded by AID. At the present time, 13 positions are authorized for the above-described work in Vietnam.

CIP monitoring has been increasingly effective, with shipments examined increasing from 11 percent of importations in the first quarter of 1967 to 30 percent in the last quarter of 1970. Attempted violations have decreased correspondingly. Dock theft and pilferage have been reduced by decreasing the average number of days between cargo discharge and Customs release from 30 in 1966 to 3 at the end of 1970. Also, a boat fleet seeks to deny diversion of CIP shipments.

The bulk of the responsibility within the Government of Vietnam for suppressing black-market activity and for currency control falls to the Vietnamese Customs, principally the Fraud Repression Service. This includes the function of registering foreign currency brought into Vietnam and checking official exchange receipts on exit from the country.

The GVN currently depends upon the imposition of import duties and perequation taxes¹ to recoup for the Treasury of the RVN the difference between the value of foreign exchange now sold to importers for 118 piasters (80 percent of RVN imports) or 275 piasters (20 percent of RVN imports) per dollar and the real piaster value of such imports at port-of-entry. In addition, still higher duties and perequation taxes on nonessential imports are intended to result in RVN piaster revenues in excess of the port-of-entry value of those imports.

Studies of actual versus collectable import duties and perequation taxes have revealed slippages of piasters on licensed imports in 1970. The apparent causes were under-invoicing, other false documentation, and bribery. In addition to such losses, potential revenues have been lost due to smuggling. Further losses

¹ Taxes on sales of foreign exchange to importers.

have resulted from diversions of military gasoline and resale of PX tobacco products. Such losses emphasize the importance of the work of U.S. Customs advisors. They will play an increasingly important role in helping increase GVN revenues from this single most important source. Such improvement is essential if the GVN is to have a viable economy with reduced aid levels.

Arrangements to combat currency manipulation and black marketing

In December 1970, AID authorized an increase in personnel ceilings and provided the funding for two additional positions in the U.S. Customs Advisory Team. The positions were established as Customs Investigations Advisors, whose task is to assist the GVN Fraud Repression Service (FRS) operationally and to act as liaison between the FRS and the U.S. enforcement community.

With the appointment in May and June 1971 of new Vietnamese officials in the FRS, the work of these two officers has facilitated seizures by the FRS of illegally imported, exported, and held currency.

At the same time these officers work closely and assist the Joint Investigation Narcotics Detachment of the U.S. Military Assistance Command in Vietnam, since the purchase and trade of narcotics often involves illegal currency transactions.

Redirection of U.S. Customs Advisory Team effort toward operational objectives

In December 1970, Customs recommended the U.S. Customs Advisory Team terminate its institutional development objectives by June 1972 and seek, instead, to develop an independent, operational audit over GVN Customs transactions to lessen the possibility of frauds against the revenue.

A further step looking toward conversion to an operational status came in late May of this year with a GVN proposal that the U.S. Customs Bureau furnish two import specialists to work operationally inside the GVN Customs Directorate on the valuation and tariff classification of merchandise.

Intensified examination of GVN imports

One source of lost Customs revenues has been through technical smuggling (undervaluation, false invoicing, and improper tariff classification) at the Saigon harbor. Technical smuggling has also been an important means of evading import license restrictions. The two U.S. Customs Bureau import specialists to be assigned operationally within the Customs Directorate will be working in the harbor area to see that GVN laws and regulations on the examination, tariff classification, valuation, weight and measure, and entry of merchandise are appropriately followed. This project will also provide verification and purification of input data to a new ADP control system being installed.

Document control through automatic data processing

In December 1970, the GVN Ministries of Commerce and Finance passed a joint decree to require that importers obtain import licenses for all commercial importations prior to importation in order to restrict the financing of imports through illegal financial transactions. The U.S. Customs Advisory Team is gradually securing GVN enforcement of this decree. Means for effectively implementing this control are being developed through an ADP system for corroborating and matching import licenses, cargo manifests, and Customs entry documents to see that all exchange transactions for importations represent merchandise that is actually imported.

ADP controls should also enable the GVN to determine, with a reasonable degree of accuracy, the amount of revenue being lost, discern how and where the revenue is lost, and forecast revenue projections for future years.

Improved Customs administration

The GVN Customs Directorate does not have an internal audit capability at present as that concept is understood in developed countries. The ADP system I discussed earlier is expected to form the basis for an independent audit to be conducted by the Advisory Team after fiscal year 1972. The ADP system will help the GVN to arrive at project goals regarding illegal currency manipulation, narcotics smuggling, and general commercial smuggling.

Tightening of controls at Ton Son Nhut Airport

In December 1970, the GVN, with assistance from personnel of the U.S. Customs Advisory Team, initiated a drive to choke off the flow of contraband through Ton Son Nhut Airport. Besides being an avenue for commercial smuggling, it

was feared that Ton Son Nhut was also an important entry point for illicit narcotics.

The drive to cut off contraband at Ton Son Nhut was intensified in April 1971 with the assignment of two U.S. Customs advisors full-time, together with personnel on temporary duty, to the airport during hours when flights were arriving or departing. At this time, Ton Son Nhut is no longer believed to be a major entry point for commercial or narcotics smuggling, although isolated instances are believed to occur. The illicit trade has been diverted to other channels, such as Da Nang and border areas. The Ton Son Nhut project is believed to have had some effect in the drop in the black-market piaster/dollar rate below 400 to 1 to 371 to 1 as of July 19, 1971, and the Advisory Team is continuing to encourage the GVN to maintain tight controls at Ton Son Nhut, as the GVN acts to check other illegal traffic.

Training program

The Bureau of Customs is providing a training program for Vietnamese customs officers. Six members of the Vietnamese Customs Directorate underwent a training program during April and May of this year at Bureau headquarters, the Customs National Training Center at Hofstra University on Long Island, and the Customs regional and district offices. Ten more Fraud Repression Service and Boat Fleet officers are scheduled for training in the United States during fiscal year 1972. When these officials return to Vietnam they will set up training classes for their fellow officers.

Mr. Chairman, in conclusion, I wish to emphasize that the executive branch is determined to strengthen efforts to curb black marketing and illicit financial transactions in Vietnam. As part of this continuing effort, we have established a Treasury Task Force on International Financial and Commercial Crimes and Frauds. This is an outgrowth of the Task Force on Bank Secrecy. The Task Force is examining this broad area on a systematic basis and will be developing ways and means of combatting these illegal activities.

Exhibit 35.—Statement by Assistant Secretary Rossides, September 10, 1971, before the House Committee on the Judiciary, Subcommittee No. 4, on H.R. 9223, a bill to increase the limit on dues for U.S. membership in the International Criminal Police Organization

I am pleased to appear before you and the other distinguished members of this subcommittee in support of H.R. 9223 which increases the limit on dues for U.S. membership in the International Criminal Police Organization, as introduced by Mr. Celler and Mr. Poff.

The bill would raise the ceiling on dues from \$28,500 authorized under existing law, the Act of June 10, 1938 (22 U.S.C. 263a) as amended, to \$49,000 and would also provide for payment of the outstanding balance of \$20,170 for calendar year 1970 dues.

At the 1969 INTERPOL General Assembly in Mexico City, the membership approved a new budget due to rising expenses, expansion and improved facilities which raised the U.S. membership dues to the equivalent of \$48,670 a year, beginning with calendar year 1970. This share represents only approximately 5 percent of the total amount of dues payable and is equivalent to the individual shares paid by France, Germany, Italy, and the United Kingdom. The amount of dues paid by member countries is reviewed by the General Assembly every 3 years.

The International Criminal Police Organization, more familiarly referred to by its cable designation, INTERPOL, currently is comprised of 109 member countries and is represented in the United States by the Treasury Department. The purpose of INTERPOL, as stated in its constitution is:

"A. To insure and promote the widest possible assistance among all criminal police authorities within the respective limits of the laws existing in their countries * * *.

"B. To establish and develop all institutions likely to contribute effectively to the prevention and suppression of crime."

INTERPOL is the catalyst which enables the police of the world to coordinate effectively their work in law enforcement and crime prevention. The Organization is forbidden to undertake any intervention or investigation of cases having a political, military, or religious character.

In practical terms, INTERPOL provides the mechanism whereby any police or investigative agency, whether it be local, county, State, or Federal, having a requirement for foreign investigation, from a routine criminal name check to a full criminal investigation leading to the gathering of evidence and subsequent arrest and extradition of a fugitive, can communicate their needs.

Each participating country appoints a corresponding national central bureau (NCB) to coordinate and channel their enforcement agencies' foreign investigative requirements.

INTERPOL Washington, the U.S. national central bureau located in the Main Treasury Building in Washington, D.C., is headed by a Treasury agent of the Secret Service and has telex capabilities to communicate directly with 41 member countries and cable facilities to the remaining countries. In addition, our national central bureau has access to the INTERPOL international radio network consisting of all the member countries on the European Continent as well as many in South America, Africa, and Asia.

During the past 2 years, there has been a substantial increase in the number of cases originating from U.S. enforcement agencies. Prior to 1969, cases referred by this NCB on behalf of U.S. enforcement agencies amounted to only 14 percent of the total case load of this bureau. During fiscal year 1970, 34 percent, and in fiscal year 1971, 37 percent of the case load was on behalf of U.S. interests. The New York City and Los Angeles Police Departments, as well as others, now refer all their foreign requirements through this NCB.

In fiscal year 1971 our INTERPOL bureau processed a total of 1,795 cases representing a 39-percent increase over fiscal year 1970 and a 64-percent increase over fiscal year 1969. Of these, 478 were for Federal enforcement agencies, an increase of 56 percent over the previous fiscal year and an increase of 268 percent over fiscal year 1969.

An example of a case which exemplified INTERPOL cooperation occurred on May 26 of this year when INTERPOL Damascus notified INTERPOL Washington of a suspected shipment of narcotics aboard a non-U.S.-flag aircraft originating in Damascus and destined for Hollywood, Calif. On the basis of this intelligence, the Bureau of Customs seized over 200 pounds of hashish in Hollywood on June 3.

In March of this year, INTERPOL Washington was contacted by INTERPOL Teheran requesting investigation of an Iranian national in the United States suspected of having knowledge of the theft of a Koran from a museum in Teheran. The investigation determined that the Koran was, in fact, brought into the United States in December 1969 without being declared to the Bureau of Customs. Because of this illegal entry the book was seized in San Francisco on April 15, just 2 days prior to its being scheduled for auction. The Koran, which is considered priceless by the Iranian Government, was returned to the Ambassador of Iran on June 3.

Utilizing the worldwide facilities of INTERPOL, the Los Angeles District Attorney's office in February was successful in convicting an individual for the murder of a Los Angeles resident. The murder occurred in southern Switzerland. The murderer received life imprisonment. In a letter of appreciation to the Chief, INTERPOL Washington, the district attorney stated that the conviction of the murderer would not have been possible without the assistance of INTERPOL.

The General Secretariat, located in St. Cloud, France, staffed by police officers on assignment from the French Surete and the Prefecture as well as from numerous other countries, maintain identification files, fingerprints, photographs, et cetera, on known international criminals and furnish member countries with studies, reports, and intelligence on the activities of individuals and groups engaging in international criminal operations.

Mr. Chairman, the Department of the Treasury believes the benefits from membership in INTERPOL are substantial and that the costs are minimal. We urge enactment of H.R. 9223.

Exhibit 36.—Statement by Assistant Secretary Rossides, September 14, 1971, before the Senate Subcommittee to Investigate Juvenile Delinquency on legislation to amend the Gun Control Act of 1968

I am pleased to appear here today to testify on legislation to amend the Gun Control Act of 1968, to prohibit federally licensed dealers from selling to the

public any firearm, other than a rifle or shotgun, which the Secretary of the Treasury determines to be unsuitable for "sporting purposes" based upon standards established pursuant to section 925(d) of the act. This is the proposed amendment of Chairman Bayh. The design of this proposal is to prohibit domestic sale of the so-called "Saturday night specials."

We are all generally familiar with the problems presented by the so-called "Saturday night specials." No precise definition exists as to the type of firearm contemplated by this term, but we consider "Saturday night specials" to cover inexpensive, poorly made handguns retailing under \$30 with some retailing for as little as \$5 or \$6. Such handguns are inaccurate, unreliable, and unsafe and do not serve sporting purposes or law enforcement or self-protection needs.

This administration has long opposed "Saturday night specials" and testified to this effect as early as July of 1969 before this subcommittee. We want to work with the Congress in finding appropriate solutions to this problem. We believe that over 1 million such handguns were produced in the United States during 1970. About half of that number were assembled predominantly from foreign-produced and imported parts. The Gun Control Act prohibits imports of such handguns, but does not prohibit importation of their parts. Consequently, a new industry has emerged—that of assembling such cheap handguns incorporating foreign-products parts. We estimate that the other half million such firearms produced and marketed during 1970 incorporate all domestically-produced parts.

The prohibitions against importation of firearms established by the 1968 act created a trade discrimination problem in conflict with the General Agreement on Trade and Tariffs. The agreement requires uniform treatment for "like products." This means, in effect, that we should permit any firearm to be imported that we permit to be produced domestically. We now restrict imports of firearms but have virtually no restriction on domestic production of firearms.

Seven nations have filed formal protests with the State Department about the import control provisions of section 925(d) of the act. These protests contend that the restrictions violate the Agreement. Any amendment to the Gun Control Act should apply the same criteria to both domestically produced and imported guns. That would solve the GATT problem.

We share the committee's objective of banning the "Saturday night special." However, we believe that standards of safety and reliability—rather than the "sporting purposes" test—will be more effective. Such standards will also avoid other problems that the sporting purposes test may create. For example, restriction to the sporting purposes test may prohibit manufacture and sale of handguns that serve police and law enforcement purposes and those possessed primarily for self-protection and other lawful purposes.

Such prohibition would conflict with the stated purposes of the act:

"* * * it is not the purpose of this title to place any undue or unnecessary Federal restrictions or burdens on law-abiding citizens with respect to the acquisition, possession, or use of firearms appropriate to the purpose of hunting, trapshooting, target shooting, personal protection, or any other lawful activity, and that his title is not intended to discourage or eliminate the private ownership or use of firearms by law-abiding citizens for lawful purposes."

As is known to this subcommittee, we have contracted with the H. P. White Laboratory in Maryland to conduct tests to develop the information we need to formulate the objective standards we seek on safety and reliability for handguns. The tests began in February and the final report is in preparation. As soon as we have the findings we will bring together a group of individuals representing a broad spectrum of public interest in this area to analyze and draw from the test data recommendations for legislation.

As a product of these efforts the administration intends to submit, hopefully to this session of the Congress, legislation detailing objective standards which we believe will better meet the problems at which the sporting purpose proposal is aimed. The administration respectfully requests that before taking final action in this area the subcommittee allow us an opportunity to present such legislation.

Exhibit 37.—Remarks of Assistant Secretary Rossides, December 13, 1971, before the National Narcotics and Dangerous Drugs Enforcement Association, Washington, D.C., on the administration's action to combat drug abuse

Let me begin on a note of hope and with a challenge.

In my judgment, President Nixon's war against drug abuse is succeeding. He has:

- (1) Arrested the U.S. incredible downward slide into drug abuse;
- (2) Alerted the international community to the global problem of drug abuse. More has been done by the international community to attack drug abuse in the last 2½ years than in the previous 25 years.

But let there be no false optimism. We have a long and steep climb ahead of us just to return to the level from which we fell. It will require the active participation of all of us. However, I am confident that the challenge will be met.

The challenge facing the over 350,000 men and women in the State and local law enforcement community, the first line of defense internally against drug abuse, is to galvanize into action against drug abuse on a 24 hour-a-day, 7-day-a-week basis.

President Nixon's war on drug abuse

Let me describe the President's multidimensional program—a program as innovative in concept and as bold in action as his new economic policy.

President Nixon started his war on drugs the first month of his administration when he established the Interdepartmental Task Force on Narcotics, Marijuana, and Dangerous Drugs that led to Operation Intercept in September 1969 and Operation Cooperation in October 1969. He has escalated that war with a series of action programs, and progress has been made.

First, he elevated the drug problem to the foreign policy level and has taken personal initiatives in soliciting the cooperation of other governments.

Second, he placed particular emphasis on the crucial roles of education, research, and rehabilitation and provided increased funds in these three essential areas.

Third, he recommended differentiation in the criminal penalty structure between heroin and marijuana, and flexible provisions for handling first offenders.

Fourth, he stressed total community involvement—the private sector as well as governmental agencies—in this antidrug-abuse drive.

Fifth, he provided a substantial increase in budgetary support for Federal law enforcement in this area.

Sixth, he recognized the central role of the States and the need for close Federal-State cooperation in a unified drive against drug abuse.

In this program we have seen for the first time the total involvement of the institution of the Presidency in the battle against drug abuse. It is this program that has given me the basis for the cautious optimism I am expressing. In my opinion, drug abuse has reached its peak and has leveled out. Perhaps it has even begun to recede. But certainly I am aware, as each of you is, that we have a long hard battle ahead of us to bring that line back down to the level on the chart from which it started!

1. Foreign policy and presidential initiative.—One of the serious errors of the past was the failure to appreciate drug abuse as a worldwide problem calling for an international response. Prior to this administration, international activity by the United States was principally on the enforcement level.

President Nixon raised drug abuse to the foreign policy level at the beginning of his administration and took personal initiatives to elicit the cooperation of other governments. The aim of our diplomatic efforts is to have each nation do its share and meet its responsibilities in the worldwide war against drug abuse.

In September, the President announced creation of a Cabinet Committee on International Narcotics Control under the chairmanship of Secretary of State William P. Rogers. This formalized an ad hoc procedure. Secretary Connally is a member of the Committee, along with Secretary Laird, Attorney General Mitchell, Director Helms, and Ambassador Bush. The committee is responsible for the formulation and coordination of all policies of the Federal Government relating to the goal of curtailing and eventually eliminating the flow of illegal narcotics and dangerous drugs into the United States from abroad.

Through the use of diplomacy we have achieved a substantial advance in our objectives. Important news was the joint announcement on June 30, 1971 by Prime Minister Erim of Turkey and President Nixon that Turkey decreed that after the 1-year delay required by the law of Turkey, cultivation of the opium poppy would no longer be legal in Turkey. Progress of a similar kind was made in another part of the world when the Royal Laotian Government adopted a new law outlawing opium production and trafficking in that country.

We have sought to stimulate multilateral action through the United Nations. The United States has contributed \$1 million to a UN special action fund and has pledged a second million. We also seek multinational support for amendments to strengthen the 1961 Single Convention on Narcotics.

The President's words in his address to the United Nations on its 25th Anniversary in October 1970 sum up the problem :

"It is in the world interest that the narcotics traffic be curbed. Drugs pollute the minds and bodies of our young, bring misery, violence, and human and economic waste. This scourge of drugs can be eliminated through international cooperation."

Examples of the type of cooperation which have already been achieved under the President's program are the bilateral arrangements with Canada and Mexico for cooperation and mutual assistance along our borders, and with France and Turkey to control drug trafficking and smuggling. Most of the European nations now realize that they have their own drug problem.

The so-called golden triangle where Burma, Laos, and Thailand converge is probably the most extensive area of illegal production, producing approximately half of the world's illicit output of opium. Until fairly recently this opium production was consumed by East Asia addicts. However, white 96 to 98 percent pure heroin which appeared recently is aimed almost entirely at U.S. servicemen in Vietnam. The U.S. Government with the full cooperation of the Government of South Vietnam is devoting major attention to bringing this problem under control. The Department of Defense has made this a matter of the highest priority and substantial progress has been made.

Recently the United States and Thailand signed a memorandum of understanding which provides a framework for major efforts in suppressing illegal traffic in dangerous drugs. Thailand, recognizing there is a serious problem, has pledged a full effort to combat drug trafficking within and smuggling across its borders. We are also examining with other governments in Southeast Asia what can be done to stop the traffic in heroin.

More has been done by the international community to attack drug abuse in the last 2½ years than in the previous 25 years. Much more, however, has to be done, particularly against illegal narcotics trafficking and corruption.

2. *Education, research, and rehabilitation.*—The proposal for the creation of the Special Action Office for Drug Abuse Prevention now being considered by Congress is an important step. That Office will coordinate Federal action in the fields of education, research, and rehabilitation.

The drug abuse problem has long been recognized as one of both supply and demand, and President Nixon's response has been guided accordingly. While we are working to eliminate the supply at the sources, to stop the smuggling of illicit drugs into the United States, and to stop the distribution of illicit drugs internally, eliminating the demand for drugs among our young is also central to success.

The key to eliminating the demand for drugs lies in education. The vast majority of youth when given access to the facts will reject drug abuse as against their own self-interest as well as against the interest of their Nation.

President Nixon is convinced that much of our problem is attributable to the mass of misinformation and street-corner mythology which has filled the vacuum left by our failure in the past to deal with the young on a mature, reasoned, and factual basis. In the past, our Government took the easy but ineffective route of "do as I say because I say so" rather than the more difficult route of clearly presenting the facts necessary for informed decision.

In his June 17, 1971, message, which included the recommendation for the creation of the Special Action Office, President Nixon stressed "reclamation of the drug user himself," and requested congressional approval of a total of \$105 million in addition to funds already contained in the fiscal year 1972 budget to be

used solely for the treatment and rehabilitation of drug-addicted individuals. He asked the Congress to provide an additional \$10 million in funds to increase and improve education and training in the field of dangerous drugs. This will increase the money available for education and training to more than \$24 million.

3. *Differentiation in penalty structure and flexible provisions for handling first offenders.*—President Nixon realized that the provisions concerning penalties in the laws already in effect before the passage of the Controlled Dangerous Substances Act of 1970 had created substantial problems of credibility in dealing with the youth of our country. Treating marijuana as though it were the same as heroin created serious problems in convincing young people who were conditioned to be skeptical of all established programs that there was any logic or reason in the attack on drug abuse. The minimum mandatory penalties created serious problems for prosecutors and judges dealing with first offenders.

While the penalty provisions of the Drug Abuse Act of 1970 are the same for heroin and marijuana, the essence of the President's proposal was adopted by the repeal of the minimum mandatory sentence provisions that under many circumstances required prison terms, without probation or parole, for handling even the smallest quantities of marijuana. This permits the courts to make reasonable distinctions between youths with small quantities of marijuana and dealers in heroin.

The courts were also granted the important discretion on any drug offense to clean the slate on the first offender by striking from the record mention of the first offense without adjudication of guilt.

4. *Action within the private sector.*—The President has stressed that the private sector must provide community leadership in organizing drug abuse educational and other action programs. Religious organizations and educational, community, and civic groups such as Parent-Teacher Associations, Rotary, Kiwanis, Chamber of Commerce, and Jaycees are best equipped to get directly into the home where they can assist parents in handling the problems of drug abuse with intelligence and credibility. Effects of the President's program to get private persons and groups involved in the attack on the drug program are being seen and felt.

In my judgment, no community will win its war on drug abuse unless it cooperates fully with its law enforcement agencies.

5. *Law enforcement.*—Since January 1969, President Nixon has increased substantially the budgets of the two Federal agencies primarily concerned with drug law enforcement—the Bureau of Narcotics and Dangerous Drugs of the Department of Justice and the Treasury's Bureau of Customs—and has initiated a major new Treasury enforcement program of tax investigations by the Internal Revenue Service of middle and upper echelon narcotics traffickers.

Treasury's role in the President's antiheroin action program

Treasury's Bureau of Customs, the Nation's first line of defense against heroin smuggling, has achieved spectacular success.

During his 1968 campaign the President called for an increase in Customs manpower. In his message of July 14, 1969, he told the Congress that he had directed the Secretary of the Treasury to initiate major new efforts to guard the ports and borders. He backed this up with a substantial antinarcotic supplemental budget request. The Congress responded with full bipartisan support in December 1969 by passing an appropriation for 8.75 million for 915 additional men and for equipment for customs.

The hiring of these people, begun in January 1970 and completed in June of that year, has produced remarkable results. Most dramatic is the increase in seizures of hard drugs which in fiscal year 1971 totalled over 1,200 pounds, far in excess of the amount seized in the preceding 7-year period. Increases in the seizures of marijuana and dangerous drugs were also very substantial. Major seizures of pure heroin by Customs since the fall of last year have included: 94 pounds (October 1970—Miami); 210 pounds (December 1970—Miami); 58 pounds (January 1971—San Juan, P.R.); 97 pounds (April 1971—Newark); 155 pounds (May 1971—Miami); 246 pounds (May 1971—San Juan); 156 pounds (July 1971—New York); 24 pounds (August 1971—Laredo); 186 pounds (September 1971—New York); 69 pounds (September 1971—Miami); 39 pounds (October 1971—New York).

The effect is most dramatically evident in the statistics comparing the seizures in the 11 months of 1971 with the same period of the previous year (see table). In the 11 months of calendar 1971 Customs has seized 1,315 pounds of pure heroin, as compared to 137 pounds for the same period last year.

This amount of heroin would have produced about 95,680,000 doses (based on 100-milligram doses of 5 percent heroin), and at an average price of \$6 per dose would have sold for \$574 million at street price. The Treasury special agents, inspectors, import specialists, and support personnel of Customs deserve high praise for this remarkable performance.

We feel that these huge seizures of heroin, in addition to causing appreciable financial losses to the traffickers who owned the seized contraband, have had some effect on the supply. Obviously it is impossible to obtain completely reliable statistics on any part of this illegal traffic. However, there are some indications that the supply has been affected.

These results, under the dynamic leadership of Commissioner Myles J. Ambrose, took dedication, imagination, and total commitment of forces.

Expanded Customs program—1971

The President, in his program announced on June 17, 1971, recognized these accomplishments of Customs and proposed a budget amendment to fund major additions to equipment and 1,000 additional personnel. The Congress, with bipartisan support, acted swiftly, passing the appropriation bill on June 30.

The additional funds will provide for major equipment additions, principally aircraft and boats, with appropriate detection systems for both new craft and those in current inventory. The current intelligence indications of extensive smuggling by unscheduled planes and boats create this substantial need for detection, communication, and interception resource. These will have particular impact along the Mexican border and against small craft making end-runs into Southern California, Florida, and Texas.

Customs-to-Customs cooperation

Treasury early in this administration established a policy of fostering and strengthening cooperation between and among the Customs Services of the various countries as one part of the antidrug-smuggling program designed to disrupt the traffic in drugs between countries. The Bureau of Customs was directed to put the policy into effect.

The first Customs-to-Customs contact, and the ones that have resulted in the most cooperation, have been with our neighbors to the north and south. In discussions with the Governments of Mexico and Canada, we have improved cooperation in the attack on the drug traffic through Customs-to-Customs cooperation.

Treasury obtained authorization and appropriations for U.S. Customs to become a full member of the Customs Cooperation Council. This is an organization of the Customs Services of more than 60 nations. At its annual meeting in Vienna in June of this year, this Council adopted a resolution calling for its member countries to exchange information on illicit traffic in narcotic drugs and psychotropic substances. Previously, the Customs Services of many countries had paid little attention to the drug traffic. Now we have made progress on Customs-to-Customs cooperation in both Europe and Southeast Asia.

Tax investigations of major narcotics traffickers

Treasury's Internal Revenue Service is embarked on a major Presidential program designed to take the profit out of the illegal revenue in the narcotics trade and thus further disrupt the traffic by conducting systematic tax investigations of middle and upper echelon narcotics traffickers, smugglers, and financiers. These are the people who are generally insulated from the daily operations of the drug traffic through a chain of intermediaries.

We feel that this program and the increased effectiveness of the antismuggling program will bolster each other in taking the profits out of narcotics trafficking.

Reflecting the high priority given this program by the President, Congress provided financial support for it amounting to \$7.5 million in fiscal 1972 and authorization for 541 additional positions—200 special agents, 200 revenue

agents, and 141 support personnel. The Internal Revenue Service has assigned more than 100 experienced special agents and more than 100 experienced revenue agents full time to this program. Additional experienced agents are presently being phased into the program.

Treasury has coordinated its efforts with all interested Federal agencies and is actively seeking the maximum cooperation of State and local enforcement agencies as well. This is a vital feature of this program.

I am pleased to inform you that as of December 1, 1971, a short 5 months from the beginning of this program, IRS has under active tax investigation 292 middle and upper echelon narcotics traffickers, smugglers, and financiers. We believe that this program will make a major additional contribution to the President's offensive against drug abuse.

6. *Central role of the States and Federal-State cooperation.*—The President has stressed that Federal-State cooperation is one of the essential elements for success in the struggle against drug abuse. This administration is working closely with the States to bring this about. Except for certain areas of special Federal interest, law enforcement and our educational and medical systems have been and must continue as essentially State and local responsibilities.

The Federal Government has worked with the States to help them carry out their law enforcement responsibilities. Substantial funds have been made available through the Law Enforcement Assistance Administration. Some States, notably New York and California, and the District of Columbia, have done substantial work in these fields, but in most States only the very beginnings of the attack that will be necessary have been made.

The challenge to State and local law enforcement agencies

The over 350,000 officers in State and local police departments are the first line of defense against the illegal internal distribution and the sale of drugs in the United States. I submit that:

1. In addition to specialized courses for narcotics squads, all should receive an intensive antinarcotics course as part of their required basic and refresher training.

2. Procedures for the exchange of drug information with other law enforcement agencies on the Federal, State, and local level must be strengthened and become routine.

3. Word must be passed to the drug traffickers—and in a manner to be believed—to get out of the illegal drug traffic.

4. The sense of mission must be strengthened so that all consider drug enforcement to be a 24-hour-a-day, 7-day-a-week profession.

Because of the fine cooperation that has existed between State and local law enforcement agencies and our several Treasury enforcement agencies, I know the potential for effective law enforcement that exists in the 350,000 State and local police officers. The challenge to you is to galvanize into the war against drug abuse every police officer on every beat or squad in every precinct of the United States.

Japan had a serious heroin problem after World War II. Strict enforcement by its police and customs officers played a major role in practically stamping out heroin use in Japan. Narcotics enforcement courses are a requirement for each of the 40,000 members of the Tokyo Police Department.

I have mentioned our program of intensified tax investigations of the narcotics traffickers. This is one place where State and local officers can benefit their own programs as well as assist us in ours.

They can: (1) Furnish information to help us make the cases we are now investigating and (2) report to us persons who are important in the narcotics traffic, but against whom they can't get evidence enough to make a narcotics case that will stick. Those are the ones against whom this project is primarily directed.

In summary, I leave you with a reason to hope and a challenge to meet. President Nixon has moved on several fronts to marshal the resources of our own Nation into a multidimensional, coordinated Federal-State response. And the President has alerted the nations of the world to the international menace of drug abuse and enlisted their active support. Therein lies our hope and challenge. The outcome of this effort will determine the future of a generation.

Narcotic and drug seizures first 11 months of calendar years 1970 and 1971

	1970	1971 ¹
Number of seizures:		
Heroin.....	280	523
Opium.....	86	101
Cocaine.....	123	206
Other narcotics.....	255	238
Marijuana.....	5,606	5,709
Hashish.....	1,017	1,563
Dangerous drugs.....	1,309	1,291
Totals.....	8,676	9,631
Quantity in pounds:		
Heroin.....	137.26	1,315.03
Opium.....	26.96	56.325
Cocaine.....	270.24	106.935
Other narcotics.....	16.53	89.72
Marijuana.....	131,595.42	170,739.79
Hashish.....	3,654.02	5,986.67
Dangerous drugs (5-grain units).....	8,981,877	4,331,060

¹ Preliminary figures.**Exhibit 38.—Remarks of Assistant Secretary Rossides, January 25, 1972, before the New York City Chamber of Commerce, New York, N.Y., concerning the Department of the Treasury's program to stop theft of international cargo**

It is a pleasure to be here today to discuss with you the Treasury Department's program to curtail theft of international cargo. Early in this administration, President Nixon directed an all-out drive against drug smuggling and organized crime. These became Treasury's highest priorities in the area of law enforcement. The long-neglected problem of cargo theft fell into both these priority areas.

The three points I will cover with you today are:

1. *Treasury's proposed legislation, the Customs Port Security Act.* Passage of this legislation would, in my judgment, result in the reduction to a minimum of cargo theft at the New York airports and all other airports of entry throughout the United States within 6 months to 1 year, and a substantial reduction of cargo theft in New York Harbor and at all seaports of entry within 1 year.

2. *The issuance today by the Treasury Department of "Standards for Cargo Security."* We hope that these standards will receive the full cooperation of industry and result in a reduction in cargo theft.

3. *The commencement of pilot projects on the New York and San Francisco waterfronts.*

Background

Before discussing these points let me explain the perspective from which Treasury sees its involvement in the matter of cargo security.

The gravity of the cargo theft problem is well known to all of you. While the direct dollar loss is in the millions of dollars, business suffers in other ways: Insurance premiums are increased; export sales and markets may be lost; manufacturing schedules may be delayed and workers laid off due to lack of foreign components; and stolen merchandise is peddled by the underworld in competition with legitimate businesses, including the importers from whom the property was stolen.

The Treasury also loses because Customs may not be able to collect duty on cargo which has been stolen and because lower income taxes are paid by importers who (1) fail to receive stolen merchandise which they would otherwise sell at a profit and (2) claim a deduction on their income tax returns for uninsured theft losses. The loss of export cargo also has an obvious effect on our critical balance of payments situation.

From the moment that imported merchandise is unloaded from an aircraft or vessel at a U.S. port of entry it is under "Customs custody." It remains in Customs custody until it is released by Customs for entry into the commerce of the United States. After this release, delivery may be made by the carrier either directly to the importer or to a designated agent, such as a customhouse broker or freight forwarder.

Customs is concerned with cargo losses occurring during this period of Customs custody. While the carrier is responsible for insuring the physical security of the merchandise during this period, Customs does exercise control over its movement until an arrangement for payment of duty has been made and until Customs is satisfied that contraband, such as heroin and other illicit drugs, is not being smuggled into the United States. Clearly any theft or pilferage of merchandise before its release from Customs custody threatens both the proper collection of duty and the prevention of smuggling, with which Customs is directly charged.

The Treasury's action program to combat cargo theft was based upon these responsibilities and capabilities of Customs.

1. Treasury's legislative proposal—Customs Port Security Act

The most important need we have at this time is passage of the legislative proposal which Treasury submitted to Congress on behalf of the administration and which was introduced last spring as the Mills-Byrnes bill (H.R. 8476) and the Bennett bill (S. 1654). This legislation would give the Secretary of the Treasury authority to establish nationwide standards for security, both physical and procedural, at seaports and airports of entry.

The proposed bill directs the Secretary of the Treasury to establish by regulation national standards for cargo protection at seaports and airports of entry. These minimum standards will be based upon the "Standards for Cargo Security" which the Department of the Treasury has issued today to aid industry and local customs officials in remedying cargo security problems. I believe that full implementation of these standards would produce a significant decrease in cargo theft at minimal cost to industry.

Since the legislation requires all ports and terminals to meet the same basic standards, it also assures that no one port or terminal will be competitively disadvantaged. Furthermore, because Customs already has a physical presence at all major seaports and airports it will be able to monitor compliance without the need to create a new bureaucracy to be paid for by industry or the public.

We recognize that adoption of these minimum security measures may not be sufficient to curb cargo theft in all instances. The bill, therefore, provides for the establishment of "customs security areas" when the Secretary makes a finding that within a port or portion of a port there is an unusual risk of theft or pilferage of international cargo. Such a finding would only be made after a hearing has been held on notice to the appropriate terminal operator or carrier. Customs security areas will have to conform to even tighter security measures than those prescribed under the national standards, and access to such areas would be restricted and under the control of customs officers.

To obtain access to a customs security area the Secretary may require a display of identification cards or badges approved by the customs officer in charge of the port. The bill also identifies violations for which the customs officer may suspend or revoke an identification card and the procedures which he must follow when he takes such action. These procedures provide for a full hearing and review if requested by the aggrieved party.

The thrust of this legislation is to provide for equality throughout the country in meeting certain minimal security standards. Only in specific areas of demonstrated high-theft risk, where normal measures have either failed or not been taken, would more stringent measures and controls be imposed. Treasury would expect to define those areas as narrowly as possible—not an entire port if we could pinpoint a dock area, not a dock area, if we could specify a particular pier, not an entire airport if the problem were concentrated at a specific carrier's terminal.

Assuming industry compliance with the national standards, we anticipate that few customs security areas will be established and we would hope to work ourselves out of the security business in those areas as rapidly as possible.

2. "Standards for Cargo Security"

The "Standards for Cargo Security" which are being released today by Treasury as industry guidelines set forth the cargo protection measures which experts in industrial security believe should be implemented at cargo handling facilities to provide a minimum level of security. The topics covered include such matters as storage areas for high-value items, lighting, fencing, and guards, as well as procedural matters. They are simply those security measures which pru-

dent management should take in its own interest. We anticipate that carriers and terminal operators will voluntarily observe these standards and that there will be a significant reduction in cargo theft as a result.

The need for improved cargo security is substantiated by a Customs survey of cargo handling and storage facilities at piers and terminals throughout the country. The reports received from each district indicate that glaring security deficiencies exist in some areas. Examples are: Cargo being stored in unattended, unfenced areas to which unauthorized persons have easy access; employees being allowed to park their private vehicles in cargo unloading areas; and shipping documents being left where they can be inspected and removed by unauthorized persons.

Carriers and terminal operators in those ports will be asked to take the appropriate corrective actions recommended in the security guidelines issued today.

3. New pilot projects

A demonstrative project similar to one we developed for Kennedy Airport has commenced on three piers in New York and the groundwork has been laid for the commencement of a pilot project on the San Francisco waterfront which we expect will be in operation by March. We believe these new pilot projects will demonstrate to the maritime industry that the security measures we are advocating are (1) highly effective in curbing theft and (2) not unreasonably expensive for the industry.

Let me give you a report on the pilot project which Treasury initiated with the cooperation of the Airport Security Council at Kennedy Airport. In the year preceding that pilot project, airlines operating at JFK reported 425 instances of theft and a loss of merchandise having a total value of \$3.3 million. In the first year of the pilot project the number of instances of theft reported by the airlines declined by approximately 28 percent and the dollar value by 69 percent. The results for the last 6 months are even more encouraging—119 instances of theft of cargo having a total value of \$276,000, a further reduction of 22 percent in number and 44 percent in value. I must point out that these figures were obtained by the Airport Security Council and have not been verified by Treasury. However, it is clear that there has been a substantial reduction in theft loss.

This improvement in the loss picture at JFK was achieved at a minimum cost and with a minimal effect on facilitation by employing commonsense principles of cargo and documentation security. Some of the procedures instituted are: (1) High-value and broken-package merchandise is transported from aircraft to terminal in locked trucks, (2) terminal operators are now required to store such high value and easily pilfered cargo in a secure area, and (3) a new cargo release form is used which provides for authentication by the broker of the person authorized to pick up merchandise.

These simple but effective measures are now being required wherever appropriate by means of regulations effective April 1, 1971.

In connection with the topic of cargo theft statistics, I should mention that Treasury regulations require that discrepancies in manifested quantities be reported to Customs (on U.S. Customs Form 5931 or by submitting amended copy of manifest). Information from these reports is then compiled by computer. This system, which is still being refined, will produce statistics which should enable us to pinpoint the specific piers, terminals, or warehouses, and the types and values of merchandise which are most involved in cargo theft.

However, a recent review of this reporting program reveals that in New York, carriers are filing inaccurate or unsubstantiated reports in many of the cases checked. This indicates a disregard of the reporting requirement by some carriers. We have directed a priority effort to correct this situation. I am confident that once management becomes aware of the necessity of making accurate reports we will begin to obtain the essential information which this program was designed to provide.

Importers, brokers, and insurance underwriters could help us greatly, as well as obtain a refund of duty paid, by filing or insisting that shortage reports be filed when invoiced or manifested merchandise is not received.

An action program

I can assure you that this is an action program which has made maximum use of the limited funds allocated to it. It also ties in with two top priority con-

cerns of President Nixon: The drive to stop smuggling of narcotics and dangerous drugs into the United States and the campaign against organized crime.

If the drug smuggler can remove packages containing narcotics before entry is made, he does not have to fear the more rigorous inspection of cargo which Customs has implemented in order to reduce the influx of illegal drugs into this country. For organized crime, cargo theft has become a profitable business, especially at large deepwater ports and at major airports. For example, there was considerable evidence that organized crime was responsible for the substantial losses experienced at JFK before the institution of the pilot project.

Industry, which has the prime responsibility, can combat cargo theft by improving its own physical and procedural security and by accurately reporting losses which occur.

While the Treasury program focuses primarily on security of international cargo, it should also result in better security for the large quantities of domestic cargo flowing through and temporarily stored at the same airport and seaport facilities.

The immediate, vital need is the passage of Treasury's proposed legislation, the Customs Port Security Act. This legislation has received the backing of knowledgeable industry groups, including the Commerce and Industry Association of New York, the American Importers Association, and the Transportation Association of America. We are hopeful that hearings will be held soon by the House Ways and Means Committee and the Senate Finance Committee.

Exhibit 39.—Remarks of Assistant Secretary Rossides, March 2, 1972, before the All Directors' Congress of the American Footwear Industries Association, La Costa, Calif., on the Antidumping Act, 1921—3 years of rejuvenation

In his Report to the Congress of February 9, 1972, on U.S. foreign policy for the 1970's, President Nixon stated:

"The year 1971 marked a turning point in the world economy. We undertook a series of far-reaching measures which revitalized our foreign economic policy and set the stage for fundamental and long-term reforms in the international economic system."

What the President was referring to, of course, was his new economic policy which established a milestone in the financial and trade fields. The policy served notice on our principal trading partners that:

"* * * no longer will the American people permit their Government to engage in international actions in which the true long-run interests of the United States are not just as clearly recognized as those of the nations with which we deal."

Although this last quotation was extracted from a speech made by Secretary Connally in Munich last May—several months before the new economic policy was announced—it nevertheless is as true now as it was at the time it was delivered. Nowhere can this be better illustrated than by the actions taken by this administration over the last 3 years to rejuvenate the Antidumping Act.

Antidumping Act—its objective

The Antidumping Act, 1921, as amended, is intended to nullify the impact on domestic industry of international price discrimination which injures U.S. producers. From an affirmative standpoint the statute fosters international trade on a fair and equitable basis.

In the view of the Treasury the aim of the act is clear: To defend American industry against unfair international pricing practices. It is not designed as a prop for American industry to assist it in meeting fair and open competition from abroad.

In the context of the Antidumping Act, an "unfair" sale or, if you will, international price discrimination, occurs when a foreign company sells a product for less in the United States than in its home market, thereby causing injury to U.S. industry.

Impact of Antidumping Act as of January 1969

There may be disagreement as to the interpretation of some of the finer points of the Antidumping Act and its administration in the past. There appears,

however, to have been general agreement at the time this administration took office that the act had a relatively minor impact not only on international trade matters generally, but more importantly, in defending American industry from injurious international price discrimination.

The reason for this was rather obvious. Important antidumping investigations were taking 2 years and even longer to complete. Investigations that take that long tend to be devoid of economic significance to the domestic industry. Many American concerns suffering from unfair international trade practices were compelled to bear their lot patiently until the Treasury had completed an exhaustive investigation ferreting out all of the underlying facts.

Moreover, import trade suffers, too, when the spectre of a dumping investigation hovers for an overlong period even if the investigation ends with a determination that the goods have not been sold below fair value. Delays can cause unfair and inequitable treatment to everyone concerned regardless of the ultimate outcome of the investigation.

Accordingly, acceleration of our dumping investigations, without sacrificing reasonable thoroughness, introduced a specific element of fairness of its own which benefited all.

Steps taken by Treasury to rejuvenate administration of Antidumping Act

Treasury Management Survey.—In April 1969, we initiated a Treasury management survey of the administration of the Antidumping Act to determine why it was taking so long to decide these cases and what could be done to improve the situation. It seemed to us that it had to be possible to reduce the investigation period without derogating from the essential fairness of the Treasury's investigation procedures.

This study revealed that there was inadequate staff assigned to the processing of antidumping cases, that the limited staff was inadequately supervised, and that the investigation process was handicapped by cumbersome procedures inherited from the distant past. These factors, taken together, were delaying inordinately decisions on cases of vital concern to American industry.

Increase in manpower.—The Commissioner of Customs was directed to increase the manpower assigned to this area. Treasury stressed to him and his senior staff the importance it attached to this field and that antidumping work was now to be upgraded so that customs officers assigned to antidumping would realize that it offered broad, future opportunities for promotion in the career service.

By November 1970, the headquarters professionals had been increased from five to 21. The additional personnel were transferred to antidumping from other assignments to which the Bureau of Customs had agreed to give a lower priority pending Treasury's request for supplemental funds.

The President submitted to the Congress his request for supplemental funds for this program. Treasury's Appropriations Committees in the House and Senate (together with the members of the Senate Finance and House Ways and Means Committees) gave full bipartisan support to the request. In December 1970, the Congress enacted the President's antidumping supplemental appropriation bill which provided funds for 41 professionals for antidumping and related matters. This gave us the means to continue the advancement already made and to institute additional procedural and policy reforms. The 41 positions were filled by the middle of 1971, and the new personnel have now been trained to administer the Antidumping Act effectively. We are also in the process of increasing and improving the training of our manpower abroad so that Customs representatives responsible for carrying out antidumping investigations overseas will be thoroughly knowledgeable in the intricacies of the law and its administration.

Establishment of Office of Tariff and Trade Affairs.—At the Treasury level, I confined the responsibilities of my deputy for Customs to administration of the Treasury laws concerned with unfair international trade practices and other related tariff matters. Three professional staff officers were assigned to him and he was made the Director of a newly established Office of Tariff and Trade Affairs. The Secretary has recently approved the expansion of this Office with still more personnel.

We have thus institutionalized the changes that had been made and established a more permanent mechanism for adequate Treasury supervision in this area. We now have the basis for insuring that the Treasury Department will have an ongoing operation for proper supervision and administration of the international price discrimination statutes.

Timetable for Collection and Collation of Information.—Another decision made was to establish firm timetables for each step in the collection and collation of information by Customs. In the past, it has taken as long as 6 months to decide whether a "complaint" was sufficiently meritorious to justify the formal initiation of an antidumping investigation. Such decisions are now being made in approximately 1 month.

Questionnaires to foreign exporters and letters replying to typical inquiries have been standardized. Firm time periods are being established for replying to such questionnaires. Much of the clerical work involved in the processing of letters and questionnaires is being simplified by the use of modern tape typewriters and calculators with memory capabilities.

Conferences with attorneys are being restricted to set periods when the antidumping case handler is fully prepared to discuss particular aspects of an investigation with interested attorneys. The day when attorneys could drop in on case handlers without prior appointment is a practice of the past.

Most important of all, the case handlers and Customs representatives abroad have been given a renewed sense of the urgency and the importance of their work and impressed by the need for completing their investigations as rapidly as possible.

Results in Processing Cases.—Treasury has now reached its first goal of completing antidumping cases on the average within 1 year from the date the case is presented. Our next objective is to reduce the time required for the handling of normal cases still further, to approximately 270 days. I have announced this new timetable to the Bureau of Customs which is already initiating steps to see that it is carried out.

I would like to add one word of caution. Because of the Treasury's continued emphasis on the essentiality of fairness in rendering decisions in antidumping cases, it may occasionally be necessary to allow a somewhat longer time for particularly complicated cases. The normal cases, on the other hand, will be completed in accordance with the schedule that I have outlined.

This achievement in speeding up our investigations is due in large part to the foresightedness of a number of officials. It stems in the first instance from the desire of the President to redress the U.S. adverse competitive situation. Its accomplishment is owing in large part to Secretary of the Treasury Kennedy, and later Secretary Connally, without whose active support the results outlined above would have been impossible. Moreover, the improved procedures could not have become a reality if it had not been for the bipartisan cooperation of the Congress which approved the additional appropriations for supplementing Treasury's manpower requirements in this field.

No matter how effective a policy may be its implementation, in the final analysis, depends on the dedicated men and women in the career service who devoted long hours and hard work to our common objective.

The efforts to improve the administration of the Antidumping Act were accompanied by a thorough review of policy. This review, which is continuing, has already resulted in significant changes.

Price Assurance Policy.—In May 1970 Treasury formally announced a change in the policy with respect to price assurances in antidumping investigations. We took this action after concluding that the previous policy of readily accepting price assurances was actually encouraging sales at less than fair value in the United States. Under that policy, foreign firms seeking to sell their merchandise in the U.S. market had no need to give even a passing consideration to the antidumping implications of the step they were about to take. There was no reason why they should do so under the old rules. Let us discuss for a moment what happened under the earlier price assurance policy.

A foreign concern would price its merchandise in the U.S. market at whatever level it considered necessary to compete effectively. Since its product was normally unknown to the American consumer, it would generally price its merchandise below the level of its American competitors in order to attract customers. If the foreign competition started to make itself felt and resulted in an antidumping complaint being filed with the Treasury Department, the foreign firm still had no cause for undue concern. Treasury's antidumping investigations would, under the former procedures, often take over 2 years and even longer to complete.

Moreover, if the Treasury Department tentatively concluded that the merchandise was being sold at dumping margins, price assurances could be offered

and would almost invariably be accepted by the Department. By this time, with the firm's product well known to American consumers, the foreign concern could afford to raise its prices to the level of its American competitors without fear of a drastic drop in sales.

Better yet from the standpoint of the foreign manufacturers, when the Treasury Department accepted price assurances, it would issue a formal determination of "no sales at less than fair value." To say the least, this determination was misleading since there had, in fact, been sales at dumping margins.

Under the new policy, price assurances are accepted only when the dumping margins are minimal in relation to the volume of sales involved. Moreover, in those cases where price assurances are accepted, the case is no longer terminated with a determination of "no sales at less than fair value" as it was under the old price assurance policy. We felt that such a determination after the acceptance of price assurances was a misnomer. Accordingly, the Treasury Department revised its regulations in cases where price assurances are accepted so as to provide for discontinuance of investigations. This procedure, I feel, realistically expresses exactly what takes place in a price assurance case.

Under the new policy, if price assurances are rejected the case is then referred to the Tariff Commission; for, as you know, before a finding of dumping may be issued and dumping duties assessed, it is necessary under the Antidumping Act that there be a determination of sales at less than fair value by the Treasury Department and a determination of injury by the Tariff Commission.

The objective of the new policy is to induce foreign concerns to take the Antidumping Act into account before they engage in sales to the United States.

The 25 Percent Rule.—The Antidumping Act provides that in normal situations fair value shall be determined by comparing the ex factory home market price of the merchandise under investigation with the ex factory price at which the merchandise is sold in the United States. If the price in the United States is less than the home market price, then there are "sales at less than fair value" within the meaning of the statute.

The Act also states that in situations where the quantity of merchandise sold in the home market is so small in relation to the quantity sold for exportation to countries other than the United States as to form an inadequate basis for comparison, then third country price should be used as the basis for comparison.

The Antidumping Regulations originally provided that generally for purposes of determining what constituted an "inadequate basis of comparison" for fair value purposes, home market sales would be considered to be inadequate if less than 25 percent of the non-U.S. sales of the merchandise were sold in the home market.

The selection of home market or third country price for fair value comparison can easily be crucial to the results of antidumping investigations, for frequently home market price tends to be higher than third country price. This is particularly true where merchandise is sold in a protected home market and, when sold in third countries, is exposed to the vagaries of world competition.

It has been Treasury's experience that cases arise where sales in the home market are adequate as a basis for fair value comparison, even though less than 25 percent of the non-U.S. sales are sold in the home market.

Accordingly, on May 22, 1970, the Treasury Department revised its Antidumping Regulations to eliminate the 25 percent rule. All that is required under the regulations, as now revised, is that the sales in the home market be adequate for purpose of fair value comparison.

General revision of Antidumping Regulations

The Antidumping Regulations have been in effect in substantially their present form since July 1, 1968, when they were amended to conform with the provisions of the International Anti-Dumping Code. We felt that with all the changes in the administration of the law that had taken place it was now time to take another broad look at the Regulations and the administration of the law. Accordingly, the Treasury Department announced last year that it was reviewing its Regulations and invited suggestions from the public as to how they might best be improved. I am happy to state that the Treasury Department will be announcing within the next few days proposed changes in the present Antidumping Regulations.

Since the Notice of Proposed Rule Making has not yet been published, I do not feel that it would be proper for me to say at this time what the specific pro-

posals are designed to accomplish. I can assure you, however, that all the individual changes in the regulations are aimed at one broad objective: Strict administration of the Antidumping Act so as to make it an even more effective instrument in defending the United States against unfair international trade practices, consistent however with fairness to all parties concerned.

Results to date

As a result of the administration's rejuvenation of the Antidumping Act, the American public's interest in this law has increased noticeably. Complaints filed during the past 3 years have been 50 percent greater than during 1966-68. And the number of final decisions published by the Treasury over the same time periods has increased by 80 percent.

These figures are particularly noteworthy when account is taken of the fact that accomplishments such as these over a 3-year time span are, of necessity, gradual. They cannot be achieved overnight or even in 1 year. Thus, our record during calendar year 1971 must overcome the startup inertia which is inevitable before a new approach and policy can be put into motion.

In closing I want to emphasize that the administration strongly supports a freer trade policy. Our rejuvenation of the Antidumping Act, so as to defend American industry from unfair international trade practices, is part and parcel of this policy. Despite what some of our foreign trading partners may have said on this subject, the increase in the Treasury and Customs staff for the purpose of administering the Antidumping Act more effectively is fully consistent with a liberal trade policy.

The President has made it clear that he intends to meet the challenge of the future by stimulating our economy to ensure our continued efficient and competitive position in the world. This means that inflation and unemployment in the United States will be reduced while investment in new plants and equipment by the private sector are stimulated.

While building this stronger economy at home, we must remain outward looking and international in our initiatives overseas. This administration is committed to such a course.

As Secretary Connally said when he addressed the Economic Club last fall:

"We do not intend to become provincial. We shall not resort to protectionism. We shall carry our burdens on the international scene. But to do so it is essential to attain an equilibrium in our overall financial balance with the rest of the world. We seek no advantage of others. We propose to suffer no disadvantage. We seek a balance which will be to the benefit of all the nations.

"At stake are not narrow or selfish economic goals; beyond a fair balance of opportunity we seek none. The basic issue is much broader. It is nothing less than rebuilding the economic foundation for promoting economic development, military security, and the free flow of commerce.

"To fail in our effort would be to fail not only as an administration nor even as a Nation. At stake is nothing less than the foundation for the freedom and security of this generation and those that follow."

Exhibit 40.—Remarks of General Counsel Pierce, March 31, 1972, upon the issuance of regulations on financial recordkeeping and reporting of currency and foreign transactions

The Department of the Treasury today issued regulations to implement Titles I and II of Public Law 91-508, the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act of 1970. These regulations will become effective on July 1, 1972.

According to Treasury General Counsel Samuel R. Pierce, Jr., the issuance of these regulations is a further step in the major efforts of this administration directed toward frustrating organized and white collar criminal elements who use secret foreign accounts to assist in concealing substantive violations of drug smuggling, securities, gambling, and currency laws, as well as the untaxed income generated from these and other illegal activities. The regulations are expected to benefit both such foreign-related and domestic law enforcement efforts without burdening legitimate commerce.

The regulations will—

Require all persons maintaining foreign accounts to disclose that fact on their Federal income tax returns and to maintain adequate records of such accounts;

Require all persons transporting, mailing, or shipping from the United States to a foreign country, or receiving from without the United States currency or bearer instruments in amounts in excess of \$5,000, to report such transactions to the Customs authorities;

Require financial institutions to secure a social security or taxpayer identification number with respect to each account opened after June 30, 1972;

Require all financial institutions to make reports to the Treasury of unusual currency transactions involving amounts of more than \$10,000;

Require financial institutions to keep for 5 years records of all transfers into or out of the United States involving more than \$10,000;

Require financial institutions to keep for 5 years certain other records which will be useful for law enforcement purposes.

In addition to the above, the regulations require banks to retain for a period of 2 years records which would be needed to reconstruct a deposit or share account and to trace a check deposited in such account. Treasury will continue to study both the types of records to be kept and the most desirable retention period in order to maximize enforcement benefits and minimize unnecessary and burdensome paperwork. Assistant Secretary Eugene T. Rossides will head a small group within the Treasury to work with the financial community in this effort.

The new regulations are a revision of proposed regulations which were published in the Federal Register on June 10, 1971. The revisions reflect the many pertinent and useful comments received regarding the proposed regulations.

In revising these regulations, the department has taken account of all comments received, and every effort has been made to insure that the final regulations will serve their law enforcement purposes while at the same time not interfering with legitimate international monetary transactions, unduly burdening financial institutions or others or imposing unreasonable requirements that would serve no useful purpose. In doing this we have taken account of existing recordkeeping procedures and the lengths of time existing records are ordinarily kept. An internal committee within the Treasury Department has spent a considerable amount of time revising and reviewing the regulations in the light of the comments received, to be sure that these objectives are accomplished.

Governmental access to these records is not changed by either the statute or the regulations but will continue to be subject to the requirements of existing law regarding subpoena and other legal processes.

Title 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

On June 10, 1971, a notice of proposed rule making to implement the provisions of Titles I and II of Public Law 9-508 (84 Stat. 1114 et seq.), was published in the Federal Register (36 F.R. 11208 (1971)). In accordance with the notice, interested parties were afforded an opportunity to submit written comments.

After consideration of all such relevant matters as were presented by interested parties regarding the rules proposed, the regulations set forth below have been adopted.

SAMUEL R. PIERCE, Jr.,
General Counsel.
EUGENE T. ROSSIDES,
Assistant Secretary.

PART 102—INSTRUCTIONS RELATING TO REPORTS OF CURRENCY TRANSACTIONS

Part 102 is repealed effective July 1, 1972.

PART 103—FINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY AND FOREIGN TRANSACTIONS

SUBPART A—DEFINITIONS

Sec.

103.11 Meaning of terms

SUBPART B—REPORTS REQUIRED TO BE MADE

- Sec.
 103.21 Determination by the Secretary
 103.22 Reports of Currency Transactions
 103.23 Reports of Transportation of Currency or Monetary Instruments
 103.24 Reports of Foreign Financial Accounts
 103.25 Filing of Reports
 103.26 Identification Required

SUBPART C—RECORDS REQUIRED TO BE MAINTAINED

- 103.31 Determination by the Secretary
 103.32 Records to be Made and Retained by Persons Having Financial Interests
 in Foreign Financial Accounts
 103.33 Records to be Made and Retained by Financial Institutions
 103.34 Additional Records to be Made and Retained by Banks
 103.35 Additional Records to be Made and Retained by Brokers and Dealers
 in Securities
 103.36 Nature of Records and Retention Period
 103.37 Person Outside the United States

SUBPART D—GENERAL PROVISIONS

- 103.41 Dollars as Including Foreign Currency
 103.42 Photographic or Other Reproductions of Government Obligations
 103.43 Availability of Information
 103.44 Disclosure
 103.45 Exceptions, Exemptions, Modifications, and Reports
 103.46 Enforcement
 103.47 Civil Penalty
 103.48 Forfeiture of Currency or Monetary Instruments
 103.49 Criminal Penalty
 103.50 Enforcement Authority with Respect to Transportation of Currency
 or Monetary Instruments
 103.51 Effective Date

AUTHORITY:—The provisions of this Part 103 issued under sec. 21 of the Federal Deposit Insurance Act, 84 Stat. 1114, 12 U.S.C. 1829b; 84 Stat. 1116, 12 U.S.C. 1951-1959; and the Currency and Foreign Transactions Reporting Act, 84 Stat. 1118, 31 U.S.C. 1051-1122.

SUBPART A—DEFINITIONS

§ 103.11 Meaning of Terms

When used in this part and in forms prescribed under this part, where not otherwise distinctly expressed or manifestly incompatible with the intent thereof, terms shall have the meanings ascribed in this section.

Bank.

(a) Each agency, branch or office within the United States of any person doing business in one or more of the capacities listed below.

(1) a commercial bank or trust company organized under the laws of any state or of the United States;

(2) a private bank;

(3) a savings and loan association or a building and loan association organized under the laws of any state or of the United States;

(4) an insured institution as defined in section 401 of the National Housing Act;

(5) a savings bank, industrial bank or other thrift institution;

(6) a credit union organized under the laws of any state or of the United States; and

(7) any other organization chartered under the banking laws of any state and subject to the supervision of the bank supervisory authorities of a state.

(b) Each agent, agency, branch or office within the United States of a foreign bank.

Broker or dealer in securities. A broker or dealer in securities, registered or required to be registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Currency. The coin and currency of the United States or of any other country.

which circulate in and are customarily used and accepted as money in the country in which issued. It includes United States silver certificates, United States notes and Federal Reserve notes, but does not include bank checks or other negotiable instruments not customarily accepted as money.

Domestic. When used herein, refers to the doing of business within the United States, and limits the applicability of the provision wherein it appears to the performance by such institutions or agencies of functions within the United States.

Financial institution. Each agency, branch or office within the United States of any person doing business in one or more of the capacities listed below:

- (1) a bank;
- (2) a broker or dealer in securities;
- (3) a person who engages as a business in dealing in or exchanging currency as, for example, a dealer in foreign exchange or a person engaged primarily in the cashing of checks;
- (4) a person who engages as a business in the issuing, selling or redeeming of travelers' checks, money orders, or similar instruments, except one who does so as a selling agent exclusively or as an incidental part of another business;
- (5) an operator of a credit card system which issues, or authorizes the issuance of, credit cards that may be used for the acquisition of monetary instruments, goods, or services outside the United States;
- (6) a licensed transmitter of funds, or other person engaged in the business of transmitting funds abroad for others.

Foreign bank. A bank organized under foreign law, or an agency, branch or office located outside the United States of a bank. The term does not include an agent, agency, branch or office within the United States of a bank organized under foreign law.

Investment security. An instrument which

- (1) is issued in bearer or registered form;
- (2) is of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment;
- (3) is either one of a class or series or by its terms is divisible into a class or series of instruments; and
- (4) evidences a share, participation or other interest in property or in an enterprise or evidences an obligation of the issuer.

Monetary instruments. Coin or currency of the United States or of any other country, travelers' checks, money orders, investment securities in bearer form or otherwise in such form that title thereto passes upon delivery, and negotiable instruments (except warehouse receipts or bills of lading) in bearer form or otherwise in such form that title thereto passes upon delivery. The term does not include bank checks made payable to the order of a named person which have not been endorsed or which bear restrictive endorsements.

Person. An individual, a corporation, a partnership, a trust or estate, a joint stock company, an association, a syndicate, joint venture, or other unincorporated organization or group, and all entities cognizable as legal personalities.

Secretary. The Secretary of the Treasury or any person duly authorized by the Secretary to perform the function mentioned.

Transaction in currency. A transaction involving the physical transfer of currency from one person to another. A transaction which is a transfer of funds by means of bank check, bank draft, wire transfer, or other written order, and which does not include the physical transfer of currency is not a transaction in currency within the meaning of this part.

United States. The various States, the District of Columbia, the Commonwealth of Puerto Rico, and the territories and possessions of the United States.

SUBPART B—REPORTS REQUIRED TO BE MADE

§ 103.21 Determination by the Secretary

The Secretary hereby determines that the reports required by this subpart have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings.

§ 103.22 Reports of Currency Transactions

Each financial institution shall file a report of each deposit, withdrawal, exchange of currency or other payment or transfer, by, through, or to such financial institution, which involves a transaction in currency of more than \$10,000.

Except as otherwise directed in writing by the Secretary, this section shall not (1) require reports of transactions with Federal Reserve Banks or Federal Home Loan Banks; (2) require reports of transactions solely with, or originated by, financial institutions or foreign banks; or (3) require a bank to report 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. A report listing such customers who engage in transactions which are not reported because of the exemption contained in this paragraph shall be made to the Secretary upon demand therefor made by him.

§ 103.23 Reports of Transportation of Currency or Monetary Instruments

(a) Each person who physically transports, mails, or ships, or causes to be physically transported, mailed or shipped, currency or other monetary instruments in an aggregate amount exceeding \$5,000 on any one occasion from the United States to any place outside the United States, or into the United States from any place outside the United States, shall make a report thereof. A person is deemed to have caused such transportation, mailing or shipping when he aids, abets, counsels, commands, procures or requests it to be done by a financial institution or any other person. A transfer of funds through normal banking procedures which does not involve the physical transportation of currency or monetary instruments is not required to be reported by this section.

(b) Each person who receives in the United States currency or other monetary instruments in an aggregate amount exceeding \$5,000 on any one occasion which have been transported, mailed, or shipped to such person from any place outside the United States with respect to which a report has not been filed under subsection (a) of this section, whether or not required to be filed thereunder, shall make a report thereof, stating the amount, the date of receipt, the form of monetary instruments, and the person from whom received.

(c) This section shall not require reports by (1) a Federal Reserve bank, (2) a bank, a foreign bank, or a broker or dealer in securities, in respect to currency or other monetary instruments mailed or shipped through the postal service or by common carrier, (3) a person who is not a citizen or resident of the United States in respect to currency or other monetary instruments mailed or shipped from abroad to a bank or broker or dealer in securities through the postal service or by common carrier, (4) a common carrier of passengers in respect to currency or other monetary instruments in the possession of its passengers, (5) a common carrier of goods in respect to shipments of currency or monetary instruments not declared to be such by the shipper, (6) a travelers' check issuer or its agent in respect to the transportation of travelers' checks prior to their delivery to selling agents for eventual sale to the public, nor by (7) a person engaged as a business in the transportation of currency, monetary instruments and other commercial papers with respect to the transportation of currency or other monetary instruments overland between established offices of banks or brokers or dealers in securities and foreign banks.

(d) This section does not require that more than one report be filed covering a particular transportation, mailing or shipping of currency or other monetary instruments with respect to which a complete and truthful report has been filed by a person. However, no person required by subparagraphs (a) or (b) of this section to file a report shall be excused from liability for failure to do so if, in fact, a complete and truthful report has not been filed.

§ 103.24 Reports of Foreign Financial Accounts

Each person subject to the jurisdiction of the United States (except a foreign subsidiary of a United States person) having a financial interest in, or signature or other authority over, a bank, securities or other financial account in a foreign country shall report such relationship as required on his federal income tax return for each year in which such relationship exists, and shall provide such information concerning each such account as shall be specified in a special tax form to be filed by such persons.

§ 103.25 Filing of Reports

(a) Reports required to be filed by the first paragraph of Section 103.22 shall be filed on or before the forty-fifth day following that on which the reported transactions occur. They shall be filed with the Commissioner of Internal Revenue

on forms to be prescribed by him, with the approval of the Secretary. All information called for in such forms shall be furnished.

(b) Reports required to be filed by Section 103.23(a) shall be filed at the time of entry into the United States or at the time of departure, mailing or shipping from the United States, unless otherwise directed or permitted by the Commissioner of Customs. They shall be filed with the Customs officer in charge at any Customs port of entry or departure, or as otherwise permitted or directed by the Commissioner of Customs. If the currency or other monetary instruments with respect to which a report is required do not accompany a person entering or departing from the United States, such reports may be filed by mail on or before the date of entry, departure, mailing or shipping, with the Commissioner of Customs, Attention: Currency Transportation Reports, Washington, D.C. 20226. They shall be on forms to be prescribed by the Secretary and all information called for in such forms shall be furnished.

(c) Reports required to be filed by Section 103.23(b) shall be filed with the Commissioner of Customs within thirty days after receipt of the currency or other monetary instruments. They may be filed with the Customs officer in charge at any port of entry or departure, or by mail addressed to the Commissioner of Customs, Attention: Currency Transportation Reports, Washington, D.C. 20226. They shall be on forms to be prescribed by the Secretary and all information called for in such forms shall be furnished.

(d) Forms to be used in making the reports required by Sections 103.22 and 103.23 may be obtained from any Internal Revenue office; in addition, forms to be used in making the reports required by Section 103.23 may be obtained from any office of the Bureau of Customs.

§ 103.26 Identification Required

Before effecting any transaction with respect to which a report is required under the first paragraph of Section 103.22, a financial institution shall verify and record the identity, and record the account number on its books or the social security or taxpayer identification number, if any, of a person with whom or for whose account such transaction is to be effected. Verification of identity for a customer of the financial institution depositing or withdrawing funds may be by reference to his account or other number on the books of the institution. Verification of identity in any other case may be by examination, for example, of a driver's license, passport, alien identification card, or other appropriate document normally acceptable as a means of identification.

SUBPART C—RECORDS REQUIRED TO BE MAINTAINED

§ 103.31 Determination by the Secretary

The Secretary hereby determines that the records required to be kept by this subpart have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings.

§ 103.32 Records To Be Made and Retained by Persons Having Financial Interests in Foreign Financial Accounts

Records of accounts required by Section 103.24 to be reported on a federal income tax return shall be retained by each person having a financial interest in any such account. Such records shall contain the name in which each such account is maintained, the number or other designation of such account, the name and address of the foreign bank or other person with whom such account is maintained, the type of such account, and the maximum value of each such account during the reporting period. Such records shall be retained for a period of five years and shall be kept at all times available for inspection as authorized by law. In the computation of the period of five years, there shall be disregarded any period beginning with a date on which the taxpayer is indicted or information instituted on account of the filing of a false or fraudulent federal income tax return or failing to file a federal income tax return, and ending with the date on which final disposition is made of the criminal proceeding.

§ 103.33 Records To Be Made and Retained by Financial Institutions

Each financial institution shall retain either the original or a microfilm or other copy or reproduction of each of the following:

(a) a record of each extension of credit in an amount in excess of \$5,000, except an extension of credit secured by an interest in real property, which record

shall contain the name and address of the person to whom the extension of credit is made, the amount thereof, the nature or purpose thereof, and the date thereof;

(b) a record of each advice, request, or instruction received regarding a transaction which results in the transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit, of more than \$10,000 to a person, account, or place outside the United States;

(c) a record of each advice, request, or instruction given to another financial institution or other person located within or without the United States, regarding a transaction intended to result in the transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit, of more than \$10,000 to a person, account or place outside the United States;

§ 103.34 Additional Records To Be Made and Retained by Banks

(a) With respect to each deposit or share account opened with a bank after June 30, 1972, by a person residing or doing business in the United States or a citizen of the United States, such bank shall secure and maintain a record of the taxpayer identification number of the person maintaining the account; or in the case of an account of one or more individuals, such bank shall secure and maintain a record of the social security number of an individual having a financial interest in that account.

(b) Each bank shall, in addition, retain either the original or a microfilm or other copy or reproduction of each of the following:

(1) Each document granting signature authority over each deposit or share account;

(2) Each statement, ledger card or other record on each deposit or share account, showing each transaction in, or with respect to, that account;

(3) Each check, clean draft, or money drawn on the bank or issued and payable by it, except those drawn on accounts which can be expected to have drawn on them an average of at least 100 checks per month over the calendar year or on each occasion on which such checks are issued, and which are (i) dividend checks, (ii) payroll checks, (iii) employee benefit checks, (iv) insurance claim checks, (v) medical benefit checks, (vi) checks drawn on governmental agency accounts, (vii) checks drawn by brokers or dealers in securities, (viii) checks drawn on fiduciary accounts, (ix) checks drawn on other financial institutions, or (x) pension or annuity checks;

(4) Each item other than bank charges or periodic charges made pursuant to agreement with the customer, comprising a debit to a customer's deposit or share account, not required to be kept, and not specifically exempted, under subparagraph (b) (3) of this section;

(5) Each item, including checks, drafts, or transfers of credit, of more than \$10,000 remitted or transferred to a person, account or place outside the United States;

(6) A record of each remittance or transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit, of more than \$10,000 to a person, account or place outside the United States;

(7) Each check or draft in an amount in excess of \$10,000 drawn on or issued by a foreign bank, purchased, received for credit or collection, or otherwise acquired by the bank;

(8) Each item, including checks, drafts or transfers of credit, of more than \$10,000 received directly and not through a domestic financial institution, by letter, cable or any other means, from a person, account or place outside the United States;

(9) A record of each receipt of currency, other monetary instruments, checks, or investment securities, and of each transfer of funds or credit, of more than \$10,000 received on any one occasion directly and not through a domestic financial institution, from a person, account or place outside the United States; and

(10) Records prepared or received by a bank in the ordinary course of business, which would be needed to reconstruct a demand deposit account and to trace a check deposited in such account through its domestic processing system or to supply a description of a deposited check. This subsection shall be applicable only with respect to demand deposits.

§ 103.35 Additional Records To Be Made and Retained by Brokers and Dealers in Securities

(a) With respect to each brokerage account opened with a broker or dealer in securities after June 30, 1972, by a person residing or doing business in the

United States or a citizen of the United States, such broker or dealer shall secure and maintain a record of the taxpayer identification number of the person maintaining the account; or in the case of an account of one or more individuals, such broker or dealer shall secure and maintain a record of the social security number of an individual having a financial interest in that account.

(b) Every broker or dealer in securities shall, in addition, retain either the original or a microfilm or other copy or reproduction of each of the following:

(1) Each document granting signature or trading authority over each customer's account;

(2) Each record described in section 240.17a-3(a) (1), (2), (3), (5), (6), (7), (8) and (9) of Title 17, Code of Federal Regulations;

(3) A record of each remittance or transfer of funds, or of currency, checks, other monetary instruments, investment securities, or credit, of more than \$10,000 to a person, account or place outside the United States;

(4) A record of each receipt of currency, other monetary instruments, checks, or investment securities and of each transfer of funds or credit, of more than \$10,000 received on any one occasion directly and not through a domestic financial institution, from any person, account or place outside the United States.

§ 103.36 Nature of Records and Retention Period

(a) Wherever it is required that there be retained either the original or a microfilm or other copy or reproduction of a check, draft, monetary instrument, investment security, or other similar instrument, there shall be retained a copy of both front and back of each such instrument or document, except that no copy need be retained of the back of any instrument or document which is entirely blank or which contains only standardized printed information, a copy of which is on file.

(b) Records required by this subpart to be retained by financial institutions may be those made in the ordinary course of business by a financial institution. If no record is made in the ordinary course of business of any transaction with respect to which records are required to be retained by this subpart, then such a record shall be prepared in writing by the financial institution.

(c) Records which are required by Section 103.34(b) (10) to be retained by banks shall be retained for a period of two years. All other records which are required by this subpart to be retained by financial institutions shall be retained for a period of five years. All such records shall be filed or stored in such a way as to be accessible within a reasonable period of time, taking into consideration the nature of the record, and the amount of time expired since the record was made.

§ 103.37 Person Outside the United States

For the purposes of this subpart, a remittance or transfer of funds, or of currency, other monetary instruments, checks, investment securities, or credit to the domestic account of a person whose address is known by the person making the remittance or transfer, to be outside the United States, shall be deemed to be a remittance or transfer to a person outside the United States, except that, unless otherwise directed by the Secretary, this section shall not apply to a transaction on the books of a domestic financial institution involving the account of a customer of such institution whose address is within approximately fifty miles of the location of the institution, or who is known to be temporarily outside the United States.

SUBPART D—GENERAL PROVISIONS

§ 103.41 Dollars as Including Foreign Currency

Wherever in this part an amount is stated in dollars, it shall be deemed to mean also the equivalent amount in any foreign currency.

§ 103.42 Photographic or Other Reproductions of Government Obligations

Nothing herein contained shall require or authorize the microfilming or other reproduction of

(1) currency or other obligation or security of the United States as defined in 18 U.S.C. 8, or

(2) any obligation or other security of any foreign government, the reproduction of which is prohibited by law.

§ 103.43 Availability of Information

The Secretary may make any information set forth in any reports received pursuant to this part available to any other department or agency of the United States upon the request of the head of such department or agency, made in writing and stating the particular information desired, the criminal, tax, or regulatory investigation or proceeding in connection with which the information is sought, and the official need therefor.

§ 103.44 Disclosure

All reports required under this part and all records of such reports are specifically exempted from disclosure under section 552 of Title 5, United States Code.

§ 103.45 Exceptions, Exemptions, Modifications, and Reports

(a) The Secretary, in his sole discretion, may by written order or authorization make exceptions to, grant exemptions from, impose additional record-keeping or reporting requirements authorized by statute, or otherwise modify, the requirements of this part. Such exceptions, exemptions, requirements or modifications may be conditional or unconditional, may apply to particular persons or to classes of persons, and may apply to particular transactions or classes of transactions. They shall, however, be applicable only as expressly stated in the order or authorization, and they shall be revocable in the sole discretion of the Secretary.

(b) The Secretary shall have authority to further define all terms used herein.

§ 103.46 Enforcement

(a) Responsibility for assuring compliance with the requirements of this part is delegated 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;

(6) to the Securities and Exchange Commission, with respect to brokers and dealers in securities;

(7) to the Commissioner of Customs with respect to § 103.23 and § 103.48;

(8) to the Commissioner of Internal Revenue except as otherwise specified in this section.

(b) Over-all responsibility for coordinating the procedures and efforts of the agencies listed herein and assuring compliance with this part, is delegated to the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations). Periodic reports shall be made by each such agency to the Assistant Secretary, with copies to the General Counsel of the Treasury Department and to the Commissioner of Internal Revenue.

§ 103.47 Civil Penalty

(a) For any willful violation of any requirement of this part, the Secretary may assess upon any domestic financial institution, and upon any partner, director, officer or employee thereof who willfully participates in the violation, a civil penalty not exceeding \$1,000.

(b) For any failure to file a report required under Section 103.23 or for filing such a report containing any material omission or misstatement, the Secretary may assess a civil penalty up to the amount of the currency or monetary instruments transported, mailed or shipped, less any amount forfeited under Section 103.48.

§ 103.48 Forfeiture of Currency or Monetary Instruments

Any currency or other monetary instruments which are in the process of any transportation with respect to which a report is required under Section 103.23 are subject to seizure and forfeiture to the United States if such report has not been filed as required in Section 103.25, or contains material omissions or misstatements. The Secretary may, in his sole discretion, remit or mitigate any such forfeiture in whole or in part upon such terms and conditions as he deems reasonable.

§ 103.49 Criminal Penalty

(a) Any person who willfully violates any provision of this part may, upon conviction thereof, be fined not more than \$1,000 or be imprisoned not more than one year, or both. Such person may in addition, if the violation is of any provision authorized by Title I of Public Law 91-508 and if the violation is committed in furtherance of the commission of any violation of Federal law punishable by imprisonment for more than one year, be fined not more than \$10,000 or be imprisoned not more than five years, or both.

(b) Any person who willfully violates any provision of Title II of Public Law 91-508, or of this part authorized thereby, where the violation is either

(1) committed in furtherance of the commission of any other violation of Federal law, or

(2) committed as part of a pattern of illegal activity involving transactions exceeding \$100,000 in any twelve-month period, may, upon conviction thereof, be fined not more than \$500,000 or be imprisoned not more than five years, or both.

(c) Any person who knowingly makes any false, fictitious or fraudulent statement or representation in any report required by this part may, upon conviction thereof, be fined not more than \$10,000 or be imprisoned not more than 5 years, or both.

§ 103.50 Enforcement Authority With Respect to Transportation of Currency or Monetary Instruments

(a) If the Secretary has reason to believe that currency or monetary instruments are in the process of transportation and with respect to which a report required under Section 103.23 of this part has not been filed or contains material omissions or misstatements, he may apply to any court of competent jurisdiction for a search warrant. Upon a showing of probable cause, the court may issue a warrant authorizing the search of any or all of the following:

(1) One or more designated persons.

(2) One or more designated or described places or premises.

(3) One or more designated or described letters, parcels, packages, or other physical objects.

(4) One or more designated or described vehicles.

Any application for a search warrant pursuant to this section shall be accompanied by allegations of fact supporting the application.

(b) This section is not in derogation of the authority of the Secretary under any other law or regulation.

§ 103.51 Effective Date

This part shall become effective July 1, 1972.

Taxation Developments

Exhibit 41.—Remarks by Assistant Secretary Cohen, July 15, 1971, before the Tax Section of the American Bar Association, London, England, regarding the formulation of tax policy in the United States

It should have occurred to me a year ago, when I agreed to give this talk today, that an American who dares speak in England about the formulation of tax policy is throwing caution to the winds. For it was the issue of taxation that 200 years ago topped the list of grievances that the Thirteen American Colonies bore against the mother country and led to the Declaration of Independence on July 4, 1776.

It has been said many times in jest, but with a touch of grim reality, that the delicate task of the tax official is to keep the citizens sullen but not mutinous. The location of that shadowy line is difficult indeed, but history records that King George III and his Chancellors of the Exchequer overstepped the mark.

It was not alone the level of the taxes that sparked the American Revolution. More significant was the insistence of the colonists that they have an adequate voice in the determination of the taxes to be levied upon them. The cry that "taxation without representation is tyranny" resounded through the Atlantic seaboard and galvanized into action men who in calmer moments were deeply devoted to their British heritage. Indeed it is that brotherly faith in the wisdom of the common law and adherence to democratic principles that brings us together today, as it has on so many other occasions.

The right of representation in tax matters, forged in the crucible of a dreadful war, has been zealously preserved and guarded in the American political structure both at the Federal level and in State and local governments. Perhaps nowhere is this better seen than in smaller communities, particularly in New England, at town meetings when the annual local budget is adopted. Generally gathering in the dead of winter, with snow piled high around the town hall and the temperature too low to admit of fresh air, the entire taxpaying body politic meets for a day to debate and vote on each item in the annual budget—each citizen knowing full well how much each item of town equipment and each town salary will cost him personally in his taxes. No more democratic process for the voting of a budget and taxes could be imagined.

State and local governments raise about one-third of the taxes (including social insurance taxes) collected in the United States at present. Within each of the 50 States taxes are enacted by the State legislatures and by local governmental units pursuant to the various State constitutions. These taxes are affected only in broad terms by the provisions of the Federal Constitution, such as the prohibition of State taxes on exports or State taxes that would discriminate against interstate or foreign commerce; and by Federal statutes, such as the Federal income and estate tax laws, which allow deductions or credits for certain types of State and local taxes and not for others. But by and large the States retain for themselves the right to formulate their own tax policies.

The process of developing tax policy in our Federal Government is governed basically by the provisions of our Federal Constitution. Adopted in 1789 and supplemented by 26 amendments, it creates a system of checks and balances between the legislative, administrative, and judicial branches of the Federal Government. It differs in many important respects from the parliamentary system that exists in the United Kingdom. These differences are reflected in the development of all legislation but especially so in the field of taxation.

The Federal Constitution grants to the Congress in broad terms the power "To lay and collect Taxes, Duties, Imposts and Excises" (article I, section 8), subject to several limitations. The Congress is divided into two branches, a House of Representatives and a Senate; and legislation, including tax measures, must be approved by majority vote in each branch. The House of Representatives consists now of 435 voting members, apportioned among the 50 States according to their respective populations determined every 10th year by an annual census. The States of New York and California, with the largest populations, now have 41 and 38 Representatives, respectively, whereas a few States with small populations have only one Representative in the House. The Representatives are elected in early November of each even-numbered year by popular vote of their constituents and take office early in the following January.

The Senate is composed of two Senators from each State, regardless of the population, elected by popular vote in the State for a term of 6 years. One-third of the Senate is elected in every even-numbered year at the same time as the election of the members of the House of Representatives.

Thus Federal tax legislation as well as other statutes must be approved by one body that is elected in proportion to population and by another that is elected by equal representation for the several States, regardless of size; by one body that must stand for reelection every 2 years and by another in which one-third their number is elected every 2 years; and by one body that must function with 435 members and another that must pass upon the same legislation with only 100 members. These differences in composition quite naturally produce differences in procedures and frequently differences in policies between the two bodies, in taxation as well as other matters. With respect to any particular legis-

lation, if one house is unwilling to agree with the version passed by the other, the differences must be resolved by a conference between representatives of the two houses and the compromise bill again passed by both houses by majority vote.

Any bill passed by both branches of the Congress must be presented to the President for his signature. If he approves, the bill becomes law upon his signature. If he disapproves and the Congress is in session, it can be enacted by Congress in spite of his veto if it is again passed by each house by a two-thirds majority.

The President of the United States is elected by the people for a term of 4 years and may be reelected for one additional term. He is the chief executive officer of the Federal Government and has the ultimate power of decision over the tax and other policies of his administration. His administration is divided into 12 departments, each presided over by a cabinet officer, as well as other agencies.

The responsibility for tax policy and tax administration, under the executive guidance of the President, is vested in the Department of the Treasury, headed by the Secretary of the Treasury. The task of administration of the tax laws is, in general, delegated by the Secretary to the Commissioner of Internal Revenue, who is in charge of the Internal Revenue Service with its some 65,000 career employees. The formulation of tax policy is a task retained in the Office of the Secretary and assigned to the Assistant Secretary for Tax Policy.

The Assistant Secretary for Tax Policy is in charge of a staff of some 20 lawyers and 35 economists, statisticians, and econometricians. It is this group that has the immediate responsibility for the development of tax legislation and policy for the administration and advises the Under Secretary and the Secretary on these matters. In the process, they consult with and rely upon many others within the Treasury and elsewhere in the administration. In particular, they consult with the Internal Revenue Service especially about such matters as administrative feasibility of proposals and their effect upon allocation of available personnel in the Service, factors which frequently have major bearing on policy decisions. Of course, depending upon the nature of the subject under consideration, other officers of the Treasury and their staffs are brought into the discussions. Moreover, the Treasury frequently calls in economic and other consultants for conferences or for special studies, both of which are of great interest and assistance.

The Treasury makes every effort to discuss tax proposals with other departments or agencies of the Government that are interested in the subject matter. On economic matters generally, it has frequent discussions with the Council of Economic Advisers, an agency that advises the President and the Congress on the state of the economy and economic measures to be taken. Moreover, all legislative proposals or positions of the administration are required to be cleared with the Office of Management and Budget, which has charge of the preparation of the Federal budget. That Office reviews the proposals both for their budgetary effects and for the purpose of reconciling any conflicting views between different departments or agencies within the administration. Certain proposals are also reviewed with the Domestic Council, which seeks to coordinate domestic policy, and the recently formed International Council, which similarly seeks to coordinate policy in international economic and trade matters. And where fiscal and monetary policy intertwine, there is consultation with the Federal Reserve Board, which supervises the Federal Reserve System, our central banking structure.

The Treasury staff frequently consults and collaborates with the staff of the Joint Committee on Internal Revenue Taxation in the Congress. The Joint Committee itself consists of 10 senior members of the House Ways and Means Committee and the Senate Finance Committee, five from each group, and it has a staff of lawyers and economists. Among their other duties, the Joint Committee staff is available to advise the Congress and its members on pending or proposed tax legislation, not only with respect to administration proposals but also with respect to bills introduced, or contemplated, by members of Congress on their own initiative. Some 2,000 bills relating to taxes are introduced by members in each Congress.

The final authority over fiscal policy within the administration rests, of course, with the President. At the start of each session of the Congress in January, the President traditionally delivers a message on the state of the Union, in which he outlines his major program for the ensuing year. This is followed by a budget

message, in which he presents a proposed budget for the fiscal year that commences the following July 1. All appropriations for expenditures must be approved by bills enacted by the Congress. Other messages from the President to the Congress follow in the ensuing weeks, including those relating to any major changes in the tax laws.

The Federal Constitution requires that all tax and appropriation measures originate in the House of Representatives (article I, section 7), although they may be amended and revised in the Senate. Thus any major tax measure will be considered first in the House of Representatives; yet it is possible for some matters to be taken up first in the Senate where they may be added to other tax bills that may be pending there after prior passage by the House.

Because of the size of the membership in both the House and the Senate, the customary practice is for legislation to be considered first in committees composed of members of the particular body. In the House of Representatives, tax and fiscal matters are referred to the Committee on Ways and Means, composed of 25 members of the House. For many years now 15 of the committee members have been chosen from the party having a majority of the membership in the House and 10 from the party in minority. A comparable situation exists in the Senate where tax measures are referred to the Committee on Finance, composed of 15 Senators, of whom nine now are from the party having a majority in the Senate and six from the minority.

At present, the President is a member of the Republican Party, but the Democratic Party has a majority in both branches of the Congress and hence in all of the congressional committees. Such a situation, in which one party controls the administration and the other party controls one or both houses of the Congress, has occurred a number of times in the past. It would, I understand, be unknown in the British parliamentary system.

Cabinet officers are customarily of the same political party as the President, but there have been a number of exceptions and this has been particularly true of the position of the Secretary of the Treasury. In the Democratic administrations of Presidents Kennedy and Johnson, Secretary of the Treasury Dillon was a Republican. And the present Secretary of the Treasury, the Honorable John B. Connally, is a Democrat. This, too, I understand would be unusual in the United Kingdom.

But perhaps the most distinctive feature of the American legislative structure in comparison with the parliamentary system lies in the separation between the legislative and administrative branches of the Government. The President and his Cabinet officers are not members of the Congress; they may not join in the debates on the floor of either branch of the Congress; and they have no votes either on the passage of the bills or in the prior committee action on them. The position of the President on pending legislation may be made known by written communication to the Congress or its officers, by public statements or private conversations, or through his Cabinet officers or their assistants.

In adherence to the tradition of permitting public protests and debates on tax matters, it is customary for the Committee on Ways and Means to hold public hearings on major or controversial tax proposals. Customarily, the Secretary of the Treasury is the first witness to appear before the committee. The Secretary, or at times the Under Secretary or the Assistant Secretary, present the views and analyses of the Treasury. They then may be questioned orally at the public hearings by each member of the committee on any aspect of the pending proposals. Frequently this testimony is completed within an hour or two, but 3 days were required when the Treasury recommendations were presented for the Tax Reform Act of 1969. Other members of the administration may also testify if the subject relates to matters under their jurisdiction.

The committee normally makes public announcement of the hearings and invites witnesses from the general public. Frequently there is a long list of witnesses and the hearings may last for weeks, although at times they are completed in a single day. The hearings on the Tax Reform Act of 1969 required more than 2 months.

In the present administration, wherever possible, we have followed the practice of transmitting to the Congress a recommended draft of legislation to carry out the proposals. We believe this practice facilitates discussion of the proposal and eliminates uncertainties. However, time does not always permit the completion of the draft before the Ways and Means Committee commences its public hearings. This was the case in the Tax Reform Act of 1969 when the hearings commenced less than 30 days after the new administration took office. In any event, the final

drafting work on the legislation actually enacted is done by the staff of the Legislative Counsel in the Congress, with representatives of the Treasury and the congressional committee staffs in consultation.

After the public hearings have been concluded, the Ways and Means Committee generally holds executive sessions on the proposals. While the public is excluded from these deliberations, Treasury representatives are normally invited to attend to state the Treasury views, to respond to questions, and to supply data and analyses. In addition, the committee has its own staff to advise it. But especially the committee obtains professional advice and guidance from the staff of the Joint Committee on Internal Revenue Taxation in the Congress.

The Ways and Means Committee meets daily during the pendency of important tax legislation, frequently both morning and afternoon if the schedule of debates on other matters on the floor of the House permits. The committee has a heavy calendar since it has under its jurisdiction not only tax and fiscal matters (other than appropriations) but also such other matters as social insurance, welfare programs, health insurance, and tariff and trade legislation. Because of these extensive commitments its members generally do not serve on other committees of the House of Representatives.

On major legislation the Ways and Means Committee in executive session customarily reviews each important aspect of the proposed legislation in informal discussion. If new approaches to the problems develop or alternative solutions are offered, the committee staffs and Treasury staffs are often asked to examine them in detail and report back. Nights and weekends are filled with staff work as the committee deliberations progress, and revised drafts may be prepared and presented for its consideration. Usually, recorded votes on specific items are deferred until there has been thorough consideration. A broad consensus frequently develops, but on occasion there is a clear division of opinion that is finally resolved by a dramatic 3-2 vote.

It is of major interest, I think, that the positions taken by the members of the two committees are seldom along strict party lines. To the best of my recollection, there were more than 400 votes on specific issues taken in the committees during the consideration of the Tax Reform Act of 1969 and on only one issue did the vote reflect a strictly party division. The votes are not a matter of party discipline as in many parliamentary systems. Rather, the committee members are inclined to represent the interests of their districts and constituents as they see them, consistent with their own views and the interests of the Nation as a whole. It is an interesting and fascinating process to witness in action and the outcome is frequently difficult to predict. Often compromises are necessary, and unfortunately these compromises sometimes beget complexity in our legislation.

An interesting aspect of our tax legislative procedure is found in the practice of the committees in filing an explanatory report concerning the bill when it has been approved by the committee and sent to the floor of the particular house for action. The committee report generally sets forth pertinent fiscal, economic, and statistical data; summarizes the nature and background of the problem and the reasons for the committee's decisions; and in addition contains a technical analysis of the various provisions of the bill. Dissenting or concurring views of committee members may be appended. Not only is this report of use to the members of the Congress in voting upon the bill, but it is frequently referred to by the Treasury and the Internal Revenue Service in the development of regulations and rulings, and by the courts in any ensuing litigation. We make use of these committee reports in construing the language of the statute.

The bill reported out by the Committee on Ways and Means is thereafter debated on the floor of the House of Representatives. The rules regarding tax legislation in the House generally limit the hours of debate on either side and the motions that may be made before the final vote on passage. In recent years the tax bills reported by the committee have been uniformly passed by the House, but there have been some close votes, such as on the extension of the temporary surcharge in June 1969 which passed the House by a margin of only five votes.

When a tax bill is approved by the House and sent to the Senate for its consideration, it is referred to the Senate Committee on Finance for consideration. If the bill is one of major significance, the committee will hold public hearings on the bill passed by the House and proposals for its amendment. Once again the Secretary of the Treasury and other Treasury officials are generally the first witnesses. They present the administration's position on the contents of the

bill and changes that the administration recommends. They are generally questioned by the 15 members of the committee in public sessions. When the Tax Reform Act came before the committee in September 1969, the questioning of the Treasury officials occupied 2 full days.

Thereafter members of the public are invited to appear as witnesses before the committee. In lieu of testifying orally, written comments may be submitted for the record of the proceedings. On a bill of major significance there will be many witnesses and the public hearings may continue for several weeks. The 1969 hearings lasted more than a month and the printed record of the proceedings covers nearly 7,000 pages.

The Senate Finance Committee hearings may produce even more witnesses and protests than the previous hearings in the House. The Senate hearings represent the last opportunity for public presentation of views. Passage of the bill by the House generally heightens public attention to the issues. Extensive comments in the press and detailed analysis of the House-passed bill by lawyers, accountants, economists, and others concerned tend to sharpen the issues and call attention to modifications that may be desirable.

After conclusion of the public hearings, the committee will then proceed to consider the bill in executive session without the public being present. In its review of the bill the committee will be assisted by its own staff of lawyers and economists and by the staff of the Joint Committee on Internal Revenue Taxation. Customarily, Treasury officials and staff are also invited to attend the sessions and their views and comments are solicited. The committee members have very heavy schedules because the committee itself has jurisdiction over the wide list of matters that are dealt with by the House Ways and Means Committee, and in addition all the Senate Finance Committee members are members of other Senate committees. Despite these circumstances, the Finance Committee completed most of its deliberation and voting on the Tax Reform Act of 1969 within about 3 weeks after the conclusion of the public hearings, and it reported out a revised version of the bill and an extensive committee report within another 3 weeks thereafter.

The bill reported by the Finance Committee is then called up for debate on the floor of the Senate. Unlike the debate in the House, the Senate rules permit unlimited debate save by agreement or by virtue of a cloture rule that is seldom invoked. Generally the Senate rules permit any Senator to move to delete any provision of the bill or to modify or add other provisions that are germane. Thus the Tax Reform Act of 1969, which was considered on the floor of the House of Representatives for 2 days, was debated on the floor of the Senate for some 2½ weeks before its passage, and a number of floor amendments were adopted.

When the tax bill passed by the Senate differs from the version passed by the House, it is returned to the House for consideration of the revised bill. The House may accept the changes made by the Senate, but if it does not do so the House will then ask the Senate for a conference to reconcile the differences. Each body then customarily appoints five or seven conferees depending generally upon the importance of the bill. Usually the conferees will consist of senior members from each committee, a majority of the conferees from each committee being selected from the party having a majority of the committee membership.

The conferees meet to reconcile the differences between the two versions of the bill, generally with the committee staffs and Treasury representatives present for assistance. Their deliberations are intensely interesting as an illustration of the democratic processes at work and the art of negotiation and compromise. Neither side is under compulsion to agree with the other; yet while there have been occasions in which the bill has lapsed for failure to reach an accord, an accommodation of views generally develops. On any issue the conferees from the House vote as a unit and those from the Senate vote as a unit, the vote on either side being controlled by a majority vote of that side.

In the conference on the 1969 Act there were some 200 important issues on which agreement had to be reached, and the conferees sat in almost continuous session for 5 days. One of the sessions lasted from early morning until almost 4 o'clock on the following morning.

When a conference agreement has been arrived at, a conference report is issued containing either the text of the bill as revised or of the revisions to the original House bill that have been agreed upon. The report normally contains a brief

explanation of the conference agreement made by the managers on the part of the House of Representatives. The conference bill is then presented separately to the House of Representatives and to the Senate for a vote, and if approved in both bodies it is then sent to the President for his approval or veto.

The path of major Federal tax policy formulation in the United States may thus be a long and tortuous one. We truly have a government of checks and balances, intricate in design and complex in execution. At times it may move slowly before major changes are made. Yet when the occasion demands it is capable of prompt and decisive action. No one man, nor any small group of men, control its processes. Its tax policies reflect, in general, a consensus of views, sharply debated and critically examined through many stages.

In the field of tax policy we are blessed with many studious, intelligent, industrious, and persevering men in our several branches of Government, in our universities and research centers, in our press, in our industry, and in our learned professions. They may at times give the impression of constant disagreement, for tax policy has always been, and is always likely to be, an intensely controversial topic; and in our society, as in yours, we cherish the right of public debate and criticism. But from the melting pot of conflicting thoughts and concepts we have developed a fiscal system which I think we may view with pride, while striving constantly to improve it.

In our Federal tax policy we have relied more than any other nation upon a progressive personal income tax and a corporate income tax for our Federal tax revenues. We are proud that in a half century we have developed what is generally regarded as the most efficient income tax administration in the world. We are constantly striving to improve our fiscal policies and procedures to accommodate the continued growth of a vast country. In doing so we shall remain ever faithful to the principles of freedom and democracy that are our heritage from your own noble history.

Exhibit 42.—Statement by Secretary Connally, September 8, 1971, before the House Committee on Ways and Means on tax proposals embodied in President Nixon's new economic policy

I appear before you today to voice strong and urgent support for the tax proposals embodied in President Nixon's new economic policy. Early enactment of these measures, substantially in the form recommended by the administration, is essential if the comprehensive program announced by the President on August 15 is to have maximum success—and if it is to fulfill the great expectations of the American people.

Literally millions of words have been written about the new economic policy and I shall not take the committee's time today to describe the measures in detail. However, a brief outline of the thrust and implications of the President's policies can serve as a useful framework for discussion of those legislative proposals which are of direct interest to this committee.

Stated briefly, Mr. Chairman, President Nixon on August 15:

Instituted a 90-day wage-price freeze to break the back of inflation and speed the return to stable economic growth;

Established a temporary 10-percent surcharge on imports, and suspended temporarily the convertibility of the dollar into gold or other reserve assets, in order to improve this country's position in world trade and provide the base for improving international monetary and trading arrangements;

Proposed acceleration of tax reductions now scheduled for 1973 to 1972, thus raising total individual income tax reduction next January to \$4.9 billion (of which \$2.2 billion will result from the acceleration);

Asked for repeal of the 7-percent excise tax on sales of new automobiles, a step which will bolster demand for new cars and will result in over \$2 billion in tax savings to car buyers;

Proposed enactment of a 10-percent job development credit (5 percent after August 15, 1972) to: (1) Create jobs by stimulating spending on new productive equipment, (2) increase productivity, which is the only effective way of achieving reasonable price stability and steadily rising real income for workers and savers, and (3) enhance the competitive position of American industry and labor in an increasingly competitive world;

Called for legislation to remove the bias in our tax system which leads to the export of jobs (the proposed Domestic International Sales Corporation); and

Balanced the losses of revenue from the tax changes with reductions in Federal budget outlays, a necessity if inflationary pressures are to be contained.

The President's new economic policy is a comprehensive and cohesive program. This coordinated approach promises a much greater impact than could be expected from the sum of its parts. Each of the measures has been proposed from time to time by others. But by putting all the pieces together the President's proposals constitute an effective attack on a complex set of economic problems.

Mr. Chairman, we urge prompt action on the part of this committee. This carefully balanced program will be seriously impaired if any of its important parts are not enacted.

The key point to emphasize is the job-creating impact of the President's program. Jobs will be created in the private sector, not in the public sector by expanding Government payrolls.

Take the automobile industry as an example. At least one out of 10 jobs in this country is related to automobile production and sales. It is distressing to note that the most recent figures (discounting seasonal slack) show close to 50,000 men out of work in the automobile manufacturing industry. I know of no analyst who disagrees with the view that the repeal of the excise tax (which will be passed on to the consumer), combined with the temporary import surcharge, will increase domestic automobile production and sales in the months ahead. Some industry leaders predict an increase of 5 to 10 percent. If we split the difference and assume a 7½-percent gain, domestic car sales may rise from the previously estimated 8 to 8.6 million.

Mr. Chairman, 600,000 additional domestic automobile sales can be translated directly into 150,000 additional jobs, not counting dealer employees.

I disagree with the arguments of those who maintain that the excise tax should remain on autos as a penalty tax on pollutants. If tax penalties are to be used for environmental purposes, they should be specifically tailored and carefully implemented.

The President's tax proposals have been characterized by some as a "business bonanza." This charge implies that nothing is being done for individuals. It also suggests that profits are high and should be reduced.

What are the facts?

Enactment of the President's proposals, plus the \$2.7 billion of tax cuts already scheduled to take effect in January, will mean an income tax reduction in 1972 of \$4.9 billion for individuals, most of whom are in the lower income brackets. The increased reduction will result from the President's proposal to accelerate the cuts scheduled in 1973 to 1972.

Nor is the elimination of the auto excise tax a "business bonanza." It is the car buyer—not the producer—who will get the break as the auto companies pass on the tax cut.

What is the overall result for individuals? In 1972, the combined effect of the cuts already scheduled plus enactment of the President's program will mean a reduction in individual tax payments—income and excise—of about \$7 billion.

How have profits been doing? Measured as a percentage of gross national product, profits today are lower than at any time since 1938.

During the past 5 years, while total wages and salaries have increased 37 percent from \$394 billion to \$541 billion—a jump of \$147 billion—corporate profits have decreased over 10 percent from \$84 billion to \$75 billion—a drop of \$9 billion.

These figures should be disturbing to all of us. It now takes many thousands of dollars of investment to sustain one job in American industry. Where will this money come from?

In our economic system, profits are a prerequisite to attracting and retaining this needed capital. If sufficient profits are not earned by a business, it can neither attract outside equity capital nor justify the retention of its own capital.

At a time when there is an acute shortage of risk capital—not only in the United States but throughout the world—it is imperative that American businesses, owned by millions of Americans, generate profits sufficient to attract such capital.

Too often when we talk about profits people think only in narrow terms—of the wealthy individual receiving a dividend on his stock. The fact is that millions of working Americans are capitalists in their own right. They own equity interest in pension plans, insurance companies, mutual funds, profit sharing plans, and in thousands of individual firms. Thus over 100 million Americans directly or indirectly provide this capital—the lifeblood of our economy—and hence share in the benefits of its productive use.

This question of business benefits versus individual benefits must be put in perspective; they are not separable. I know of no better way to gain this perspective than to go back to January 1969 and compare business and individual tax actions since that time. Many of us tend to forget that Congress, in enacting the Tax Reform Act of 1969, granted a massive tax cut to middle- and low-income individuals while raising taxes sharply on business corporations and individuals in the top brackets. Let's look at the record.

To be complete the record must include the impact of the Tax Reform Act plus the administration's change in depreciation regulations and the tax proposals of the new economic policy. If the impact of these measures is spread over the 5 years, 1969 through 1973, the result is startling:

Federal income tax payments of individuals will have been reduced by almost \$34 billion. Tax payments on corporate profits will have declined by slightly more than \$1 billion.

The record is clear. Enactment of the President's recommendations, given the perspective of the three years of the Nixon administration, will *not* be a bonanza for business.

The President's program is also fiscally sound. In fiscal year 1972, the \$3.8 billion in net revenue reductions will be offset by \$4.9 billion in expenditure cuts, resulting from a 5-percent reduction in Federal employment and proposals to freeze the Federal pay increase and defer, for a short while, proposals for revenue sharing and welfare reform.

The President's support for these programs has not diminished. These legislative deferrals are just that and no more, and in fact they reflect primarily realistic legislative timetables for these high-priority measures.

The fiscal balance, which is highly desirable from a fiscal and debt management standpoint, does not significantly detract from the net expansionary thrust of the new economic policy. This is because the elements of the program which create jobs are extremely powerful relative to the spending cuts.

In effect, the President is proposing a mix in fiscal policy between tax and expenditure policies, which places maximum reliance on our private free enterprise economy and less reliance on expanding the already large Government sector.

Mr. Chairman, it would be a mistake to leave the committee with the impression that the President's new economic policy is geared solely to the solution of shortrun problems. Every major measure that the President proposes has significant longrun benefits.

The shortrun, job-creating effects of the President's program have been emphasized. But too many observers have overlooked the longrun relationship between productivity, jobs, and a rising standard of living. Building upon the highly favorable experience with the investment credit, the new job development credit can create literally hundreds of thousands of jobs in the years ahead as American industry tools up to be a vigorous competitor in an increasingly competitive world.

And in the long run, only rising productivity can provide the increase in real income that means a rising standard of living for all Americans.

As the President said in his Labor Day address:

"Productivity really means getting more out of your work.

"When you have the latest technology to help you do your job, it means you can do more with the same effort . . .

"When you have the training you need to improve your skills, you can do more . . .

"When you are organized to do away with redtape and duplicated effort, you can do more . . .

"And when you have your heart in what you're doing when it gives you respect and pride as well as a good wage—you naturally do more . . .

"Those are the four elements of productivity: Investment in new technology, job training, good management, and high employee motivation. Taken together, they raise the amount each worker actually produces."

The President's program is a program to protect and enhance the well-being of the American workingman by assuring him a job—a job that rewards him through more dollars which maintain their value at home and throughout the world. This is the real thrust of the new economic policy.

Mr. Chairman, the President, as you know, imposed a temporary additional duty of 10 percent ad valorem on all dutiable imported merchandise, effective

at 12:01 a.m., August 16. The President acted principally under the authority contained in the Trade Expansion Act and the Tariff Act of 1930, both of which are within the responsibilities of this committee. For that reason I would like to tell you very briefly what has been done under the proclamation to date.

Instructions have been issued to customs officers for the collection of the duty. No unanticipated major problems have been encountered in the administration of this program which is going forward smoothly. Under the authority to grant exemptions from application of the duty, several orders have been issued. Those orders exempt all articles exported to the United States before the effective date of the President's action, including those at sea, strike-bound on the west coast, or in warehouses or foreign trade zones which in the latter case are withdrawn under requests filed not later than October 1.

Also, in accordance with the President's statement at the time of release of the proclamation, specific commodities have been exempted because they are subject to mandatory quotas, including certain meat products, dairy products and other staples, sugar and sugar products, petroleum, and cotton textiles. The full details of these exemptions have been published.

Mr. Chairman, this completes my introductory remarks. Inasmuch as productivity will play such a vital role in this Nation's progress in the years ahead, let me turn first to the most important proposal now before this committee—the enactment of the job development credit.

A. Job development credit

We recommend enactment of a job development credit, similar to the old investment credit but with two major differences:

1. The credit should be 10 percent for property acquired in the 1-year period beginning August 16, 1971, including property ordered before August 16, 1972, and delivered by February 15, 1973. The credit should then drop to 5 percent—the permanent rate.

2. No credit should be allowed for foreign-produced property as long as the temporary import surcharge is in effect. The credit should then be allowed for foreign-produced property ordered after the surcharge has been terminated. Foreign-produced property should be defined to include not only property produced abroad, but also property produced in the United States if more than 50 percent of the value is attributable to imported materials or components. Other differences from the old investment credit are described in the "General Explanation" filed with the committee.

The job development credit is the key element in this tax program. It is designed to: (1) Increase the number of jobs in the United States; (2) improve productivity by allowing our workers to produce with the newest, most technologically advanced machinery and equipment available; and (3) increase the competitiveness of U.S. industry in relation to foreign producers, both in our domestic markets and in world markets. The credit will provide an effective incentive for investment in new productive facilities—to expand our productive capacity and our output of goods and services.

The benefits of this program will be shared by workers, consumers, and savers or investors alike: Workers because it will more quickly reduce unemployment, and because increases in productivity provide a permanent foundation for wage increases which are not eroded by higher prices; savers or investors because these results will restore corporate profits in reasonable levels, and because this will provide adequate incentive to sustain investment for a continuing high level of economic activity and future growth in the United States; and consumers because greater efficiency and productivity will help stabilize prices, and because greater output will encourage development of new products and services.

The United States needs to increase its real output. The specific goals we seek as a Nation today require more real economic growth. In addition to higher wages without higher prices, we seek as a society to deal more effectively with poverty, inadequate educational and health facilities, undesirable living and working conditions in our congested cities, the deteriorating quality of our physical environment, and other pressing human problems.

Thus we seek to improve our standard of living. The only way of achieving all of our objectives in the future is to increase our real output, that is, to insure the existence of sufficient resources to achieve these goals. We will provide this base for future growth by directing a greater portion of our current income now into the productive assets which will provide these resources in the future. The job development credit is the method for achieving this result.

Unless there is growth in real output, the average workingman will see little gain in his own real income. Continuing pressure for wage increases would lead to continued inflation. The result would almost surely be a loss of popular support for the expenditure programs required to meet the needs of our society for poverty relief, environmental control, urban rebuilding, and other objectives.

The essential elements of productivity growth are more capital, more efficient markets, more worker training, and more research and development. Except for encouraging the investment of more capital, Government is already an enthusiastic supporter of productivity growth. Thus Federal, State, and local governments together spend about \$55 billion for education and worker training. The Federal Government encourages research and development at a revenue cost of nearly \$14 billion annually, supplementing about \$8 billion of private funds for these purposes. Through consumer programs, enforcement of antitrust laws, and other means, Government contributes to the efficiency of our markets.

In the tax area, however, we have gradually and inadvertently adopted a structure that weighs heavily on the accumulation of capital. We have a highly progressive estate tax. We have a corporate tax that imposes a double burden on income earned in corporations and paid as dividends.

The shortage of business capital at full employment acts as a barrier to full use of the advantages of increased research and development and increased training. A machinist thoroughly trained to operate a newly developed, highly efficient machine is wasted in the U.S. economy unless business has adequate capital to replace its old inefficient plant with such new equipment.

There are good reasons for the existing structure of our tax system. Every American should on reflection, however, be deeply concerned that this structure impinges on the formation of capital that we need for growth. We must reconcile our progressive tax structure with our need for capital by providing a tax incentive within the system for resources going directly into growth. This is exactly what the job development credit accomplishes.

This need for a growth policy was recognized by prior administrations both in the adoption of guideline depreciation and a 7-percent investment credit in 1962. The experience with the investment credit in 1962, however, was that there was a delay before business responded to the credit by increasing investment. In the present situation, we want a faster response so that increased investment demand will contribute to improving employment in the short run. Accordingly, we recommend a 10-percent credit for property acquired in the immediate future, then dropping to 5 percent for the long run.

To have maximum incentive in creating jobs quickly, the extra stimulant represented by the 10-percent credit should be available immediately, and it is of major importance that the period of the 10-percent credit should not be extended. We are seeking to provide a special incentive for increased business activity in the short run, and this effect diminishes in direct proportion as the period of the 10-percent credit is extended. At the same time, it should be long enough to avoid undue business disruption. Roughly 90 percent of all machinery and equipment has a normal production leadtime of less than 18 months, and acceleration of delivery of the balance can often be accomplished by the producers. Further, in the case of long leadtime equipment, purchasers who ordered equipment in 1969 or 1970 when the credit was not in effect will obtain the 10-percent credit for property acquired within the next 18 months. The proposed system will achieve reasonable equity.

Any extended delay in adoption of the job development credit would be counterproductive because of the business uncertainty that would exist. I earnestly urge its early enactment.

B: Acceleration of 1973 tax reductions to 1972

We recommend that tax reductions presently scheduled for January 1, 1973, be moved forward to January 1, 1972. This acceleration, combined with the tax reductions already scheduled for January 1, 1972, will result in tax reductions and hence an increase in consumer purchasing power of \$4.9 billion per year, of which \$2.2 billion in the calendar year 1972 is attributable to our proposed actions.

The personal exemption is presently at the level of \$650 per person and is scheduled to increase to \$700 on January 1, 1972, and to \$750 on January 1, 1973. The increase to \$750 should be moved to January 1, 1972.

The standard deduction is presently at the level of 13 percent of income with a \$1,500 maximum and is scheduled to increase to 14 percent with a \$2,000 maxi-

mum on January 1, 1972, and to 15 percent with a \$2,000 maximum on January 1, 1973. The increase to 15 percent should be accelerated to January 1, 1972.

The benefits and distribution of the tax reductions are illustrated in tables filed with the committee. The tax liability of a single taxpayer with an income of \$7,500 will be reduced \$53 effective January 1, 1972. The tax liability of a family of four with an income of \$10,000 will be reduced \$114.

We propose this additional income tax relief for individuals because the present level of unemployment calls for increasing consumer purchasing power through income tax reductions. These reductions will more than offset scheduled increases in social security taxes (\$2.8 billion), and they will create increased demand as well as increased investment. The combined increase in consumer purchasing power from this acceleration and from the repeal of the automobile excise tax, a total of \$7.1 billion, even after reduction by the social security tax increases, will be a powerful stimulus to business activity. Business may be expected to increase production immediately to have goods and services available by January 1, 1972.

The resulting increase in the number of jobs, in the level of business activity, and hence in the level of tax revenues in the future will contribute, as will the job development credit to financing the costs of a better society in the future. The genius of the President's program lies, as our young people would say, in "Getting it all together." We propose increased tax relief to create increased demand, and the incentives created by the credit for increased investment will provide productive facilities to meet that demand.

C. Repeal of the automobile excise tax

We recommend repeal of the 7-percent automobile excise tax effective August 16, 1971. The repeal will result in refunds to consumers who purchased cars after August 15, 1971, and before the date of actual repeal; purchasers after the date of repeal will pay reduced prices for their cars.

The present tax is 7 percent of the manufacturer's price. This works out to slightly under 5.5 percent of the final price to the purchaser, an average amount of \$200 per automobile. The distribution of automobile purchases is roughly a constant proportion of income, so this reduction amounts to a fairly uniform benefit among all income groups. While a higher proportion of used cars are purchased by lower income groups, the repeal of the tax on new automobiles will result in a reduction in the price of used cars, so the lower income groups will obtain proportional benefits.

The four major U.S. automobile manufacturers have given assurance that the benefits of the repeal will be passed on to the consumers.

Lower automobile prices will mean an increase in the demand for automobiles. The tax reduction when coupled with the temporary import surcharge will result in even a larger growth in sales of domestic cars.

The repeal of the automobile excise tax will result in a revenue loss for 1972 of \$2.2 billion. Since roughly nine out of 10 automobiles are purchased by individuals, the commitment of the automobile companies means that this largely represents additional tax relief to individuals. This provides further balance in our proposals between individual and business tax reductions.

D. DISC and other balance of payment measures

Finally, we recommend adoption of the DISC proposal, providing for tax deferral for export income of Domestic International Sales Corporations if such income is used in export-related activities. Our proposal is almost identical to the provision favorably reported by this committee and adopted by the House of Representatives in 1970 in H.R. 18970, except that we recommend that the provision become fully effective on January 1, 1972, rather than providing for a phase-in period. A copy of a draft bill and technical explanation have been filed with the committee.

The need for the DISC proposal has been fully explained in previous public testimony before this committee. In general, it is designed to provide the same type of U.S. tax treatment for U.S. companies engaged in exporting as is presently available if they manufacture abroad through foreign subsidiaries. The DISC proposal is designed to create and preserve more jobs in the United States by causing a healthy expansion in U.S. exports, and by making it as attractive from a tax standpoint for U.S. companies to produce goods in the United States for export to world markets as it is for them to build their factories in foreign countries and produce abroad.

In addition to serving the interests of labor by creating more jobs in the United States, the DISC proposal serves the interests of business and consumers as well. The interests of business are served because our present tax laws and those of other countries tend to favor overseas production; many U.S. businessmen would prefer to continue producing in the United States for foreign markets if the tax treatment for U.S. production could be equalized. The interests of consumers are served because a higher level of exports is needed to support continued expansion in imports.

The DISC will tend to focus greater interest among U.S. businesses on the potential of the export market which to a considerable extent has been neglected by our companies because of the more favorable tax consequences from producing abroad. A much smaller proportion of our total sales are for export as compared to most other major industrialized nations, and we need to concentrate more effort and activity in the promotion of export activity.

The DISC proposal when fully effective will result in a revenue deferral of approximately \$600 million annually before allowing for the effect of increased revenues from the feedback benefits to the economy. This amount may be only \$300 million in the first full year of its operation while exporters arrange to take full advantage of its provisions. We estimate that it will result in an increase in annual export sales of \$1.5 billion, which will mean more gross national product—more tax base in the United States and more tax revenues.

Mr. Chairman, members of the committee, you have before you now comprehensive tax proposals, broad in concept and detailed in formulation, which will help provide the tools for this Nation to fashion a new era of economic prosperity. Again I would like to point out that these tax proposals are an integral part of a new policy which offers constructive solutions to our major economic problems—domestic and international, production and consumption, in the public sector and in the private, inflation and unemployment. They are balanced between the needs of all members of our production team—labor, business and Government—to benefit all Americans.

Exhibit 43.—Statement by Secretary Connally, October 7, 1971, before the Senate Finance Committee regarding enactment of H.R. 10947, the Revenue Act of 1971

I appear before you today to urge the earliest possible enactment of H.R. 10947, the Revenue Act of 1971. These tax proposals are an integral part of the comprehensive economic program announced by President Nixon on August 15.

The success of the new economic policy is gratifying, and I expect this success to continue. Domestically, confidence is rising, inflationary expectations are diminishing, and the outlook for strong growth in employment and output is markedly improving. Internationally, there is progress in our efforts to improve our foreign trade and financial position. Steps are being made to create a viable and effective international monetary system.

Briefly stated, Mr. Chairman, H.R. 10947 would: establish a 7-percent job development credit; reduce individual income taxes for 1971 and the years thereafter; repeal the 7-percent excise tax on passenger automobiles and the 10-percent tax on small trucks; permit deferral of taxes for export income of Domestic International Sales Corporation (DISC's); provide for creation of a new depreciation system containing elements of the asset depreciation range (ADR) system adopted by the Treasury Department in June 1971, except the special first year convention (which resulted in a major part of the revenue loss); and make a number of structural improvements in the part law, including some which are clarifications of existing law.

Mr. Chairman, with two exceptions the administration is prepared to accept H.R. 10947 as passed by the House. First, we object to the action of the House in applying the DISC proposal on an incremental basis. We earnestly believe that all qualified export income should be eligible for the deferral. I shall discuss our reasons for this view later.

We also object to the rejection by the House of the President's request for a two-stage investment credit. In order to stimulate equipment purchasing and employment in the months ahead, President Nixon asked for a credit of 10 percent until August 15, 1972, and 5 percent thereafter. In authorizing a flat 7-percent credit, the House has eliminated some portion of the shortrun stimulative effects of the President's program. Businessmen faced with the opportunity to obtain a 10-percent credit rather than a lower amount for increasing their level

of activity in the short run would take advantage of it. Employment would be increased much more quickly.

Mr. Chairman, an objective analysis of the comments made in the House Ways and Means public hearings and the discussions in the executive sessions must conclude that this Nation needs a job development credit at a permanent rate of at least 7 percent in the years ahead. Experience with earlier investment credits demonstrates that the domestic benefits will be great. Such a credit will provide jobs and income for workers and will foster the greater productivity that promotes price stability and rising living standards for all Americans.

However, the really clinching argument for a longrun credit of at least 7 percent, coupled with the depreciation changes approved by the House, stems from the well-recognized need for the United States to enhance its competitive position in world trade. All of us are familiar with the remarkable progress made by Japan and the industrial nations of Western Europe—with, I might add, considerable help from us—in rebuilding their war-torn economies.

But what is not generally recognized is that many of these nations tailor their tax systems to encourage capital investment. After the war these countries had to encourage savings and investment in their economies. Their economic survival was at stake. Our own country has never previously been so challenged. As a result, our tax system is to a considerable extent biased in the opposite direction.

For example, other industrial nations are relying increasingly on the value-added tax as a major source of revenue. As generally applied abroad, purchases of new capital equipment are exempt from the tax. To the extent these countries rely on the value-added tax instead of income taxes, the effect is the same as if the cost of capital equipment were allowed to be deducted in full in the year purchased rather than being depreciated over a period of years as we require under our income tax system. Further, a value-added tax affects only spending, in contrast with an income tax, which hits the saver just as hard as the spender.

There are several ways in which tax structures in industrial nations can be analyzed to estimate their impact on new productive investment. The most informative analysis is the comparison of capital costs of manufacturing machinery and equipment, from country to country, when adjustment is made for income tax provisions. These tax provisions include the level of the corporate tax, depreciation allowances, and investment allowances and credits. Stated simply, we must ask how the total tax systems affect the cost of acquiring and using new manufacturing equipment in the various countries.

In this respect the American tax system compared poorly with those of our major competitors. In table I the cost of acquiring and using machinery and equipment in the United States in 1970 is equated to an index of one full dollar. As illustrated, businesses abroad enjoy tax provisions that lower their costs to 79 cents in the United Kingdom, 81 cents in Japan, 82 cents in Italy, and 83 cents in Western Germany.

Will the 7-percent job development credit and the new depreciation system put U.S. business on an equal footing with its competitors abroad? The answer is no. Even taken together they will lower costs only to 87 cents in the United States. It would take a long-term credit of at least 10 percent—plus the depreciation changes—to bring us into their range of capital costs.

Clearly, Mr. Chairman, if our producers are to be able in the years ahead to compete more effectively in an increasingly competitive world—protecting the American workingman's job and income—we must enact an effective job development credit and retain the features of the depreciation system approved by the House. Indeed, the case for both the shortrun stimulation of a two-stage credit and the benefit to our competitive capacity of a permanent 7-percent credit is so strong that we urge the committee to adopt an amendment that would effectively serve both goals—the establishment of a 10-percent job development credit until August 15, 1972, falling to only 7 percent thereafter.

Mr. Chairman, H.R. 10947 has been criticized as favoring business over individuals. In this respect, I think any fairminded person would agree that neither the House bill nor the President's proposals on which it is based should be judged alone. All of the recent and prospective changes in the income tax laws should be considered. As you know, the Tax Reform Act of 1969 granted a massive tax cut for individuals, spread over a 4-year period, while it sharply raised

taxes on corporations. In fairness, therefore, any judgment about the relative tax impact between corporations and individuals should cover the 5-year period beginning in 1969. It should also include the impact of the new depreciation system as well as the other provisions in the House bill.

TABLE I.—*Comparative capital costs of manufacturing machinery and equipment as influenced by income tax policies—corporation income tax rates, depreciation allowances, and investment allowances and credits; major industrial countries, 1971*

Country	Comparative cost of capital (United States, 1970=100)
United Kingdom.....	79.1
Japan.....	81.1
Italy.....	81.9
West Germany.....	82.8
Sweden.....	83.0
Belgium.....	84.7
France.....	89.7
The Netherlands.....	94.1
Canada.....	97.2
United States (1970).....	100.0
United States with ADR.....	95.6
plus 5 percent investment credit ¹	88.9
plus 7 percent investment credit ¹	86.2
plus 10 percent investment credit ¹	82.1
United States with ADR less modified first-year convention.....	96.6
plus 5 percent investment credit.....	89.8
plus 7 percent investment credit.....	87.1
plus 10 percent investment credit.....	83.0
United States without ADR:	
but with 5 percent investment credit.....	93.2
but with 7 percent investment credit.....	90.5
but with 10 percent investment credit.....	86.4

¹ Effective credit assumed to be unaffected by income limitation for purposes of international comparisons.

When this tally is made, as set forth in table II, you will find that tax payments in this 5-year period by individuals (mainly in the low- and middle-income brackets) will have been reduced by \$36.4 billion. Tax payments of corporations in the same period will have actually increased by \$3.2 billion.

These figures indicate that rather than providing a "bonanza for business," we have if anything gone too far in cutting individual income taxes at the cost of productivity, growth, and international competitiveness.

But the fact is, Mr. Chairman, that constructive discussion of tax policies in this country has been hampered for years by the old dogma which pits individuals against business. A corporation is not an entity that stands separate and apart from individuals. A corporation is simply a type of arrangement that every free nation has found exceedingly useful in serving the ends of any economic system—the creation of jobs and a rising standard of living.

Moreover, the task of "allocating" income tax cuts or increases to individuals versus corporations is greatly complicated by the fact that, by and large, an income tax levied on an individual cannot be passed on; he must bear the brunt of it. However, taxes borne by corporations inevitably affect individuals. If a tax cut is passed on in the form of lower prices, consumers benefit. If passed on in the form of dividends, stockholders benefit. And if reinvested in new and better equipment, jobs will increase in the industries that supply the equipment, future pressure on prices will be reduced as productivity rises, and our trade position should improve as a result of increased competitiveness in world markets.

However, my purpose today is to not explain the fundamental aspects of our free enterprise system but rather to illustrate the need for a little realism in dealing with tax policy.

Before turning to the specific provisions of H.R. 10947, I should like to emphasize the need for maintaining the fiscal balance in President Nixon's new economic policy. Although a small deficit in the full employment budget may be unavoidable in the fiscal year ending June 30, 1972, we shall run grave risks if we unduly enlarge that deficit.

TABLE II.—*Estimated effect of 1969 Tax Reform Act, ADR, and Ways and Means Committee action on calendar year liabilities divided between individuals and corporations*

[In billions of dollars]

Calendar year	Individual								Corporations								Total individuals and corporations
	1969 act		ADR	Committee action				Total	1969 act		ADR	Committee action				Total	
	Reform and relief	Termination of investment credit		Eliminate ADR ¼ year convention	Income tax reduction	Excise tax relief ¹	New investment credit		Reform and relief	Termination of investment credit		Eliminate ADR ¼ year convention	New investment credit	DISC	Excise tax relief ¹		
1969.....		+0.4						+0.4		+0.5						+0.5	+0.9
1970.....	-1.4	+0.6						-0.8	+1.0	+1.9						+2.9	+2.1
1971.....	-5.2	+0.6	-0.6	+0.4	-1.4	-0.8	-0.3	-7.3	+1.1	+2.5	-2.2	+1.7	-1.2		-0.1	+1.8	-5.5
1972.....	-8.1	+0.6	-0.7	+0.3	-3.2	-2.3	-0.7	-14.1	+1.2	+2.7	-2.7	+1.4	-2.9	-0.1	-0.3	-0.7	-14.8
1973.....	-10.8	+0.6	-0.8	+0.3	-1.1	-2.0	-0.8	-14.6	+1.3	+2.9	-3.2	+1.2	-3.1	-0.2	-0.2	-1.4	-16.0
Total.....	-25.5	+2.8	-2.1	+1.1	-5.7	-5.1	-1.8	-36.4	+4.6	+10.5	-8.1	+4.2	-7.2	-0.3	-0.6	+3.2	-33.2

¹ Split as per Committee Report.

It is, therefore, gratifying to note that H.R. 10947, together with the administration's planned outlay reductions, will actually reduce the full employment deficit for fiscal year 1972. I would hope that your committee and the Senate as a whole would guard carefully against increasing that deficit. This means that additional tax relief to individuals which is already huge in the 5 years since 1969 could not be granted unless offset with appropriate revenue increases from other sources. With the pressing need for cutting business taxes to stimulate investment, I know of no source from which such revenues could be drawn.

Let me now turn to the specific provisions of H.R. 10947, beginning with the job development credit.

A. Job development credit

The President recommended enactment of a job development credit, similar in many respects to the old investment credit, except that it would initially be at the rate of 10 percent and would later drop to 5 percent as the permanent rate. The two-level credit was designed to achieve an immediate response in order to reduce unemployment and improve productivity quickly. The reward of a higher credit for immediate purchases of capital goods and the prospect of a much lower credit if capital spending plans were not accelerated would have had the effect of inducing a quick response.

After public hearings the House Ways and Means Committee concluded that there were serious difficulties in a two-level credit. The committee expressed concern over the transitional problems in dropping from one level to another, the inequities to producers of some long lead-time equipment, and the danger of accelerating too much of the normal capital spending that would occur in 1973 and 1974 into 1971 and 1972. This led the House to adopt a flat 7-percent credit.

Nevertheless, we remain convinced that a two-stage credit is preferable. As noted earlier, however, the case for a 7-percent figure on a continuing basis is very strong. Consequently, we urge the committee to adopt a 10-percent credit for property acquired in the period August 16, 1971, through August 15, 1972, or property ordered by August 15, 1972, and acquired by February 15, 1973. The credit should be at the permanent rate of 7 percent thereafter.

The other major difference of the job development credit from the old investment credit is the exclusion of foreign-produced property from the benefits of the credit for as long as the temporary import surcharge remains in effect. The House improved upon our original recommendation by giving the President authority to allow the credit during this period for any article or class of articles if he determines that the disallowance of the credit is not in the public interest. This will permit the credit to be allowed, for example, in cases where there are no U.S. producers of the equipment or where there is only one U.S. producer and allowance of the credit for that producer's equipment and no others would tend to create a monopoly. We recommend that the provision excluding foreign-produced property during the period of the temporary import surcharge, subject to this Presidential authority, be adopted by the Senate.

We also accept other actions by the House in revising the application of the credit in increasing the credit for property of regulated public utilities from 3 percent to 4 percent; in allowing the credit in part (one-third) for property with a life of 3 or 4 years, in greater part (two-thirds) for property with a life of 5 or 6 years, and in full for property with a life of 7 years or more, rather than the longer lives required under the 1962 credit; in extending the credit to livestock so that farmers will benefit to a greater extent; in limiting the credit for used property by offsetting against the new \$65,000 limit the cost of used property acquired by the taxpayer so as to limit this allowance to small business for whom it was intended; and in making other structural improvements in the credit.

We strongly endorse the action of the House in approving a new depreciation system which incorporates the major administrative advantages and simplifications of the ADR system adopted by the Treasury Department in June 1971. The House bill provides that the Treasury Department has authority to permit depreciation lives to be taken from a range which varies up to 20 percent from the anticipated industry-wide levels for the particular classes of assets. The House bill rejects the so-called three-quarter-year convention, which was an element of the ADR system resulting in a major revenue loss (\$2.1 billion of a total revenue effect of the ADR system of \$2.8 billion in 1971 and somewhat lesser amounts in subsequent years). This special first-year convention was de-

signed within the limits of the administrative authority of the Treasury Department to provide more uniform benefits to long- and short-lived equipment. In general, the shortening of lives benefits long-life equipment more than short-life equipment, and the three-quarter-year convention served to restore much of the balance.

The authority to prescribe a range of lives which varies up to 20 percent from anticipated industry-wide levels is essential, in conjunction with the job development credit as I have previously shown, to provide allowances in any way comparable to those granted by other major industrialized countries. We must provide comparable allowances if we expect our companies to continue producing in the United States for foreign markets rather than building factories abroad. The 20-percent variance is also essential to make all the major administrative reforms in the new depreciation system work effectively; to do equity between competing taxpayers, some of whom could establish their individual right to shorter lives within this range in any event; and to recognize the substantial degree of obsolescence which has occurred since 1962 (when the industry-wide guideline lives were adopted) as a result of technological change, increasingly severe environmental control requirements, increased competition from new, highly efficient foreign plants, and other factors.

As was recognized by Congress in 1962 in enacting the investment credit in conjunction with a shortening of depreciation lives by administrative action at that time, the two provisions work hand in hand to encourage modernization of plant and equipment. The combination of the job development credit and the new depreciation system in the limited form adopted by the House will be a highly effective incentive for investment in new productive facilities, enabling us to expand our productive capacity and our output of goods and services. The benefits will be shared by workers, consumers, and investors. Thus—

Workers will benefit because the number of jobs will thereby be increased, reducing unemployment. Permanent benefits from increased productivity as a result of giving workers the most modern machinery and equipment available will provide the basis for wage increases which are not eroded by higher prices.

Consumers will benefit because greater efficiency and productivity will help stabilize prices, and greater output will encourage development of new products and services. U.S. industry will become more competitive with foreign producers, with obvious resulting benefits to consumers.

Investors will benefit because the changes will help restore a reasonable level of corporate profits, providing adequate incentive to sustain investment for a continuing high level of economic activity and future growth in the United States.

This growth is essential if we are to achieve the goals we seek as a nation today. We seek a higher standard of living—higher wages without higher prices. We seek as a society to deal more effectively with poverty, inadequate health and educational facilities, undesirable living and working conditions in our congested cities, the deteriorating quality of our environment, and other pressing human problems. To achieve these objectives we must increase productivity and thereby growth in our real output. The resulting increase in national wealth will provide revenues for wage increases, an adequate return on investment, and increased taxes in the long run to enable government to provide for the needs of all our citizens.

B. Tax reductions for individuals

The House bill follows the President's recommendation to accelerate the individual income tax reductions scheduled for January 1, 1973, to January 1, 1972. As a result, the personal exemption will be increased to \$750 and the standard deduction will be increased to 15 percent with a \$2,000 maximum effective that date, resulting in additional tax relief for individuals in 1972 of \$2.2 billion.

The House bill grants much greater tax relief for individuals by also increasing the personal exemption for 1971 from \$650 to \$700 effective July 1, 1971, resulting in additional relief of \$900 million; by eliminating the "phaseout" of the low-income allowance for 1971, thus providing an additional \$400 million in benefits in 1971 to low- and middle-income taxpayers; and by increasing the low-income allowance for 1972 and subsequent years from \$1,000 to \$1,300, resulting in tax reductions of \$1 billion per year. The latter change will insure that no person or family with an income at or below 1972 poverty levels will be required to pay any tax or file a return; it will also provide substantial tax relief for persons and families with incomes above the poverty levels.

These changes would be implemented in part by changes in withholding taxes to take effect November 15, 1971, underscoring the great importance of early action on this bill by the Senate. The withholding tax changes on November 15, 1971, and on January 1, 1973, will also resolve in large part the problems of underwithholding which have occurred as a result of the increase in the low-income allowance in the 1969 act, and which would be accentuated by the increases in that allowance in the House bill.

The additional tax relief for individuals without important revenue loss in the bill was made possible by the reduction in the benefits of the liberalized depreciation system by the House. We consider these changes to be reasonable. The combination of these changes and the benefits accruing to individuals from repeal of the automobile and small truck excise taxes will mean reductions in taxes of individuals of \$2.1 billion in 1971, \$5.9 billion in 1972, and \$3.6 billion in 1973. If the reductions already scheduled for 1972 and 1973 under the Tax Reform Act of 1969 are also taken into account, the additional tax reduction for individuals from preexisting 1971 levels will be \$8.6 billion per year.

The resulting increase in consumer purchasing power at the rate of \$8.6 billion per year beginning January 1, 1972, will provide a powerful stimulus to business activity. It will operate hand in hand with the job development credit and the depreciation changes to increase the number of jobs, the level of output of goods and services, and hence the level of government revenues in the future. They will thereby help finance a better society for all our people.

C. Repeal of the automobile excise tax

The House adopted the President's recommendation for repeal of the 7-percent automobile excise tax effective August 16, 1971, and also repealed the 10-percent excise tax on small trucks effective September 23, 1971. These trucks, primarily pick-up trucks, are extensively used for pleasure and recreational purposes or are used by farmers and small businessmen, and to a very large extent they are sold in direct competition with private automobiles. While the truck tax goes to the Highway Trust Fund, the truck tax on these small trucks generates more tax than is appropriate in light of their cost responsibility for the highway system. We endorse this additional action in the House bill.

The repeal will result in refunds to persons who purchased cars or small trucks on or after these effective dates and prior to this bill becoming law. Purchasers after the date of actual repeal will pay reduced prices for their automobiles or small trucks. The average reduction per automobile buyer is \$200 per car, and the four major U.S. automobile manufacturers have given assurance that the entire benefit of the repeal will be passed on to the consumers. The distribution of automobile purchases is roughly a constant proportion of income, so this reduction amounts to a fairly uniform benefit among all income groups. While a higher proportion of used cars are purchased by lower income groups, the repeal of the tax on new automobiles will result in a reduction in the price of used cars, so the lower income groups will obtain proportional benefits.

Lower prices will mean a substantial increase in the demand for automobiles and small trucks. When coupled with the temporary import surcharge and the denial of the job development credit during this same temporary period for foreign-produced items, there will be an even larger growth in sales of domestic cars and small trucks.

D. DISC

Our fourth recommendation was for adoption of our prior proposal for tax deferral for export income of Domestic International Sales Corporations (DISC) if such income is used in export-related activities. Our original DISC proposal was favorably reported by the House Ways and Means Committee and adopted by the House in 1970. We recommend adoption of that same proposal now except that it should be fully effective on January 1, 1972, rather than being "phased in" gradually over several years as the 1970 House bill provided.

In the current bill, the House has substantially crippled the effectiveness of the DISC proposal in serving its main objective of keeping jobs in the United States by applying the DISC proposal largely only to increased or incremental export sales. We strongly urge the Senate at this time to restore DISC to the form in which we recommended it so that it will be fully effective in encouraging our companies to produce in the United States for export sale in foreign markets, rather than to move their factories abroad to take advantage of more favorable tax treatment for manufacturing abroad.

Under existing law U.S. companies may obtain deferral of U.S. tax by manufacturing abroad through foreign subsidiaries for sale in foreign markets. The DISC proposal would provide the same tax treatment for income up to 50 percent of profits attributable to the manufacture and sale of goods for export if the manufacturing occurs in the United States. The other 50 percent of the profits would be deemed to be the manufacturing portion of the total profits attributable to the manufacturing activity in the United States rather than the portion attributable to sale outside the United States, and such 50 percent would be taxable currently by the United States.

The income from export sales which receives the deferral treatment must be used either to increase the export sales activities of the DISC or it may be lent to a U.S. producer, usually the parent company, to finance increases in inventories, machinery and equipment and other fixed assets, or research and development expenditures. The amount of such loans could not exceed the portion of the total expenditures for these purposes which the borrower's export sales bear to its total sales. Thus the deferral of tax on DISC income is available only so long as the income is, in effect, used for export-related activities. When the amounts are paid as dividends to the DISC shareholders or when the DISC ceases to qualify as such for any reason, the income is fully taxed as ordinary income to the U.S. shareholders.

The DISC proposal is obviously designed to induce companies to continue manufacturing in the United States for sale abroad, thus keeping jobs at home rather than exporting their manufacturing activities and know-how to foreign countries.

This purpose will be largely frustrated by the incremental concept. More than one-third of our top 100 exporters showed a declining or level export trend for the period 1964-1967, and it is fair to assume that this downward trend has worsened since 1967 as foreign competition has grown stronger. These companies will have no incentive to continue manufacturing in the United States for foreign markets. In the case of other companies, the incremental DISC concept at best provides only partial deferral treatment, so the effectiveness of the DISC in keeping jobs at home will be greatly reduced.

The original form of the DISC, as adopted by the House of Representatives in 1970, would be extremely effective in inducing U.S. companies to continue manufacturing in this country. Detailed presentations of the effect of the full DISC concept on their planning submitted by Union Carbide, Hewlett-Packard, and other companies made this clear.

Furthermore, the "incremental" limitation misconceives the importance the DISC would play in helping to resolve our balance of payments difficulties. A DISC on an incremental basis will not provide an incentive to help arrest the decline in export sales of so many of our companies. From a balance of payments standpoint it is as important to maintain a dollar of existing export sales against loss as it is to increase export sales by one dollar.

The incremental approach gives rise to very serious inequities. It penalizes those corporations who made substantial efforts to maintain or boost their exports in the base period years, while favoring those who did not do so, thus creating disparities between companies directly competing with one another, some of which will get the benefits of tax deferral and some of which will not. Unless very complex adjustments are made, the approach takes no account of unusual business conditions which may have resulted in either abnormally high or low exports during the base period. Moreover, it favors new entities who have borne no risks in developing new markets abroad and discriminates against the exporters who have heretofore made the greatest effort. In a very real sense it betrays those businesses which acted responsibly by participating in the Commerce Department's voluntary export expansion programs. These companies are prejudiced in direct proportion to the extent they increased their export sales in the 1968-1970 base period at the Government's request.

Finally, the incremental concept poses extraordinary technical problems. This complexity greatly reduces the utility of the concept to smaller businesses.

The House Ways and Means Committee in 1961 considered in detail the possibility of adopting the investment credit on an "incremental" basis in an effort to respond to similar allegations of "windfall" benefits for investments in capital goods that would have been made anyway even without the credit. That committee finally abandoned the idea as inherently inequitable and unworkable. The Senate should reject the incremental DISC concept as equally

unworkable, inequitable, and damaging to the basic purpose of DISC to retain jobs in the United States.

In addition to serving the interests of labor by creating more jobs in the United States, the DISC proposal serves the interests of business and consumers as well. The interests of business are served because our present tax laws and those of other countries tend to favor overseas productions; many U.S. businessmen would prefer to continue producing in the United States for foreign markets if the tax treatment for U.S. production could be equalized. The interests of consumers are served because a higher level of exports is needed to support continued expansion in imports.

The DISC proposal when fully effective, even without the incremental concept, would result in a revenue deferral of only approximately \$600 million annually before allowing for the effect of increased revenues from the feedback benefits to the economy. This amount might be only \$300 million in the first full year of its operation while exporters arrange to take full advantage of its provisions. We estimate that without the incremental limitation it will result in an increase in annual export sales of \$1.5 billion or more, which will mean more gross national product—more tax base in the United States and more tax revenues.

Exhibit 44.—Letter from General Counsel Pierce, October 20, 1971, to Senator William Proxmire, as a reply to a suggestion by the Senator that public hearings be held before any revenue ruling is issued in matters involving a potential loss of \$5 million or more in tax revenue

DEAR MR. CHAIRMAN: I have your letter of October 5, reiterating your suggestion that public hearings be held by the Internal Revenue Service (when requested by an interested member of the public) on any revenue ruling "involving a potential loss of \$5 million" in tax revenue.

I think that perhaps a clear understanding of the rulings program of the Internal Revenue Service is necessary for this suggestion to be properly evaluated.

Almost all published revenue rulings are based on rulings previously issued to individual taxpayers or technical advice given to District officers of the Service in connection with the audit of taxpayer returns. It has been the practice of the Service for over 30 years to answer written inquiries of individuals and organizations as to their status for tax purposes and as to the tax effects of their acts or transactions. Most of such rulings are issued in advance of the transactions involved, though some are issued between the date of the transaction and the filing of the taxpayer's return in order to furnish guidance as to how the transaction should be reported on the return. See Revenue Procedures 69-1, 2 and 69-6, 1969-1 C.B. 351, 396.

In addition to such private ruling letters, the National Office furnishes advice and guidance on issues arising in examination of returns which appear to be so unusual or complex as to warrant consideration by the National Office. See Revenue Procedure 69-2, 1969-1 C.B. 386.

Such rulings and advice do not represent policy decisions but interpretations of the Internal Revenue Code. Because the Code is extremely complex and the Federal tax system rests largely on voluntary compliance with the law by the taxpayers—over 97 cents of every dollar of tax collected being effected by voluntary compliance—the Treasury considers it essential that taxpayers be given every reasonable assistance in resolving questions as to the applicability of the Code to their particular sets of facts. In fiscal year 1971, the Service answered some 26,000 taxpayer and 1,400 District office requests (exclusive of those involving alcohol, tobacco, firearms or excise taxes). Of the 26,000 taxpayer requests, some 14,000 involved applications by taxpayers for permission to change their method or period of accounting for tax purposes, most of which are relatively routine.

In 1952, the Subcommittee on Administration of the Internal Revenue laws of the Committee on Ways and Means (the King and Kean Subcommittee) began a series of hearings and investigations into the administration and operation of the Internal Revenue Service. The Committee was critical of the fact that at that time the Service did not make public its position on matters involved in private rulings to particular taxpayers. Obviously, where rulings are not published expeditiously (or are not published at all) the taxpayer

receiving the private ruling may have an advantage over other taxpayers and personnel of the Internal Revenue Service unaware of the position taken. As a result of the Subcommittee's investigations, Commissioner Dunlap by letter dated May 28, 1952, to the Committee chairman, committed the Service to publish all communications to taxpayers and field offices involving substantive tax law and procedures affecting rights and duties of taxpayers, intended to be used as precedents and guides. In its report to the 82nd Congress, the Subcommittee praised adoption by the Service of that new rulings publications policy noting that:

"This policy has now been implemented by detailed instructions which, if properly applied, will result in publication in the Internal Revenue Bulletin of all rulings of general interest issued to taxpayers and their representatives as well as to field officers of the Bureau."

As a result of the expanded publication program, the number of revenue rulings published each year in the Bulletin jumped substantially. The following schedule shows the number of rulings published for the four years 1949 to 1952, preceding the change, and for the years thereafter:

1949 -----	89	1953 -----	300	1962 -----	225
1950 -----	88	1954 -----	625	1963 -----	279
1951 -----	71	1955 -----	763	1964 -----	340
1952 -----	86	1956 -----	700	1965 -----	319
		1957 -----	616	1966 -----	354
		1958 -----	621	1967 -----	468
		1959 -----	422	1968 -----	674
		1960 -----	392	1969 -----	661
		1961 -----	224	1970 -----	662

In 1960, in response to some concern that the publication policy might be modified, Commissioner Latham issued a renewed commitment to continuance of the policy in a letter to the Joint Committee on Internal Revenue Taxation.

The policy which has been in effect since 1953 requires publication in the Internal Revenue Bulletin of the substance of all rulings and technical advice, except those involving: (1) issues specifically and clearly covered by statute or regulations; (2) issues specifically covered by rulings, opinions or court decisions previously published in the Bulletin; (3) issues not likely to arise again because of unique or specific facts; (4) determinations of fact rather than interpretations of law; (5) acceptability under the law and regulations of containers, labels, and advertising involving alcoholic beverages or tobacco products; (6) tobacco operations, such as the disposition of abandoned, seized or condemned tobacco products; (7) informers and informers' rewards; and (8) disclosure of secret formulas, processes, or business practices, and other similar information.

It obviously would not be possible to hold public hearings prior to the issuance of each ruling. Many taxpayers would find the ruling program of little value if there had to be a public disclosure in advance of contemplated transactions with respect to which rulings are requested. Also, as a practical matter, the Service simply could not operate the program if any number of over 100 million taxpayers in the Country were permitted to intervene and be heard on any significant number of actions to be taken by the Service with respect to the tax liability of individual taxpayers. Nor would there seem to be any logic to limiting intervention to the cases of the 25,000 taxpayers per year where the Service rules on the tax consequences of particular transactions in advance of the filing of a return, and to deny intervention in the Service's handling of similar issues on the audit of returns of 3,000,000 taxpayers per year.

Interpretation of the tax law as reflected in revenue rulings is not based upon the amount of revenue involved, but upon what the Service deems to be a proper construction of the Internal Revenue Code and regulations thereunder. Although in some cases the Service has information as to the amount of revenue involved in the particular transaction for which a taxpayer has requested a ruling, it rarely has information as to the effect on the revenue involved upon the basis of applying the principle of such ruling to all similarly situated taxpayers. You, for example, indicate in your letter that \$175 million in revenues is involved in the matter of expropriation by the Chilean Government of copper properties owned by United States firms. We know of no basis in the law for construing the law in one way with respect to a transaction to be entered

into by one taxpayer involving a small amount of revenue, then taking a different position with respect to another taxpayer having a similar transaction involving a large amount of revenue.

We therefore deem it impractical and unsound to base a determination on whether hearings will be held with respect to particular rulings on the amount of money involved.

Almost any decision by any administrative agency involving any citizen is likely to affect many other citizens unless the agency acts differently with respect to different citizens. Where matters of policy are involved, as is often the case with respect to regulations issued by the Commissioner of Internal Revenue under the Internal Revenue Code, it may be appropriate (and it is the consistent practice of the Treasury Department and the Internal Revenue Service with respect to such regulations) to extend the public hearing process to the rule making procedure. We follow the practice of using the regulations process, and hence providing public notification, and hearings for administrative decisions reflecting significant policy decisions. Recent examples are the ADR depreciation regulations; regulations dealing with advance payments, long-term contracts, changes in accounting methods and redemption of trading stamps; combat pay of members of the Armed Services; group term life insurance; revision of actuarial tables and interest factor; integration of qualified pension plans with Social Security; information reporting by certain medical corporations; and many others.

It would appear obvious, however, that it is not practical, if the work of the Government is to be accomplished, to use the public hearing process to resolve issues of the applicability of the law and regulations to particular facts involving particular taxpayers, even though in the interest of uniformity the resolution of such issues will be followed in similar cases in the future.

Sincerely yours,

SAMUEL R. PIERCE, Jr.,
General Counsel.

The Honorable WILLIAM PROXMIRE

Chairman, Joint Economic Committee, Congress of the United States, Washington, D.C.

Exhibit 45.—Letter from Acting Secretary Walker to the Chairman of the Senate Finance Committee, November 12, 1971, concerning the financial accounting treatment of the 7 percent job development credit

DEAR MR. CHAIRMAN: Questions have been raised about the position of the Treasury Department concerning the financial accounting treatment of the 7 percent Job Development Credit.

The Treasury Department's overriding interest in seeking the credit is to create jobs both in the short run and the long run by stimulating the purchase of new machinery and equipment. This will improve the productivity of our workers on a permanent basis and thereby will increase the output and competitiveness of U.S. industry.

For financial accounting purposes, companies previously have had the option of either—(1) treating the credit as an immediate reduction in tax liability in the year the assets are acquired, when the credit is allowed; or (2) spreading the benefit of the credit over the service life of the asset as if the credit, in effect, was a reduction in the cost of the asset.

The vast majority of the companies have followed the former alternative—reflecting the benefit of the credit immediately in earnings. It seems self-evident that these businessmen will have less motivation to purchase new equipment if the benefits of the credit are not reflected in operating results when realized, as they have been in the past in their case.

Accordingly, since any change in the pre-existing well-established financial accounting practice might operate to diminish the job-creating effect of the credit, the Treasury Department strongly supports a continuation of the optional treatment.

The Treasury would prefer that the accounting profession on its own motion recognize the importance of continuing the prior practice so as not to interfere with the function of the credit to stimulate new capital investment. The Senate Finance Committee has expressed a similar view in its report.

If it is concluded that the desired objective—optional treatment for accounting purposes—cannot be achieved by committee report language, then the Treasury Department will support a legislative resolution of this matter.

Sincerely yours,

(Signed) CHARLES E. WALKER,
Acting Secretary.

THE HONORABLE RUSSELL B. LONG,
*Chairman, Senate Finance Committee,
United States Senate,
Washington, D.C.*

Exhibit 46.—Address by General Counsel Pierce, November 23, 1971, before the 32d annual dinner of the Federal Tax Forum, New York, N.Y., on "Highlights of the Revenue Act of 1971"

Yesterday the Senate passed its version of the Revenue Act of 1971. As there are differences between the House and Senate bills, the content of the act will be finally decided by the Conference Committee.

Both the House and Senate bills in large measure embody the tax recommendations made by the President in August of this year as part of his new economic policy. This legislation is designed to decrease the high rate of unemployment, relieve hardships imposed by inflation on those with modest incomes, provide tax incentives to aid the modernization of our Nation's productive facilities, increase our exports and improve our balance of payments, and generally stimulate the Country's economy.

The time allotted this evening will not permit me to discuss thoroughly the proposed provisions of the Revenue Act of 1971. Therefore, I shall discuss some of the highlights of this legislation, pointing up recommendations of the administration and differences between the House and Senate bills.

One of the most important features of the Revenue Act of 1971 is the restoration of the 7-percent investment credit. As you know, the President recommended the enactment of a job development credit at a 10-percent rate for all property acquired between August 16, 1971, and August 15, 1972, and any property acquired during the following 6-month period pursuant to an order placed before August 16, 1972. Thereafter, credit would be allowed at a 5-percent rate.

On the basis of the Treasury's analysis of the old investment credit, it was concluded that the job development credit would be an effective device for stimulating economic activity. This analysis indicated, however, the existence of a timelag between enactment of the credit and the response of the business community to this incentive. Our purpose in recommending a temporarily higher rate of credit was to shorten this timelag by offering a premium for prompt decision-making concerning capital spending.

Neither the Ways and Means Committee nor the Finance Committee agreed with this analysis. Both the House and Senate have agreed upon a flat 7 percent credit. Consequently, that is what the 1971 act will provide. While we would have preferred adoption of our proposal, the flat 7 percent credit will undoubtedly have a highly beneficial effect on the economy.

The President also recommended that no credit be allowed for foreign-produced property—that is, property produced abroad and property produced in the United States having a predominant foreign content—so long as the temporary 10 percent import surcharge remains in effect. This particular aspect of the proposal was intended to complement the effect of the temporary import surcharge and to offset, in part, the disadvantages that our capital-goods industries face in competing with foreign capital-goods industries.

With one exception, the bill passed by the House adopts this recommendation of the President. The House bill gives the President authority to allow prospectively the credit for foreign-produced property while the import surcharge is in effect if he finds that to be in the public interest.

The Senate bill differs from the House measure in several significant respects. Under the Senate bill, if the President should determine that it is in the public interest to do so, he may allow the credit retroactively. Under the same condition, he may continue the denial of the credit even though he terminates the import surcharge. Furthermore, the Senate bill provides that foreign-produced property ordered before August 15, 1971, would qualify for the investment credit.

The Revenue Act of 1971 will revise and clarify the application of the investment credit in a number of respects. There was some uncertainty under prior law as to whether the same useful life had to be used for investment credit purposes and depreciation purposes. One tax court case holds that such conformity is not required, while the asset depreciation range regulations require such conformity. The new act will provide that the same useful life must be used for both depreciation and investment credit purposes.

The act will also reduce the useful life brackets by 1 year each for the purposes of determining the qualified investment attributable to property. Thus, property with a useful life of 3 or 4 years will qualify for a one-third credit; property with a useful life of 5 or 6 years will qualify for a two-thirds credit; property with a useful life of 7 years or longer will qualify for a full credit.

Under the act, the definition of section 38 property—that is, property with respect to which the investment credit is allowable—will be expanded and clarified. For example, there is some doubt as to the allowability of the credit to Comsat with respect to its share of the satellites used by Intelsat because Intelsat is an international organization and the satellites are not physically located in the United States. Under the new legislation, Comsat will not be denied the credit with respect to its share of the satellites because they are used by Intelsat or because they are not physically located in the United States.

The treatment of storage facilities for investment credit purposes is a problem that has troubled the Internal Revenue Service, taxpayers, and the courts since 1962. While storage facilities qualify for the investment credit, there is some doubt under present law whether certain structures are buildings (which do not qualify) or storage facilities (which qualify). This problem has arisen where activities other than storage have been carried on in the same facility. Under the Senate bill, a structure is to be treated as a storage facility and qualify for the credit only if used for bulk storage of fungible commodities and does not have any significant work area. This amendment is acceptable to the Treasury. The House bill has no provision on storage facilities.

Property (other than pollution control facilities) could qualify for both the old investment credit and special 5-year amortization. Under the 1971 act, the taxpayer cannot have both the investment credit and special 5-year amortization on the same property.

The act would also repeal the special rules involving situations where property which qualified for the credit is destroyed in a casualty and is replaced with other section 38 property. Under the act, the disposition of the destroyed property and the acquisition of the replacement property would be treated as unrelated transactions. Thus, the credit originally allowed on the destroyed property would be recaptured to the same extent as on any other disposition, and a full credit would be allowed on the new property.

Offshore drilling equipment qualified for the old investment credit only if used in U.S. waters or from the Outer Continental Shelf. Some doubt exists as to the extent to which submarine telephone cables qualified for the old credit where the owner of the cable is not itself engaged in the communications business in the United States.

The Senate bill provides that offshore drilling equipment will qualify for the investment credit wherever it is used, and submarine telephone cable manufactured in the United States will qualify for the credit if part of a communication link with the United States. The House bill does not have any provision on property used outside the United States.

The House and Senate bills would make several changes concerning the applicability of the investment credit to the property of regulated public utilities. Both bills would increase the effective rate of credit for such property from 3 to 4 percent and impose limitations on the treatment of the credit by regulatory agencies for ratemaking purposes. In general, these limitations are intended to result in a sharing of the benefit of the investment credit between customers and investors. The Senate bill differs slightly from the House bill on the treatment of the credit by regulatory agencies.

In response to testimony by a number of public utilities concerning increased competition from nonregulated companies, the Senate bill limits to 4 percent the investment credit allowed certain types of communications property. The purpose of this provision is to place all taxpayers using private switchboard equipment, microwave transmission equipment, and other similar equipment on the same competitive footing.

The cost of used property which could be taken into account for purposes of the old investment credit was generally limited to \$50,000 a year. The administration recommended to the Congress that used property should not qualify for the credit since allowance would result in duplicative benefits.

The House bill provides that only \$65,000 of the cost of used property can be taken into account in any year. Further, the \$65,000 figure for used property would be reduced by the amount of qualified investment in new section 38 property placed in service by the taxpayer during the same taxable year. The Senate bill deletes the provision in the House bill restoring present law.

The asset depreciation range (ADR) system was adopted by the Treasury Department last June. It permits depreciation lives to be taken from a range which varies up to 20 percent from the anticipated industry-wide levels for particular classes of assets. The system covers tangible personal property placed in service after 1970. It does not cover real property. The ADR system permits three-fourths of a year's depreciation for the year an asset is placed in service.

The administration recommended that the ADR system be enacted into law.

Both the House and Senate bills reduce the three-fourths year convention under ADR to a convention which permits no more than one-half year's depreciation the year an asset is placed in service.

The House bill provides for a class life system substantially the same as under the ADR system. However, it extends the class life system to real property. The Senate bill provides for exclusion of real property assets from the class life system during the transition period generally extending from January 1, 1971, through 1973.

Both the House and Senate specifically rejected the first year convention of the ADR system, the feature of the system to which most of the short-term revenue loss was attributable. While adoption of the convention seemed a reasonable means of providing more uniform benefits under the ADR system to long- and short-lived equipment, we realize that its importance is less significant in the light of the restoration of the investment credit. It should be borne in mind that, even with the enactment of this legislation, capital cost of manufacturing machinery and equipment will still be greater in the United States than in most other industrialized nations, including West Germany and Japan. Thus, the combined benefits of the ADR system and the investment credit merely places our producers in more or less the same position as foreign producers and enables them to retain markets for our goods and jobs for our workers.

The Revenue Act of 1971 will essentially incorporate the President's recommendations regarding individual tax relief. With respect to personal exemption, the House bill provides for \$675 for 1971 and \$750 thereafter. The Senate gave away a little more than the House. Its bill provides for \$675 for 1971 and \$800 thereafter.

The President recommended that the standard deduction be increased to 15 percent with a ceiling of \$2,000 for 1972. Both the House and Senate bills adopted this recommendation.

The administration made no recommendation with respect to low-income allowance. The House bill provides for a \$1,050 low-income allowance for 1971 and for \$1,300 thereafter. The Senate bill would accelerate the \$1,300 to 1971. Obviously, the \$1,300 for 1971 in the Senate bill would cause a serious and very expensive tax form problem.

The Senate bill provides for a deduction of up to \$400 per month for household help if there is a dependent child under 15 or a dependent unable to care for himself in the household. Married taxpayers would be allowed to claim this deduction if they both were employed on a full-time basis and their adjusted gross income was under \$18,000. The provision further allows the deduction to taxpayers who take the standard deduction as well as to those who itemize deductions.

This provision would cause the Government to lose about \$315 million in revenue per year. Moreover, the provision generally benefits single individuals in the higher income levels. It makes a questionable distinction between single and married taxpayers and is not limited to the care of dependents but is available for all household help as long as a qualified dependent is in the household. Relief to taxpayers with children might be more efficiently provided through the funding of child care facilities.

The Senate bill also provides for a credit to be calculated on a sliding scale of up to \$325 for amounts paid by a taxpayer for himself, or for a dependent, for

the cost of tuition, books, and equipment at a college, university, or vocational training school. There would be full credit for families with joint adjusted gross income of up to \$25,000, after which each \$100 of income would reduce the credit by \$1.

This provision will result in a significant loss of revenue. Its benefit is to a limited class of taxpayers; namely, those with children attending college. It will do nothing to expand educational opportunities generally or to aid higher education. Finally, it will provide little, if any, benefit to low-income families who cannot spend the \$1,500 required in order to get the full credit.

Section 103 (c) of the Internal Revenue Code generally denies tax-exempt status to industrial development bonds. Exceptions are provided for issues of \$1 million or less, and for issues of \$5 million or less, if the total capital expenditures from 3 years before to 3 years after the date of issue are less than \$5 million. Efforts were made by certain Senators to get the Senate Finance Committee to raise the small issue exemption. These efforts were rejected by the committee. However, the bill reported by the Senate Finance Committee was amended on the floor to increase the \$1 million exemption to \$5 million, without regard to the total cost of the project.

The Treasury opposed this floor action primarily because it will result in disruption of the State and local bond market and cause the Federal Government to lose substantial revenue.

The Revenue Act of 1971 will repeal retroactively the 7-percent automobile excise tax and the 10-percent excise tax on small trucks so that consumers of these items since August 15, 1971, will be entitled to refunds. While the President recommended only repeal of the automobile tax, we believe repeal of the tax on small trucks is reasonable in light of the fact that to a very large extent they are sold in direct competition with automobiles.

The Senate bill differs from the House bill in several important details. One difference involves foreign automobiles. The Senate would give the President authority to reinstate the excise tax on imported cars and light-duty trucks from any foreign country which discriminates against automobiles produced in the United States. This authority would terminate after 1981.

Another modification concerns the Highway Trust Fund. As you may know, receipts from the 10 percent excise tax on trucks go to the Highway Trust Fund and not the general fund. The Senate bill would divert 7 percent of the revenues from the Federal excise tax on alcoholic beverages to the Highway Trust Fund. As this would result in siphoning off revenue from the general fund, the Treasury is opposed to this measure. The administration believes there is sufficient money in the Highway Trust Fund without removing much needed revenue from the general fund.

One of the President's major tax recommendations to Congress was the so-called DISC proposal. Under this proposal, there would be a tax deferral on income allocable to Domestic International Sales Corporations (DISC) where such income is invested in export assets or in loans to domestic producers to be used for exports. Our original DISC proposal was favorably reported by the Ways and Means Committee and adopted by the House in 1970.

However, the current House bill would apply the DISC proposal only to profits on sales in excess of 75 percent of export profits in the 3-year period 1968-1970. We recommended that this incremental feature be eliminated from the bill in order to insure the full effectiveness of the DISC provisions in encouraging our companies to produce in the United States for export sale in foreign markets, rather than to move their factories abroad to take advantage of more favorable tax treatment.

While the Senate bill does not contain this incremental feature, it would permit tax deferral on only 50 percent of the export income of a DISC, and it would terminate the operation of the DISC provisions after 1982. This approach is simpler to administer than that of the House bill, but we do not believe it will provide a fully sufficient incentive to keep manufacturing jobs in this Country.

The Senate bill provides the President with authority to impose selective or general import quotas and to impose an import surcharge of up to 15 percent on the value of any article during a balance of payments emergency through December 31, 1976. The Treasury is in favor of this provision.

The Senate bill also provides for a tax credit to employers who hire work incentive program (WIN) participants. The credit is 20 percent of the wages paid during the first 12 months of employment. If the employee is discharged within 12 months after the credit period, the credit is recaptured.

One of the last provisions passed by the Senate is perhaps the most controversial part of the entire Senate bill. The provision in question would permit each taxpayer to contribute \$1 of his income tax either to a political party to be used to finance that party's presidential candidate, or to a nonpartisan fund to be divided among the various parties.

The Treasury is strongly opposed to this provision. There are many reasons for this. Here are a few: It would result in lost revenue; it would put the Internal Revenue Service in the business of collecting funds for political parties, a business which we do not believe IRS should be in. We believe there are better ways to spend the taxpayers' money than on political campaigns. Moreover, we do not believe political parties should be run with public funds. In our opinion, it is not a proper function of Government to finance political campaigns.

The Revenue Act of 1971 contains a number of provisions which involve structural improvements of the Internal Revenue Code. Time does not permit me to discuss these provisions, but suffice it to say, they add much to the basic provisions of the bill which I have already discussed in making the Revenue Act of 1971 landmark legislation.

Exhibit 47.—Statement by Assistant Secretary Cohen, April 29, 1972, before the Federal Tax Institute of New England, Boston, Mass., on "efforts to make the tax system fair and equitable and to make it best serve the economic well-being of the Nation"

It is a great personal pleasure to me to return to Boston to review with this distinguished audience the status of our work at the Treasury on some important tax matters and to share with you a few thoughts on tax issues that are currently being discussed.

Two years ago you were kind enough to invite me to speak to you at this luncheon, and the program indicated that I was to give a half-hour talk to end at 2:15. The gracious introduction I was given ended at 2:12. It was not easy for a fellow with a Southern drawl to compress a half-hour speech into 3 minutes, and I am grateful to you for inviting me back for my remaining 27 minutes.

There has been a good deal said of late in the political campaigns and elsewhere on the subject of taxes and the need for further changes. It is scarcely necessary to say that we must constantly be watchful of the operation of our tax system and use our best efforts, research, and debate to make it as fair and equitable as possible and make it best serve the economic and social well-being of the Nation.

Undoubtedly changes can be made and should be made to correct some deficiencies in the tax system, to continue the process of improving its equity, and particularly to simplify this grievously complex law. To accomplish this end, however, we need to make calm and objective appraisals of available data and to weigh carefully the alternatives and the practical consequences of possible revisions. On a matter so vital we cannot afford to fall prey to political promises and rhetoric uttered in the heat of a campaign year.

Three months after taking office, the President sent to Congress in 1969 wide-ranging tax reform proposals. Almost the entire year 1969 was spent in public hearings, executive sessions, debates, and drafting on the Tax Reform Act of 1969. On December 30, 1969, the President signed the bill into law. As the congressional committee reports stated, there was "no prior tax reform bill of equal substantive scope."

Another major tax bill, the Revenue Act of 1971, was signed into law last December 10. In addition to restoring the job development investment credit and affirming with some modifications the asset depreciation range (ADR) system established in Treasury regulations earlier in the year, the bill made important individual income tax and excise tax reductions.

Effect of extensive 1969–1971 tax changes

A charge has recently been made that the changes in the tax laws and regulations since the beginning of 1969 have favored corporations to the disadvantage of individuals. This is not so. Treasury estimates show that the tax reform and relief provisions of the 1969 act, the ADR regulations, and the 1971 act in combination have had the following effect:

For the 4 calendar years 1969–1972 they will have increased corporate income taxes by an aggregate of \$4.9 billion; decreased individual income taxes by an

aggregate of \$18.9 billion; and decreased excise taxes on automobiles and telephones, mostly affecting individuals, by \$3.5 billion.

For the current calendar year 1972 they will have decreased corporate income taxes by \$0.4 billion; decreased individual income taxes by \$12 billion; and decreased excise taxes by \$2.6 billion.

For the 12-year span from 1969 through 1980, assuming economic growth, they will have decreased corporate income taxes by an aggregate of \$8.1 billion, an average of \$0.7 billion a year; decreased individual income taxes by an aggregate of \$140.7 billion, an average of about \$11.7 billion a year; and decreased excise taxes by \$19.7 billion, an average of about \$1.6 billion a year.

Thus it cannot properly be said that the benefits of the 1969-1971 changes have favored corporations as against individuals. Substantially all the reductions have gone to individuals.

I think it interesting to observe that the general reductions in the individual income tax levels made periodically in the past decade (1964, 1969, and 1971) have had the overall effect of keeping the effective Federal individual income tax level at about 10.6 percent of total adjusted personal income, roughly the level which it has averaged for the past 15 years. (It has varied from a low of 10 percent in 1965 to a high of 11.6 percent in 1969, averaging just below 10.9 percent). Had these reductions not been made the effective income tax rate would today have risen to 14.7 percent of total personal income, almost a third higher than had previously existed. This would have occurred because of the operation of our progressive income tax structure on the increasing personal incomes that have resulted from inflation and rising standards of living and education. The tax reductions have counterbalanced these factors, leaving the net effective rate roughly the same.

In considering the fairness of the changes made since the beginning of 1969 it is particularly important to note how the individual income tax reductions they produced have been distributed among the different income classes. This is shown in the table below:

Effect on individual income tax liability of Tax Reform Act of 1969, ADR and the Revenue Act of 1971—full-year effect at calendar year 1971 levels of income

Adjusted gross income class	Tax under 1968 law ¹	Tax under 1972 law	Change under 1972 law from 1968 law	
	\$millions			Percent
0-\$3,000.....	1,469	265	-1,204	-82.0
\$3,000-\$5,000.....	3,488	1,995	-1,493	-42.8
\$5,000-\$7,000.....	5,543	4,025	-1,518	-27.4
\$7,000-\$10,000.....	12,263	10,112	-2,151	-17.5
\$10,000-\$15,000.....	22,065	19,202	-2,863	-13.0
\$15,000-\$20,000.....	15,287	13,891	-1,396	-9.1
\$20,000-\$50,000.....	19,375	18,377	-998	-5.2
\$50,000-\$100,000.....	7,344	7,217	-127	-1.7
\$100,000 and over.....	7,131	7,658	+527	+7.4
Total.....	93,965	82,743	-11,222	-11.9

¹ Excluding surcharge.

NOTE.—Figures are rounded and will not necessarily add to totals.

Taking into account all the changes for these 3 years, we find from this table that the income tax burden has been reduced in all of the income classes below the level of \$100,000. The greatest percentage reduction of tax liability is 82 percent in the zero to \$3,000 income class; and taxes have been reduced in gradually decreasing percentages in each higher income class to the \$50,000 to \$100,000 income level, where the reduction is only 1.7 percent.

But the 1969-1971 changes have increased the tax liability of the income class above \$100,000 by 7.4 percent.

Thus in these 3 years from 1969 to date the greatest percentage reductions have been made in the low-income groups, substantial reductions have been made in the middle-income groups, and yet significant increases have been made in the income levels above \$100,000. These results reflect major achievements in eliminating previous inequities and producing a fairer system.

The large decreases in tax on the low-income groups occurred primarily because of the President's 1969 recommendation to Congress of the low-income allowance to remove from the Federal income tax rolls substantially all persons below the poverty levels. This principle was adopted and has been followed and updated in the 1971 act. Thus for 1972 and subsequent years single persons earning less than \$2,050 will pay no Federal income tax nor will a family of four pay tax if it earns less than \$4,300. I think this principle is a major step forward in achieving equity in the Federal income tax structure.

Persons with high adjusted gross income

Much has been said recently about the fact that about 100 individuals in the United States in 1970 had "adjusted gross incomes" above \$200,000 without paying any tax. Some have argued that this handful of cases shows that the system is unfair and that the rich do not pay taxes. I shall talk further about those few cases in a moment.

But I do not think we should let that small group of individuals obscure the fact that, according to our preliminary data, there were in 1970 a total of some 15,300 persons in the country with adjusted gross incomes above \$200,000, and that some 15,200 of them paid an average Federal individual income tax of \$177,000 each—a total of some \$2.7 billion. This is an effective rate of 44.1 percent of their adjusted gross income and 59.5 percent of their taxable income.

From this it is perfectly clear that in general the rich are paying Federal income taxes in large amounts. And they are paying more than they were in 1968 while other taxpayers are paying less.

Let me now refer to the cases of the few nontaxable persons with adjusted gross income above \$200,000. The statistical data now shows that there were 106 such persons. The number of these nontaxable persons was down from 300 in 1969. The adjusted gross income on these 106 returns was less than 17 percent of that on the 300 returns in 1969.

We have now done some further analysis of these returns and have classified them according to the five principal causes of nontaxability: Foreign tax credit, deductions for taxes paid, deductions for charitable contributions, deductions for interest payments, and miscellaneous deductions.

As to the seven cases in which nontaxability was due primarily to the foreign tax credit, it is interesting to note that these seven taxpayers paid income tax to foreign countries of about \$1.5 million, an average of more than \$200,000 tax per taxpayer. This represented an effective foreign income tax rate of 62 percent of their adjusted gross income and 70 percent of their taxable income. It is clear that while these individuals were not required to pay U.S. income tax, they were subjected to heavy income taxes abroad.

Another group of 12 individuals, whose adjusted gross income aggregated \$4.1 million, paid no 1970 Federal income tax because their deductions for State and local taxes exceeded \$4.1 million. Substantially all these deductions were for State income taxes. A review of these returns suggested that these individuals had large amounts of nonrecurring income in 1969 on which they paid substantial State income taxes in the spring of 1970, which were deductible on their 1970 Federal income tax returns. To check out this hypothesis we have now obtained data as to the 1969 Federal income tax returns of 11 of these 12 individuals and have found that the 11 persons paid 1969 Federal income tax totalling about \$18 million, an average of more than \$1.6 million of tax per individual. The fact that they paid no Federal tax for 1970 after paying huge taxes for 1969 is simply a result of the cash basis of accounting which is used by most individuals, and the fact that the State taxes on their large 1969 income were paid in the spring of 1970. To change the tax laws to overcome this result for these dozen individuals would produce undue complexities and require additional expense for many thousands or millions of other taxpayers. This would not be worth the effort. No tax system can achieve perfection, certainly not without incredible complexities and expense.

Another 12 cases involved individuals with adjusted gross income of \$8.5 million whose principal deductions consisted of charitable contributions aggregating \$4.2 million. The 1969 act terminated the "unlimited charitable contribution deduction" provision of prior law and set the contribution deduction limit at 50 percent of adjusted gross income. It was recognized that if charitably inclined individuals can deduct their contributions up to one-half of their adjusted gross income, there will necessarily be a few cases in which other deductions for in-

terest, taxes, medical expense, etc., will exceed the other half of adjusted gross income and result in nontaxability.

In 55 of the cases interest paid was the principal deduction, aggregating \$17.3 million. But in these returns dividends and interest received aggregated \$16.5 million. In general, when interest is paid to borrow money needed to make investments on which dividends and interest income is received, the interest paid should be charged against the interest and dividends received and only the net profit should be reflected in adjusted gross income. If a man pays interest in his business, only the net profit goes into adjusted gross income. But for simplicity sake, the tax law for many years has said that where this occurs in an investment situation the gross dividend and interest income is reflected in his adjusted gross income—and makes him appear on the surface to be in a high income category—while the offsetting interest expense that he incurs is classed as a personal deduction along with taxes, charitable contributions, casualty losses, alimony, etc. Possibly we should change the definition of adjusted gross income so that net investment income is treated like net business income.

There are, however, some cases in this group in which the interest paid exceeds the investment income by substantial amounts. In these cases as well as some others there are indications that the minimum tax may be due for 1970 and may be assessed on audit. For 1972 and subsequent years, investment interest paid that exceeds by more than \$25,000 the taxpayer's investment income may be disallowed as a deduction under the 1969 Tax Reform Act.

The final category consists of 20 cases in which the principal deduction was miscellaneous deductions, aggregating \$10.5 million. Of this total, more than \$5.5 million represents items described in the returns generally as loss of securities pledged to secure loans, losses on guarantees of loans, and payments in settlement of litigation. Another \$2.2 million of miscellaneous deductions represents an aggregate of accounting, bookkeeping and professional fees, and investment counsel and management fees. If these items are properly deductible—and this can only be determined after audit—it is because they represent expenses of earning business or investment income and may indicate that we should change the definition of adjusted gross income to drop these people out of the high income category.

To illustrate, consider one of the returns that reported as the only income more than \$400,000 of gambling gains and reported an equal amount as gambling losses under miscellaneous deductions, for a net income of zero. This return, too, will be audited; but if the return stands up under audit, we might consider levying an amusement tax, but the income tax is supposed to apply only to the successful gamblers.

Now I do not mean to imply from this review of the 106 cases that there is not a constant need for vigilance and improvement in the tax laws. Most assuredly there is a definite need. I mean only to indicate that there is relatively little guidance to be gained from these particular returns in relation to major issues of tax policy, and the attention that has been devoted to them is unwarranted and unwise.

Revenue and other effects of recent proposals

There have been a number of proposals and bills introduced in the Congress to change the tax laws. Some of these deserve serious consideration. But many of them have been advanced with claims that by closing so-called "loopholes" in the tax law we can immediately raise vast sums of additional revenue. These claims, I submit, are quite exaggerated. Moreover, in many instances sudden tax changes made without substitution of other programs would damage the economy and endanger important social goals.

Let me illustrate. One of the proposals made in a number of the bills recently introduced in the Congress is to tax capital gains at death. It has been asserted that this will raise in the first year some \$2 to \$3 billion in revenue and that this was recommended in 1968 by the then Treasury staff. While the previous staff headed by my distinguished predecessor, Stanley Surrey, did recommend taxing capital gains at death, it also recommended (as do most of the pending bills) that only the gains accruing after the enactment of the new law would be taxed. As a result there would be relatively little revenue effect for some years to come.

Moreover, the previous Treasury staff proposals recommended that the revenue gains in future years from taxing capital gains at death be used to reduce the

burden of the estate tax so that the total tax burden on persons dying would not be increased but would be reallocated among them. All of this requires careful thought and attention and a balanced program. In any event, it is not likely to produce significant short-term revenue yields.

Consider the proposals made in some of the bills with respect to the taxation of interest on State and local obligations. One of these bills would permit State and local governments at their option to issue taxable securities, with some amount—ranging from 25 percent to 50 percent of the interest payments—to be reimbursed to the States by the Federal Government. There may well be merit in this proposal and indeed a form of this proposal was contained in the 1969 House bill, but it is clear that it will not raise any net revenue for the Federal Government in the short term at least since it would only apply to future issues. Moreover, any proposal would inevitably require an alternative subsidy which also would prevent any substantial net revenue gain.

On the same subject, many of the proposed revisions of the minimum tax would include in the list of preferences subject to that tax interest on State and local bonds. The Congress concluded in 1969 that this should not be done, and my impression was that this was a very firm conclusion. But even if it were done it is unlikely that such a rule would be applied to existing obligations, and the shortrun revenue yield from including interest on future obligations under a minimum tax would be negligible.

Again there are various proposals to limit the tax benefits accorded to real estate investments. In 1969, we cut back extensively on these benefits to the extent of almost \$1 billion in estimated longrun annual revenue yield, but we exempted from the new restrictions investments in housing. The housing exception was made because the Housing Act of 1968, which set as a goal the production of some 2½ million housing units a year, was built around the then existing income tax incentives for housing construction. We have recently exceeded the 2½ million-housing unit goal for the first time in history, and it is a bright spot in the current economic recovery.

Granted that there are problems with respect to the tax treatment of housing, it would be unwise at this point to remove these tax incentives without having a new governmental program as a substitute. If changes are to be made, they require a careful evaluation of the effect of the 1969 Tax Reform Act in the nonhousing field and the development of carefully designed substitute housing programs. These are difficult and time-consuming matters.

There are further tax proposals to collect additional revenue by repealing the recently approved asset depreciation range system and/or the job development investment credit. We have just been through a long period of analysis and debate on both ADR and the investment credit, and both were approved by the Congress.

Before these depreciation and investment credit changes were made in 1971, our Treasury estimates showed that our income tax laws made the capital cost of business equipment higher than that of any other major industrialized nation in the Western World. The 1971 changes restored American business in this regard to a position somewhat more favorable than Canada, France, and the Netherlands, but still behind West Germany, Japan, the United Kingdom and others of our principal competitors in the world markets.

Moreover, a recent Department of Commerce SEC survey showed a very encouraging 10½-percent rise in business expenditures for plant and equipment for 1972 over 1971. An even more recent McGraw-Hill survey just released shows a 14-percent rise. These are most encouraging developments—another strong force in the economic recovery—and I think it is far too early to consider changing this successful policy agreed upon only last year after so much careful deliberation.

There are the usual round of proposals to reduce the tax incentives with respect to oil and gas. After a long series of debates in 1969, the Tax Reform Act increased the taxes on the oil and gas industry by more than \$600 million. With the energy shortage that is facing us and the dire need for a coordinated energy policy, we should be sure that we move cautiously and intelligently with a coordinated energy resource program.

Among the proposals for a quick increase in revenue yield is to change the minimum tax in various ways. One of the major minimum tax proposals is to eliminate the deduction for the regular income tax paid by the taxpayer in computing the amount subject to minimum tax. If the deduction for the regular income tax were eliminated, the minimum tax would simply be a tax on items

of preference income, regardless of the amount of regular income tax which the taxpayer is paying on his nonpreference income. Neither the 1968 Treasury staff proposals for a minimum tax, nor our 1969 proposal for a limit on tax preferences (LTP) nor the current minimum tax law would apply when the taxpayer has a relatively small proportion of tax preferences in relation to his total income.

To convert the minimum tax into a direct income tax on preference income without regard to nonpreference income would simply reduce the effect of tax incentives that the Congress has introduced in various parts of the tax law for purposes that it has deemed desirable. If those purposes are not desirable or the incentives are too great, they should be modified or eliminated, but there is no point in merely whittling them down by a complex separate tax on the allowed preferences. The point of the 1969 law and both sets of Treasury proposals was to impose an additional tax burden only when a taxpayer had so concentrated on taking advantage of the preferences that he was sheltering too high a proportion of his income. I would hope, therefore, that before any such transformation of the minimum tax would be made it would be given thorough consideration. The issues are far too important for hasty action.

I believe these illustrations show that the claims that vast sums of immediate revenue can be raised from "loophole" closing are vastly exaggerated. Moreover, it shows, I believe, that in each important area there are serious problems that require calm, deliberative reflection and that in many instances, such as housing, extensive consideration would have to be given to substitute programs that in themselves would involve serious questions of equity and practicality. This was the lesson we learned in the lengthy study and debate that occurred in the development and passage of the Tax Reform Act of 1969. It is a lesson that I think stands us in good stead today.

There is one other lesson from the 1969 act that I learned and I am sure you experts in the tax field, as well as the taxpaying public, will appreciate. That lesson is that we are in desperate need of simplifying the Federal income tax law. I hope we can bend every effort toward that goal of simplification and eliminate attenuated distinctions and intricacies that confuse us all.

Regulations under the 1969 act

It is with great pleasure that I report to you today that we have substantially completed the job of drafting and publishing in proposed form for comment the extensive regulations under the Tax Reform Act of 1969. We had divided the regulations work under the 1969 act into 179 different projects. We have made an intensive drive to finish this work, realizing the importance to the public of knowing the positions the Treasury proposes to take on the many important questions of interpretation that are involved.

We have now published or sent to the Federal Register for publication shortly all but eight of these proposed regulations. Of the remaining eight some had been deferred temporarily because they will not have practical effect until a future date (such as the tax on excess business holdings of private foundations); some are being withheld from publication until other related proposed regulations have been finalized (such as the disallowance of deductions for excess investment interest, which depends upon interpretations proposed under the minimum tax); and some are procedural or of limited application.

The only two regulations still to be proposed that I think will be of general interest are those relating to so-called arbitrage bonds issued by State and local governments and those under the new section 385 that would establish guidelines for distinguishing indebtedness from stock. The arbitrage bond regulations have reached their final stages, but we have held up publication until we have had opportunity to confer further with representatives of State and local governments about some of the problems that are involved.

As to the regulations regarding the distinctions between indebtedness and stock, we have devoted considerable time and discussion to this difficult subject. But as you all know, we have gone almost 60 years without significant regulations in this area, and much as I would like to see that project brought to a conclusion, we have thought that other pressing matters deserve a higher priority.

It is difficult to appreciate the several hundred thousand man-hours of time devoted by talented and dedicated men and women in the Government service that have been required to analyze the problems, assemble the necessary information, reach decisions on so many difficult issues, and draft and review all these many regulations. As a rough guess I would estimate that the proposed regulations under the Tax Reform Act of 1969 cover at least 8,500 typewritten pages.

No other country in the world makes an effort to publish extensive regulations of this kind. To have accomplished this task under the 1969 act within a period of 2½ years is a record heretofore unmatched, and I am sure you will agree that the many persons on the staffs of the Commissioner and the Chief Counsel of the Internal Revenue Service and of the Treasury deserve the greatest praise for their untiring and dedicated work on these projects.

We are anxious to press onward to promulgating in final form all the regulations that have been proposed for public comment. We receive many helpful comments and criticism and review all of these before making final decisions. It is important that this process go forward to provide answers to the taxpaying public as soon as possible.

We must also proceed with regulations under the Revenue Act of 1971, which the President signed into law on December 10, 1971. We have already issued proposed regulations under the job development investment credit and the asset depreciation range amendments made by the 1971 act, published an extensive pamphlet regarding the new Domestic International Sales Corporation (DISC), and issued guidelines under the new provision for deduction or credit for political contributions. But there are numerous other provisions under the 1971 act, such as the deduction for expenses of working mothers, for which regulations must be provided.

Statistical data re effect of 1969 act

It is also of great importance to obtain statistical data upon which to base judgments as to the effects which have flowed from the many tax reform provisions of the 1969 act. Most of the 1969 act reforms became effective as of January 1, 1970, although some of them go into effect gradually over a period of years. Thus the 1970 income tax returns provide the first statistical information that we can obtain about the practical effect of the 1969 reforms.

With respect to individual returns, this statistical data is obtained from transcripts made of a large sample of the approximately 75 million individual income tax returns. The data from the transcripts is then fed into a computer, and the first preliminary runs from the computer became available toward the end of last November. We now anticipate that the complete statistical report on 1970 individual returns will be available by mid-July and that printed copies will be publicly available about 2 months later.

It is also quite important to obtain statistical data regarding the effect of the 1969 act on corporations. Because of the time required to prepare the voluminous returns of major corporations, most of them file estimated returns on March 15 and obtain extensions of time to September 15 for filing their final detailed returns. Hence the process of extracting the statistical data from 1970 calendar year corporation returns could not start until after September 15, 1971, and it is a much more complex task than is involved for individual returns.

We expect the preliminary report from the corporate data to become available in August. Tables from the final 1970 corporate report will become available beginning in October.

With all the extensive changes made by the 1969 Tax Reform Act, I think we should carefully review the individual and corporate data from the 1970 returns before we embark upon another round of individual and corporate tax reform. This data should be available in time for action in 1973, but it will not be available in time for action by Congress this year. Moreover, we should finish the process of finalizing the regulations under the 1969 act this year in order that necessary and desirable legislative changes can be made intelligently.

A new tax reform proposal

I thought I should tell you today about a deep-seated division of opinion within the Treasury, heretofore unrevealed, regarding an important tax reform proposal. I had ordered that there be no internal memoranda written about it that might be leaked or subpoenaed, and until now the entire subject has been dealt with by magnetic tapes that self-destruct.

For some time I have been looking for a simplified, equitable tax revision program. There is considerable research to indicate that, in general, tall people have a great economic advantage over short people and are far more successful as leaders in the business and political world. I have maintained, therefore, that the tax law should provide compensation for the inequities thrust upon the short people of the world.

I would draw the line at a height of 5 feet 6 inches and provide half rates of tax for those below that level and the regular rates for those above. Because of the notch problem that might be involved at the dividing line, I would be willing to consider a sliding scale between 5 feet 6 inches and 6 feet.

This proposal is easily administered by an objective standard and provides in my judgment a high degree of equity and fairness in the tax structure. I must confess, however, that all those over 5 feet 6 inches in the Treasury—and this represents a high percentage of the male personnel—are opposed to my proposal. My research, however, discloses that most of the ladies in the Treasury will qualify and strongly support the proposal.

Because of this division I have become a charter member of an organization to sponsor the proposal. It will probably be known as the Association of Short People—or ASP's. The motto will be "Ad Astra per ASPera."

We expect that there will be immediately created a competing organization to be known as the Association of Long People—or ALP's. But standing firmly on our platform we expect to look the ALP's right in the eye.

To administer this system the ASP's are advocating the restoration of the old form 1040-A so that we can once again have the short form and the long form tax return.

I have been asked what I would do about a joint return of a tall husband and a short wife (or the few vice versas). But I only deal with tax policy and this seems to me an administrative matter that should be easily handled by the able Commissioner of Internal Revenue.

I hope you will forgive me for ending my discussion of this most serious subject on a note of levity. I have tried to retain a sense of humor and proportion throughout my more than 3 years in office. In particular, I have tried to bear constantly in mind the words of the President in his Inaugural Address on January 20, 1969, when he advised us:

"To lower our voices would be a simple thing.

* * * * *

"We cannot learn from one another until we stop shouting at one another—until we speak quietly enough so that our words can be heard as well as our voices."

Exhibit 48.—Statement by Assistant Secretary Cohen, May 1, 1972, before the House Committee on Ways and Means on the tax treatment of married couples and single persons

It is a great pleasure for me to appear before this committee today to discuss with you the tax treatment of married couples and single persons.

The fairness of the relative tax burdens of single persons and married couples has been questioned since the early days of the income tax. In 1948, when married couples were first given the option of income splitting, many thought the problem had been resolved, but it has continued to the troublesome. The current controversy involves a confrontation between two groups: Those who contend that the income splitting privilege afforded to married couples results in an excessive tax burden on single persons; and those who contend that the provisions of present law create a penalty on marriage or an incentive to "live together in sin," because the tax burden on two single persons is less than that on a married couple where both spouses earn similar amounts of income.

Thus single persons are complaining that the present system unfairly discriminates against them under certain circumstances, and certain married couples allege discrimination under other circumstances. As so often occurs in matters of this sort, there is some merit in both of these contentions. In some instances married couples pay more than two single persons and in other instances the reverse is true. The problem is inherent in a progressive income tax and there is no easy solution. The question is whether the present structure represents a reasonable compromise or can be improved.

In effect, the use of income splitting by a married couple results in a tax on the married couple as if the couple consisted of two single individuals each with one-half the couple's total income. Under our progressive tax rates this 50-50 split of income between spouses produces a lower tax than any other division of income.

Until enactment of the Tax Reform Act of 1969, single persons who did not

qualify as heads of household generally paid higher taxes than married couples with the same aggregate income. The 1969 act significantly altered the relative tax burdens of married couples and single persons by lowering the tax rates of single persons, adopting the low-income allowance, and increasing the maximum standard deduction.

Neither the low-income allowance nor the maximum standard deduction are involved where taxpayers itemize their personal deductions, but they sometimes have a significant effect on this problem where deductions are not itemized.

The rate schedule.—From 1948 to 1969 the primary cause of the inequity of the relative tax burdens of married couples and single persons was the allowance of full income splitting to married couples and no income splitting to single persons. This produced a tax burden on single persons quite heavy relative to that of married couples with the same aggregate amount of income; at some income levels a single person's tax was more than 42 percent greater than the tax paid by married couples with the same amount of taxable income, the peak differential occurring at about \$25,000 taxable income level. The 1969 act redressed the 20-year-old complaint of single persons, adding a new rate schedule for single persons which reduced the amount of tax of a single person compared to that of a married couple where one spouse earns income; the new rates insured that in no case would a single person's tax become more than 20 percent greater than the tax of a married couple with the same taxable income.

In 1969, when the new rate schedule for single persons was adopted, it was recognized that this change would result in some cases in a married couple filing a joint return being required to pay more tax than two single persons with the same total income—the so-called marriage penalty. This result was justified on the grounds that although a married couple will have greater living expenses than one single person and thus should pay less taxes, the married couple's expenses are likely to be less than those of two single persons so that the couple has an ability to pay taxes somewhat higher than that of two single persons. (See the "General Explanation of the Tax Reform Act of 1969" prepared by the staff of the Joint Committee on Internal Revenue Taxation, p. 223.)

Since the relative tax burdens of single persons and married couples vary depending upon how much of the couple's total income is earned by the husband and how much by the wife, it is important to consider data as to typical distributions of earnings between spouses. Table 1 attached shows data as to the distribution of wages and salaries on joint returns in 1969 as shown by the forms W-2 attached to the returns.

The data indicates that in the case of more than half of all married couples the entire earnings are derived by one spouse. In nearly three-fourths of the cases, one spouse earns at least 80 percent of the income. Thus for most married couples the advantages of income splitting are significant.

Where one spouse earns 80 percent or more of the couple's earnings the tax under the married person tables is almost always less than the tax on two single persons with the same earnings. Only about 20 percent of married couples have an earnings split that results in their paying more tax than they would pay as single persons. This so-called "marriage penalty," except where it reflects different standard deductions, tends to be less than 10 percent of the married tax even where the married couple's income is divided 50-50, an uncommon occurrence.

The Low-Income Allowance.—The second provision of the 1969 act which affected the relative tax burdens of married couples and single persons was the low-income allowance, proposed by the President to assure that persons or families whose income did not exceed the poverty level would no longer be required to pay any Federal income taxes. During the period from 1969 to 1972, rising prices have increased the amount of income that persons need in order to be above the poverty level. Hence, the Revenue Act of 1971 increased the low-income allowance to \$1,300 so that, in conjunction with the personal exemption of \$750 per person, incomes approximating the 1972 poverty levels would continue to be tax exempt.

Two single persons are each entitled to a low-income allowance of \$1,300 for a total of \$2,600. A married couple is limited to the \$1,300 low-income allowance.

In effect, the low-income allowance represents a floor under the 15-percent standard deduction; it thus can apply until the adjusted gross income exceeds \$8,667 (15 percent of that amount equals \$1,300).

Table 2 attached shows estimated 1972 poverty levels and the present levels

of tax-free income. Of course many factors, such as geographical location, affect poverty levels, and an exact correlation of tax-free incomes and poverty levels is not practical.

For example, so-called transfer payments (such as social security benefits, unemployment insurance, and welfare payments) are treated as income for poverty level purposes but not for income tax purposes. Nevertheless, despite some imperfections, the low-income allowance was designed as a broad principle to remove from the tax rolls persons with incomes below the poverty levels.

The estimated poverty level for single persons assumes that single persons maintain separate households, and the estimate for married couples assumes husband and wife are living together. To the extent that the expenses of single persons are reduced by living together or that the expenses of married couples are increased when the spouses are living apart, the assumptions underlying the estimates of poverty levels—and of the corresponding levels of tax-free income—are not accurate.

While exact figures are not available, we have made some rough estimates based on census data in an effort to determine the percentage of single individuals who maintain their own household. A substantial percentage—perhaps half—of the persons who file single returns live with their parents or children, and in some cases may contribute little toward maintaining the households in which they live. Since the low-income allowance was designed to exempt from tax persons whose income is below the poverty level (with poverty levels estimated on the assumption that single persons maintain their own households), the amount of relief afforded to these individuals might be considered too great in some cases given the limited nature of their living expenses.

To design tax rules for single persons that would depend upon whether he or she was sharing a household to some degree with another person where neither is a dependent of the other would be impractical and, I fear, sometimes ludicrous. If desired, consideration could be given to a rule that would deny the low-income allowance to persons who are claimed as dependents on the return of another person. The 1971 Revenue Act moved in this direction by limiting the use of the low-income allowance and the standard deduction to offset unearned income of persons who are claimed as dependents on the return of another person. But the present rule permitting the low-income allowance to persons claimed as dependents on the return of another person is of material benefit to students who are helping to earn part of their education costs, and this seems to be a desirable result.

Of the remaining persons who file single returns, i.e., those not living with their parents or child, our best estimate is that about three-fourths of these persons maintain their own households. These figures suggest that for this group of single persons the assumptions underlying the low-income allowance and the new rates for single persons provided by the 1969 act are generally accurate.

Maximum standard deduction.—Finally, the 1969 Tax Reform Act changed the relative tax burdens of single persons and married couples in some cases by increasing the maximum standard deduction from \$1,000 to \$2,000. The \$2,000 ceiling on the 15-percent standard deduction applies equally to married couples and to single persons. In effect, the ceiling applies only if (1) the persons do not itemize deductions and (2) their adjusted gross income in their tax return exceeds \$13,333 (15 percent of that amount equals \$2,000). Two single persons are each entitled to a standard deduction of up to \$2,000 for a total of \$4,000, but a married couple is limited to \$2,000 of standard deduction.

Unlike the low-income allowance, the ceiling on the amount of the standard deduction was not based upon extrinsic evidence but was arrived at in part because of revenue considerations and in part because at an income level above \$13,333 the need for simplification that is served by the standard deduction was not believed to be as great as in the case of the large number of persons with lower incomes.

Our analysis indicates that the additional \$2,000 of deductions available to two single persons claiming the maximum standard deduction can be a significant factor contributing to an increased tax for married persons over single persons with income above \$13,333 if they do not itemize deductions. (The significance of this factor can be seen by comparing charts 1 and 2 and their accompanying tables, tables 3 and 4, attached to this statement.)

Consideration might well be given to changing the maximum standard deduction as between single and married persons. The revenue effects of such a decision can be significant. If the maximum standard deduction for single persons were

reduced from \$2,000 to \$1,300, about \$140 million of revenue would be gained. If the ceiling for married persons were increased from \$2,000 to \$4,000, \$1 billion of revenue would be lost; increasing the maximum standard deduction to \$3,000 for married couples would cost about \$770 million.

There can be no question that the present system does not provide perfect results in every instance, but the inequities generally arise from atypical living conditions; for example, where two single people live together or because of a particular division of income between husband and wife. Tax laws cannot be written which will apply to a nation of 200 million persons and provide precise equity in all cases. And, as I noted earlier, we cannot devise rules which demand varying tax burdens depending upon the type of household in which a single person lives. The Internal Revenue Service does not have the personnel to make such inquiries nor is this the sort of inquiry which would be appropriate for it to make.

Unfortunately, we cannot devise rules which will equitably apply the competing principles underlying our tax system to every conceivable set of circumstances. Let me illustrate the problem by assuming four cases:

Case 1. A single person earns \$20,000.

Case 2. Two single persons each earn \$10,000.

Case 3. A husband earns \$20,000 and a wife earns zero.

Case 4. A husband and wife each earn \$10,000.

If we want no penalty on remaining single, Case 1 must pay the same tax as Case 3. (Single person earning \$20,000 pays the same as married couple earning \$20,000.)

If we want no penalty on marrying, Case 2 must pay the same tax as Case 4. (Two single persons earning \$10,000 each pay the same tax as a married couple each earning \$10,000.)

If we want husband and wife to pay the same tax however they contribute to the family earnings, Case 3 pays the same tax as Case 4.

To summarize the tax results:

Case 1=Case 3

Case 2=Case 4

Case 3=Case 4

Based on the fundamental mathematical principle that things equal to the same thing must be equal to each other, the result should then be that: Case 1 equals case 2; or, in other words, that the tax on a single person earning \$20,000 equals the tax on two single persons each earning \$10,000.

But that cannot be so because that result would violate the basic tenet of the progressive income tax structure. The tax on a single person earning \$20,000 (Case 1) must be greater than the total tax on two single persons each earning \$10,000 if we are to have a progressive rate structure.

It is apparent that we cannot have each of these principles operating simultaneously, and that there is no one principle of equity that covers all of these cases. No algebraic equation no matter how sophisticated can solve this dilemma. Both ends of a seesaw cannot be up at the same time. Any rule that is selected will in some cases appear to penalize married couples and in other cases seem to penalize single persons. All that we can hope for is a reasonable compromise.

The 1969 compromise assumes, in general, that a married couple maintaining one household incurs greater expense (and has less ability to pay tax) than one single person maintaining a separate household, but the couple incurs less expense (and has less ability to pay tax) than two single persons each maintaining a separate household. Obviously the assumption as to maintenance of households can be erroneous for reasons that I need not detail, but I think in general it provides a reasonable framework.

As a consequence of the rule marriage can produce a tax reduction for a single person marrying someone who has no income and a tax increase when marrying someone with substantial income. If there is a "penalty" on marriage, it occurs when two people having substantial separate incomes marry to maintain a single household, thus reducing their total living expenses and increasing their total ability to pay taxes.

It is our conclusion that, with the possible exception of the maximum limit on the standard deduction which seems to work unevenly, the present structure seems to have effectuated a reasonable compromise.

I have included as appendices to my statement a number of tables which might be useful to the committee in its consideration of this matter.

**Frequency Distribution of Joint Returns by the Division of Wages
and Salaries Between Spouses, 1969**

Adjusted gross income class	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Earnings of spouse with lesser earnings as a percent of combined earnings are--						Total
	0%	1% to 10%	11% to 20%	21% to 30%	31% to 40%	41% to 50%	
0 - \$ 3,000	4.3%	0.4%	0.2%	0.2%	0.3%	0.3%	5.5%
\$ 3,000 - 5,000	6.1	0.5	0.5	0.4	0.4	0.6	8.4
5,000 - 7,000	7.9	1.0	1.0	0.9	0.7	0.6	12.2
7,000 - 10,000	14.5	2.8	1.9	1.8	2.1	1.6	24.8
10,000 - 15,000	13.8	2.9	2.7	3.2	4.6	3.8	31.0
15,000 - 20,000	4.2	0.8	0.8	1.3	2.0	2.0	11.1
20,000 - 50,000	3.3	0.5	0.4	0.6	0.7	0.6	6.2
50,000 or more	<u>0.6</u>	<u>0.1</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>0.7</u>
Total	54.6	9.0	7.6	8.5	10.8	9.5	100.0

*Less than .05 percent.

Table 2

**A Comparison of Tax-free Levels of Income and Estimated
Poverty Levels of Income, 1972**

Age and family size	(1)	(2)	(3)	(4)	(5)
	Low-income allowance	Personal exemptions	Minimum tax-free income	Estimated poverty level income	Tax-free income in excess of poverty level income
<u>Under age 65</u>					
Single individual living alone	\$1,300	\$ 750	\$2,050	\$2,170	\$ -120
Married couple, no dependents	1,300	1,500	2,800	2,810	-10
Married couple, one dependent	1,300	2,250	3,550	3,350	200
Married couple, two dependents	1,300	3,000	4,300	4,290	10
Married couple, three dependents	1,300	3,750	5,050	5,050	--
<u>Age 65 or older</u>					
Single individual living alone	1,300	1,500	2,800	2,010	790
Married couple, no dependents	1,300	3,000	4,300	2,540	1,760

TABLE 3.—Differences between the tax of a married couple filing a joint return and the combined tax of two single persons with the same combined income as the married couple—present law 1972

[Assumes deductible expenses equal 15 percent of income]

Adjusted gross income (wages)	Joint return tax	Excess of the joint return tax over the tax of two single individuals with the same combined income											
		Income split 100 percent-0		Income split 75-25 percent		Income split 67-33 percent		Income split 60-40 percent		Income split 55-45 percent		Income split 50-50 percent	
		Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax
\$3,000	\$28	\$-109	-389.29	0	0.00	\$28	100.00	\$28	100.00	\$28	100.00	\$28	100.00
4,000	170	-131	-77.06	\$33	19.41	82	48.24	121	71.18	149	87.65	170	100.00
5,000	322	-168	-52.17	63	19.57	132	40.99	184	57.14	194	60.25	196	60.87
6,000	484	-196	-40.50	89	18.39	182	37.60	201	41.53	206	42.56	209	43.18
7,000	658	-231	-35.11	120	18.24	191	29.03	212	32.22	221	33.59	224	34.04
8,000	848	-251	-29.60	168	19.81	207	24.41	226	26.65	238	28.07	245	28.89
9,000	1,029	-297	-28.86	164	15.94	211	20.51	229	22.25	238	23.13	238	23.13
10,000	1,190	-340	-28.57	133	11.18	180	15.13	208	17.48	209	17.66	209	17.56
12,000	1,534	-419	-27.31	70	4.56	133	8.67	150	9.78	162	10.56	173	11.28
14,000	1,908	-493	-25.84	57	2.99	87	4.56	109	5.71	129	6.76	129	6.76
16,000	2,285	-592	-25.91	31	1.36	62	2.71	73	3.19	68	2.98	86	3.76
18,000	2,710	-671	-24.76	29	1.07	77	2.84	81	2.99	78	2.88	58	2.14
20,000	3,135	-780	-24.88	15	.48	68	2.17	83	2.65	69	2.20	75	2.39
25,000	4,310	-1,110	-25.75	0	0.00	91	2.11	150	3.48	174	4.04	192	4.45
30,000	5,660	-1,430	-25.27	21	.37	215	3.80	327	5.78	374	6.61	400	7.07
35,000	7,198	-1,742	-24.20	99	1.38	416	5.78	593	8.24	673	9.35	700	3.72
40,000	8,870	-2,045	-23.06	250	2.82	664	7.49	889	10.02	996	11.23	1,040	11.72
50,000	12,620	-2,545	-20.17	665	5.27	1,277	10.12	1,615	12.80	1,735	13.75	1,730	14.10
75,000	23,185	-2,605	-11.24	1,766	7.70	2,600	11.21	3,055	13.18	3,277	14.13	3,392	14.63
100,000	33,810	-2,605	-7.70	2,600	7.69	3,259	9.64	3,480	10.29	3,480	10.29	3,480	10.29

TABLE 4.—*Differences between the tax of a married couple filing a joint return and the combined tax of two single persons with the same combined income as the married couple—present law 1972*

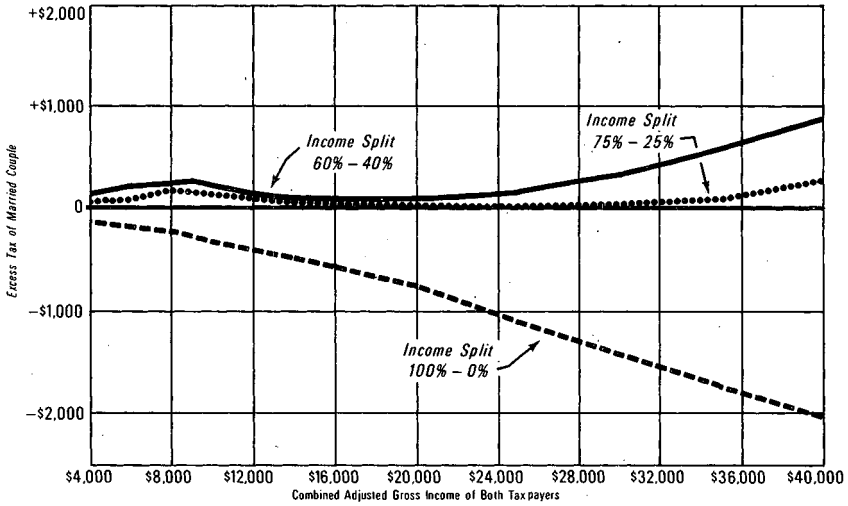
[Assumes deductible expenses never exceed the standard deduction]

Adjusted gross income (wages)	Joint return tax	Excess of the joint return tax over the tax of two single individuals with the same combined income											
		Income split 100 percent-0		Income split 75-25 percent		Income split 67-33 percent		Income split 60-40 percent		Income split 55-45 percent		Income split 50-50 percent	
		Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax	Amount	Amount as a percent of the joint return tax
\$3,000	\$28	\$-109	-389.29	0	0.00	\$28	100.00	\$28	100.00	\$28	100.00	\$28	100.00
4,000	170	-131	-77.06	\$33	19.41	82	48.24	121	71.18	149	87.65	170	100.00
5,000	322	-168	-52.17	63	19.57	132	40.99	184	57.14	194	60.25	196	60.87
6,000	484	-196	-40.50	89	18.39	182	37.60	201	41.53	206	43.56	209	43.18
7,000	658	-231	-35.11	120	18.24	191	29.03	212	32.22	221	33.59	224	34.04
8,000	848	-251	-29.60	168	19.81	207	24.41	226	26.65	238	28.07	245	28.89
9,000	1,029	-297	-28.86	164	15.94	211	20.51	229	22.25	238	23.13	238	23.13
10,000	1,190	-340	-28.57	133	11.18	180	15.13	208	17.48	209	17.56	209	17.56
12,000	1,534	-419	-27.31	70	4.56	133	8.67	150	9.78	162	10.56	173	11.28
14,000	1,930	-497	-25.75	79	4.09	109	5.65	131	6.79	151	7.82	151	7.82
16,000	2,385	-607	-25.45	131	5.49	162	6.79	173	7.25	168	7.04	186	7.80
18,000	2,885	-712	-24.68	197	6.83	252	8.73	256	8.87	253	8.77	233	8.08
20,000	3,400	-855	-25.15	207	6.09	333	9.79	348	10.24	334	9.82	340	10.00
25,000	4,860	-1,230	-25.31	298	6.13	496	10.21	627	12.90	707	14.55	742	15.27
30,000	6,560	-1,592	-24.27	426	6.49	775	11.81	1,010	15.40	1,130	17.23	1,155	17.61
35,000	8,465	-1,950	-23.04	600	7.09	1,132	13.37	1,437	16.98	1,545	18.25	1,580	18.67
40,000	10,565	-2,350	-22.24	883	8.36	1,561	14.78	1,867	17.67	2,007	19.00	2,055	19.45
50,000	15,310	-2,605	-17.02	1,586	10.36	2,472	16.15	2,902	18.95	3,080	20.12	3,130	20.44
75,000	27,810	-2,605	-9.37	2,940	10.57	3,805	13.68	4,242	15.25	4,430	15.93	4,480	16.11
100,000	40,310	-2,605	-6.46	3,805	9.44	4,409	10.94	4,480	11.11	4,480	11.11	4,480	11.11

CHART 1

**Excess Tax on Married Couple Over Tax on Two Single Persons
With Same Combined Income, 1972**

*Assumes Deductible Expenses Equal to 15 Percent of Income **



**And Election of Low Income Allowance if Greater Than Deductible Expenses.*

CHART 2

**Excess Tax on Married Couple Over Tax on Two Single Persons
With Same Combined Income, 1972**

Assumes Election of the Standard Deduction at all Income Levels

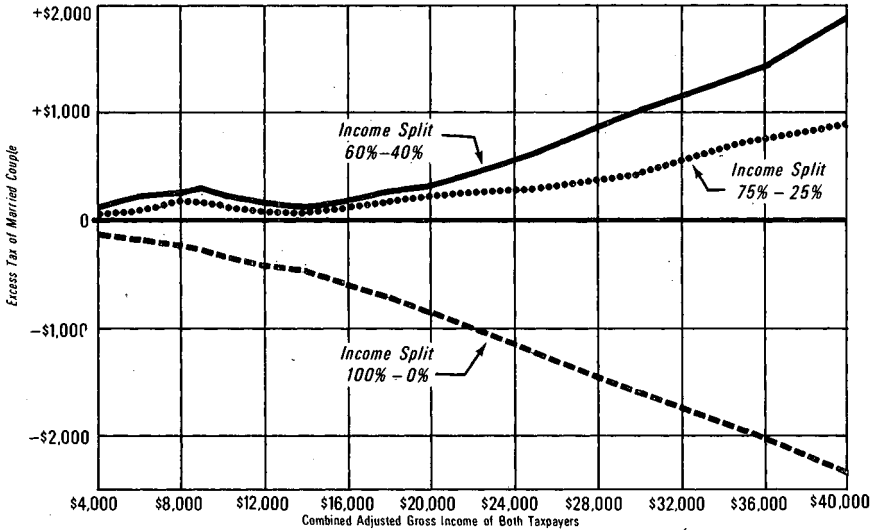


Exhibit 49.—Statement by Assistant Secretary Cohen, May 3, 1972, before the House Committee on Ways and Means on H.R. 13720, a bill to “amend the Internal Revenue Code of 1954 with respect to lobbying by certain types of exempt organizations”

I am pleased to appear before you this morning to discuss H.R. 13720, which is a bill to “amend the Internal Revenue Code of 1954 with respect to lobbying by certain types of exempt organizations.” A brief summary of the bill is attached.

The Treasury has given substantial consideration to this matter and has conferred with numerous groups concerning it. We are concerned about ambiguities and problems in the existing law and are sympathetic to some of the objections that have been voiced against it. We are also concerned, however, that in its present form the pending bill is too broad, and that it contains provisions with new ambiguities and new problems.

For almost 40 years the Internal Revenue Code has granted exemption to “corporations, and any community chest, fund, or foundation, organized and operated *exclusively* for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, *no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation*, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office” (section 501(c)(3)).

Among the problems presented by this section are (1) determining whether organizations are exclusively engaged in charitable operations, (2) defining the phrase “carrying on propaganda, or otherwise attempting to influence legislation,” and (3) deciding whether the latter activities represent a “substantial part” of total activities of the organization.

We appreciate full well the important contributions to society that are made by these organizations through their research and consideration of important problems of the day. We have tried to avoid interpreting the word “charitable” in a fixed, immutable fashion. As the courts have done in many nontax settings, we have tried to give it a meaning that changes and expands as the needs of society change and expand.

As to the phrase “carrying on propaganda, or otherwise attempting to influence legislation,” we have interpreted it so as to permit research and study of matters that may become the subject of legislation, and the publication of those studies. We have also interpreted it as permitting attempts to influence administrative decisions as to the application of legislation, and to influence the exercise by administrative officials of discretion given to them by legislation. We have interpreted it to permit litigation in the courts to construe legislation that has been enacted or to construe the provisions of constitutions.

Thus far we have not interpreted it to permit attempts to persuade legislative bodies as to the enactment of legislation, and especially not to permit so-called “grassroots” lobbying to persuade the public to bring influence to bear upon members of legislative bodies to affect their vote.

We have given extensive consideration to the possibility of modifying the existing regulations to construe the present statutory language to permit the presentation of views concerning legislation in public hearings of the Congress and other legislative bodies. We have, however, interpreted the language to permit the organizations to make available the results of their research and study to committees of legislative bodies when requested by those committees.

We are inclined to believe that this right of presentation of views to legislative bodies in public hearings should be available to the organizations, whether or not by invitation of the committee. We believe that the views of these organizations should be publicly available to the members of the legislative bodies, whenever public views are sought, as an aid to the legislators in the many difficult decisions with which they are faced. For technical legal reasons involving the history of these provisions and congressional committee reports explaining them, we have not been able to accomplish this by regulation, but we would be pleased to see this authorized by statutory change. We think this would be a most significant step and we would support such action by the Congress.

That leaves for consideration the question whether the organization should be permitted to go beyond presentation of views in open hearings. Should charitable and educational organizations be permitted to present their views (1) in com-

munications to members of legislative bodies other than in open hearings, (2) in communications to "members" of the organization, and (3) in so-called "grass-roots" efforts to influence the general public with respect to legislation?

The argument has been advanced to us that these organizations are now at a competitive disadvantage when confronted by opposing business organizations which are permitted deductions for expenses of certain legislative activities under Internal Revenue Code, section 162(e). This can occur, for example, in environmental and ecological matters.

Section 162(e), enacted in 1962, permits business taxpayers to deduct expenses of appearances before legislative committees, or of communications to the committees, to individual members of legislative bodies, or to members of the business organization. But such expenses may be deducted only when incurred with respect to legislation that is "of direct interest to the taxpayer" or "an organization of which he is a member."

A tax upon income cannot always keep all competing interests in perfect balance because expenses incurred in business matters are generally deductible and expenses incurred in personal matters are generally not deductible. Nevertheless, in such broad issues of social and governmental policies as are here involved, there is much to be said for the argument that where business and non-business interests confront each other before legislative bodies there should be comparable tax treatment.

Accordingly, where there is a legislative matter that is "of direct interest" to business taxpayers on one side, a true balance would indicate that if the matter is also "of direct interest" to competing nonbusiness charitable interests, the charities should also be permitted to communicate their views to members of the legislative bodies, even apart from open hearings; and they should then also be allowed to communicate their views to the "members" of their organizations (assuming, as discussed later, we can adequately define in this setting the term "members"). We must also be sure that in trying to redress an imbalance we are not, in fact, creating a new imbalance in the other direction.

The "balancing" argument, with its inherent emphasis upon fairness, seems equally to indicate that where this confrontation exists the nonbusiness charitable interest should not be permitted to engage in grassroots lobbying that is denied to the competing business interests that would be affected by the legislation. Section 162(e) specifically provides that its provisions shall not be construed as allowing a deduction for amounts expensed "in connection with any attempt to influence the general public, or segments thereof, with respect to legislative matters"

Moreover, the "balancing" argument does not provide justification for communications to members of legislative bodies or members of organizations when there is no competing business interest. The current proposal would go far beyond such cases of competition and confrontation, such as are involved in environmental and ecological matters, to cover a wide range of topics that occupy the attention of the Congress and State and local legislative bodies.

As an illustration, the bill would permit lobbying on either side of such controversial public issues as abortion laws, divorce laws, busing, etc., where organizations on both sides are today subject to the prohibition against influencing legislation. Moreover, many of the issues presented to legislative bodies have a distinctly political context, such as laws governing the conduct of primaries and elections, the drawing of legislative districts, the eligibility of voters, etc. Drawing the line between charity and education on the one hand and politics on the other hand would involve a delicacy of decision that would try the capacities of the most able administrator or judge. We question the desirability of extending income tax advantages to lobbying on issues of these types beyond expression of views in public hearings or communications with legislators that are incidental to such public appearances.

In the Revenue Act of 1971, Congress permitted a deduction of \$50 or a credit of \$12.50 (\$100 and \$25 on joint returns) for political contributions. Some 2 months ago we issued guidelines under this provision that seem to have proved generally acceptable. There were serious problems involved in the interpretation of that provision both as a technical matter and as deep-seated matters of policy, but in general we construed the provision as favorably as we could toward the allowance of the deduction or credit because of the strict limitations upon the amount of the allowance. Had it not been for the ceiling on the amount of the allowance, we would have had many qualms about the issues involved under that provision. We call to your attention the fact that the bill now pending before you

contains no limits upon the amount of the deductions to individual contributors to these organizations, other than those present provisions of the Code relating to the percentage of the taxpayer's adjusted gross income for which charitable contribution deductions may be claimed. Where lobbying on political or quasi-political matters is involved, the committee may want to consider the size of the donations that may be deductible to particular contributors.

The bill does contain percentage limitations as to the proportion of the total expenditures of the organization that may be made by the organization for lobbying purposes. In general, it permits a charitable organization (other than a private foundation) to elect, in lieu of the existing provisions of law, to spend any amounts on influencing legislation if those amounts do not normally exceed 20 percent of its total expenditures for charitable purposes. It also permits the organization to spend any amounts on grassroots lobbying that do not normally exceed 5 percent of total expenditures for charitable purposes.

It has been urged upon us that the present law provision permitting no substantial part of the activities of the organization to be involved in influencing legislation is ambiguous because the word "substantial" is not defined. The determination of substantiality is indeed a difficult matter both for the organizations concerned and the Internal Revenue Service. For the reasons indicated above, we would question whether any grassroots lobbying should be permitted with income tax advantages. Beyond that it should be noted that the 5-percent and 20-percent tests in the bill can permit very large lobbying expenditures because those permitted percentages are applied to the total expenditures of the organizations for charitable purposes during the year in question. For some charitable and educational organizations of substantial size, these rules could permit very large lobbying expenditures to be pinpointed on particular issues or in particular geographical areas.

The Internal Revenue Service has approximately 175,000 organizations officially on file as tax-exempt charities. It is estimated that there are several hundred thousand additional exempt organizations which have never filed with the Internal Revenue Service for official ruling of exemption, or which are covered as subordinates of other organizations that have filed. The most recent data from the IRS master file for exempt organizations for the year 1970 includes roughly 82,000 returns of charitable organizations that show aggregate disbursements of roughly \$36 billion. Of this \$36 billion total, about \$30 billion represents disbursements by public charities as distinguished from private foundations.

If 5 percent or 20 percent of these amounts were expended on lobbying in the ways permitted by the bill—and we do not mean to suggest that all of these organizations would make the maximum permitted lobbying expenditures—the bill could permit \$6 billion to be spent in influencing legislation, of which at least \$1½ billion could be expended on grassroots lobbying. An organization with annual expenditures of \$25 million could spend \$1.25 million on grassroots lobbying and \$5 million on lobbying in the aggregate. This would suggest a rather substantial amount of lobbying.

Under the pending bill private foundations would not be permitted to lobby but they could make contributions to public charities that engage in permitted lobbying activities so long as overall the recipient charities qualify as "publicly supported." So long as the recipient organization continues to derive at least one-third of its receipts from public support (or in some cases even less than one-third from public support), they could be funded by contributions from private foundations, but the private foundations could not earmark the contribution to be used for lobbying purposes.

There are a few other aspects which the committee may wish to note. Only the States of New York and California and a few others have any effective regulations or supervision of solicitation by, or the activities of, public charities. There are no Federal regulations of charities except to the extent of the Federal income tax law requirements. The present income tax law requires public disclosure of receipts and expenditures in tax returns filed by the organization and disclosure of the total amount expended by the organization to influence legislation, but public identification of the legislation sought to be influenced is not now required. Nor is there supervision in Federal law to require that the purposes for which the funds are solicited be adhered to in the expenditure of those funds. The committee may want to consider some provision for public recording of all legislation that the organization is supporting or opposing.

A subsidiary problem relates to the decision as to who is to be regarded as a

"member" of the organization if communications to members about lobbying are to be permitted. The problem exists with respect to trade associations under section 162(e) but would be considerably more difficult with respect to various types of exempt organizations. The term "member" has varying meanings under State laws; and it may mean one thing with respect to one form of organization and another thing with another form, for some organizations are incorporated and some are loose associations. The relationships between parent or national organizations and subsidiary or local organizations provide particular problems in this regard. The membership of some large parent organizations may encompass a large segment of the population and may assume the proportions of grassroots lobbying.

Another factor the committee may wish to consider is the relationship of the bill to the lobbying laws. The Federal Regulation of Lobbying Act applies only to attempts to influence legislation in Congress and does not apply to efforts made before State and local legislative bodies. The Federal law itself has perplexing ambiguities, without provision for administrative interpretations, and it is enforceable only by criminal indictment. It requires quarterly reports of lobbying expenditures and the latest reports indicate that for the year 1970 the total amount reported for lobbying expenditures was less than \$6 million. (See Congressional Quarterly, August 6, 1971, pp. 1680 et seq.) The committee may wish to consider some coordination between the tax law provisions and non-tax lobbying legislation.

In summary, we support the major purposes sought to be obtained by the proposed bill, but we respectfully suggest that it requires modification as I have indicated.

Summary of H.R. 13720

Under present law an organization cannot be exempt from taxation under section 501(c)(3) unless "no substantial part of its activities" consists of "carrying on propaganda, or otherwise attempting to influence legislation."

Under H.R. 13720 an electing public charity would be given the leeway to spend on attempts to influence legislation up to 20 percent of its annual disbursements for charitable purposes. Expressly permitted within the percentage limitation would be communications with members or employees of a legislative body, communications with any other government official or employee who may participate in the formulation of the legislation, and direct communications of information between the organization and its members as long as the legislative matters involved directly affect a charitable purpose of the organization. However, of the 20 percent generally permitted under the bill, an amount equal to 5 percent of the organization's charitable disbursements could be devoted to attempts to influence the general public ("grassroots lobbying") and attempts to influence legislation not directly relating to a charitable purpose of the organization.

The bill makes clear that there are no restrictions on an organization's making available the results of nonpartisan analysis, study or research, providing technical assistance to a governmental body or committee on written request, or lobbying activities in regard to matters that might affect the existence of the organization, its exempt status, or the deduction for contributions to it.

Under the bill organizations may choose to remain under present law. Election to have the new provisions apply would be made as prescribed by Treasury. Such an election would be effective for all taxable years ending after the election and beginning before the earlier of the date on which the election is revoked or the date on which the organization ceases to be the type of organization described in the bill.

The bill would also deny the section 170 deduction for contributions "for the use of" an organization if made for the purpose of influencing legislation.

Exhibit 50.—Statement by Assistant Secretary Cohen, May 8, 1972, before the House Committee on Ways and Means in support of H.R. 12272, the Individual Retirement Benefits Act of 1971

I appreciate the opportunity of appearing before you in support of H.R. 12272, the Individual Retirement Benefits Act of 1971. This bill embodies the President's proposals for reforming and expanding the private means for assuring retirement security for older Americans.

We have prepared and will submit for the record a technical explanation of the bill together with certain proposed amendments of a technical nature.

Briefly, H.R. 12272 would: (1) Provide an income tax deduction for retirement savings by employees who are not covered by employer-financed plans or who participate in plans with inadequate benefits; (2) provide minimum standards for the vesting of benefits under qualified pension and profit-sharing plans and for participation in those plans; and (3) raise the limits on deductible contributions that may be made to retirement plans established by self-employed individuals.

The private pension system is a vital supplement to our social security and old age assistance programs. As the President said in his message of December 8, 1971, to the Congress transmitting these proposals:

"The achievements of our private pension plans are a tribute to the cooperation and creativeness of American labor and management. Over 4 million retired workers are now receiving benefits from private plans and these benefits total about \$7 billion annually. More than \$140 billion has been accumulated by these plans to pay retirement benefits in the future. But there is still much room for expanding and strengthening our private pension system."

Employee deductions for voluntary retirement savings

About half of the full-time, private nonagricultural adult work force is covered by existing retirement plans, and the average annual private pension benefit is about \$1,600. Unfortunately, the other half is not covered today, and many of those covered do not have sufficient retirement benefits. We believe it is of prime importance to offer a remedy for the millions of employees who are not covered or are inadequately covered by employer plans. The bill before you would do this by providing income tax benefits to encourage and assist these employees to save for retirement.

Under present law employer contributions on behalf of an employee made to a private qualified retirement plan, and the investment earnings on these contributions, are generally not subject to tax until paid to the employee or his beneficiaries. The tax is deferred even if the employee's rights to receive these amounts become nonforfeitable before the payment is made. Employee contributions to employer plans are currently subject to tax as made (that is, no income tax deduction is allowed), but tax on the investment earnings on such contributions is deferred. Yet amounts saved independently for retirement by an individual employee, as well as investment earnings on those savings, are taxed currently as they are earned, for no deduction is allowed for the amount set aside for retirement savings and the investment earnings are taxed as earned.

As a consequence, present law discriminates substantially against those individuals who do not participate in employer-sponsored qualified plans or who participate in plans providing small benefits.

Under the bill before you, employees not covered by employer plans would be allowed to establish their own qualified retirement plans and take an income tax deduction for contributions up to 20 percent of their earned income that does not exceed \$7,500. Thus the maximum deduction would be \$1,500. As is the case under existing law for qualified pension plans, investment earnings on these contributions would be exempt from tax. Amounts distributed from the plan after retirement would be treated as income to the employee at that time; the tax is usually less after retirement because income is reduced and higher exemptions are accorded to persons age 65 and over. There would be restrictions against early withdrawals, as is the case under existing law for self-employed individuals, and penalties for violation of the restrictions to insure that the contributions are used to provide retirement income.

The proposal would extend also to employees who are covered by employer-financed plans to assist those employees if the employer contributions are not adequate to provide sufficient retirement earnings. To accomplish this the limit on the amount deductible by the employee would be reduced to reflect pension plan contributions made by the employer. For this purpose, the employee can assume that employer contributions amount to 7 percent of his earnings, but he would be permitted to show, under regulations that would be provided, that the employer contributions were in fact a lesser amount if such were the case.

In the case of employees who are not covered by social security (such as certain government employees), a deduction would be allowed for contributions only to the extent that they exceed the assumed amount of social security tax that would be imposed in employment covered by social security.

Individuals would be permitted to invest their retirement savings in a broad range of assets including stocks, corporate or government bonds, savings accounts, mutual fund shares, annuity and other life insurance contracts. Participants in qualified employer-sponsored retirement plans could make their investments for retirement savings in contributions to these plans. To permit transfers of retirement savings from one type of investment to another, no penalties or other tax consequences would result if the amount withdrawn were redeposited in another qualified plan within 60 days.

The proposed limitations on the amount of deductible contributions direct the tax benefit primarily to low- and moderate-income workers. Yet the permitted contributions would provide substantial amounts of retirement income. For example, contributions of \$1,500 annually beginning at age 40 would provide for males at age 65, assuming a 5-percent investment return, a retirement income of \$7,500 to supplement social security benefits. (See table I.)

TABLE I

The table below shows the annual pensions beginning at age 65 that would be financed by annual contributions of \$1,500 beginning at ages 40 through 60.

Age when \$1,500 contributions begin :	Annual pension beginning at age 65*
40 -----	\$7, 500
45 -----	5, 200
50 -----	3, 375
55 -----	1, 950
60 -----	900

*Pensions are straight-life pensions for males payable in monthly installments. A 5-percent interest rate is assumed.

The permitted contribution level is not so high, however, as to undermine the incentive in existing law for the creation and maintenance of employer-financed retirement plans that cannot discriminate in favor of employees who are officers, shareholders, or supervisory or highly compensated employees. The employer-established nondiscriminatory plan is the heart of the present private pension system and should be maintained.

We estimate that approximately 14 million individuals will be eligible to benefit from this proposal for deductible employee contributions. The revenue cost of the proposal is estimated at \$300 million in the first year of operation, rising to an estimated \$480 million in the fourth year. It is estimated that 70 percent of the tax benefits will go to persons with incomes below \$15,000.

Vesting requirements and the proposed Rule of 50

Under existing law many employees now covered by pension plans and expecting retirement benefits could lose these benefits if they were separated from their jobs, either voluntarily or involuntarily, prior to retirement. The loss of expected retirement benefits accompanying termination of employment can represent a grievous personal tragedy, especially in the case of older workers.

Vesting—the right to receive retirement benefits even though the employee terminates employment before retirement—does not now exist for many plan participants. Under present law except in certain plans created by self-employed persons, vesting is not required except to the extent it is necessary to prevent discrimination in favor of officers, stockholders, and supervisory and highly compensated employees.

Almost 70 percent of participants in all corporate pension plans today are not vested. This percentage, of course, includes many young employees with short service. Many of them will remain with their current employers and later obtain vested rights. Many of them, because they are young, will have opportunity to obtain vested rights if they move on to other employment and participate in other pension plans. We should look more properly at older workers for whom the matter of retirement security is essential.

With respect to age of employees participating in retirement plans today, we find that 40 percent of participants age 45 or more are not vested, 34 percent of participants age 50 or more are not vested, and 26 percent of participants age 55 or more are not vested. This degree of forfeitable benefits among older workers is critical. If these older workers terminate employment, voluntarily or invol-

untarily, they will not have the same opportunities to obtain vested rights as younger workers.

With respect to years of service we find that 13 percent of participants are in plans which provide no vesting whatsoever before retirement. More than half of pension plan participants are required both (a) to have at least 15 years of service and (b) to have reached age 45 before at least 50 percent vesting occurs.

We have studied in depth many different possibilities as to vesting requirements and have developed and recommend to you for adoption a standard known as the Rule of 50. Under this rule an employee's benefits must be at least 50 percent vested when the sum of his age and years of plan participation equals 50. In the following five years the percentage vested would have to increase ratably until the end of the 5-year period after he has satisfied the Rule of 50, at which time his benefits would be fully vested.

As an illustration, a worker who begins to participate in a plan at age 30 would become 50 percent vested when he reached age 40 because his then age (40) plus years of participation (10) would equal 50; and his benefits would be fully vested five years later when he reached age 45.

Similarly, a worker who begins to participate at age 40 would become 50 percent vested at age 45 (age 45 plus five years' service equals 50) and would become fully vested five years later at age 50. (See table II.)

TABLE II.—VESTING STANDARD

Rule of 50:—

50 percent vested when age plus years of participation in a plan equal 50; 10 percent more each year thereafter.

Participation must start within 3 years after hiring.

All those 30 or over must be eligible to participate.

Effect of rule:

<i>A worker who begins participating at age</i>	<i>Vests 50 percent at age</i>	<i>After participating for (years)</i>	<i>And is 100 percent vested at age</i>	<i>After participating for (years)</i>
30	40	10	45	15
40	45	5	50	10
50	50	0	55	5

To complement the vesting proposal, the bill provides minimum service and age standards for eligibility to participate in a qualified plan. An employer would be permitted to exclude from plan participation an employee who has less than 3 years' service or who has not attained age 30, but he could not impose any stricter requirement for minimum age or minimum years of service. In addition, an employer would not be required to cover an employee who first becomes eligible to participate after he has attained an age within 5 years of normal retirement age under the plan. Thus, if normal retirement age is 65, employees who are older than 60 when they first satisfy the other eligibility requirements would not have to be allowed to participate.

The Rule of 50 would be a major step in assuring pension benefits, particularly among older workers. Overall, it would raise the number of participants with vested rights from 31 percent of all participants to 46 percent of all participants. But more important among participants age 45 and over the percentage with vesting would rise from 60 percent to 92 percent. Thus the Rule of 50 would assure vesting of retirement benefit rights for virtually all older plan participants.

Because it concentrates particularly on the vesting problem of the older employee, the cost of the Rule of 50 is modest. We estimate it would raise overall pension costs by about 0.3 percent of covered payroll. For plans currently providing no vesting before retirement, we estimate it would increase plan costs by about 0.4 percent of covered payroll.

The limited cost involved in this solution to the vesting problem is important because to the extent employer contributions must be allocated to the cost of vesting, the level of retirement income that can be provided under the plan will be reduced for those who remain employed until they retire. A balance must be struck between the various considerations. We believe the Rule of 50, which protects primarily the older worker without increasing cost unduly, strikes the proper balance. Other vesting proposals that have been advanced and that we have studied carefully are more costly and do not concentrate as well on the problem of the older worker. (See tables III and IV.)

TABLE III.—COMPARISON OF BENEFITS FROM 50 PERCENT VESTING OR BETTER
[Millions of persons]

Age	Current situation		10-year service	Rule of 50
	Total participants	Percent vested	Percent vested	Percent vested
Under 30.....	6.3	1.6	3.2	1.6
30-40.....	5.3	13.2	35.8	15.1
40-45.....	3.0	36.7	60.0	56.7
45-50.....	2.9	44.8	65.5	75.8
50-55.....	2.5	56.0	76.0	100.0
55-60.....	2.0	70.0	85.0	100.0
60 and over.....	1.5	80.0	86.7	100.0
Total.....	23.5	30.6	45.5	45.9

TABLE IV.—COMPARISON OF VESTING COSTS

[Current service only]

	Rule of 50	10 year service	Vesting at 10 percent per year beginning year 6
All private pension plans:			
Percentage increase of plan costs.....	5.0	8.6	11.1
Percentage increase of payroll costs.....	.3	.5	.6
Increased costs in cents per hour per employee.....	1.5	2.5	3.2
Private pension plans with no vesting:			
Percentage increase of plan costs.....	8.0	14.0	18.0
Percentage increase of payroll costs.....	0.4	0.7	0.9
Increased costs in cents per hour per employee.....	1.8	3.2	4.1

We have carefully considered the question whether the Rule of 50 could seriously affect the hiring of older employees and have concluded that it would not do so. We find that the discounted single-premium cost of providing \$100 of retirement income for a worker age 55 is \$570 if no vesting is provided, and the cost rises only \$15 to \$585 if the Rule of 50 is operative. The increase is greater for younger workers; for example, at age 35 the cost is \$125 without vesting and \$155 under the Rule of 50. The reason for this is that the employee turnover rate is considerably higher at the younger age levels than at the older. (See table V.)

The proposed Rule of 50 would apply fully to all plans established after November 30, 1971. But for plans existing on that date the rule generally would apply to benefits accrued beginning in 1974 or upon expiration of current collective bargaining agreements. However, plan participation prior to 1974 would be considered in meeting the age and participation test.

TABLE V.—EFFECT OF RULE OF 50 ON HIRING OF OLDER EMPLOYEES

1. Employer's discounted cost of promising \$100 pension at age 65 to an employee:

Age	Without vesting	Under Rule of 50
25	\$20	\$30
35	125	155
45	310	340
55	570	585

—Assumes straight-life annuity for males, with assets invested at 5 percent.

—Assumes typical employee turnover rate (for example, 85 percent of employees age 25 will leave their present employment before age 65; only 3 percent of those age 55 will leave).

2. Employees hired within 5 years of retirement need not be vested.

3. Participation need not begin until 3 years after hiring.

Vesting in plans of the self-employed.—Under present law a plan benefitting a self-employed person must include any employee with at least 3 years of service, and his rights must be fully vested. The vesting and participation rules result in vested rights for many young workers who have short periods of service. Their benefits are generally small and the administrative costs of handling these cases are relatively high. We recommend some relaxation of these requirements.

The proposed legislation would provide that in self-employed retirement plans an employee would become 50 percent vested when he qualified under a Rule of 35; i.e., when his age plus years of participation total 35. As in the case of the Rule of 50, his vesting would increase to 100 percent ratably over the following 5 years. An employee could be required to have at least 1 year's service before being eligible to participate in the plan, or 2 years' service if he is between age 30 and age 35, or 3 years' service if he is under age 30.

Thus under present law, in the case of plans established by self-employed persons, an employee hired at age 20 must begin to participate and become fully vested at 23. Under the proposed legislation he must begin to participate at 23, must become 50 percent vested at 29, and fully vested at 34. An employee hired at 35 would become 50 percent vested at 36, when he begins to participate, and fully vested at 41.

Vesting and eligibility in plans of closely held firms.—There is now uncertainty and variation in administrative practice with respect to vesting and eligibility requirements in determining whether a plan of a closely held firm satisfies the nondiscrimination requirements of present law. The bill would authorize the Treasury to set forth in regulations consistent rules regarding the circumstances in which shorter service requirements and more rapid vesting would be required. These regulatory requirements could not be more restrictive than the statutory requirements that would be imposed on plans benefitting self-employed persons who are owner-employees.

Increase in contribution limits for the self-employed

Present law limits contributions to qualified pension and profit-sharing plans made by self-employed individuals. The self-employed are subject to a limit of the lesser of 10 percent of earned income or \$2,500 on deductions for retirement savings. No such limits apply to employer contributions on behalf of corporate employees. As a consequence, corporate executives and corporate owner managers have substantial tax benefits as compared with self-employed persons. Yet corporate owner-managers and self-employed typically perform the same economic function. This and other disparities have discouraged the formation of self-employed plans and encouraged many self-employed individuals to incorporate their businesses simply to avoid these limitations.

To reduce this inequity the bill would raise the deduction limit for the self-employed to 15 percent of the first \$50,000 of earned income, a maximum deduction of \$7,500. The limitation of section 1379(b) on excludable contributions on behalf of shareholder-employees of subchapter S corporations would also be increased to this level.

We estimate that this proposal would involve a revenue cost of \$55 million in the first year of operation, rising to \$110 million in subsequent years.

The proposal would reduce considerably the tax motivation to incorporate. In addition, it would promote the growth of self-employed plans and have a beneficial impact on the coverage of employees in unincorporated enterprise and on their level of benefits.

Plan terminations

The bill does not deal with the issue of loss of employee benefits due to plan terminations. The administration recognizes the seriousness of the possibility that an employee can lose part or all of his retirement benefits—even vested benefits—as a result of a plan termination. As the President stated in his message of December 8, 1971, "Even one worker whose retirement security is destroyed by the termination of a plan is one too many."

However, there is not sufficient information available at present to formulate appropriate Federal policy in this area. Plan terminations do not necessarily result in benefit losses. We do not have sufficient data as to how many plans terminate with benefit losses nor in what circumstances these terminations occur. Nor do we know the number of workers who are affected and the degree to which they are harmed by plan terminations. Without this information no reasonable basis exists for deciding Federal policy on these issues.

To meet this need for information the President stated in his message of December 8, 1971, that he has directed the Departments of Treasury and Labor to make a thorough study of the nature and extent of benefit losses resulting from plan terminations and to complete this study within 1 year. The study has been underway since the beginning of January. Information from the study will be used in designing the specific legislative proposals that may be required to resolve this problem.

Employee Benefits Protection Act

We call to the attention of the committee that in March 1970 the President also sent to the Congress a recommendation for enactment of the Employee Benefits Protection Act. That legislation would provide important necessary rules with respect to nontax matters relating to the responsibilities of persons who administer pension funds. It would broaden reporting and disclosure requirements and strengthen investigation and enforcement practices. Although that legislation is not pending before this committee, we trust it will soon receive the attention of the Congress and become law.

International Financial and Monetary Developments

Exhibit 51.—Remarks by Secretary Connally as Governor for the United States, September 30, 1971, at the joint annual discussion of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates

After a remarkable quarter century of stability and development, nurtured by close collaboration within the International Monetary Fund and the World Bank, events have challenged the underlying premises and functioning of the system devised at Bretton Woods. Some of those basic premises are now invalid.

Those at Bretton Woods planned for the transition from a war-torn world to a world of reconstruction and peaceful prosperity. The founders could assume, without challenge, a world in which the United States for a time possessed the dominant economic and financial power. The challenging goal was to rebuild the strength of others in a context of flourishing trade, freedom for payments, and rapid development.

Now our very success has produced new problems. Trade has grown enormously, but the patterns have not been in sustainable balance. International transactions have been substantially freed and investment accelerated, but we have not learned to maintain an equilibrium in underlying payments or in exchange markets. And, after 25 years, international monetary stability can no longer depend so heavily on a single nation.

The announcements by President Nixon on August 15 recognized these long-building realities. In doing so, his intention was to launch the United States into a new economic era and to assure more balanced and sustainable economic relationships with the rest of the world. His actions accept, as a basic point of departure, the links already emphasized here by several Governors between effective domestic performance, a secure balance of payments, and international financial stability.

We are committed to curbing inflation and revitalizing the American economy—not just this year or next but for the longer pull. We are committed to ending the persistent deficit in our external payments; indeed, at this point in time, the only choice can be the means to that end, not the end itself. Finally, in taking the difficult decision to suspend the convertibility of the dollar into reserve assets, we are committed to negotiating with our friends for a monetary order responsive to the needs and conditions of this generation.

The United States has not been alone among the countries represented here in grappling with the problem of achieving vigorous growth and productivity while dealing with the destructive forces of domestic inflation.

To cope with this situation, President Nixon moved boldly to apply a 90-day wage-price freeze to make a simple point as forcibly and directly as he could: Cooperation in the elimination of inflation is a prime national priority.

We are now deeply engaged in a broad effort involving all elements in our economy to develop an effective, forceful, follow-on program to the freeze. In a matter of weeks, that program will be announced. At the same time, we will be

implementing other parts of the President's domestic program to assure both near-term growth and lasting gains in efficiency, productivity, and technology.

In its entirety this program is designed to fulfill our first obligation both to ourselves and to the international monetary system: a stable, prosperous domestic economy.

Nevertheless, crucial as they are, I believe it is now fully understood that domestic measures alone cannot deal with the present and prospective imbalance in the external payments of the United States. The specific monetary and trade measures which we introduced on August 15—including the imposition of a temporary import surcharge—will not in themselves solve the problem. They were, however, the necessary first steps to arrest an intolerable deterioration in the balance of payments position of the United States. The deterioration in our position has, of course, had its counterpart in improvement abroad, and only by working together can we find solutions conducive to expanding trade and monetary stability.

I would like to emphasize the connection we see between the balance of payments adjustment now required, on the one hand, and the long-range evolution and improvement of the monetary system on the other.

First, without a full and lasting turnaround in the balance of payments position of the United States, any new monetary arrangements inevitably would break down.

Second, such a turnaround cannot be fully assured and lasting unless necessary exchange rate changes are accompanied by trading arrangements that assure fair access to world markets for U.S. products.

Third, a more balanced sharing of responsibilities for the security of the free world can and must be a part of a balanced economic order.

These adjustments are both entirely feasible and eminently desirable in the light of the impressive economic growth and strength of other leading trading nations. Indeed, we believe our objectives are shared by all nations with a fundamental interest in a stable and balanced world trading and monetary system. We also share a common concern in seeing our deficit eliminated by means consistent with open economies and expanding trade.

We do not underestimate the difficulties of the process, but I am in no way disheartened or surprised by the absence of instant solutions in the 6 weeks since the President's action. The simple fact is that progress is being made. In contrast to early August, I believe there is explicit and general recognition that: We face together an adjustment problem of substantial magnitude; there is a need for a broad realignment of relative currency values; measures outside of the exchange rate field are a factor in restoring lasting strength in the U.S. balance of payments; for the longer run, the international monetary system requires far-reaching reform including a lesser role, at the least, for gold.

Indeed, we are now launched into an agreed program of work toward a solution in all these areas as soon as feasible.

Much can be done in bilateral and multilateral negotiations in the weeks ahead.

We are all gratified, I believe, that we have progressed this far. But none of us, at least I don't, mistake progress in understanding and agreement on procedures for the hard policy decisions necessary for a satisfactory solution. Much difficult work remains, both of an urgent and of a painstaking nature.

As you know, the United States has made explicit its own analysis of the needed turnaround in our own balance of payments position. It reflects the hard fact of a substantial underlying adverse trend in our trade position.

Some have urged that the adjustment sought by the United States is too large. We are told time is of the essence. It is said we must be satisfied with an admittedly partial solution lest restrictions and even retaliation begin and recessionary forces take hold. At the same time, we are told that the quick and partial solution must entail a change in the official dollar price of gold and that our surcharge must be removed as a prelude to negotiations.

We can fully appreciate the expressed concerns. We also fully understand that our surcharge—while applied across the board in a nondiscriminatory way—as a practical matter affects products and countries unevenly. We are conscious of the political sensitivities of decisions on exchange rates. Yet, in the interest of frankly discussing the issues, I must say plainly that we find a certain inconsistency between the expressed concerns and the proposed remedies.

A change in the gold price is of no economic significance and would be patently

a retrogressive step in terms of our objective to reduce, if not eliminate, the role of gold in any new monetary system. Removal of the surcharge, prior to making substantial progress toward our objectives, would accomplish nothing toward correcting the balance of payments deficit. Nor can measures by others to resist exchange rate realignment or other adjustment measures by controls, restraints, or subsidies help the process of resolving the situation promptly and effectively.

We must find more timely and constructive ways to meet these economic and negotiating problems—to avoid the contentious issue of the gold price, to achieve the earliest possible removal of the surcharge, and to help determine the size and distribution of the needed exchange rate realignment. Faced with these difficulties, I believe we should welcome the help that the market itself can provide in reaching crucial decisions.

Many nations already are allowing their currencies temporarily to float, but they have done so with widely varying degrees of intervention and controls. As a result, some adjustments clearly needed are being delayed or thwarted, the process of multilateral decisionmaking impeded, and political questions multiplied. In this respect, our surcharge and restrictions on capital flows could, like those applied by other countries, themselves be a disturbing influence.

If other governments will make tangible progress toward dismantling specific barriers to trade over coming weeks and will be prepared to allow market realities freely to determine exchange rates for their currencies for a transitional period, we, for our part, would be prepared to remove the surcharge.

This would provide one possible path for moving expeditiously, reversing any tendency to maintain and extend restrictive trade and exchange practices and to provide more satisfactory arrangements for settling individual transactions, consistent with the resolution that has been proposed to the Governors.

I recognize that floating rates will not necessarily, over any short time period, indicate a true equilibrium. I also know full well from experience that the present fixed rate system has failed to maintain an equilibrium, and we need assistance, during this difficult transitional period, from the objective, impersonal forces of the market place in making decisions.

In any event, we will continue to work in detailed and frank negotiations, bilaterally and multilaterally, to seek agreement on appropriate measures which may most fruitfully achieve and maintain the needed adjustments. This will lay the foundation for constructive consideration of the longer-term problems of our trading and monetary arrangements.

I am following with great interest the suggestions of other Governors concerning the shape of the future world monetary system. These comments bear out what President Nixon said on August 15 regarding the need for a new monetary system. Chairman Schiller forcefully pointed out at the start: We cannot expect or wish simply to go back to the old and familiar.

In contrast to the world that faced the architects at Bretton Woods, there is a far greater balance of strength, particularly among the North American, the European, and Japanese economies. This development—so welcome in its own right—in turn calls for a different and more symmetrical balance of opportunities and responsibilities.

We and the world had grown accustomed to U.S. deficits. The counterpart of those deficits were rather persistent surpluses for others, and those surpluses helped satisfy the individual goals of other countries. But a monetary system dependent on U.S. deficits is no longer tolerable, economically, financially, or politically, for you or for us.

The implications are fundamental. A return to specified parities without U.S. deficits will require ample alternative sources of official liquidity, internationally managed and controlled. There must be arrangements for adequate exchange rate flexibility, available to all countries, to help maintain a reasonable payments balance. There must be means—more effective than those incorporated in the Fund Agreement at present—of encouraging timely and appropriate action by surplus countries which escape the financial pressures forcing adjustment on deficit countries.

There is another area in which we are, in a sense, victims of our own progress. As economies have become more closely intertwined, as international capital markets become more effective and efficient, and as controls and restrictions are reduced, the potential for volatile and disturbing capital flows expands enormously. This had already been a matter for international consideration before August 15 and for considerable comment at this meeting.

If not yet unanimously acceptable, substantially wider margins are already viewed as a necessary part of any establishment of new parities. Other difficult questions concern the mix of national fiscal and monetary policies, joint or coordinated action in international money markets, and the proper role, if any, for limited restrictions on financial intermediaries—always keeping in the forefront the fundamental need of free and competitive markets to serve the needs of traders and investors.

A number of speakers have already emphasized that whatever the particulars of new monetary arrangements a fundamental need will remain for fair, widely understood, and enforceable international codes of conduct in trade and monetary matters. I share that emphasis. The further corollary is that the International Monetary Fund itself should play a central role in developing and monitoring such codes.

Discussions of these matters have now been launched not only in the Executive Board but in the Group of Ten. In emphasizing the need for these discussions, I also note these matters are of direct interest not only to large and highly developed countries but to that wider spectrum of Fund membership ready and able to assume a share of the responsibility for maintaining an effective monetary system.

While dealing with the monetary system as a whole, we shall for our part also proceed with the associated task of dismantling unfair barriers to trade and impediments, including our own, to the free flow of long-term capital.

We will also need to deal with many questions bearing more specifically upon the economic well-being of developing countries. My Government particularly welcomes the discussion at this meeting and elsewhere of the pressing problems posed by population trends in much of the world, the new emphasis on nutritional and environmental concerns, and the more careful consideration of the implications of external debt burdens.

We are impressed by the growing scope of the traditional activities of the World Bank and its affiliates under the able leadership of President McNamara. President Nixon has called for an increase in the emphasis that we, ourselves, give to multilateral institutions in our development assistance effort, and we plan to continue that process.

The high levels of lending by the World Bank Group are supported for the most part by Bank borrowing in the developed countries. Twenty-five years of activity has encouraged increased direct financial support by all developed countries, and I hope other nations will continue to open their capital markets to the Bank.

As the level of activity expands, the Bank must take even more care with the efficiency and effectiveness of its operations and must question old premises. It is in this light that I welcome the evaluation efforts being undertaken by the Bank. It is important not only that we ensure that the Bank Group processes projects quickly and efficiently but also that its funds have their planned impact—including assurance that these resources are reaching all the people of the developing countries.

As the World Bank Group further develops its ambitious plans, I must also speak frankly of our own situation and intentions. I can do so explicitly with respect to the pending replenishment of the International Development Association, without which the plans for the years ahead will be gravely impaired.

We firmly support that replenishment. In reducing our total of assistance by some 10 percent over the current fiscal year, we mean to avoid any reduction in that major commitment. Within our constitutional system, however, IDA replenishment requires, but has not yet received, congressional approval. The fundamental sympathy and support of the Congress for IDA over the years has, I believe, been amply demonstrated. Nevertheless, Congress will have to be convinced, as never before, that: First, this development assistance efficiently serves to promote growth in the developing world; and second, that our own situation will strengthen to the point where this and other burdens on our payments can be safely assumed.

All these official efforts must be supplemented by flows of private capital. I am disturbed when I see instances of developing countries treating private investment in a manner not accepted by international law. In a world already short of capital to meet pressing demands, the adverse effects on the investment climate of such practices are bound, in a very tangible sense, to deny real benefits to the people. The damage in reducing the flow of capital can extend beyond the parties immediately involved to other potential investors or recipients of funds.

It is in this context that the United States firmly supports the creation of the proposed International Investment Insurance Agency. The maintenance of a healthy climate for private investment in those countries which recognize the important role such investment can play has become a matter of concern for all such nations. The interest in this proposal at last year's meeting has not yet produced a result. I am hopeful that a new resolve and firmer commitment to this idea by both developed and developing countries will produce agreement in the coming year.

A logical complementary development would be more active reliance on the Center for the Settlement of Investment Disputes. Of course, the policies of the World Bank itself, in situations when existing foreign investments are unfairly treated, will importantly affect the future climate for the flow of public development assistance as well as for foreign private investment.

In conclusion, I would only reiterate we have a large agenda before us. We all know the present situation has both risk and opportunity.

We should not fear the one nor fail the other.

With the same vision that motivated those at Bretton Woods, we can build a better monetary and trading world.

With wisdom, we can devise monetary arrangements that combine an essential stability with the capacity to adapt.

With courage, we can move together to reduce restrictions on trade and payments, in recognition of our mutual dependence.

With patience, we can work together, finding a balance of opportunity and responsibility for rich and poor alike that fits the imperatives of today's world.

These qualities are present in the men who have come to Washington this week and in the governments they represent. You can be sure the United States will join you in the vanguard of the effort. In this sure knowledge, I look ahead with confidence.

**Exhibit 52.—Communique of the Ministerial Meeting of the Group of Ten,
December 17-18, 1971, Washington, D.C.**

1. The Ministers and Central Bank Governors of the 10 countries participating in the General Arrangements to Borrow met at the Smithsonian Institution in Washington on 17th-18th December 1971, in executive session under the chairmanship of Mr. J. B. Connally, Secretary of the Treasury of the United States. Mr. P.-P. Schweitzer, the Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the president of the Swiss National Bank, Mr. E. Stopper, and in part by the Secretary-General of the OECD, Jonkheer E. van Lennep, the General Manager of the Bank for International Settlements, Mr. R. Larre, and the vice president of the Commission of the EEC, Mr. R. Barre. The Ministers and Governors welcomed a report from the Managing Director of the Fund on a meeting held between their deputies and the Executive Directors of the Fund.

2. The Ministers and Governors agreed on an interrelated set of measures designed to restore stability to international monetary arrangements and to provide for expanding international trade. These measures will be communicated promptly to other governments. It is the hope of the Ministers and Governors that all governments will cooperate through the International Monetary Fund to permit implementation of these measures in an orderly fashion.

3. The Ministers and Governors reached agreement on a pattern of exchange-rate relationships among their currencies. These decisions will be announced by individual governments, in the form of par values or central rates as they desire. Most of the countries plan to close their exchange markets on Monday. The Canadian Minister informed the Group that Canada intends temporarily to maintain a floating exchange rate and intends to permit fundamental market forces to establish the exchange rate without intervention except as required to maintain orderly conditions.

4. It was also agreed that, pending agreement on longer term monetary reforms, provision will be made for $2\frac{1}{4}$ percent margins of exchange rate fluctuation above and below the new exchange rates. The Ministers and Governors recognized that all members of the International Monetary Fund not attending the present discussions will need urgently to reach decisions, in consultation with the International Monetary Fund, with respect to their own exchange rates. It was the view of the Ministers and Governors that it is particularly important

at this time that no country seek improper competitive advantage through its exchange rate policies. Changes in parities can only be justified by an objective appraisal which establishes a position of disequilibrium.

5. Questions of trade arrangements were recognized by the Ministers and Governors as a relevant factor in assuring a new and lasting equilibrium in the international economy. Urgent negotiations are now underway between the United States and the Commission of the European Community, Japan, and Canada to resolve pending short-term issues at the earliest possible date and with the European Community to establish an appropriate agenda for considering more basic issues in a framework of mutual cooperation in the course of 1972 and beyond. The United States agreed to propose to Congress a suitable means for devaluing the dollar in terms of gold to \$38 per ounce as soon as the related set of short-term measures is available for congressional scrutiny. Upon passage of required legislative authority in this framework, the United States will propose the corresponding new par value of the dollar to the International Monetary Fund.

6. In consideration of the agreed immediate realignment of exchange rates, the United States agreed that it will immediately suppress the recently imposed 10 percent import surcharge and related provisions of the job development credit.

7. The Ministers and Governors agreed that discussions should be promptly undertaken, particularly in the framework of the IMF, to consider reform of the international monetary system over the longer term. It was agreed that attention should be directed to the appropriate monetary means and division of responsibilities for defending stable exchange rates and for insuring a proper degree of convertibility of the system; to the proper role of gold, of reserve currencies, and of Special Drawing Rights in the operation of the system; to the appropriate volume of liquidity; to reexamination of the permissible margins of fluctuation around established exchange rates and other means of establishing a suitable degree of flexibility; and to other measures dealing with movements of liquid capital. It is recognized that decisions in each of these areas are closely linked.

Exhibit 53.—Proclamation by President Nixon, December 20, 1971, terminating additional duty for balance of payments purposes

WHEREAS, in order to impose a surcharge required by the balance of payments position of the United States, Proclamation 4074, dated August 15, 1971, terminated in part for such period as necessary prior Presidential proclamations insofar as such proclamations were inconsistent with, or proclaimed duties different from, those made effective pursuant to the terms of Proclamation 4074;

WHEREAS, a multilateral agreement has been reached among the Group of Ten major industrial nations which permits removal of the surcharge;

WHEREAS, under section 350(a)(6) of the Tariff Act of 1930, as amended (hereinafter referred to as "the Tariff Act"), and section 255(b) of the Trade Expansion Act of 1962 (hereinafter referred to as "the TEA"), and other authority, the President may, at any time, terminate, in whole or in part, for such period as may be necessary, any proclamation, issued pursuant to section 350 of the Tariff Act or Title II of the TEA;

WHEREAS, under section 350(a)(1)(B) of the Tariff Act and section 201(a)(2) of the TEA, the President may proclaim modifications of any existing duty as he determines to be required or appropriate to carry out trade agreements entered into under the authority of those acts; and

WHEREAS, I hereby determine that modification of existing duties to restore the rates of duty applicable on August 15, 1971, terminated in part for such period as necessary by Proclamation 4074, is required or appropriate to carry out such trade agreements;

NOW, THEREFORE, I, RICHARD NIXON, President of the United States of America, acting under the authority vested in me by the Constitution and the statutes, including, but not limited to, the Tariff Act, and the TEA, respectively, do proclaim as follows:

A. I hereby terminate paragraphs B and C of Proclamation 4074.

B. I hereby proclaim such modification of duties as is necessary to restore the rates of duty in effect on August 15, 1971.

C. To implement this proclamation, the subpart inserted after subpart B of part 2 of the Appendix to the Tariff Schedules of the United States, entitled

"SUBPART C—TEMPORARY MODIFICATIONS FOR BALANCE OF PAYMENTS PURPOSES" is deleted therefrom.

D. This proclamation shall be effective with respect to merchandise entered, or withdrawn from warehouse, for consumption on or after December 20, 1971.

IN WITNESS WHEREOF, I have hereunto set my hand this twentieth day of December in the year of our Lord nineteen hundred and seventy-one, and of the Independence of the United States of America the one hundred and ninety-sixth.

RICHARD NIXON.

Exhibit 54.—Press release, February 11, 1972, announcing the results of recent trade negotiations between the United States and the European Community, and a joint statement on international economic relations issued jointly February 9, 1972, by the United States and Japan on results of recent trade negotiations between the two countries

Secretary of the Treasury John B. Connally said today, "The new agreement announced this morning between the United States and the European Community is a step forward in the effort to assure fair trade practices, an effort that began with President Nixon's announcement of last Aug. 15.

"The agreement reflects the diligence and effective effort of many in the Government, but I wish to pay special tribute to the efforts of Ambassador William D. Eberle, the President's special representative for trade negotiations, who carried the prime responsibility for the negotiation in its latter stages."

A declaration between the United States and the European Community states their agreement to initiate and support a comprehensive review of international economic relations including all elements of trade as well as a commitment to continue solving problems in 1972 in the General Agreement on Tariffs and Trade (GATT). The declaration is attached for your information.

As a beginning in solving trade problems and opening markets for expanding trade, certain short-term measures were also agreed to.

The United States informed the European Community that it is the intent of its domestic farm programs to add to stocks 10 percent of its production of grains in the 1971-72 crop year. For the 1972-73 crop year these programs provide measures intended to bring about the withdrawal of 18 million acres from production of feedgrains and 8 million acres from production of wheat.

The European Community will add 1.5 million metric tons to normal carryover stocks of wheat which had previously been estimated to total 2.4 million metric tons. For 1972-73 the Community is also prepared to make an effort in stocks in the area of grains. The amount of the stocks will be determined by the situation of the market, which will be the subject of discussions to take place at the appropriate time. The Community will until the end of the 1971-72 crop year operate its system of export payments on grains so as not to divert trade in its favor.

The European Community intends to ensure that the eventual common market tax system for manufactured tobacco will be neutral, will enable broader competition, and will be reasonable and balanced for all interests concerned. The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products. The Community announced that for the coming 2 years the duty applicable to imports of fresh summer oranges from the United States and other non-preferential suppliers will be reduced from 15 percent to 5 percent during the major part of the U.S. export season (June 1-September 30). The duty applicable to nonpreferential imports of grapefruit will be reduced from 6 percent to 4 percent for the period April 1, 1972-December 31, 1973. The accession treaty which the European Community recently concluded with Denmark, Ireland, Norway, and the United Kingdom is being submitted to the GATT for examination according to the procedures of that agreement. The Community has stated that it plans to furnish to the GATT, in good time, the documentation required to permit the beginning of article XXIV: 6 tariff renegotiations immediately after completion of the ratification procedures which, according to the terms of the treaty, is envisaged for December 31, 1972, at the latest.

This report on the European trade settlement was referred to in the background material submitted with Secretary Connally's letter of February 9 to the Speaker of the House on the proposed modification of the par value of the dollar.

DECLARATION

Within the framework of their negotiations, the United States and the European Community have agreed to communicate the following declaration to the Director General of the GATT for transmittal to the contracting parties. Other contracting parties are invited to associate themselves with this declaration to the extent and at the moment they would deem appropriate.

The United States and the Community recognize the need for proceeding with a comprehensive review of international economic relations with a view to negotiating improvements in the light of structural changes which have taken place in recent years. The review shall cover inter alia all elements of trade, including measures which impede or distort agricultural, raw material and industrial trade. Special attention shall be given to the problems of developing countries.

The United States and the Community undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and the ever greater liberalization of world trade and improvement in the standard of living of the people of the world, aims which can be achieved inter alia through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade. The Community states that in appropriate cases the conclusion of international commodity agreements is also one of the means to achieve these aims. The United States states that such agreements do not offer a useful approach to the achievement of these aims.

The negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.

The United States and the Community agree to initiate and support in 1972 an analysis and evaluation in the GATT of alternative techniques and modalities for multilateral negotiation of long-term problems affecting all elements of world trade.

The United States and the Community will seek to utilize every opportunity in the GATT for the settlement of particular trade problems, the removal of which would lessen current frictions, and will strive for further progress with respect to those matters now being discussed in the GATT Committee on Trade in Industrial Products and the GATT Agriculture Committee. They agree that progress in GATT in solving specific problems in 1972 could facilitate the way in the GATT for a new major initiative for dealing with longer term trade problems.

LETTER FROM U.S. REPRESENTATIVE TO EC REPRESENTATIVE, FEBRUARY 11, 1972

Dr. THEODORUS C. HIJZEN

Director General for External Trade, Commission of the European Communities, Brussels, Belgium

SIR: I herewith wish to confirm that in the course of the negotiations between the United States and the European Community the United States made known that it is the intent of its domestic farm programs to add to stocks 10 percent of its production of grains (estimated to be 231 million metric tons) in the crop year 1971/72. Moreover the United States made known that it is the intent of its farm programs to bring about the additional withdrawal of 18 million acres from the production of feedgrains and of 8 million acres from the production of wheat for the 1972/73 crop year.

The United States takes note of the Community's statement regarding the fiscal harmonization for manufactured tobacco and declares its intention to avail itself, as appropriate, of the opportunity offered by the Community to discuss this subject, without prejudice to other avenues of pursuing its interests.

The United States recognizes that the European Community accepts the principle of reciprocity and mutual advantage as a basis for solving pending issues in their economic relations and will approach problems raised by the European Community in this spirit.

Very truly yours,

For the Government of the United States of America,

(Signed) WILLIAM D. EBERLE

Special Representative for Trade Negotiations.

LETTER FROM EC REPRESENTATIVE TO U.S. REPRESENTATIVE

BRUSSELS, February 11, 1972.

[Unofficial translation]

MR. AMBASSADOR: I herewith wish to confirm that in the course of the negotiations between the European Community and the United States, the European Community stated its intention to take the following measures:

1. *Stockpiling of grains*

During the crop year 1971/72, the Community will add 1.5 million tons to its normal carryover stocks of wheat hitherto anticipated to be 2.4 million tons.

For the crop year 1972/73, the Community is equally ready to make a stockpiling effort in the area of grains.

The amount of the stockpiling will be determined by the situation of the market, which will be the subject of discussions to take place at an opportune time.

2. *Export restitutions*

In the practical implementation of its export restitutions systems for grains until the end of the 1971/72 crop year, while conforming to the rules of the common agricultural policy, the Community will take care that the system does not result in trade diversions in favor of the Community.

3. *Oranges and grapefruit*

The duty applicable to Community imports of sweet oranges (ex 08.02 A) from the United States and other MFN suppliers in the periods June 1 to September 30, 1972 and June 1 to September 30, 1973 will be 5 percent *ad valorem*.

The duty applicable to Community imports of fresh grapefruit (08.02 D) from the United States and other MFN suppliers during the period from April 1, 1972 through December 31, 1973 will be 4 percent *ad valorem*.

4. *Tobacco*

The Community declares that in establishing the fiscal system necessary for the institution of a common market from manufactured tobacco it is its intention to ensure that the fiscal imposition to be introduced be neutral, that it conform with the necessity of broader competition and that it be reasonable and balanced for all interests concerned.

The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products.

5. *Accession Treaty*

The Accession Treaty will be notified to GATT immediately upon signature. Examination of the Accession Treaty will be undertaken in the GATT according to Article XXIV procedures as soon as the texts have been transmitted to the CONTRACTING PARTIES. This examination will, as is the custom, involve all provisions of these agreements which are relevant to the competence of the GATT. The Community plans to furnish to the GATT, in good time, the documentation required to permit the beginning of Article XXIV:6 tariff renegotiations immediately after completion of the ratification procedures which, according to the provisions of the Treaty, is envisaged for the 31st December 1972 at the latest.

The European Community recognizes that the United States accepts the principle of reciprocity and mutual advantage as a basis for solving pending issues in their economic relations and will approach problems raised by the United States in this spirit.

Please accept, Mr. Ambassador, assurances of my greatest respect.

For the Council of the European Community,
(Signed) TH. C. HIJZEN

EUROPEAN COMMUNITY CONCESSIONS

Grain storage

The European Community will add 1.5 million metric tons of wheat to its normal carryover stocks. This is in addition to 2.4 million tons already earmarked for storage. For the crop year 1972-73, the Community will make a further stockpiling effort in the area of grains. The amount of the stockpiling will be determined by the situation of the market at the time and will be the subject of discussions as needed.

In 1971, European grain crops were exceptionally heavy. European grain supplies would have a depressing impact upon the international market situation if entirely moved into use or exports during the remaining months of the current season. The Community decision to add to stocks will help to balance supply and demand. Also, in view of the actions already being taken by other major grain trading countries to prevent market instability both in the current season and for the year ahead, the Community undertakings are consistent with its responsibilities in the international grain trade. Since surplus amounts of EC wheat are regularly used for animal feed in replacement of feed grains, the Community storage measures can affect the trade situation for both wheat and feed grains.

In the 1970-71 season, the Community imported almost 9 million metric tons of wheat and feed grains from the United States, valued at approximately \$500 million. The EC normally takes 15 to 20 percent of total world grain exports and, in addition, is itself a major exporter of soft wheat, wheat flour, and feed grains.

Grain prices

The Community has agreed that in the practical implementation of its export restitution systems for grains for the balance of the current 1971-72 crop year, it will take care that the system does not result in trade diversion in favor of the Community.

This undertaking recognizes that excessively high restitutions can disrupt trade patterns and cause grain exporting countries such as the United States to lose traditional market outlets. European Community corn and barley exports compete with corn and barley from the United States mainly in other markets of Western Europe, such as Spain and the United Kingdom. They are also a potential source of competition in Eastern Europe and developing markets elsewhere. Community wheat exports also compete in Western European markets such as the United Kingdom and are a potential source of competition in a large number of other traditional U.S. markets outside of Western Europe as well. The EC general export restitutions as of February 1972 are \$46 per metric ton for wheat, \$37 for barley, and \$22 for corn.

Tobacco

The European Community declares that in establishing the fiscal system necessary for the institution of a common market for manufactured tobacco products it is its intent to ensure that the fiscal imposition to be introduced be neutral, that it conform with the necessity of broader competition, and that it be reasonable and balanced for all interests concerned. The Community is ready to have discussions with the United States at an appropriate time on the question of fiscal harmonization on tobacco products.

The EC common tax system is still in the initial stages of formation. It is to be implemented in stages and be in effect by 1980 and will consist of some combination of specific and ad valorem elements; for example, the first stage formula adopted by Germany last July contains a 25 percent ad valorem element and a 75 percent specific element. To the extent that there is an ad valorem element in the final formula the retail price of cigarettes manufactured from high quality U.S.-type tobacco will be increased relative to the retail price of cigarettes manufactured from less expensive tobaccos available from EC member states and associates. Therefore, the higher the ad valorem element the greater the manufacturer's incentive to shift away from using high quality U.S. leaf and toward cheaper tobaccos grown elsewhere in the world.

Nearly one-third of U.S. tobacco exports now goes to the EC. This proportion would approach 60 percent in an enlarged Community since it would then include both our best customers, the United Kingdom and Germany. U.S. tobacco exports to the EC plus the four applicants were valued at \$328 million in fiscal 1970 and \$327 million in fiscal 1971.

Citrus fruit

The European Community has agreed that it will reduce the common external tariff on fresh oranges from 15 percent ad valorem to 5 percent during the months of June through September in 1972 and again in 1973. The common external tariff is the schedule of customs duties on imports from the United States and other countries that do not benefit from special preferential rates of duty. Preferential rates apply to oranges imported from Mediterranean countries such as Spain, Israel, Morocco, and Tunisia.

The European Community also agreed that beginning April 1, 1972, and continuing until the end of 1973, the common external tariff on grapefruit will be reduced from 6 percent ad valorem to 4 percent. A preferential rate applies to grapefruit imported from Israel.

The effect of these changes is to reduce the trade advantage that lower preferential duties give to imports from the Mediterranean area and to expand the market for oranges and grapefruit in the EC. Exports of U.S. oranges to the EC in fiscal 1971 totalled over \$8 million. Exports of grapefruit to the EC totalled over \$2 million in fiscal 1971.

JOINT STATEMENT ON INTERNATIONAL ECONOMIC RELATIONS

(February 9, 1972)

Japan and the United States today made the following declaration and agreed to communicate the declaration to the Director General of the GATT for transmittal to the contracting parties. Other contracting parties are invited to associate themselves with this declaration to the extent and at the time which they would deem appropriate.

Japan and the United States recognize the need for proceeding with a comprehensive review of international economic relations with a view to negotiating improvements in it in the light of structural changes which have taken place in recent years. The review shall cover inter alia all elements of trade, including measures which impede or distort agricultural, raw material and industrial trade. Special attention shall be given to the problems of developing countries.

Japan and the United States will seek to utilize every opportunity in the GATT for the settlement of trade problems, the removal of which would lessen current trade distortions, and will strive for further progress with respect to those matters now being discussed in the GATT Committee on Trade in Industrial Products and the GATT Agriculture Committee. Japan and the United States agree that progress in GATT in solving some problems in 1972 could facilitate the way in the GATT for a new major initiative for dealing with longer term trade problems. To this end they also agree in 1972 to analyze and evaluate in the GATT alternative techniques and modalities for multilateral negotiation of long-term problems affecting all elements of world trade.

Japan and the United States undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and liberalization of world trade, improvement in the international framework for the conduct of commercial relations, and improvements in the standard of living of the people of the world. These multilateral negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.

Agricultural Products

Soybeans and soybean products

Japan will eliminate its 2.40 yen per kilogram duty (ad valorem equivalent of 5.6 percent) on soybeans April 1, 1972. This tariff elimination is of major importance since soybeans are the largest single U.S. export to Japan. In 1970 Japan imported \$366 million of soybeans, of which the United States supplied \$330 million. It is expected that the duty elimination will increase U.S. soybean exports to Japan.

Japan will reduce its duty on soybean oil by approximately 10 percent—from 28 yen per kilogram to 25 yen per kilogram for oil of an acid value not exceeding 0.6 and from 20 yen per kilogram to 17 yen per kilogram for oil of an acid value exceeding 0.6. Japan's imports of soybean oil in 1970 were valued at \$1.4 million, of which \$1.2 million was supplied by the United States. Japan will also eliminate its 5 percent duty on soybean meal for human consumption. These actions will have limited effect on increasing U.S. exports. The major export interest of the United States in soybean products is soybean meal for animal feed which already enters Japan free of duty.

Citrus products

Japan will increase the size of its import quotas for fresh oranges, and orange and grapefruit juice in Japan Fiscal Year (JFY) 1972 (April 1, 1972–March 31,

1973). The orange quota will be increased from 7,800 MT* to 12,000 MT. The United States is the major supplier of Japan's fresh orange imports. In calendar year 1970 the United States shipped 4,044 MT worth \$1.4 million out of a total of 4,313 MT imported by Japan. Most of the new quota is likely to be filled from U.S. sources.

Japan will establish a 2,500 MT quota for orange juice (single-strength; or 500 MT of concentrate on a 5 to 1 concentrate basis), a 1,500 MT quota for certain other juices (primarily grapefruit juice) and maintain a 500 MT quota for orange and pineapple juice for hotel use, in JFY 1972, for a total of 4,500 MT (single-strength basis). The totals were 3,000 MT in JFY 1970 and 1,500 MT in JFY 1971. The United States is the major supplier of these juices (\$543,000 or 1,870 MT out of \$634,000 total imports in 1970).

Livestock and meat

Japan will establish a 5,000-head duty-free tariff rate quota for imports of feeder cattle by producer organizations for JFY 1972. Japan had increased the duty on feeder cattle from free to about 100 percent ad valorem equivalent when the import quota was removed on October 1, 1971.

The current 500 MT quota for high quality beef destined for hotel use will be increased by Japan to 1,000 MT in JFY 1972. U.S. high quality beef exports to Japan were 435 MT worth \$1.4 million in 1970.

Other agricultural products

Japan will eliminate its 2.5 percent duty on inedible tallow by April 1, 1972. Japan imported \$53.4 million worth of inedible tallow in calendar year 1970 of which \$39.3 million were supplied by the United States.

Also of benefit to U.S. exporters will be a reduction in the duty on turkey meat from 15 percent to 10 percent. Japan will implement this action on April 1, 1972. Japan imported \$480,000 worth of turkey meat from the United States in 1970 out of total turkey meat imports of \$500,000.

Japan will remove its import quota restriction on tomato puree and tomato paste on April 1, 1972. Of total Japanese imports of \$929,000 in 1970 the United States supplied only \$42,000 worth of these products.

Japan will reduce its tariffs by an average of 10 percent on approximately 10 other agricultural products of interest to the United States (Annex B). The United States exported \$6 million of these products to Japan in 1970.

Industrial Products and Administrative Nontariff Barriers to Trade

Import quotas

Japan removed on February 1, 1972, without an increase in duty, its import quota restrictions on light aircraft (under 20,000 lbs.) and parts, computer peripheral equipment except memory and terminal devices (see Annex A), radar apparatus for aircraft (for ground and airborne use), radio navigational aid apparatus for aircraft, and radio remote control apparatus for aircraft (for ground and airborne use). U.S. exports to Japan of these items in 1970 were valued at approximately \$66 million. Japan will also remove on the same date its import quota restrictions on light and heavy oil and sulfur, but increase its duties on these items. Japan imported \$21.7 million of light and heavy oil from the United States in 1970. In response to a U.S. request that Japan establish a plan and timetable for the elimination of its remaining quantitative import restrictions on agricultural and industrial items inconsistent with Japan's GATT obligations, Japan stated it would make its best efforts to do so.

A U.S. technical team will visit Japan later this year to discuss possible ways by which Japan could ease and eventually remove its import quota restrictions on computers, computer memory and terminal devices and computer parts.

Tariffs

Japan will reduce by 10 percent its tariffs on computers, computer peripheral equipment, machine tools, color photographic film and X-ray film. These items together accounted for about \$215 million in Japan's imports from the United States in 1970. Japan also stated its intention to reduce its tariffs by an average of about 10 percent on other industrial products covering about \$60 million in its 1970 imports from the United States (see Annex B). The items of significance to the United States include organic surface active agents; image pro-

*Metric ton: 2,204.6 lbs.

jectors and parts; air conditioners; refrigerators; cosmetics; photo enlargers, reducers and apparatus for developing and printing; and gramophones and record players. Japan will also reduce its tariff on automobiles from 10 percent to 8 percent.

Automobile excise tax

Japan will reduce on April 1, 1972, its internal excise tax on large-sized and medium-sized cars—now 40 percent and 30 percent, respectively—to 20 percent. This action will largely remove the de facto discrimination which subjects the larger U.S. automobiles to a disproportionately higher tax rate. The current 15-percent rate for small cars will remain. No U.S.-produced small cars fall into the 15-percent category because they do not meet the criteria, which are based on cylinder capacity, wheel base, and width limitations, for the lower rate. Japan imported \$23 million of automobiles from the United States in 1970.

Automatic import quota system (AIQ)

Japan reduced the number of items under its AIQ system to zero in February 1972. The AIQ system required that certain products freed from import quota control (IQ system) would still undergo "automatic" government licensing. This system provided an opportunity for Japanese Government officials to use "administrative guidance" against imports. The number of items under the AIQ system had been reduced earlier from 253 in January 1969 to 11 in October 1971. Three items, including heavy hydrogen, will continue to be controlled by other means.

Importation, wholesale and service facilities in Japan

Japan will approve, in principle, the establishment of wholly-owned foreign sales subsidiaries which engage in importation and wholesale activities (warehousing sales to wholesale and retail outlets) and service facilities in Japan, except for computers and related activities and petroleum distribution. Japan will also, in principle, automatically approve the receiving and remittance of funds by foreign branches engaged in these activities. The liberalization of Japanese restrictions in this area will be of considerable help in promoting the sale and distribution of American products in Japan. Japan noted that it does not consider the cutting of film and blending or mixing of cosmetics as wholesale activities but as manufacturing activities.

Standard method of settlement requirement

Payments for all imports into Japan must be made within 120 days of customs clearance and cannot be prepaid, unless an exception is granted by the Japanese Ministry of International Trade and Industry (MITI). Japan will henceforth approve individual applications for consignment or prepayment contracts on a case-by-case basis. This action will enable U.S. suppliers to conclude consignment sales contracts for such purposes as floor display, stock or demonstration.

ANNEX A.—COMPUTER PERIPHERAL EQUIPMENT

To be liberalized but their terminal devices will not be liberalized

Input machines, output machines and input-output machines:

Card reader	Magnetic ink character reader
Card punch	Character display
Line printer	Graphic display
Paper tape reader	Audio response unit
Paper tape punch	Plotter
Paper tape reader punch	Computer input micro filmer
Optical character reader	Computer output micro filmer
Optical mark reader	Etc.

Control units:

Input-output control unit	Magnetic drum control unit
Communication control unit	Magnetic tape converter
Magnetic disc control unit	Magnetic tape printer

Not to be liberalized

Memory Equipment:

Magnetic disc memory equipment	Magnetic tape equipment
Magnetic disc pack memory equipment	Magnetic drum equipment, etc.

NOTE:—Terminal devices are such input machines, output machines, input-output machines and control units as are connected to the main body of computer by telecommunication circuits

378 1972 REPORT OF THE SECRETARY OF THE TREASURY

ANNEX B.—TARIFF REDUCTION AND ELIMINATION SCHEDULE ON APRIL 1, 1972

[Illustrative List]

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
Ex 01.02	Feeder cattle.....	45,000 yen/head.....	T.Q.—primary rate: free; secondary rate: 45,000 yen/head
Ex 02.02	Turkeys, fresh, chilled or frozen.....	15 percent.....	10 percent
Ex 07.01	Onions, fresh or chilled.....	10 percent.....	
	Value for customs duty of:		
	Not more than 51 yen/kg.....		10 percent
	More than 51 yen/kg but not more than 56.1 yen/kg.....		56.1 yen/kg minus value for customs duty
	More than 56.1 yen/kg.....		Free
09.01-1-(2)	Coffee (roasted).....	35 percent.....	30 percent
09.02-1-(1)	Black tea—put up for sale by retail.....	35 percent.....	30 percent
09.02-1-(3)	Other black tea.....	20 percent.....	5 percent
10.02	Rye.....	15 percent.....	5 percent
12.01-1	Soybeans.....	2.4 yen/kg.....	Free
12.01-3	Rapeseeds and mustard seeds.....	4 yen/kg.....	Free
12.01-7	Safflower seeds.....	2.5 percent.....	Free
12.07-2	Insect flower.....	20 percent.....	T.Q.—primary rate: free; secondary rate: 20 percent
15.02-1	Beef tallow.....	2.5 percent.....	Free
05.02-2	Sheep tallow, goat tallow, etc.....	2.5 percent.....	Free
15.07-1-(1)	Soybean oil of an acid value exceeding 0.6.....	28 yen/kg.....	17 yen/kg
15.07-1-(2)	Soybean oil of an acid value not exceeding 0.6.....	28 yen/kg.....	25 yen/kg
15.07-2-(1)	Ground-nut oil of an acid value exceeding 0.6.....	20 yen/kg.....	17 yen/kg
15.07-2-(2)	Ground-nut oil of an acid value not exceeding 0.6.....	28 yen/kg.....	25 yen/kg
15.07-3-(1)	Rapeseed oil and mustard seed oil of an acid value exceeding 0.6.....	20 yen/kg.....	17 yen/kg
15.07-3-(2)	Rapeseed oil and mustard seed oil of an acid value not exceeding 0.6.....	28 yen/kg.....	25 yen/kg
15.07-4-(1)	Sunflower seed oil of an acid value exceeding 0.6.....	20 yen/kg.....	17 yen/kg
15.07-4-(2)	Sunflower seed oil of an acid value not exceeding 0.6.....	28 yen/kg.....	25 yen/kg
Ex 15.07-5	Cottonseed oil of an acid value exceeding 0.6.....	20 yen/kg.....	17 yen/kg
15.07-14-(1)	Other fixed vegetable oils of an acid value exceeding 0.6.....	20 yen/kg.....	17 yen/kg
15.07-14-(2)	Other fixed vegetable oils of an acid value not exceeding 0.6.....	28 yen/kg.....	25 yen/kg
21.03-1	Mustard flour and prepared mustard (put up for sale by retail).....	30 percent.....	25 percent
21.03-2	Mustard flour and prepared mustard (other).....	25 percent.....	20 percent
22.03	Beer made from malt.....	20 percent.....	10 yen/l
Ex 22.05-2	Wine of fresh grapes and grape must with fermentation arrested by the addition of alcohol (in containers of capacity more than 150 liters, excluding sparkling wines).....	400 yen/l.....	200 yen/l
22.09-1-(1) A	Whisky (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters).....	660 yen/l.....	590 yen/l
22.09-1-(1) B	Other whisky.....	550 yen/l.....	490 yen/l
22.09-1-(2) A	Brandy (of an alcoholic strength of 50° or higher, excluding those in containers of a capacity less than 2 liters).....	780 yen/l.....	550 yen/l
23.04-1	Oil-cake and other residues resulting from the extraction of soybean oil.....	5 percent.....	Free
Ex 28.04-4	Phosphorus.....	7.5 percent.....	3.75 percent
33.06-1	Perfumed water including eau de cologne and the like.....	25 percent.....	15 percent
33.06-3	Perfumed hair oil, cream, pomade, rouges and other preparations of oils, fats or waxes.....	15-25 percent.....	15 percent
Ex 33.06-5	Manicure preparations, shaving preparations and incenses.....	20 percent.....	15 percent
Ex 33.06-5	Other perfumery, cosmetics and toilet preparations.....	15-17.5 percent.....	15 percent
34.02-1	Organic surface-active agents and surface-active preparations.....	17.5 percent.....	10 percent
37.01-1	X-ray plates and film in the flat.....	20 percent.....	18 percent

ANNEX B.—TARIFF REDUCTION AND ELIMINATION SCHEDULED ON APRIL 1, 1972—continued

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
Ex 37.02-1-(2)	Cinematographic film in rolls for X-ray.	15 percent.	13.5 percent
37.02-2-(1)	X-ray film in rolls.	20 percent.	18 percent
37.02-2-(1)	Color plates and color film in the flat.	23 percent.	20 percent
37.02-1-(1)A	Cinematographic color film in rolls, not more than 30 mm in width, reversal.	26 percent.	23 percent
37.02-1-(1)B	Cinematographic color film in rolls, other.	23 percent.	20 percent
37.02-2-(2)	Color film in rolls, other.	26 percent.	23 percent
Ex 39.03-2-(4)	Hamcasing and similar products, in tubes of a flattened width not less than 90 mm.	10 percent.	Free
Ex 75.03	Wrought plates, sheets and strip of aluminum (for use as roof sheets of containers for foreign trade purposes, not less than 2.3 mm in width).	18 percent.	Free
77.01-1	(1) Unwrought magnesium of not more than 278.26 yen/kg.	Not more than 286.95 yen/kg, 15 percent; more than 286.95 yen/kg but not more than 330 yen/kg.	15 percent
	(2) More than 278.26 yen/kg but not more than 320 yen/kg.	330 yen/kg minus value for customs duty.	32 yen minus value for customs duty
	(3) More than 320 yen/kg.	More than 330 yen/kg, free.	Free
84.12-1	Air conditioning machines (for motor vehicles).	15 percent.	10 percent
84.12-2	Air conditioning machines (other).	15 percent.	10 percent
84.15-1	Refrigerating cabinets, self-contained refrigerating units.	7.5 percent.	5 percent
84.41-1-(2)	Sealing machines, completed set or separated head (other than for domestic purposes).	7.5-12.5 percent.	7.5 percent
84.45-1	Machine-tools whose function is to remove metal or metallic carbides.	15 percent. 12.5 percent. 10 percent. 7.5 percent.	13.5 percent 11 percent 9 percent 6.5 percent
Ex 84.52-1	Digital type electronic computers.	15 percent.	13.5 percent
Ex 84.53-1			
84.51-1-(1)			
Ex 84.52-1-(1)	Peripheral apparatus of digital type electronic computers.	25 percent.	22.5 percent
84.53-2			
Ex 84.54-1			
Ex 85.22-1			
84.59-7-(1)	Machinery and mechanical appliances not falling within any other items thereof.	7.5-10 percent.	7.5 percent
Ex 84.61	Taps, cocks, valves and similar appliances for pipes, boilers, tanks, vats and the like.	7.5-10 percent. 15-20 percent.	7.5 percent 15 percent
85.01-2-(2)	Electric motors (of a weight more than 500 kg).	10 percent.	7.5 percent
85.01-4-(1)	Silicon rectifiers and silicon rectifying apparatus.	10 percent.	7.5 percent
85.06-1	Electro-mechanical domestic appliances, with self-contained electric motor:		
	(1) Fans.	7.5 percent.	5 percent
	(2) Vacuum cleaners, floor polishers, food mixers, etc.	7.5 percent.	5 percent
85.06-2	Other electro-mechanical domestic appliances, with self-contained electric motor.	7.5 percent.	5 percent
85.07	Shavers and hair clippers, with self-contained electric motor.	7.5 percent.	5 percent
85.12	Electric instantaneous or storage water heaters and immersion heaters, electric hair dressing appliances, etc.	7.5 percent.	5 percent
85.15-1	Radio broadcast receivers (including chassis).	7.5 percent.	5 percent
85.15-2	Television receivers (including chassis).	7.5 percent.	5 percent
87.02-1	Motor vehicles for the transport of persons:		
	(1) not more than 270 cm in wheel base.	10 percent.	8 percent
	(2) more than 270 cm but not more than 304.8 cm in wheel base.	10 percent.	8 percent
87.02-1	(3) More than 304.8 cm in wheel base.	10 percent.	8 percent

ANNEX B.—TARIFF REDUCTION AND ELIMINATION SCHEDULED ON APRIL 1, 1972—continued

Tariff item	Description of products	Rates of duty presently in force	Proposed rates of duty
90.07-1	(2) Cameras for photoengraving, X-rays, copying documents, etc.	15 percent.....	7.5 percent
	(3) Other cameras.....	15 percent.....	7.5 percent
90.07-2	Parts and accessories of cameras.....	15 percent.....	7.5 percent
90.07-3	Photographic flashing apparatus.....	15 percent.....	7.5 percent
90.08-1	(1) Cinematographic projectors for film of a width not more than 20 mm.	10 percent.....	5 percent
	Cinematographic cameras for film of a width not more than 20 mm.	15 percent.....	7.5 percent
	(2) Other cinematographic cameras, projectors, parts and accessories thereof.	10 percent.....	5 percent
90.08-2	Cinematographic sound recorders and sound reproducers; parts and accessories thereof.	10 percent.....	5 percent
90.09-1	Image projectors; parts and accessories thereof.	10 percent.....	5 percent
90.09-2	Photographic enlargers and reducers; parts and accessories thereof.	10 percent.....	5 percent
90.10-1	Apparatus and equipment, photographic or cinematographic, of a kind used for developing, printing, etc.	10 percent.....	5 percent
90.10-2	Contact type photocopying apparatus, etc.	10 percent.....	5 percent
90.17	Medical, dental, surgical and veterinary instruments and appliances.	7.5-10 percent.....	7.5 percent
90.18	Mechano-therapy appliances; massage apparatus, psychological aptitude testing apparatus; artificial respiration, ozone therapy, etc.	7.5-10 percent.....	7.5 percent
90.28-1	Electrical measuring, checking instruments and apparatus.	7.5-15 percent.....	7.5 percent
91.01-1	Wrist watches, etc. (not more than 6,000 yen per piece in value for customs duty).	15 percent.....	7.5 percent
91.01-2	Wrist watches, etc. (other).....	20 percent.....	10 percent
92.11	Gramophones and record players.....	7.5 percent.....	5 percent

Exhibit 55.—An act to provide for a modification in the par value of the dollar, and for other purposes

[Public Law 92-268, 92d Congress, S. 3160, March 31, 1972]

Par Value Modification Act.*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,***SECTION 1.** This Act may be cited as the "Par Value Modification Act".**New value, establishment.****SEC. 2.** The Secretary of the Treasury is hereby authorized and directed to take the steps necessary to establish a new par value of the dollar of \$1 equals one thirty-eighth of a fine troy ounce of gold. When established such par value shall be the legal standard for defining the relationship of the dollar to gold for the purpose of issuing gold certificates pursuant to section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b).

86 Stat. 116

86 Stat. 117

48 Stat. 344;

32 Stat. 51.
Maintenance.**SEC. 3.** The Secretary of the Treasury is authorized and directed to maintain the value in terms of gold of the holdings of United States dollars of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the International Development Association, and the Asian Development Bank to the extent provided in the articles of agreement of such institutions. There is hereby authorized to be appropriated, to remain available until expended, such amounts as may be necessary to provide for such maintenance of value.**Appropriation.****Increment disposition.****SEC. 4.** The increase in the value of the gold held by the United States (including the gold held as security for gold certificates) resulting from the change in the par value of the dollar authorized by section 2 of this Act shall be covered into the Treasury as a miscellaneous receipt.

Exhibit 56.—Background material on legislation modifying the par value of the dollar

THE SECRETARY OF THE TREASURY,
Washington, D.C., February 9, 1972.

HON. CARL ALBERT,
Speaker of the House, Washington, D.C.

DEAR MR. SPEAKER: There is transmitted herewith a draft bill "To provide for a modification in the par value of the dollar, and for other purposes."¹

The proposed bill stems directly from the initiatives taken by President Nixon on August 15 to strengthen the international economic position of the United States. The suspension of convertibility of dollars into reserve assets and the temporary imposition of the 10 percent import surcharge launched a series of intensive multilateral and bilateral negotiations aimed at achieving fair and equitable exchange rates and trading practices.

A significant breakthrough was achieved with the Smithsonian Agreement on a multilateral realignment of currencies. After intensive negotiations, the Group of Ten succeeded in reaching difficult decisions on the appropriate relationship in the values of their currencies. The result of this joint effort is an overall weighted average realignment of approximately 12 percent in the currencies of other industrial countries, excluding Canada.

It will take some time for the full impact of the adjustment to be felt. However, the beneficial effects of the realignment on our trade and balance of payments position should begin this year.

As part of the realignment, and to facilitate agreement, the United States agreed to remove the temporary import surcharge, apply the Job Development Credit to foreign produced goods, and to propose legislation to Congress to devalue the dollar by 8.57 percent to \$38.00 per ounce of gold following the talks on trade.

An agreement has now been reached with Japan to remove or lower certain barriers to United States exports, particularly those affecting agricultural trade. Substantive agreements have also been reached with the European Community, subject to final approval by its Council. Regrettably, no agreements have been reached with Canada. The United States will seek appropriate means of reducing imbalances in trade agreements with that country.

Japan has joined with us in a commitment to initiate and actively support multilateral and comprehensive trade negotiations beginning in 1973 and to solve more immediate problems within the context of the GATT during 1972. The European Community is joining with the United States in a similar commitment, subject to final approval by its Council. The Administration will seek legislative authority for the comprehensive trade negotiations.

Accordingly, legislation is now being submitted which would have the effect of authorizing a modification in the par value of the dollar. The Bretton Woods Agreements Act prohibits a change in the par value of the dollar in the International Monetary Fund without prior Congressional approval and the proposed legislation would grant this approval.

The 8.57 percent change in the par value of the dollar will increase by an equal percentage the value of the United States gold stock and certain other assets. This par value change will also have the consequence of requiring the United States to add 8.57 percent to its dollar subscriptions to the international financial and lending institutions in order to maintain the value of these subscriptions in terms of gold. The maintenance of value provision works equitably on all members and assures that contributions from all countries maintain their original worth despite changes in relationships among currencies. It also assures that we do not lose out through devaluation in our share of the assets and voting power of these institutions. In addition, certain other gains and costs reflecting foreign exchange obligations will result from the change in par value. A report to be submitted separately contains full details on all aspects of the increases in assets and liabilities resulting from the change in par value as well as the amounts of appropriations to be requested to maintain the value of international financial institution subscriptions.

The proposed legislation will make a significant contribution to better balanced international economic relationships and to international monetary stability. I

¹ See exhibit 55 for approved legislation.

urge prompt and favorable consideration of this proposed legislation by the Congress.

It would be appreciated if you would lay the proposed bill before the House. An identical bill has been transmitted to the President of the Senate.

Sincerely yours,

JOHN B. CONNALLY.

Proposed Modification of Par Value of Dollar

I. Introduction

The Administration has proposed legislation authorizing and directing the Secretary of the Treasury to take the steps necessary to modify the par value of the dollar in the International Monetary Fund, by an amount corresponding to an increase of 8.57 percent, to \$38 per fine troy ounce, in the official value of gold, as agreed provisionally in the Smithsonian agreement of the Group of Ten on December 18, 1971. (This modification is equivalent to a reduction of approximately 7.89 percent in the value of the dollar stated in terms of grams of gold per dollar, from .888671 grams to .818513 grams.) The bill would also provide for maintenance of the value of U.S. subscriptions to international financial institutions.¹

This report describes the Smithsonian agreement, the status of negotiations on related issues, and the increases in U.S. assets and liabilities which will result from the change in the dollar's par value. It also discusses briefly international monetary developments in 1971 and points out several issues for discussion in the area of monetary reform over the longer term.

II. The Smithsonian agreement and related negotiations on trade and defense

The Smithsonian agreement of the Group of Ten followed a period of international monetary adjustment, involving a generalized system of floating (but not freely floating) exchange rates, during 1971. The agreement consisted of a series of interrelated measures designed to help resolve balance of payments problems, to restore more settled conditions to the Exchange markets, and to provide a framework from which longer term reform could evolve. It was also agreed that discussions should be promptly undertaken on measures for reform of the monetary system over the longer term, and several areas of reform to which attention should be directed were identified.²

The agreement on "near-term" issues comprised:

- a new pattern of basic exchange rate relationships among the countries concerned;
- provisional arrangements to permit up to 2¼ percent margins of exchange rate fluctuation above and below the new exchange rates;
- recognition that trade arrangements are a relevant factor in assuring lasting equilibrium in the international economy;
- agreement by the United States to propose to the Congress a suitable means for devaluing the dollar in terms of gold as soon as a related set of short-term trade expansion measures were available for congressional scrutiny; and
- agreement by the United States to suppress immediately the 10-percent import surcharge and related provisions of the job development credit.

A. EXCHANGE RATE REALIGNMENT

During the week following the agreement, the Group of Ten participants individually announced the exchange rates and exchange rate policies to which they had agreed. The Government of Canada announced that it would not immediately set a new fixed rate for the Canadian dollar but instead would maintain temporarily a floating exchange rate and would permit fundamental market forces to establish the exchange rate without intervention except as required to maintain orderly conditions. Wider margins were adopted by the other foreign members of the group. The changes, and the new pattern of exchange rates for the U.S. dollar, are summarized in the table that follows. Table 2 provides cal-

¹ See technical explanation of H.R. 13120, annex 1.

² The text of the communique issued at the conclusion of the Smithsonian agreement appears as exhibit 52.

culations of the average appreciation of certain foreign currencies vis-a-vis the dollar.

TABLE 1

Country	Type of rate	Percent change from IMF parity of Apr. 30, 1971 ¹	Percent appreciation against U.S. dollar ^{2,3}	Currency units per dollar	
				Old	New
Belgium.....	Central ⁴	+2.76	+11.57	⁵ 50.0	⁶ 44.8
Canada.....	Floated	(⁶)	(⁶)	(⁶)	(⁶)
France.....	Par	0	+8.57	⁷ 5.55	⁸ 5.12
Germany.....	Central	+4.61	+13.57	⁸ 3.66	⁸ 3.22
Italy.....	do.	-1.00	+7.48	⁹ 625.0	⁹ 581.5
Japan.....	do.	+7.66	+16.88	¹⁰ 360.0	¹⁰ 308.0
Netherlands.....	do.	+2.76	+11.57	¹¹ 3.62	¹¹ 3.24
Sweden.....	do.	-1.00	+7.49	¹² 5.17	¹² 4.81
Switzerland.....	Par ¹³	+4.89	+13.88	¹⁴ 4.37	¹⁴ 3.84
United Kingdom.....	do.	0	+8.57	¹⁵ .42	¹⁵ .38
United States.....	do.	¹⁶ -7.89	0	(⁶)	(⁶)

¹ Expressed as percent change in grams of gold per currency unit.

² Expressed as percent change in U.S. cents per foreign currency unit.

³ All changes are computed on the basis of par values of Apr. 30, 1971.

⁴ "Central rates" have been established in some cases, in lieu of new par values, as the effective rates around which currency values will be maintained within certain margins pending formal par value changes.

⁵ Belgian franc.

⁶ Not applicable.

⁷ French franc.

⁸ Deutsche mark.

⁹ Lire.

¹⁰ Yen.

¹¹ Guilder.

¹² Krone.

¹³ Switzerland is not a member of the IMF.

¹⁴ Swiss franc.

¹⁵ Pound.

¹⁶ If approved by the Congress.

TABLE 2.—Changes in average appreciation against dollar

[Percent change in U.S. cents per foreign currency unit; based on U.S. bilateral trade weights in 1970]

	Apr. 30	Aug. 13	Dec. 17	New central rates ¹	Dec. 30	Feb. 4
OECD excluding Canada.....	0.7	2.6	8.4	11.8	10.1	12.1
OECD including Canada ².....	.4	1.6	5.9	³ 8.2	6.8	7.9

¹ Actually, new "basic" rates against dollar, whether or not central rate formally established.

² If the calculation is made on the basis of the Canadian rate prior to initiation of the Canadian float in May 1970, the figures are as follows: Apr. 30, 2.9 percent; Aug. 13, 4.1 percent; Dec. 17, 8.5 percent; new central rates, 10.6 percent; Dec. 30, 9.4 percent; Feb. 4, 10.5 percent.

³ Dec. 21 market rate for Canada used.

Notes: (A) Calculated on basis of percent difference between market rates and parities (market rate for Canada) on Apr. 30, 1971.

(B) Day-to-day market rates are not readily available for certain OECD currencies. For calculations prior to the realignment it was assumed that on Apr. 30 there was zero appreciation of these currencies and on Aug. 13 and Dec. 17, 0.8 percent appreciation. Following realignment, new central rates were used where market rates were not available. The weights for these currencies, and the possible error in assumptions, are small; these assumptions do not significantly affect the averages.

The Group of Ten participants recognized that their agreement would trigger decisions on exchange rates by most other countries and indicated their view that it was particularly important that no country seek improper competitive advantage through its exchange rate policies. Changes in parities could be justified only on the basis of an objective appraisal which established a position of disequilibrium.

As of January 20, the International Monetary Fund had received indications from all but five of its members of their decisions on their exchange rate systems. Exchange rate changes and the new dollar rate for each IMF member country are listed in Table 3. All proposed exchange rate changes have been examined by

the IMF in accordance with the principle outlined above and in accordance with the Fund's own Articles of Agreement, and the Fund has taken such formal action as was appropriate in each case to enable the rates concerned to be implemented.

TABLE 3.—*Exchange rates and exchange rate changes against the dollar: IMF member countries (as of Jan. 20, 1972)*

Country	Percent change against U.S. dollar ¹	New exchange rate (foreign currency units per dollar)	Country	Percent change against U.S. dollar ¹	New exchange rate (foreign currency units per dollar)
OECD countries: ²			Non-OECD—Continued		
Australia.....	8.57	0.82	Iran.....	0	75.75
Austria.....	11.59	23.30	Iraq.....	8.57	.33
Belgium.....	11.57	44.82	Israel.....	-16.67	4.20
Canada.....	(³)	(³)	Ivory Coast.....	8.57	255.79
Denmark.....	7.45	6.98	Jamaica.....	8.57	.77
Finland.....	2.44	4.10	Jordan.....	0	.36
France.....	8.57	5.12	Kenya.....	0	7.14
Germany.....	13.57	3.22	Khmer Republic.....	(³)	(³)
Greece.....	0	30.00	Korea.....	(³)	(³)
Iceland.....	0	88.00	Kuwait.....	8.57	.33
Ireland.....	8.57	.38	Laos.....	0	600.00
Italy.....	7.48	581.60	Lebanon.....	(³)	(³)
Japan.....	16.88	308.00	Lesotho.....	-4.76	.75
Luxembourg.....	11.57	44.82	Liberia.....	0	1.00
Netherlands.....	11.57	3.24	Libyan Arab Re-		
Norway.....	7.49	6.65	public.....	8.57	.33
Portugal.....	5.5	27.25	Malagasy Republic.....	8.57	255.79
Spain.....	8.57	64.47	Malawi.....	8.57	.77
Sweden.....	7.49	4.81	Malaysia.....	8.57	2.82
Switzerland ⁴	13.88	3.84	Mali.....	8.57	511.67
Turkey.....	7.14	14.00	Malta.....	11.29	.37
United Kingdom.....	8.57	17.38	Mauritania.....	8.57	255.79
Yugoslavia.....	-11.76	17.00	Mauritius.....	8.57	5.12
Non-OECD:			Mexico.....	0	12.50
Algeria.....	8.57	4.55	Morocco.....	8.57	4.66
Argentina.....	(³)	(³)	Nepal.....	0	10.13
Barbados.....	8.57	1.84	New Zealand.....	8.57	8.2
Bolivia.....	0	11.88	Nicaragua.....	0	7.00
Botswana.....	-4.76	.75	Niger.....	8.57	225.79
Brazil.....	(³)	(³)	Nigeria.....	8.57	.33
Burma.....	-10.97	5.35	Pakistan.....	0	(³)
Burundi.....	0	87.50	Panama.....	0	1.00
Cameroon.....	8.57	255.79	Paraguay.....	0	126.00
Central African Re-			Peru.....	0	38.70
public.....	8.57	255.79	Philippines.....	(³)	(³)
Ceylon.....	0	5.95	Rwanda.....	8.57	92.11
Chad.....	8.57	255.79	Saudi Arabia.....	8.57	4.14
Chile.....	(³)	(³)	Senegal.....	8.57	255.79
China.....	0	40.00	Sierra Leone.....	8.57	.77
Congo, People's Re-			Singapore.....	8.57	2.82
public.....	8.57	255.79	Somalia.....	3.14	6.93
Costa Rica.....	0	6.63	South Africa.....	-4.76	.75
Cyprus.....	8.57	.38	Sudan.....	0	.35
Dahomey.....	8.57	255.79	Swaziland.....	-4.76	.75
Dominican Republic.....	0	1.00	Syrian Arab Re-		
Ecuador.....	0	25.00	public.....	0	4.30
Egypt.....	0	.43	Tanzania.....	0	7.14
El Salvador.....	0	2.50	Thailand.....	0	20.80
Equatorial Guinea.....	8.57	64.47	Togo.....	8.57	255.79
Ethiopia.....	8.57	2.30	Trinidad and Tobago.....	8.57	1.84
Fiji.....	8.57	.80	Tunisia.....	8.57	4.8
Gabon.....	8.57	255.79	Uganda.....	0	7.14
Gambia.....	8.57	1.92	Upper Volta.....	8.57	255.79
Ghana.....	-43.88	1.82	Uruguay.....	(³)	(³)
Guatemala.....	0	1.00	Venezuela.....	0	4.39
Guinea.....	8.57	227.37	Vietnam.....	(³)	(³)
Guyana.....	0	2.00	Yemen Arab Re-	(³)	(³)
Haiti.....	0	5.00	public.....		
Honduras.....	0	2.00	Yemen People's Dem-		
India.....	3.03	7.28	ocratic Republic.....	8.57	.38
Indonesia.....	0	415.00	Zaire.....	0	.50
			Zambia.....	0	.71

¹ Expressed as percent change in U.S. cents per foreign currency unit, as compared with the rate on Apr. 30, 1971.

² Members of the Organization for Economic Cooperation and Development.

³ Not applicable because of maintenance of flexible rates.

⁴ Not a member of IMF.

⁵ Not available.

B. NEGOTIATIONS ON TRADE EXPANSION MEASURES

The Smithsonian agreement noted that urgent negotiations were underway between the United States and the Commission of the European Communities, Japan and Canada "to resolve pending short-term issues at the earliest possible date . . ." and "to establish an appropriate agenda for considering more basic issues in a framework of mutual cooperation in the course of 1972 and beyond." These negotiations addressed themselves both to a framework for negotiation of major trade issues, including issues which the United States considers of critical importance, and to a series of short-term questions.

One outcome of the negotiations was agreement between the United States and Japan to initiate and actively support in the GATT during 1973 (subject to such internal authorization as may be required) multilateral and comprehensive negotiations with a view to the exchange and greater liberalization of world trade. A similar agreement has been reached with the European Communities subject to approval by its Council.¹

The talks also resulted in a series of practical steps to remove trade obstacles that have become an irritant in trade relations. These issues have by no means been fully resolved, but a beginning has been made. The Japanese Government has decided to undertake a series of trade liberalization steps of immediate value to the United States. Both countries have agreed to join in efforts during 1972 within GATT toward the removal of some trade barriers leading to comprehensive trade negotiations in 1973. An agreement in substance with the European Communities subject to approval by its Council covers similar issues.

In short, a broad understanding has been reached for future negotiations in a time frame that takes into account the fact that international trade is undergoing an adjustment process initiated by recent comprehensive and substantial currency realignments. In the case of Canada, the parallel short-term negotiations, dealing mainly with certain bilateral agreements and understandings that no longer fit the facts of our economic relationship, have not been brought to a successful conclusion.

The immediate reduction of some tariff and nontariff barriers by our trading partners, apart from their immediate value, is evidence of their intent to minimize economic friction and expand trade in reciprocal negotiations. These unilateral steps do not completely fulfill U.S. desires, but together with the commitment to negotiate reductions in trade barriers over the longer term they do constitute recognition that improvements must be made in the trading system.

Short-term measures

The greatest progress toward liberalization in the immediate future with tangible benefits for the United States will be made by Japan. For several years there has been a large and growing deficit in our trade with Japan, partially aggravated by the maintenance of trade barriers initiated during an earlier relative weakness in the Japanese external position. While many important restrictions remain, the actions, supplementing the yen appreciation of 16.9 percent relative to the dollar, represent a useful contribution toward bringing the U.S.-Japan trade imbalance into reasonable adjustment. They are also a welcome sign that Japan wishes to participate more fully in international efforts to reduce barriers.

With respect to agricultural products, Japan will increase the quantity of imports permitted under quota of fresh oranges, orange and grapefruit juice, high quality beef; eliminate the duty on soybeans and tallow; and reduce the duties on turkey meat, soybean meal, vegetable oils and some 10 other products. A duty free tariff quota will be established for feeder cattle. The effective date for these changes will be April 1, 1972, the beginning of the Japanese fiscal year.

On industrial products, Japan will reduce tariffs on April 1, 1972, on automobiles, computers, computer peripheral equipment, machine tools, color film, X-ray film and some 30 other industrial products. Japan will also reduce the internal excise tax on large and medium sized automobiles. Effective February 1st, Japan removed import quota restrictions on light aircraft and light aircraft parts, computer peripheral equipment (not including memory or terminal devices), radar and radio navigational equipment for aircraft; light and heavy oil. A U.S. technical team will visit Japan this spring to discuss liberalization of restrictions on imports of computers and computer equipment. In addition, Japan

¹ See exhibit 54.

will grant more liberal treatment to the establishment in Japan by U.S. firms of wholly-owned subsidiaries for importation, wholesaling and servicing. Some actions are also being taken to reduce other Japanese non-tariff barriers.

The European Communities have also agreed in principle on some short-term measures that are pending approval of the Council of the European Communities.

The United States agreed to participate in bilateral antidumping discussions with the Japanese at the technical level. The United States has agreed to consider proposing the elimination of the "Final List" (Section 402(a) of the Tariff Act) method of customs valuation, contingent upon reciprocal actions by other countries. The United States may moderate its inspection measures of Japanese canned tuna as determined by the effectiveness of Japanese measures in meeting U.S. laws and regulations concerning decomposed canned tuna.

The United States has been concerned that certain trading arrangements with Canada no longer fairly reflect the economic circumstances surrounding economic relationships between our two countries. While it has not yet been possible to achieve appropriate balance in these arrangements, the United States will seek appropriate means of reducing imbalances in trade agreements with that country.

Conclusion

These negotiations have by no means settled the major issues outstanding in the field of international trade. Nevertheless, a beginning has been made. Certainly, there is greater recognition today of both the need for further progress and the dangers implicit in failure to achieve that progress. We look forward to major trading nations joining with us in seeking future steps to revitalize the world trading system.

C. DEFENSE FINANCING ARRANGEMENTS

The President's announcement of August 15, 1971, included the statement:

"Now that other nations are economically strong, the time has come for them to bear their fair share of the burden of defending freedom around the world."

The implication was that the persistent U.S. payments problems were caused partly by the high level of U.S. defense expenditures abroad. If some of those defense burdens could be borne by other countries, the shift required in other U.S. accounts, including trade, would be smaller.

Some reduction of defense expenditures overseas could be expected as we withdrew from Vietnam. However, these savings could be dissipated by rising prices and the increased cost of foreign currencies. Important imbalances have remained within Europe. Thus we felt justified in proposing that Europe carry a larger share of the common defense burden, which would mean some increase in their defense responsibilities, greater contributions to the cost of maintaining U.S. forces in their areas, or a combination of both.

The United States wants to maintain fully the strength of the alliance. Unilateral reductions in U.S. forces might be followed by reductions in the forces of our allies rather than a compensating increase. Reductions should be the subject of negotiations with Warsaw Pact powers, not the result of unilateral action. The U.S. view was that forces of our European allies needed to be strengthened. Thus, a number of conflicting objectives had to be reconciled.

The result so far has been the signing of a new agreement for partially offsetting the cost of U.S. forces in Germany and announcement by our European allies that they intend to increase expenditures on their own defense forces by more than \$1 billion in 1972. These agreements are steps toward maintaining the strength of our common defense with a smaller proportionate burden on the United States. However, the increased expenditure by our European allies on their own defense forces, except as it may involve procurement from the United States, will not directly reduce our payments deficit. Nor will the share of European gross national products spent on defense be larger than in previous years.

Consequently, this area will need further examination and action in the year ahead. The alternative would be to achieve the adjustment needed in our international payments balance almost entirely in the trade sector of the balance of payments. Our trading partners may find preferable new arrangements enabling the United States to maintain its forces in Europe without imposing strain on the international payments balance, that is, with consequences for the payments balance no different from those of maintaining the same forces in the United States.

III. Modification of par value of dollar

This section reviews the considerations that led the United States negotiators to agree to propose legislation to the Congress to change the par value of the dollar. It also sets forth information on the changes in the dollar value of certain assets and obligations that result, under existing international agreements, when the par value of the dollar is changed in terms of gold.

A. NEED FOR CHANGE IN THE UNITED STATES OFFICIAL GOLD PRICE AS PART OF EXCHANGE RATE REALIGNMENT

The United States entered the negotiations that followed the August 15 announcement of the new economic policy with a strong view that it would be preferable to achieve a realignment of exchange rates without changing the official price of gold in terms of dollars.

This view was based upon several considerations:

(1) A change in the official monetary price of gold did not have any economic significance in itself. The exchange rate of the dollar in terms of other currencies was the substantive economic question, and the official dollar price of gold was relevant only if it affected those exchange rate relationships. A change in the price of gold would, however, lead to an arbitrary distribution of gains and losses in the value of reserve assets consequent on a currency realignment.

(2) There was a distinct probability that, if the United States acted unilaterally to propose an increase in the official dollar gold price, other countries would follow. Then, no alignment of exchange rates, or an inadequate realignment, would have occurred. Such a concerted change in par values would accomplish nothing useful. The higher official price would only stimulate speculation in anticipation of still further changes in the official price for gold sometime in the future. Therefore, it was essential to obtain prior agreement on a pattern of exchange rates for major currencies.

(3) Furthermore, the United States believes that the monetary role of gold should continue to diminish. With the advent of Special Drawing Rights in the Fund, the world now has a basic reserve asset which is not held in private hands and hence is free from the private hoarding and speculation which has arisen in connection with gold. There is no need to raise the official gold price merely to increase world reserves.

On the other hand, a political issue was involved in the gold price question. In some quarters in Europe it was strongly held that the United States must "participate" in the realignment by changing its official gold price. With the U.S. assuming the "burden" of devaluation, other countries expressed a willingness to accept a degree of exchange rate adjustment that, in the particular circumstances, might otherwise have been unacceptable to them.

Another, more technical, aspect of realignment may have been significant for some countries. A country which appreciates its currency has to reduce the value of its reserves and other foreign assets measured in terms of its own currency.

In September, at the annual meeting of the Fund in Washington, the United States proposed elimination of the temporary import surcharge if tangible progress could be made on trade liberalization and if foreign governments would allow fundamental market forces freely to determine the exchange rates of their currencies for a transitional period. This suggestion was not accepted—underlining the strength of foreign views that the United States should "participate" and indicating the resistance of many governments to floating rates even for a transitional period.

In view of the circumstances, the United States agreed in December to a change in the official gold price, if necessary and useful to facilitate and expedite an agreed realignment of exchange rates. In the course of these negotiations, it quickly became evident that, whether or not the United States changed the dollar price of gold, the concern of all countries with the economically more significant variable of relative exchange rates placed a practical limitation on the freedom of action of the United States in setting the exchange rate of the dollar. In effect, other countries did not want the dollar to be devalued too much, because this would affect their export and other internationally competitive industries. This consideration placed a limit on the extent to which they would agree to a change in our gold price without themselves matching and hence neutralizing such a change.

In terms of dollars, the proposed increase in the U.S. official gold price amounts

to 8.57 percent. In terms of some other major currencies, the official price of gold will be lower than before, because of an appreciation of these currencies in terms of gold. On a weighted average calculation, the price of gold in terms of the currencies of the Group of Ten (excluding Canada) will rise only by about 1½ percent.⁴

It is the view of the U.S. administration that this modest agreed change in the official gold price should not be allowed to disturb the trend toward deemphasis of gold in the international monetary system. It will be one major task of those examining the long-term improvement of the international monetary system to develop agreed means to this end. As gold is becoming more widely used as a non-monetary commodity, it becomes less satisfactory as a monetary reserve.

B. INCREASES IN VALUE OF ASSETS AND LIABILITIES

The currency realignment will increase the value of certain U.S. international reserve and other assets. Our gold assets, and those with a fixed relationship to gold, such as the gold tranche in the International Monetary Fund and Special Drawing Rights, will increase in value in terms of dollars by 8.57 percent—corresponding to the change in the par value of the dollar. Foreign exchange assets will increase to take account of dollar devaluation plus any revaluations of the currencies held.

The par value change will also require an increase of 8.57 percent in the value of our dollar subscriptions to international financial institutions. This increase in the value of dollar subscriptions stems from a provision in agreements governing our participation in international financial institutions that subscriptions be maintained in value in terms of gold. The purpose of this requirement is to assure that the contributions of all members are maintained in value in relation to each other despite changes in exchange rates. It also assures that our share in the assets and voting rights in these institutions is not impaired by devaluation of our currency.

Currency realignment will also mean increased dollar costs on repayment of certain foreign currency borrowings.

The increases in value of assets in some cases exceed the increases in related liabilities, and in others, assets and liabilities almost offset each other. As indicated, the increases in value of assets and liabilities are in most instances the direct result of the privileges and obligations of membership in international financial institutions.

Reserve Assets

With respect to liquid assets, there is an increase of \$828 million in the value of U.S. gold holdings; an increase of \$155 million in U.S. holdings of Special Drawing Rights; an increase of \$144 million in the United States gold tranche in the International Monetary Fund; and, finally, an increase of \$27 million in the value of U.S. foreign exchange holdings. These increments in value total \$1.1 billion.

The calculated increment on the U.S. gold stock of \$828 million is based on the assumption that the IMF will, prior to the change of the dollar parity, repurchase or withdraw from the Treasury amounts of gold on which it has a claim on the United States. These claims amount to \$544 million. We have requested that the IMF do so. There are no financial benefits to either party, whether these reversals take place prior to or following the U.S. parity change. The Treasury believes, however, that a clearer presentation of the effects of the parity change on the U.S. gold stock may be made if these transactions are now reversed, and, in any event, there no longer appears to be any useful purpose served by their continuation.

The increment in value of gold will result in a direct cash inflow into the Treasury of \$828 million as gold certificates equivalent to the increase in gold value are issued to Federal Reserve banks. However, under unified budgetary accounting concepts, this increment in value will not be considered a budgetary receipt.

The increments in value of assets must be viewed against increases in value of three classes of liabilities, those resulting from: (1) participation in the International Monetary Fund; (2) participation in the international development lending institutions; and (3) increased costs of repaying certain foreign currency borrowings.

⁴ Weighted by official gold holdings on November 30, 1971.

International Monetary Fund

1. Additional letters of credit will be issued in the following amounts representing the 8.57 percent increase in:

	<i>Mil- lions of dol- lars</i>
(a) Amount of U.S. dollar subscription (three quarters of quota) ..	431
(b) Outstanding drawings by United States	94

Total	525
2. The value of our subscription will be increased by	575
(The net increase of \$50 million over the additional letters of credit issued represents the portion of our quota paid in gold and undrawn.)	

Our financial relationships with the International Monetary Fund will result in a \$50 million net increase in our assets. First, because the dollar portion of \$5,025 million of our Fund subscription is denominated in dollars of a fixed weight and fineness of gold, this subscription will increase in current dollar value by 8.57 percent or \$431 million. Against the increased value of this asset, the United States will incur an equal liability derived from the requirement of maintenance of value of the dollar portion of our subscription in terms of gold. This will result in an exchange of assets, which will involve Treasury issuance of a letter of credit to the Fund in the amount of \$431 million.

There will also be an 8.57 percent increase, equal to \$144 million, in the U.S. gold tranche of \$1,675 million in the International Monetary Fund. Because this asset represents gold paid to the Fund in partial fulfillment of U.S. subscription obligations, there is no offsetting maintenance of value obligation. However, the increase in value of this asset will be partially offset by the requirement that we maintain the value in terms of gold of a U.S. drawing from the Fund of \$1,105 million, resulting in an increased obligation of \$94 million. A letter of credit would be issued to the Fund in this amount as part of the normal process of issuing such letters of credit in connection with U.S. drawings.

Thus, in the Fund, as a result of the change in the par value of the dollar, the total increase in assets equals \$575 million and the increase in liabilities amounts to \$525 million. The \$525 million in letters of credit that are to be issued to the Fund will not result in budgetary expenditures even when drawn upon, since transactions with the Fund represent exchanges of assets that are outside the budget. However, in order to issue these letters of credit an appropriation of approximately \$525 million will be requested. The amount of appropriation to be requested can only be approximate since the exact amount of the Fund's holdings of dollars will vary by small amounts from day to day and the exact amount of the letters of credit to be issued to the Fund can only be determined as of the day when the United States par value is formally modified.

International development lending institutions

The maintenance of value obligations incurred for the multilateral development lending institutions are as follows and total approximately \$1,069 million:

	<i>Callable</i>	<i>To be paid in</i>
IBRD	509	51
IDA		122
IDB	146	224
ADB	9	9
Total	¹ 663	406

¹ Total does not add due to rounding.

1. *Callable capital.*—In the World Bank, the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB), our subscription of callable or "guarantee" capital is denominated in dollars of a fixed weight and fineness, and the change in the par value of the dollar will mean an increase of 8.57 percent in our callable capital obligation. The U.S. callable capital in the World Bank is \$5,715 million, in the IDB it is \$1,370 million, and in the ADB it is

\$100 million. The total increase in the current dollar amount of these callable capital subscriptions, plus those authorized by Congress but not yet subscribed, amounts to \$663 million.

This callable capital is a highly contingent liability. It has never been called in the past and it is highly unlikely that these subscriptions will be called in the future, considering the size of already existing callable capital and the reserves which the international banks have built up. Therefore, no budgetary impact is anticipated. Nevertheless, funds must be available to meet these obligations if they are ever called, and an appropriation of \$663 million will be requested.

2. *Paid-in subscriptions.*—There is a substantial maintenance of value obligation with respect to the paid-in subscriptions to the development lending institutions—the multilateral banks mentioned above, plus the International Development Association. This will amount to an estimated \$406 million on paid-in subscriptions, both those previously authorized and those now in the authorization process. Only these obligations are expected to result eventually in budgetary outlays. The total obligation can only be definitively determined on the basis of dollar holdings as of the day on which the par value is changed and is therefore subject to some adjustment. In particular, the IDB is studying the appropriate application of maintenance of value to the pending subscription of \$1 billion to the Fund for Special Operations.

The maintenance of value obligation on the paid-in subscriptions would be paid in the form of letters of credit, and an appropriation of \$406 million will be sought as the basis for issuing these letters of credit. However, the letters of credit would be drawn down only after a period of several years as the development lending institutions need the funds for disbursements. No disbursements of these funds, and therefore no budgetary impact, is anticipated in fiscal years 1972 or 1973. It is expected that drawdowns of somewhat less than \$350 million would be fairly evenly spread over fiscal years 1974–1976. Subsequently, the remaining drawdowns are expected in the fiscal years 1977 to 1986 as certain dollar loans of the World Bank and the IDB mature.

The total maintenance of value appropriation that will be sought for the international development lending institutions, for both callable capital and paid-in subscriptions, amounts to \$1,069 million. As noted above, the callable capital obligation of \$663 million is not expected to result in budgetary expenditures, and the paid-in subscription of \$406 million is expected to result in budgetary expenditures only over a period of about 10 years, with no drawdowns in fiscal years 1972 and 1973.

Against these appropriation requests, there will be increases in the current dollar value of our subscriptions to these institutions. Moreover, the cash impact of the drawdowns on letters of credit will be more than offset by the \$828 million increase in the value of our gold stock. While this increment in value of gold is not a budgetary receipt, it will reduce Treasury borrowing needs and thereby lower interest costs, which are a budgetary expense. This annual reduction in interest costs, taken over the approximately 10-year period of drawdowns on letters of credit, will substantially offset the budgetary expense of maintaining the value of paid-in subscriptions.

Foreign Currency Securities and SDR's

Exchange guarantees on foreign currency denominated securities estimated at	172
Offset from gains on foreign exchange of	27
Total	145

Also, the value of both SDR held by and allocated to the Exchange Stabilization Fund (ESF) will be written up. Since the U.S. is a net user of SDR, there will be a net book loss, realizable only on dissolution of, or withdrawal by the United States from participation in, the SDR system, of... 42

The United States will incur a liability estimated at \$172 million on its foreign currency denominated securities. In other words, the cost of buying foreign currencies to repay these securities will increase by \$172 million over what it would have been prior to the realignment. The Exchange Stabilization Fund, as the organ of the Treasury which has responsibility for exchange stabilization operations, assumes the foreign exchange risk of U.S. Treasury borrowing in foreign currencies. Thus, the ESF would assume the liability of purchasing the additional

foreign currencies to pay these obligations. This obligation will be partially offset by the increase of \$27 million in the value of the foreign exchange holdings of the ESF. In addition, the ESF would incur an increased contingent liability of \$197 million on allocations to date of Special Drawing Rights to the United States, but this would be realized only in the remote event of liquidation of the SDR account in the IMF or U.S. withdrawal from participation in the SDR facility. This liability is offset by an increase, noted above, of \$155 million in the value of current U.S. holdings of SDR's. No appropriations are necessary with respect to these transactions and no budgetary expenditures will result.

IV. Background on the monetary crisis of 1971

A. INTERNATIONAL PAYMENTS DEVELOPMENTS

The U.S. balance of payments—and the world payments system—moved rapidly toward crisis in the first half of 1971. The lengthy slowdown in U.S. domestic economic expansion had not produced the expected strengthening of the U.S. trade balance. The deficit on official settlements rose to a level of \$5.5 billion in the first quarter. In the wake of a record deficit of roughly \$10 billion in the full year 1970, the early 1971 results generated increasing speculative pressures, directed particularly at those countries experiencing large inflows of funds.

Throughout the first half of 1971, speculative and interest-induced movements of funds caused dollar outflows and related reserve increases on a scale much larger than the unprecedented increases in 1970. (See Table 5.) Such movements, particularly into Germany, reached massive proportions in late April and early May, and the German authorities closed their exchange markets temporarily on May 5. Closing of most other major exchange markets followed quickly. The markets were reopened on May 9 and 10, with the German and Dutch Governments having decided to allow their currencies to float in the markets. The Swiss and Austrian authorities decided to revalue their currencies, by 7.07 and 5.05 percent respectively, and the authorities of other European countries decided upon a variety of measures, including the establishment of split exchange markets and controls on capital transactions, in an effort to moderate further short-term inflows. These actions provided only a brief respite from the developing crisis.

In the second quarter of 1971, the U.S. merchandise trade position worsened sharply, resulting in a quarterly deficit of more than \$1 billion. With interest rates in Europe remaining relatively high, outflows of U.S. long-term capital continued to rise and inflows of foreign funds dropped sharply. The balance on current and long-term capital accounts—the basic balance—recorded a deficit of more than \$3 billion in the second quarter, as contrasted with \$1.1 billion in the entire second half of 1970. The balance on official settlements was in deficit by \$11¼ billion during the first half of 1971. Table 4 traces the deterioration of the U.S. payments balance between 1970 and the first half of 1971.

TABLE 4.—U.S. balance of payments, 1970–71

(In millions of dollars, seasonally adjusted)

	1970	1971	
	Quarterly average	1st quarter	2d quarter
Merchandise trade balance.....	528	269	-1,040
Balance on current account (excluding Government grants)....	546	828	-329
U.S. Government grants and capital.....	-833	-1,026	-1,060
U.S. private long-term capital.....	-1,446	+1,724	-1,964
Foreign long-term capital.....	973	639	116
Balance on current account and long-term capital.....	-760	-1,283	-3,237
Balance on official reserve transactions.....	-2,455	-5,533	-5,731

Adding to speculative sentiment caused by the very large interest-induced flows of liquid funds throughout the period was a growing recognition that the United States was experiencing a secular deterioration in its current account, and that there appeared to exist a fundamental disequilibrium in the full sense in which this term is used in the Articles of Agreement of the International Monetary Fund.

The United States had experienced deficits in nearly every year since 1950. Through the greater part of the 1950's, these deficits had been warmly welcomed by other nations which were anxious to strengthen their payments positions and rebuild reserves, which had been depleted if not wiped out in World War II. Many of these countries established exchange rates in 1948-49 in relation to the dollar which were consciously designed to enable them to achieve surpluses and thus to rebuild reserves, even at a time when their productive capacity had not been fully reconstructed. As their productive strength returned, the retention of exchange rates set in this earlier period enhanced their ability to achieve balance of payments surpluses.

Moreover, when other countries experienced inflation and fell into deficit, they could devalue their exchange rates against the dollar. Although there were not a large number of such devaluations by the larger industrial countries, the dollar nonetheless actually experienced moderate appreciation over the years after the major exchange rate adjustments of 1949.

The pursuit of policies by other countries which tolerated and frequently encouraged surpluses left the U.S. to experience the deficits which represented the mirror image of these surpluses. This led to an erosion of the net U.S. reserve position, which worsened throughout the sixties and reached drastic proportions in 1970-71 under the combined pressure of deterioration in trade, interest rate differentials, and finally, speculative forces. (See Table 6.)

Tables 7-11 trace the movement of the principal items in the U.S. balance of payments from 1960 through 1971. A long period of slack in the U.S. economy, unusually stable domestic prices, unusually high pressure of demand on capacity in other industrial countries, and a series of selective measures intended to benefit the payments position in the short-run stabilized the basic balance in the period from 1960 to 1964. During this period the current account (excluding government grants) strengthened greatly, to a peak surplus of \$7.7 billion in 1964. Nevertheless, the official settlements balance remained in deficit by \$1.5 billion.

From the high point in 1964, both the current account position and the basic balance weakened markedly although shifts in relative cyclical conditions as between the United States and its major trading partners and the application of controls over capital outflows produced irregularities in the figures.

For much of the period from 1965 through 1969, the U.S. economy was experiencing heavy inflationary pressure under the strain of excessive demand. Prices, in the U.S. rose more rapidly than those abroad. Much of the earlier improvement in our relative price position was lost, and other countries' surpluses increased rapidly.

Despite the protracted deterioration in the U.S. reserve position and in our underlying balance of payments accounts, there was widespread confidence until early 1971 that the U.S. deficit could be eliminated with the winding down of the war in Vietnam and the restoration of domestic price stability. The U.S. official settlements position was in balance in 1966 and actually in surplus in 1968 and 1969. Although these surpluses were the result of the application of tight monetary policy by the United States at a time of relative monetary ease abroad, they had the effect of partially alleviating foreign concern about the U.S. external position. Such policies were not, however, sustainable for an extended time. When relative monetary conditions were reversed in 1970 and relative slack in the U.S. economy failed to stimulate large gains in our external trade accounts, the weakness of the U.S. position—and the corresponding strength of the positions of a number of other industrial countries—became more apparent. This fundamental weakness became particularly clear in the spring of 1971 as the trade balance deteriorated sharply at a time when national economic conditions in the U.S. and abroad required monetary policies which led to large outflows of short-term capital from the United States. Crisis followed.

B. THE U.S. ASSESSMENT AT MID-YEAR

By mid-1971, the enormous pressures of liquid capital movements and the secular deterioration in our underlying position had converged. The U.S. balance of payments was in deficit at an annual rate of nearly \$23 billion on the official settlements basis in the first half of the year. Even more disturbing than this unprecedented figure was the strong evidence that the persistent deterioration in our basic payments accounts, and particularly in our trade position, had

accelerated. Internal forecasts suggested the strong probability (later confirmed) of a record deficit in the basic balance for the second half of 1971, and the 1972 outlook was for further deterioration. The merchandise trade account was expected to be in deficit at an annual rate of over \$2 billion in the second half of 1971 and to deepen further in 1972 to some \$3 to \$4 billion—the first substantial U.S. trade deficits in this century.

Cyclical variations in economic conditions in the U.S. and other industrial economies can produce sizable swings in our payments position. Thus the actual data for any one period of time may not reflect the true state of the underlying position. For example, in 1970 the U.S. trade balance had improved considerably over the preceding year, from a surplus of \$0.7 billion to one of \$2.1 billion. In fact, however, the recorded trade surplus, when adjusted for cyclical factors, became a deficit of \$1 billion. The comparable estimate for 1971 was a deficit of about \$3½ billion.

In an effort to measure the extent of the deterioration in our position, this cyclical adjustment technique was used to project our position for 1972. On the hypothetical assumption that the United States and other major countries would experience normal or satisfactory high employment levels of economic activity, the projections pointed to a trade deficit of \$5 billion. This corroborated earlier evidence that the underlying U.S. trade position was undergoing a steady, sizable deterioration, year in and year out, at least since the middle 1960's. The projections also made it clear that unless the trade position improved substantially, interest payments on our liabilities to foreigners would rise almost as rapidly as income from U.S. investments abroad, so that we could not look to investment income as a substitute for a trade surplus. On a net basis, services (including military expenditures) and private remittances could not be expected to provide a surplus of much more than \$1 billion annually.

Furthermore, government grants and capital outflows must be expected to continue at a rate of more than \$4 billion, if the U.S. is to maintain the minimum necessary contribution to economic development. Outflows of long-term funds for private investment in less developed countries seemed likely to continue, while flows of long-term foreign capital from Europe to the U.S. could not be expected to reach a level which would offset direct and portfolio investment by Americans in Europe, Canada, and Japan.

Thus, in view of our responsibilities in providing assistance to developing nations and our economic role as a moderate supplier of private investment capital to the less developed world, net outflows of long-term capital and government grants could not reasonably be expected to fall below \$6 billion annually. In addition, we expected to continue to experience net payments of about \$1 billion annually in current account and long-term capital transactions which cannot be specifically identified.

This assessment of the world payments situation made it clear that a very sizable swing in our position—and corresponding changes in the positions of others—would be required to restore reasonable international payments balance.

Balance in the U.S. basic accounts, on the cyclically adjusted basis referred to above, would require a current account surplus large enough to cover our long-term capital outflows and government grant aid. Nearly the whole of the necessary current account surplus would have to be found in the trade account, at least for a number of years to come. The difference between the needed surplus and the deficit in prospect if no action was taken was massive. Drastic action would be required, even to restore the U.S. position to near-balance.

These international considerations coincided with the appearance of evidence that domestic recovery and the fight against inflation were not proceeding satisfactorily. Decisive action, then, was called for by both domestic and international conditions. A strong domestic economy would be essential to an improvement in our international position, and improvement in our balance of payments would aid the recovery of confidence and domestic economic activity.

C. THE NEW ECONOMIC POLICY

On August 15, 1971, President Nixon announced a new integrated program aimed at restoring domestic and international equilibrium to the U.S. economy.

This new economic policy constituted a bold and comprehensive change in U.S. economic policy, with three major interrelated objectives: To solve the infla-

tion problem and break the inflation psychology in the United States; to stimulate the U.S. economy immediately and improve efficiency and competitiveness over the longer run; and to strengthen our position in the world economy and improve the international monetary and trading system.

Success in the domestic elements of the President's program would be essential to lasting success in the international sphere. The proposals for dealing with our domestic needs—including the price and wage stabilization measures, the job development credit, the excise and income tax changes, and the reduction in Federal expenditures—constituted a major move to shift the domestic economy back toward a path of adequate growth and price stability.

The specific international measures announced in the President's program—the imposition of a temporary surcharge on dutiable imports and the suspension of convertibility of the dollar into reserve assets—were steps of great importance, both to the United States and to our trading partners. But they were not solutions in themselves. Rather, they were designed to provide needed support to our external financial and trading position while arrangements to cope with the difficult problems of international payments were developed and put into place.

The 10-percent surcharge was suppressed as part of the settlement of near-term issues reached in Washington in December. The suspension of convertibility into gold and other reserve assets continues, although the dollar continues to serve as the major intervention currency in the purchase and sale of other currencies in world markets. The question of U.S. settlement of deficits in some form of reserve assets, as well as other important questions about the future structure of the international monetary system, are to be taken up in the context of discussions on longer term reform.

The U.S. actions in the international field represented a turning point in U.S. foreign economic policy. They were a signal that the United States no longer had the financial or economic capacity to underwrite a system that was becoming more and more unbalanced. The serious erosion in the U.S. external position—which had occurred as countries strengthened their positions over the years—must be halted and reversed. Broad exchange rate changes were needed to restore a more equitable pattern which reflected the great changes in relative economic strength which have occurred in the past 25 years. Our major trading partners must allow access to markets on a more equitable basis if the benefits of our liberal trade policies were to be maintained and enlarged in the future. And there was ample room for improvement in the arrangements for sharing the costs of mutual security needs.

Beyond these problems of trade and payments interrelationships among nations, the monetary system itself—through which the effects of each country's policies are transmitted—must be changed to remove undesirable rigidities and to provide better balance in adjustment responsibilities, in the interest of avoiding the succession of crises that have marked recent years and of achieving a lasting stability.

In none of the major areas—changes in trading relationships, military burden sharing, or longer term monetary reform—could one country dictate solutions to others. The U.S. program did not attempt to do so but simply set the stage for a cooperative multilateral effort.

V. Long-term monetary arrangements

The official dollar price of gold was fixed at \$35 per ounce by Executive Order in 1934. From that date until August 15, 1971, the United States has applied this official price in monetary transactions with foreign monetary authorities. This convertibility of the dollar into gold has since 1945 provided the link between currencies and gold for the world as a whole, as other currencies were convertible into dollars rather than into gold. This link to gold was suspended on August 15, 1971. U.S. reserves had been shrinking for many years, while other countries accumulated dollar claims on the United States which they treated as official reserves. Gold came to represent less than two-fifths of world reserves with dollars as the major growing component of world reserves. The strain on the dwindling U.S. reserves in August threatened to become unmanageable, draining our remaining reserve holdings to no constructive purpose. The suspension of convertibility halted this reserve outflow, and set the stage for a thoroughgoing and overdue reappraisal of some aspects of the international monetary system.

Major changes have occurred since 1934 in the economic and trading environ-

ment in which the international monetary system operates. The interwar period was marked by domestic depression or stagnation in most major countries, very high levels of unemployment, low levels of world trade, and particularly in the later years of the decade, very large movements of refugee capital from the continent of Europe to Britain and the United States. By contrast, the 25 years since World War II have been characterized by unusually high levels of growth and employment in most industrial countries and an unprecedented rate of advance in the value of world trade. Inflation has been the major preoccupation of monetary authorities in the postwar period, in contrast to the persistent struggle against deflation and depression in the thirties. Despite the prevalence of inflation and, in recent years, a growing concern at the persistent payments deficit of the United States, the record of the 25 years since the Bretton Woods Agreements Act is one of extraordinary progress in the world's economy.

This progress has, however, been accompanied by growing strains on the international monetary system, caused by the weakening of the U.S. payments position in recent years. Persistent surpluses in other industrial countries were accentuated by divergencies of monetary policies and levels of interest rates between the United States and other countries, which have meant that the countries already in surplus on current account tended to attract still more dollars into their reserves.

To these two layers of strain on the monetary system a third has appeared, in the form of increased currency speculation in anticipation of revaluation or devaluation.

The experience of recent years has called attention to the asymmetry of the system and its apparent difficulties in achieving needed adjustment of payments positions in a manner consistent with open markets and monetary stability. It has been impossible for the United States to adjust its exchange rate unilaterally to correct its imbalance because most other currencies peg to the dollar and readily move if the dollar moves. The tendency of other exchange rates to move with the dollar is undoubtedly related to more deepseated economic and competitive considerations, including the relatively large size of the U.S. economy, as well as to monetary custom. On the other hand, it has been argued that the United States has not felt the full effects of its balance of payments deficit because it has not had to give up reserve assets or arrange special credits, as other countries would have to do. Thus, it is said, the United States has not had the constraints on monetary and other policies to the degree experienced by other countries, and has been able to tolerate imbalance for too long.

Such considerations led to a growing interest in longer term improvement of international monetary arrangements, even before the crisis of May-August 1971. This interest was given formal expression in a resolution at the annual meeting of the International Monetary Fund on October 1, 1971 (See Annex 2). The Ministers and Governors of the Group of Ten also agreed, in the communique of December 18, 1971, that such discussions should be promptly undertaken, particularly in the framework of the IMF (See Exhibit 52).

In general terms, it seems clear that the structure and practices of the postwar monetary and trading system need to be modified to take account of the changed relative positions of the United States and the other leading industrial countries, and also to deal more effectively with other difficulties that have emerged, both in the monetary system and in international trade relationships, here and abroad. Surplus countries as well as deficit countries will need to assume more active responsibility for a generally satisfactory inter-relationship of balances of payments on current account, and methods of better dealing with or absorbing short and long-term capital flows need to be developed. The exchange rate regime needs to be reviewed to support these objectives more fully.

National positions on the complex questions of long-term reform are not yet clearly formulated and may differ on some important aspects. Hence, discussion of longer term reform may well extend over a year or two. Some of the specific issues for future discussions are mentioned briefly below.

A major unresolved question is how and under what conditions exchange rates can be changed in future, with adjustments appropriately shared among surplus and deficit countries. From the standpoint of the United States, the question arises as to whether it has appropriate freedom of action to change its own exchange rate without corresponding changes by other countries.

How much emphasis should be given to changes in official par values, as against

the use of market forces to produce adjustment in exchange rates? How wide should bands around official parities be? What should be the "rules of the road," or "code of conduct," and what role should the IMF exercise in this respect?

Concerning the appropriate form and level of international reserves, the major growth element in world reserves in the years 1950-71 has been dollars, generated by large U.S. deficits. Gold has become a smaller proportion of world reserves, and at the end of 1970 accounted for only 40.2 percent of global reserves, as compared with 69.3 percent in 1950. Tables 12 and 13 show the changing composition of world reserves.

The United States and a number of other countries are firmly of the belief that the role of gold in the system must continue to diminish. An alternative form of liquidity, Special Drawing Rights, has the advantage that reserves in this form can be added to the world's reserves in desired amounts without an increase in the price of SDR's and without the need for large deficits on the part of the reserve country. Yet, a number of fundamental questions remain on the proper role of SDR's and reserve currencies and the total supply of world liquidity.

These questions are, in turn, related to the extent and the conditions under which the United States ought to consider any move toward resumption of convertibility. Clearly under present conditions, the resumption of convertibility is not a practical possibility, with the full effects of the exchange realignment on our balance of payments becoming evident only in 2 years or more. U.S. reserve assets amounted at the end of 1971 to \$12.1 billion, as against official dollar liabilities of more than \$50 billion.

Changes in the monetary system alone will not solve problems of balance of payments adjustment. The competitive positions of private enterprise and the whole complex of national policies are reflected in world payments. No international financial arrangement can achieve and maintain a satisfactory pattern of world payments, consistent with monetary order and stability, without effective domestic economic performance. Moreover, explicit governmental policies exert strong effects on trade and other balance of payments accounts. And countries in relatively strong external positions are not going to be eager to accept changes which appear to reduce their competitive strength.

The global objectives are more difficult than in the past, because the United States can no longer, as in the earlier postwar years, afford to absorb so fully the financial and economic costs of leadership in trade and payments liberalization without commensurate contributions by others. Thus international cooperation and understanding are fundamental to future progress.

In conclusion, important progress has been made in the past year. Some aspects of international financial arrangements which placed intolerable strain on the United States and on the monetary system as a whole have been modified. An unprecedented multilateral exchange rate realignment has been negotiated. Governments of the major trading countries have begun to recognize the need to review international trading relationships and to improve international monetary arrangements over the longer term. The opportunity exists for a future even brighter than the past.

Annex 1

Technical Explanation of H.R. 13120

SECTION 1. SHORT TITLE

This section provides that the bill may be cited as the "Par Value Modification Act."

SECTION 2. DEVALUATION AUTHORIZATION

Section 5(b) of the Bretton Woods Agreements Act requires that Congress must give prior approval to any change in the par value of the dollar in the International Monetary Fund. Section 2 would give this approval by authorizing and directing the Secretary of the Treasury to take the necessary steps to establish a new par value for the dollar of one dollar equals one thirty-eighth (1/38) of one fine troy ounce of gold or \$38 per fine troy ounce of gold. The initial par value of the dollar of one dollar equals one thirty-fifth of a fine troy ounce of gold was communicated by the Secretary of the Treasury John W. Snyder to the Fund in 1946.

Once congressional approval is obtained, the Secretary will establish the new par value by communicating it to the Fund. Under Article IV, Section 5, of the Fund Articles of Agreement a change in par value may be made only to correct a fundamental disequilibrium and then only on the proposal of a member, after consultation with the Fund. While the Fund in certain circumstances has a right to object to a proposed change, it may not do so if the proposed change does not exceed 10 percent of the member's initial par value. Since the proposed change in the U.S. par value is less than 10 percent of the initial U.S. par value, the Fund may not object to this par value change.

Section 2 would provide that the par value of the dollar in the Fund will establish the relationship of the dollar to gold for international purposes. It does not establish a gold dollar as defined in Section 15 of the Gold Reserve Act of 1934 (31 U.S.C. 444). The gold dollar which would be superseded by this Act was relevant before par values were established in the Fund. The gold dollar is equal to 15 and 5/21 grains of gold nine-tenths fine. This value for the dollar was established by Presidential Proclamation 2072 of January 31, 1934, pursuant to the Thomas Amendment of May 12, 1933 (48 Stat. 51, 52), as amended by Section 12 of the Gold Reserve Act of 1934 (48 Stat. 337, 342).

There is one domestic purpose for which it is necessary to define a fixed relationship between the dollar and gold. Section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b) provides that the amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates. In order to set a legal standard for the issuance of gold certificates, Section 2 provides that the new par value shall define the relationship of the dollar to gold for the purpose of issuing gold certificates. Thus, after the new par value is established, gold certificates may be issued on the basis of \$38 per fine troy ounce of gold instead of on the basis of the old par value of the dollar of \$35 per fine troy ounce of gold.

SECTION 3. MAINTENANCE OF VALUE

Section 3 of the bill would authorize the Secretary of the Treasury to maintain the value in terms of gold of the holdings of United States dollars of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the International Development Association and the Asian Development Bank to the extent provided in the Articles of Agreement of such institutions. Each of the Articles of Agreement establishing the foregoing international financial institutions contains a provision for maintaining the value in terms of gold of a member's currency when there is a reduction in any member's par value. The provisions differ in detail and apply to the institutions' holdings of the members' currency to members' subscriptions or to undisbursed balances of members' subscriptions.

The details of the nature of the obligations and the amount to be paid in with respect to each institution are contained in a report to be submitted separately. Appropriations will be necessary to issue the letters of credit to fulfill the maintenance of value obligations. Section 3 would authorize the appropriation of such sums as may be necessary for this purpose, to remain available until expended. An exact sum cannot be specified since total obligations can only be definitively determined, in most cases, on the basis of dollar holdings as of the day on which the par value is changed.

SECTION 4. INCREMENT IN VALUE OF GOLD

Section 4 of the bill would provide that the increase in value of gold held by the United States, including the gold held as security for gold certificates, resulting from the change in par value authorized by Section 2 of this bill would be covered into the Treasury as a miscellaneous receipt. Section 7 of the Gold Reserve Act of 1934 (31 U.S.C. 408b) also provides that in the case of any decrease in the weight of the gold dollar, the resulting increase in value of gold would be

covered into the Treasury as a miscellaneous receipt. This statute is inapplicable since as a technical matter there would be no reduction in the weight of the gold dollar but, instead, this concept would be superseded by the creation of a new par value for the dollar. Thus, to be explicit about the disposition of the increment in value of gold, Section 4 provides for payment of this increment of approximately \$828 million to miscellaneous receipts of the Treasury.

Annex 2

International Monetary System Resolution No. 26-9, October 1, 1971

Whereas the present international monetary situation contains the dangers of instability and disorder in currency and trade relationships but also offers the opportunity for constructive changes in the international monetary system; and

Whereas it is of the utmost importance to avoid the aforesaid dangers and assure continuance of the progress made in national and international wellbeing in the past quarter of a century; and

Whereas prompt action is necessary to resume the movement toward a free and multilateral system in which trade and capital flows can contribute to the integration of the world economy and the rational allocation of resources throughout the world; and

Whereas consideration should be given to the improvement of the international monetary system and the adjustment process; and

Whereas the orderly conduct of the operations of the International Monetary Fund should be resumed as promptly as possible in the interest of all members; and

Whereas all members of the Fund should participate in seeking solutions of the aforesaid problems;

Now, therefore, the Board of Governors hereby *resolves* that:

I. Members of the Fund are called upon to collaborate with the Fund and with each other in order, as promptly as possible, to:

(a) establish a satisfactory structure of exchange rates, maintained within appropriate margins, for the currencies of members, together with the reduction of restrictive trade and exchange practices, and

(b) facilitate resumption of the orderly conduct of the operations of the Fund.

II. Members are called upon to collaborate with the Fund and with each other in efforts to bring about:

(a) a reversal of the tendency in present circumstances to maintain and extend restrictive trade and exchange practices, and

(b) satisfactory arrangements for the settlement of international transactions which will contribute to the solution of the problems involved in the present international monetary situation.

III. The Executive Directors are requested:

(a) to make reports to the Board of Governors without delay on the measures that are necessary or desirable for the improvement or reform of the international monetary system; and

(b) for the purpose of (a), to study all aspects of the international monetary system, including the role of reserve currencies, gold, and special drawing rights, convertibility, the provisions of the Articles with respect to exchange rates, and the problems caused by destabilizing capital movements; and

(c) when reporting, to include, if possible, the texts of any amendments of the Articles of Agreement which they consider necessary to give effect to their recommendations.

TABLE 5.—*Reserve changes of all countries except United States*

[In millions of dollars]

Country	Changes			Outstanding June 30, 1971
	1970 quarterly average	1971 1st quarter	1971 2d quarter	
Japan.....	+297	+1,059	+1,902	7,801
Canada.....	+393	+166	+7	4,852
European countries.....	+2,270	+3,927	+1,203	35,133
Belgium-Lux.....	+115	+225	+124	3,196
France.....	+282	+530	+165	5,655
Germany.....	+1,620	+2,192	+894	16,696
Italy.....	+77	+672	+66	6,090
Netherlands.....	+176	+308	-46	3,496
United Kingdom.....	+75	+490	+303	3,620
Switzerland.....	+177	-509	+460	5,083
Sweden.....	+16	+106	+98	965
Subtotal—G-10.....	+3,228	+5,239	+3,973	57,454
All other countries ¹	+970	+1,801	+2,330	² 33,907
Total, all countries except United States..	+4,198	+7,040	+6,303	² 91,361
U.S. official reserve transactions balance.....	-2,455	-5,533	-5,731	
Of which financed by:				
Sale of U.S. reserve assets.....	+619	+682	+659	
Increase in U.S. liabilities to foreign official agencies.....	+1,836	+4,851	5,072	

¹ Except United States.² Estimated.

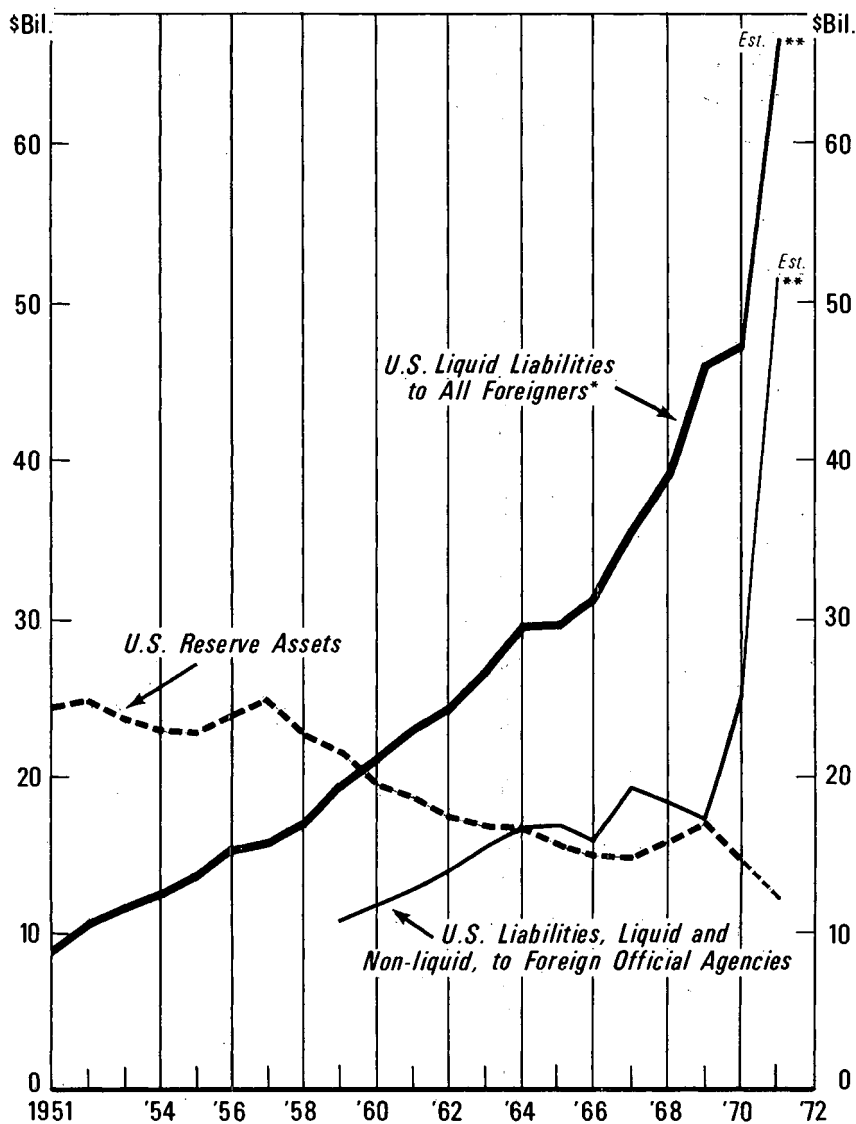
CHART 1

U.S. RESERVE ASSETS AND LIQUID LIABILITIES TO FOREIGNERS

The chart that follows shows how our reserve assets have declined and our short-term liabilities to foreigners have risen until the short-term liabilities are now more than five times as large as our reserve assets.

Our liabilities to foreign monetary authorities, which are included in the \$68 billion figure of total liquid liabilities to foreigners, are currently estimated at \$51½ billion.

U.S. RESERVE ASSETS AND LIQUID LIABILITIES TO FOREIGNERS*



*Including non-liquid liabilities to foreign official agencies.

Source: Treasury Bulletin

** Dec. 31, 1971

TABLE 6.—U.S. reserve assets and liquid liabilities to foreigners ¹

[In billions of dollars]

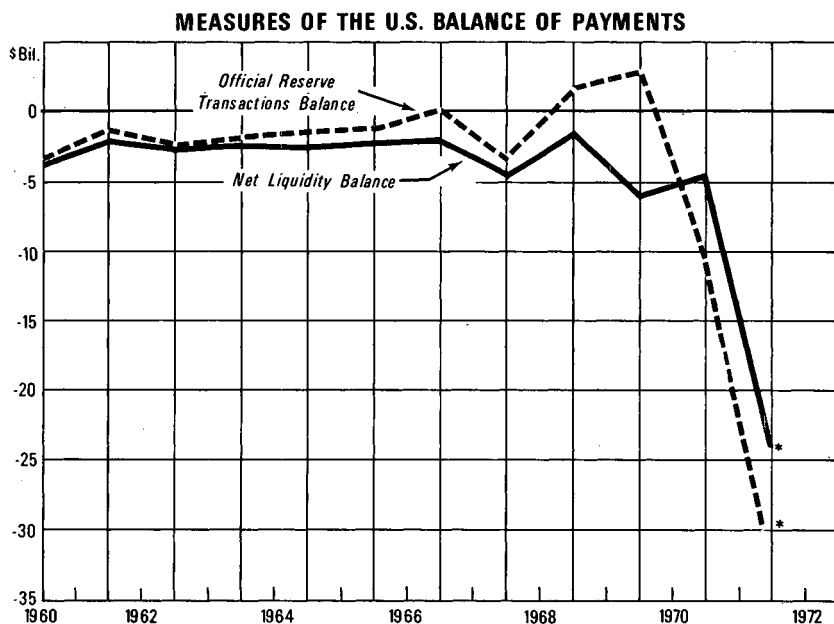
Year	U.S. reserve assets	U.S. liquid liabilities to all foreigners ¹	U.S. liabilities (liquid and nonliquid) to foreign official agencies	Year	U.S. reserve assets	U.S. liquid liabilities to all foreigners ¹	U.S. liabilities (liquid and nonliquid) to foreign official agencies
1950.....	24.3	8.9	(2)	1961.....	18.8	22.9	(12.6)
1961.....	24.3	8.8	(2)	1962.....	17.2	24.3	(13.8)
1952.....	24.7	10.4	(2)	1963.....	16.8	26.5	(15.4)
1953.....	23.5	11.4	(2)	1964.....	16.7	29.5	(16.7)
1954.....	23.0	12.5	(2)	1965.....	15.5	29.7	(16.8)
1955.....	22.8	13.5	(2)	1966.....	14.9	31.1	(16.0)
1956.....	23.7	15.3	(2)	1967.....	14.8	35.8	(19.3)
1957.....	24.8	15.8	(2)	1968.....	15.7	38.6	(18.5)
1958.....	22.5	16.8	(1)	1969.....	17.0	46.0	(17.1)
1959.....	21.5	19.4	(10.6)	1970.....	14.5	47.1	(24.5)
1960.....	19.4	21.0	(11.9)	1971.....	12.1	³ 68.0	³ (51.5)

¹ Including nonliquid liabilities to foreign official agencies.² Not available.³ Estimated.

CHART 2

U.S. OFFICIAL RESERVE TRANSACTIONS BALANCE AND NET LIQUIDITY BALANCE

This chart shows that the U.S. has had deficits in every year since 1960 on the net liquidity balance but that the deficit increased enormously in 1971. Measured on the official reserve transactions basis, we were in deficit in nine of the last 12 years, with a very large deterioration in 1970 and a further enormous deterioration in 1971.



*Excludes SDR allocation of \$867 million in 1970 and \$717 million in 1971

SOURCE: U.S. DEPARTMENT OF COMMERCE, OBE

TABLE 7.—*Measures of the U.S. balance of payments, official reserve transactions balance and net liquidity balance*

[In billions of dollars]

	Net liquidity balance	Official reserve transactions balance
1960.....	-3.7	-3.4
1961.....	-2.2	-1.3
1962.....	-2.8	-2.7
1963.....	-2.6	-1.9
1964.....	-2.7	-1.5
1965.....	-2.5	-1.3
1966.....	-2.1	.2
1967.....	-4.7	-3.4
1968.....	-1.6	1.6
1969.....	-6.1	2.7
1970.....	¹ -4.7	¹ -10.7
1971.....	^{1 2} -24.0	^{1 2} -30.25

¹ Excludes SDR allocation of \$867,000,000 in 1970 and \$717,000,000 in 1971.² Estimate.

CHART 3

U.S. BALANCES ON GOODS, SERVICES & REMITTANCES AND ON LONG-TERM CAPITAL

This chart is one of the series designed to show the structure of the U.S. balance of payments. It indicates that with minor exceptions the United States maintained a favorable balance on goods, services and remittances until 1971. At the same time we have experienced sizable net outflows of long-term capital. These figures include the investments made by American firms as well as government loans and grants.

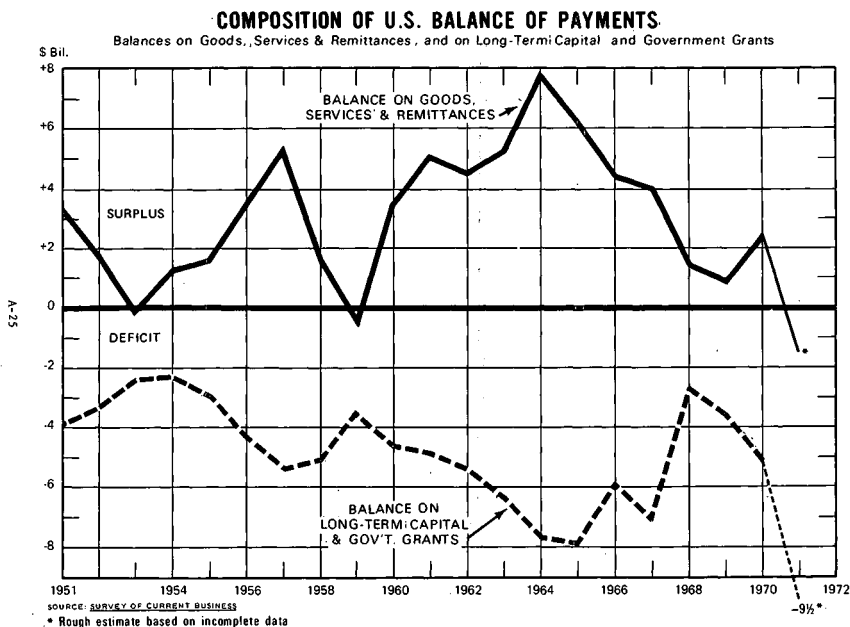


TABLE 8.—U.S. balance on goods, services, and remittances and on long-term capital
[In billions of dollars]

	Balance on goods, services, and remittances	Balance on long-term capital ¹		Balance on goods, services, and remittances	Balance on long-term capital ¹
1951.....	3.3	-3.6	1962.....	4.4	-5.4
1952.....	1.8	-3.4	1963.....	5.2	-6.4
1953.....	-1.1	-2.4	1964.....	7.7	-7.7
1954.....	1.3	-2.3	1965.....	6.1	-7.9
1955.....	1.6	-2.9	1966.....	4.3	-5.9
1956.....	3.5	-4.4	1967.....	3.9	-7.1
1957.....	5.2	-5.4	1968.....	1.3	-2.7
1958.....	1.6	-5.1	1969.....	.7	-3.6
1959.....	-1.5	-3.6	1970.....	2.2	-5.2
1960.....	3.5	-4.7	1971.....	² -1½	² -9½
1961.....	5.0	-4.9			

¹ Including Government economic grants.

² Rough estimate based on incomplete data.

Source: Survey of Current Business.

CHART 4

U.S. BALANCE OF PAYMENTS ON CURRENT AND LONG-TERM CAPITAL ACCOUNT

This chart shows that the United States has had a deficit on this balance in almost every year for the last 20 years. What this means is that the nation has not received enough from the sales of goods and services and from foreign investments here to offset the long-term investments made by U.S. industry and government outside the United States.

U.S. BALANCE OF PAYMENTS ON CURRENT AND LONG-TERM CAPITAL ACCOUNT

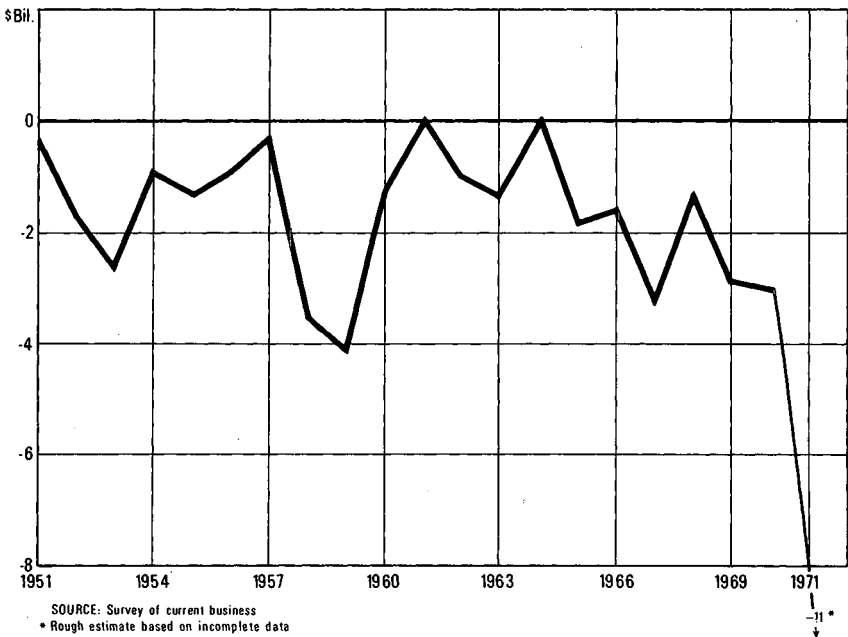


TABLE 9.—U.S. balance of payments on current and long-term capital account

	Billions		Billions
1951	-\$0.3	1962	-\$1.0
1952	-1.7	1963	-1.3
1953	-2.6	1964	0
1954	-9	1965	-1.8
1955	-1.3	1966	-1.6
1956	-9	1967	-3.2
1957	-3	1968	-1.3
1958	-3.5	1969	-2.9
1959	-4.1	1970	-3.0
1960	-1.2	1971	-11.0
1961	0		

¹ Rough estimate based on incomplete data.

CHART 5

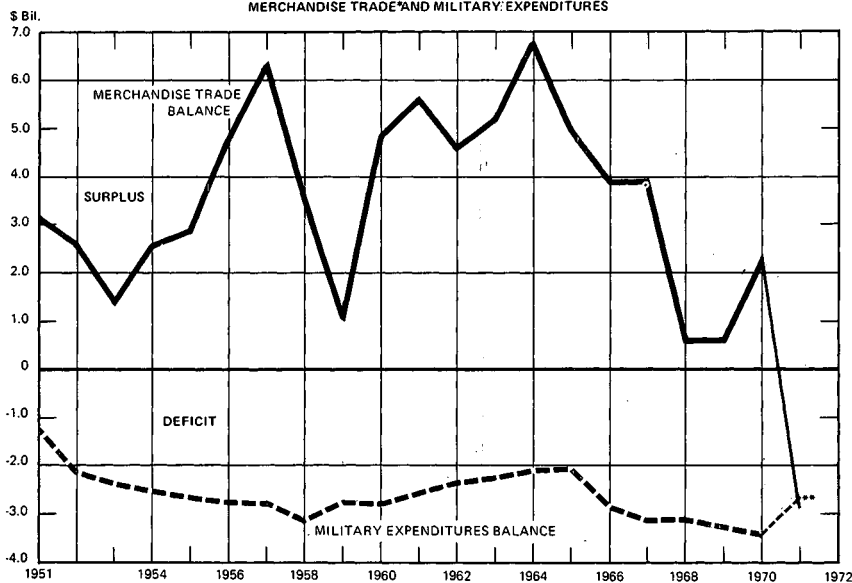
TRADE AND MILITARY EXPENDITURES

The chart that follows shows that our merchandise trade balance varies greatly from year to year but that in recent years the trend was down. Our position is best when foreign countries are operating at or near capacity levels and our own economy is growing less rapidly. Thus we had a record trade surplus of nearly \$7 billion in 1964, but under similar conditions in 1970 the surplus was only \$2.1 billion. On the other hand, if the United States is experiencing a period of excess domestic demand, our trade position tends to be weaker, particularly if some of our major markets should be going through periods of relatively slower growth. The very small trade surplus recorded in 1968 reflects these conditions. In 1971, even though the cyclical situation continued to favor U.S. trade position, the trade balance moved into deficit.

The chart also shows that in the early 1960's prior to Vietnam, the United States was gradually reducing its net military expenditure outlay. Since 1965 that trend has been reversed. Last year, because of a large increase in foreign purchases of military equipment in this country, U.S. net military expenditures are estimated to have dipped below \$3 billion for the first time since 1966.

COMPOSITION OF U.S. BALANCE OF PAYMENTS

MERCHANDISE TRADE AND MILITARY EXPENDITURES



SOURCE: SURVEY OF CURRENT BUSINESS

* B/P Basis

** Rough estimate based on incomplete data

TABLE 10.—U.S. merchandise trade and military expenditures, net

[In billions of dollars]

	Trade balance	Balance on military
1951.....	3.1	-1.3
1952.....	2.6	-2.1
1953.....	1.4	-2.4
1954.....	2.6	-2.6
1955.....	2.9	-2.7
1956.....	4.8	-2.8
1957.....	6.3	-2.8
1958.....	3.5	-3.1
1959.....	1.1	-2.8
1960.....	4.9	-2.8
1961.....	5.6	-2.6
1962.....	4.6	-2.4
1963.....	5.2	-2.3
1964.....	6.8	-2.1
1965.....	5.0	-2.1
1966.....	3.9	-2.9
1967.....	3.9	-3.1
1968.....	.6	-3.1
1969.....	.6	-3.3
1970.....	2.1	-3.4
1971.....	-2.9	-2.3 ¹

¹ Rough estimate based on incomplete data.

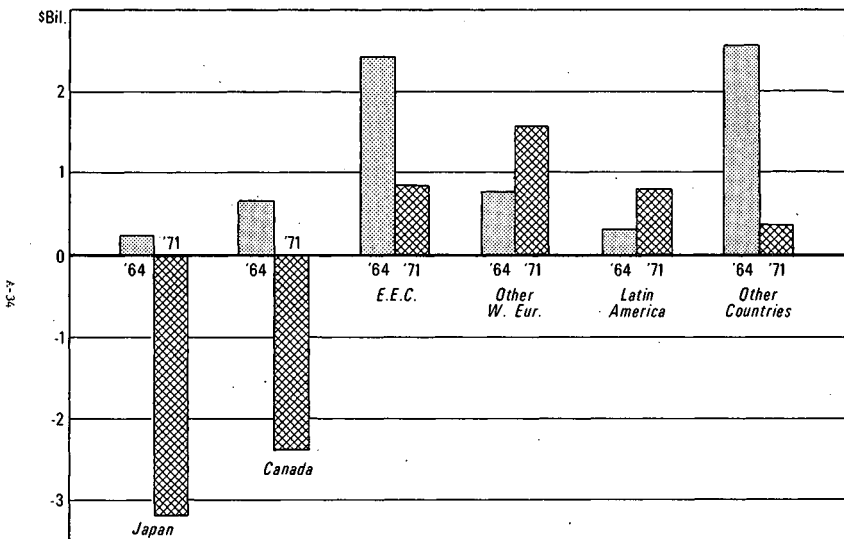
SOURCE: Survey of current business.

CHART 6

DETERIORATION IN U.S. TRADE BALANCE SINCE 1964

The U.S. trade balance deteriorated by \$9 billion between 1964 and 1971, going from a surplus of \$7 billion in 1964 to a deficit of \$2 billion last year. We experienced deterioration in our trade position with nearly all areas of the world except for Latin America and parts of Western Europe. As the chart illustrates, the deterioration in our trade with Canada and Japan exceeded \$6.5 billion. Our deterioration with Japan was \$3,447 million and our deterioration with Canada was \$3,072 million. With the European Communities, our trade position deteriorated by \$1.6 billion.

DETERIORATION OF U.S. TRADE BALANCE SINCE 1964



Source: FT 990, U.S. Census Bureau

TABLE 11.—*Deterioration in U.S. trade balance since 1964*

[In millions of dollars]

	1964	1971
Japan.....	241	-3,206
Canada.....	676	-2,396
European Economic Community.....	2,438	865
Other West Europe.....	766	1,567
Latin America.....	308	794
Other countries.....	2,577	329

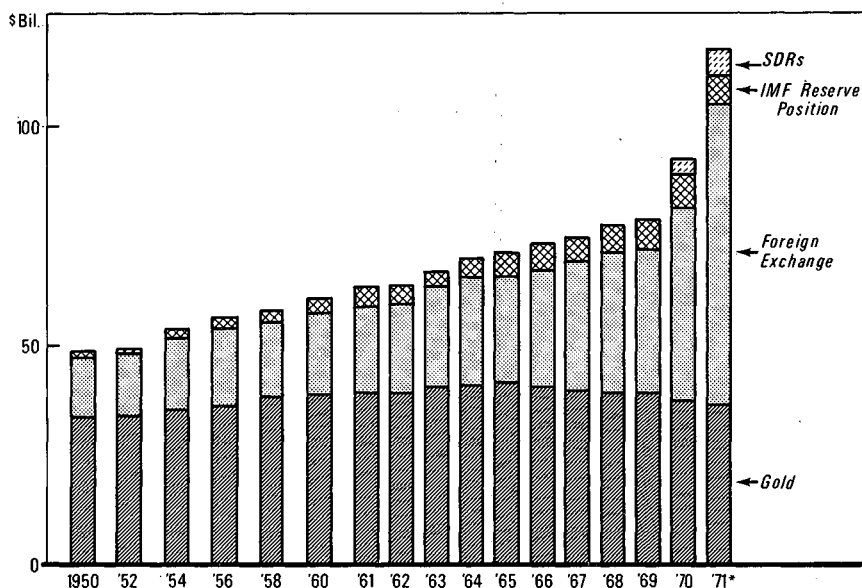
Source: FT-990, U.S. Census Bureau.

CHART 7

THE COMPOSITION OF WORLD RESERVES, 1950-1971

The chart that follows shows that the proportion of world reserves represented by gold has declined from more than two-thirds of the total in 1950 to less than one-third on September 30, 1971. Foreign exchange, on the other hand, has increased from one-fourth of total reserves in 1950 to almost 60 percent in 1971.

COMPOSITION OF WORLD RESERVES, 1950-1971



*End September 30

TABLE 12.—*The composition of world reserves*

[In millions of dollars]

End of year	Gold (all countries)	Foreign exchange	Reserve position in the Fund	SDR's	Total reserves
1950.....	33,755	13,290	1,671	N.A.	48,715
1951.....	33,925	13,720	1,713	N.A.	49,360
1952.....	33,900	14,245	1,777	N.A.	49,920
1953.....	34,320	15,565	1,891	N.A.	51,780
1954.....	34,950	16,675	1,845	N.A.	53,470
1955.....	35,410	17,015	1,880	N.A.	54,305
1956.....	36,055	17,820	2,278	N.A.	56,150
1957.....	37,305	17,025	2,313	N.A.	56,645
1958.....	38,030	17,120	2,557	N.A.	57,710
1959.....	37,880	16,385	3,250	N.A.	57,520
1960.....	38,065	18,985	3,570	N.A.	60,620
1961.....	38,890	19,625	4,158	N.A.	62,675
1962.....	39,275	20,035	3,795	N.A.	63,110
1963.....	40,225	22,455	3,940	N.A.	66,620
1964.....	40,840	24,040	4,155	N.A.	69,035
1965.....	41,855	23,790	5,376	N.A.	71,015
1966.....	40,910	25,405	6,330	N.A.	72,640
1967.....	39,505	29,020	5,748	N.A.	74,270
1968.....	38,940	31,910	6,488	N.A.	77,330
1969.....	39,125	32,345	6,726	N.A.	78,190
1970.....	37,185	44,520	7,697	3,124	92,505
1971 ¹	² 36,230	² 68,930	6,279	5,894	² 117,330

¹ End September.² Estimate.

N.A. Not applicable.

Source: Supplement to 1966-67 and Jan. 1972 IFS.

TABLE 13.—*The percentage composition of world reserves*

End of year	Gold (all countries)	Foreign exchange	Reserve position in the Fund	SDR's	Total reserves
1950.....	69.3	27.3	3.4	N.A.	100.0
1951.....	68.7	27.8	3.5	N.A.	100.0
1952.....	67.9	28.5	3.6	N.A.	100.0
1953.....	66.3	30.1	3.7	N.A.	100.0
1954.....	65.4	31.2	3.5	N.A.	100.0
1955.....	65.2	31.3	3.5	N.A.	100.0
1956.....	64.2	31.7	4.1	N.A.	100.0
1957.....	65.9	30.1	4.1	N.A.	100.0
1958.....	65.9	29.7	4.4	N.A.	100.0
1959.....	65.9	28.5	5.7	N.A.	100.0
1960.....	62.8	31.3	5.9	N.A.	100.0
1961.....	62.1	31.3	6.6	N.A.	100.0
1962.....	62.2	31.7	6.0	N.A.	100.0
1963.....	60.4	33.7	5.9	N.A.	100.0
1964.....	59.2	38.4	6.0	N.A.	100.0
1965.....	58.9	33.5	7.6	N.A.	100.0
1966.....	56.3	35.0	8.7	N.A.	100.0
1967.....	53.2	39.1	7.7	N.A.	100.0
1968.....	50.4	41.3	8.4	N.A.	100.0
1969.....	50.0	41.4	8.6	N.A.	100.0
1970.....	40.2	48.1	8.3	3.4	100.0
1971 ¹	30.9	58.7	5.4	5.0	100.0

¹ End September.

N.A.—Not applicable.

Source: Supplement to 1966-67 and Jan. 1972 IFS.

Exhibit 57.—Statement by Secretary Connally, March 1, 1972, before the House Banking and Currency Committee

I welcome the opportunity to appear today to express my strong support for the Par Value Modification Bill (H.R. 13120) and to urge its prompt enactment. This bill has one essential purpose, and a very important purpose—to establish a new par value for the dollar at the equivalent of \$38 per ounce of gold, as part of a general realignment of world currencies.

The agreement reached at the Smithsonian Institution last December 18 was an unprecedented step in world monetary affairs. It was the first negotiated multilateral exchange rate realignment—the first attempt to reorder the entire pattern of exchange rates among major currencies to seek a better equilibrium. Countries in large and persistent balance of payments surplus—Japan, Germany, and others—agreed to increase the par value of their currencies. We for the United States agreed to propose to the Congress a reduction in the par value of the dollar by increasing the dollar price of gold by 8.57 percent.

The total of the agreed exchange rate changes is sizable. We calculate that it is equal to a weighted average realignment of approximately 12 percent between the dollar and the currencies of our major industrial competitors excluding the Canadian dollar which continues to float.

I do not expect the currency realignment alone to solve our international financial and economic problems. There is no panacea for these difficulties. But it does represent major progress. Exchange rate changes have a pervasive quality—in time they work their way through the entire fabric of the economy influencing all aspects of foreign trade and payments. The multilateral realignment, changing not only the dollar relative to other currencies but also the relationship of the other currencies among themselves, should strongly promote an improved equilibrium in the entire worldwide payments structure enabling the monetary system to operate more smoothly and more effectively.

Another dimension of our overall effort concerns trade arrangement. Material has been submitted to the committee on the results of recent trade negotiations with our major trading partners. We made clear in the Smithsonian agreement that we would not propose devaluation of the dollar until at least the first phase of these negotiations was completed and the results made available for congressional scrutiny.

These negotiations have signalled a change in the U.S. approach. That approach continues to look outward toward expanded trade. But it recognizes that liberal policies in the United States must, in the last analysis, rest on the firm economic and political base of equitable opportunities for our exporters abroad. We mean to pursue that objective with diligence and vigor. I believe it is not only in our self-interest but that of the world community, for in the absence of success our will and capacity to support liberal trade and payments policies will inevitably be eroded.

I can report we have concluded agreements of value with the European Community and particularly Japan. These provide some immediate progress toward improving our access to foreign markets. They look to more comprehensive negotiations this year and next. These agreements are useful first steps. They do not represent full success, but they are a beginning.

Regrettably, we have not been able to reach agreement with Canada. We are concerned that a number of trade agreements and arrangements with that country, established at an earlier time in a quite different economic environment, need to be brought into better balance in accord with present needs and realities. While the two governments have remained some distance apart on this matter, we intend to continue to seek appropriate means of achieving our objectives.

Combined with the necessary changes in par values by other countries, devaluation of the dollar will formalize the pattern of exchange rates negotiated last December and which since then, *de facto*, has prevailed in the exchange markets. The formal change in par value does not end the suspension of the convertibility of the dollar into gold or other reserve assets that was initiated on August 15 of last year.

The prime consequence of the international realignment of currency values is, of course, to improve substantially the competitive position of U.S. producers in both domestic and overseas markets. Over time these changes should work strongly toward restoring a trade surplus for the United States.

I believe these changes can and will be achieved consistent with the needs of

our trading partners. A healthy external position for the U.S. economy demonstrably requires a substantial improvement in our trade position. It seems to me evident that a healthy world economy, a stable monetary system, and a liberal trading order rest in part on our success in achieving that objective.

We have made clear on many occasions that we do not expect the currency realignment to correct our trade and payments position quickly. We expect—and our trading partners expect—the U.S. underlying balance of payments to remain in deficit this year. Experience by other countries shows the initial price effects of currency realignment on imports and exports are all too likely to be perverse. Moreover, cyclical factors may be less favorable to the U.S. balance this year with our economy growing more vigorously than those of most of our major competitors. In contrast, the full benefits of favorable changes in physical volumes of trade due to the shifts in exchange rates may not be felt for 2 years or more.

We anticipate that our basic deficit (which includes current account plus long-term capital flows) will be substantially below the roughly \$11 billion deficit recorded last year. The official reserves transactions deficit (which also includes short-term capital flows) should be enormously reduced from the highly abnormal \$30 billion recorded last year.

The Treasury did not share the exaggerated hopes of some that there would be a massive return flow of dollars to the United States immediately after the Smithsonian agreement. Likewise, we do not share the abrupt swing to pessimism in some quarters when these unfounded expectations were not realized. One of the most helpful things we could have now is a greater sense of realism in viewing the international monetary scene. After all, we've had quite an upheaval. Some of the presumptions of the past are no longer valid and the process of change inevitably results in some uncertainties. It's going to take time to achieve a more satisfactory pattern of world payments and to revise and improve our international monetary system. But we have also made large and demonstrable progress in establishing the basic conditions to restore equilibrium. I am confident the benefits will become apparent as we move ahead.

I want to emphasize the devaluation of the dollar breaks with most earlier currency devaluation in one important respect. It came not at a time of overheating and excess demand at home but at a time of economic slack. In this context the so-called classic measures to accompany devaluation—tight money and restraint—to release additional resources for export are not necessary. Indeed, in our present circumstances they would be harmful. Instead, we can welcome the stimulus to domestic jobs and production implicit in the international adjustment. As a rule of thumb—but no more than that—each \$1 billion improvement in the trade balance might bring a gain of about 60,000 jobs. The gain in jobs from realignment would not be immediate. It would come over a period of 2 years or more along with the improvement in the trade balance.

Apart from these economic effects of the realignment the change in par value of the dollar more or less automatically entails some changes in the asset and liability position of the U.S. Government expressed in dollars. One effect is to maintain the relative share of U.S. participation in international financial institutions and thus our share of the ownership and voting power. The adjustments in assets and liabilities can be condensed into four categories:

(1) The dollar value of our gold holdings will increase by some \$828 million, or 8.57 percent, resulting in an equivalent cash gain for the Treasury and reduction in our borrowing need.

(2) Our International Monetary Fund subscription will be increased in terms of dollars by 8.57 percent. This increases our rights to draw foreign currencies from the Fund by \$575 million. Our obligation to provide additional dollars to the Fund will increase by only \$525 million since that part of past subscriptions paid in gold will be revalued without additional dollar payments. These monetary transactions have no budgetary or cash impact.

(3) Maintenance of value of the paid in subscriptions to the international development institutions will require as much as \$406 million. Initially, these subscriptions will be paid in letters of credit, but as drawn upon this will entail both a cash and budgetary drain. The impact, however, will be spread over a period of 10 years or more and not begin until fiscal year 1974.

(4) Our subscriptions to the callable capital of the international development institutions will increase by some \$663 million. These subscriptions provide ultimate security for the private market borrowings of these institutions; they have

never been called in the past, and it is highly unlikely they would be called in the future. Thus, this obligation represents a remote contingent liability without budgetary or cash impact.

It is contemplated that the various obligations incurred by maintenance of value requirements, however remote, will need to be covered by appropriations in an approximate amount of \$1.5 to \$1.6 billion. These appropriations, of course, only deal with the liability side of the equation and do not reflect the offsetting gains.

Overall, the net result of the series of transactions will be: In terms of its effects on Treasury cash, to increase our resources through the writeup of our gold holdings; in terms of budgetary expenditures, a probable rough balance between savings on interest expense (as a result of the added cash resources of the Treasury) and the additional paid-in capital subscription to the international development institutions; in terms of our overall asset and liability position, an approximate offset between added contingent and deferred liabilities and the increased value of our gold and capital subscriptions.

In addition to these adjustments in assets and liabilities, net losses on certain operational foreign exchange accounts, including both so-called swaps and foreign currency borrowing maintained by the Exchange Stabilization Fund and the Federal Reserve, will be absorbed by those institutions. These losses are presently estimated at about \$145 million for the ESF and under \$200 million for the Federal Reserve. These losses do not affect the budget except indirectly to the extent a reduction in net Federal Reserve profits reduces its payments to the Treasury.

In the international negotiations following the suspension of convertibility on August 15, a prime U.S. objective was to obtain a major international currency realignment. I would recall to the committee that we entered these negotiations with the strong view that the preferable course would be to achieve the necessary realignment without disturbing the long-established official dollar price of gold. That conclusion was based on several considerations.

We wished to emphasize the view that over time the monetary role of gold should diminish, and we did not wish to foster speculation over price increases that would tend to maintain that role. Moreover, unilateral U.S. action to change our stated price for gold did not appear a useful method of achieving the desired realignment of exchange rates because of the probability that other countries would follow suit in whole or in part by changing the price of gold in their currencies. The net effect would have been a general increase in the official price of gold. Thus, international agreement on an appropriate pattern of exchange rates was the heart of the problem.

As the negotiations progressed, however, certain other countries strongly resisted a realignment of exchange rates not accompanied by formal revaluation by the United States in terms of the official gold price. At the same time the negotiations confirmed that whether or not the United States agreed to change the dollar price of gold the size of the effective exchange rate change would be determined by the decisions of our trading partners with respect to their own parities.

In this difficult negotiating situation the conclusion was reached that if a change in the dollar price of gold has to be included we could obtain an earlier and more favorable resolution of the realignment question. At the same time we limited the change to a level acceptable to other industrial countries without substantial emulation. This was the nature of the bargain concluded at the Smithsonian—combining the maximum feasible exchange rate realignment with an increase in the official dollar value of gold as well as decreases in the value of gold expressed in terms of a number of other currencies.

I want to make clear that this decision does not change our view that the monetary role of gold should continue to diminish—a trend already well established. In this instance a change in the official dollar gold price has been necessary to facilitate a currency realignment. At the same time the official price of gold in terms of a number of other currencies will decline. These changes in no way indicate that gold provides a satisfactory basis for supplying necessary increases in world liquidity in the years ahead. I believe the difficulty of these recent negotiations and the ensuing speculation in private gold markets emphasize further the need to move away from dependence on gold in the monetary system internationally, an objective long since achieved by virtually all countries domestically.

I do not believe that our objective of reducing the monetary role of gold would be furthered by bills now before the Congress to facilitate private holding of gold. In fact, such legislation might simply foment gold speculation and raise

unnecessary questions of our intentions in that respect. This is a matter that should be considered and resolved at a later date when the monetary role of gold has been definitely settled as part of overall monetary reform.

In the period ahead we must resolve not only the question of the role of gold in the international monetary system but also many other critical problems of reform. Today I hope the committee will direct its attention to the single issue in the bill before you—devaluation of the dollar as part of a general currency realignment. I urge you to report this bill promptly and favorably without complicating amendments. Swift enactment of a clean bill will serve to consolidate the new pattern of exchange rates which has been negotiated. It will remove a source of uncertainty for the markets. It will allow us to turn our full attention to the search for solutions to fundamental problems in our monetary and trading structure.

The new pattern of exchange rates thus consolidated will provide an opportunity to rebuild our Nation's external strength. But realignment alone will not assure that strength.

We must intensify our efforts for better balanced trading arrangements that provide our exporters with equitable access to markets. Lowering our export prices accomplishes little if other trade barriers frustrate our efforts to expand overseas sales.

We must achieve growth without inflation. Renewed growth is essential to raise our productivity. I have great confidence in the ability of our country—industry, labor, and government—to control costs and prices not just as well as our competitors but better than our competitors.

We must restore the vigor of our export industries and improve our technology.

These are fundamental requirements. They will not be achieved without determination and effort. But we are moving in the right direction, and I cannot doubt that this Nation will measure up to the tasks.

Exhibit 58.—Remarks by Secretary Connally, March 15, 1972, before the Council on Foreign Relations, New York City

On this date 7 months ago the President of the United States initiated what has come to be known as the new economic policy. The goals of that policy were three: First, to curb the insidious inflation imperiling our domestic stability and well-being; second, to stimulate responsibly the healthy growth of our domestic economic activity and to provide the necessary jobs for American workmen; and, third, to strengthen our Nation's position both for more successful competition within and for more constructive influence upon the world's systems of international trade and finance.

It was recognized at the time that none of these goals would be—or could be—attained simply by their proclamation. Fulfillment of such objectives separately or together is a monumental task. Nonetheless, it can be said that implementation of the President's policy has achieved striking progress in all spheres.

In this context I want to consider with you tonight the progress which has been made—and the opportunities for still greater progress which have been brought into being—in just one of these spheres; that is, in regard to the foreign monetary policy and international economic leadership of the United States.

When the President acted last August there was implicit in his decision a recognition that the industrial and trading nations of Europe, North America and the Pacific have come to the end of what might be called "the postwar world."

That world was shaped and faithfully served by agreements, arrangements, and attitudes born of another time. At the time of conception, during and just after World War II, it was undeniably the reality that the United States stood apart, strong and unscarred, in a world weakened and disfigured by a generation of tension, conflict, and devastation. Under conditions then prevailing, men could—and did—reason that the strength of the United States was strength to which others might cling as they undertook the long and demanding labors of restoring their own societies and their own economies. Furthermore, in that time Americans themselves could—and did—accept as the basis for their own policies that what was good for the world must be, in the end, best for the United States itself.

Accordingly, out of that time there came into being a world in which the United States willingly assumed responsibilities others could not bear, willingly

bore burdens others did not share, and willingly lived with competitive disadvantages so that others could build their strength.

Over the span of a quarter of a century those arrangements remained unchanging even as the world itself greatly changed. The realities, reason and rationales of the 1940's eroded yet the underlying structure of world trade and finance stood still. By the end of the decade of the sixties, it was supported not by a solid foundation but only by a base of custom, convenience, and occasional contrivance. Thus it was in the months immediately preceding the President's announcement last year that developments in the world's payments system forced upon us all acknowledgment of the unreality of the arrangements by which we were still attempting to abide.

As you recall, 1 year ago at the end of the first quarter of 1971, it became apparent that the United States and its principal trading partners were moving toward crisis in the payments system.

Over the full year of 1970 our official reserve transactions balance had run to a record deficit of about \$10 billion. If temporary that could have been absorbed. In just the first 3 months of 1971, however, the deficit in those transactions equalled and exceeded the half-yearly rate for 1970.

The storm warnings were hoisted. The dollar flow pouring overseas in 1971 had become the unwanted orphan of its father so eagerly courted by all the world a few years ago.

As speculation took hold defensive measures were put in place. Germany and the Netherlands floated their currencies. Switzerland and Austria revalued. Other European countries employed a variety of measures trying to cope with the all but indigestible inflow of short-term funds. Relief was only brief and fleeting.

By midyear our trade balance was showing ominously rapid declines, conforming and accelerating the trends of the last part of the 1960's. Projections confronted us with the prospect of the first substantial trade deficits of the century in both 1971 and 1972. We were forced to consider deeply the full implications of the massive deterioration in our trade balance.

Finally, we also faced the intolerable arithmetic of our international reserve position. The ratio of our reserve assets to our liquid liabilities had still been in our favor at the end of the 1950's, but by 1971 we had more than \$5 of liquid liabilities for each \$1 of reserve assets.

This was the balance sheet confronting the Nation and the President 7 months ago. The fact is that we had expended our surplus and extended our credit until both were exhausted.

The postwar world brought some glorious achievements. But the essential underpinnings of that system were gone. By any objective reading it was entirely obvious that what was not good for the United States certainly was not good for the world.

The developments of 1971—and the longer term trends projected from them—clearly meant that the industrial nations were hurtling toward a time of tension and paralysis. Under such an economic climate it would have been difficult, if not impossible, to carry forward with the great and urgent works of peace and accord between the blocs of East and West.

Under such a climate it would have been difficult, if not impossible, to sustain and nurture the 20th century's thrust forward liberality in trading relations between industrial nations. Furthermore, such a climate could only give impetus on both sides of the Atlantic and on both sides of the Pacific to protectionism, parochialism, and the ultimate folly of economic isolationism.

This was a situation demanding initiative and action. Yet it was this very necessity for action which brought home most forcefully the obsolescence and inadequacy of those arrangements which shaped and served the postwar world. In a situation indicating a need for devaluing the dollar we could not act freely without other currencies moving with us. In a situation obviously requiring that the explosive growth of the economy of Japan be fit into a balanced structure of trade, old arrangements of the postwar world found the United States accepting Japanese exports at a rate five times greater than the countries of the roughly equivalent market of the European Community.

In a situation already inviting concern over restrictive tariffs and quotas national attitudes emerging—or reemerging—in recent years facilitated the spread of discriminatory preferences by the strongest trading nations in Europe. At a time when the United States has negotiated limits on further growth of imports of textiles and steel into our market, already heavily penetrated by foreign suppliers, the surplus countries of Europe and Japan have maintained quotas established years ago virtually to exclude a variety of "sensitive" goods.

But there was—and is—a still greater problem. When the United States faced the necessity for acting we were confronted with the fact that today's world provides no fully adequate machinery for reconciling all the interests involved. Closely and critically interrelated as our world is in this last one-third of the century, it remains true that there was not last year—and there still is not this year—a forum in which decisive negotiations could be undertaken or lasting results accomplished across the full range of monetary and trade issues involved.

Against this background, for the United States to act effectively and with dispatch 7 months ago, it was necessary for us to act in a unilateral manner wholly uncharacteristic of either our traditions or our desires. This is not a state of affairs we wish to see prolonged. Yet in saying this I must say that this is an area to which we need to give attention at home as well. The developments of 1971—and, in particular, the events of the past 7 months—demonstrate convincingly that our own system is not properly or realistically structured to cope with the making or the implementation of foreign economic policy.

This is a function both of organization and of outlook. It is also a function of what we may hope is now a passing period in our national experience.

With the onset first of World War II and then of the cold war tensions we were thrust suddenly into a position of world leadership for which there were no precedents. By the nature of the challenges which those years presented our popular attitudes, our political dialog, and the performance of our National Government were all shaped by the era's priority emphasis upon military strategies and political alignments.

Our interest in—and, to some extent, our basic understanding of—the economic relationships between nations remained an area of far lesser priorities.

With good hearts, good intentions, and good feeling we proceeded into the realms of foreign economic policy, confident that the strength of our economic position must be inexhaustible and convinced that, in any event, the making of economic policy was subordinate to the making and maintenance of policy assuring the mutual security of the Western World. In this spirit we gave little thought to the organization of our Government for purposes of making and implementing foreign economic policy. For both the executive branch and the legislative branch alike the postwar world was a time of preoccupation with strengthening and streamlining mechanisms designed to respond to armed danger.

That such priorities were proper is beyond debate. But the developments of the past year have emphasized what should have impressed itself upon us more strongly years ago: other priorities have risen in our midst.

As early as the late 1950's when our international deficits suddenly grew much larger, the first warning clouds were present—only to be brushed away. Then over the years of the 1960's we saw the nature of the industrial world had indeed changed. The dependency of those nations ravaged by World War II yielded to the industriousness of their peoples, and both the European Community and Japan emerged as vigorous competitors—first reducing their need for the products of U.S. industry and then learning how to sell to us in volumes not dreamed of a decade earlier.

While this was occurring we in this country were preoccupied with a decade of ferment, change, and social upheaval. At home we faced up to problems without parallel in other industrial nations of racial tension, decaying cities, and population growth and mobility. Abroad we became entangled in a prolonged and divisive war. It is only realism to acknowledge that in both private and public sectors these priorities distracted attention from other fundamental needs.

We welcomed a domestic boom. But we budgeted loosely and let inflation get out of hand. The erosion in our external economic position was aggravated, and we wishfully coasted on the illusion that confidence in the dollar could be sustained apart from the underlying economic reality.

Now that is clearly changed. In the public sector we must give to foreign economic policy that same intensive effort and emphasis which until now has been principally reserved for foreign military and political policies.

The conduct of foreign economic policy today is characterized by traits of ponderousness, division of responsibility, rivalry, and, in some sectors, innocence. Too often in times past it has been fragmented and immobilized by concern for other sectors of our foreign policy. New organizations—and new missions for old organizations—are clearly required if the Chief Executive is to have the scope of counsel required for decision and the sensitive apparatus required for securing coherent implementation of decisions.

Similarly, the private sector is no less concerned. Industry, labor, and government must realize that their traditional adversary roles are not always suited to the new realities of the international environment. They together have the obligation of finding ways of becoming far more efficient and imaginative competitors in the far more competitive world we now face beyond our borders.

What I am saying essentially is this. Over the midcentury we in this country have dwelled upon the growing closeness of the world. In the main our thoughts about the implications of modern communication, transportation, and other technology have related largely to the impact upon the matter of peace or war. Now in this era ahead those thoughts must relate to the impact which is both far larger and far more intimate of this closeness upon our daily economic life. In these times, as much as in all times past traders are destined to succeed where soldiers and diplomats could not succeed, at weaving the countries and continents of this planet into a useful fabric of relationships.

I speak as I do of these things because I feel that our concerns with such matters say more than anything else of the very great distance we have come. One year ago, certainly, such subjects would not have seemed relevant and urgent.

Today the realities are apparent because—as I said at the beginning—the President has openly faced the problem, pointed to the new priorities, and successfully launched the process of adjusting to them. In negotiations with Japan, Canada, and the European Community, and in the Smithsonian agreement reached by the Group of Ten, significant gains have been made toward evolution of the policies and structures which this new era so clearly requires.

At the same time I believe it must be said that this is not a period in which final decisions will be—or can be—quickly reached. National positions on complex questions of trade and money well up from the whole of national history, experience, perception, and, very often, prejudice. New imperatives are not readily recognized, new visions are not readily embraced. Having initiated this present period of reformulation of existing agreements and arrangements, the United States readily acknowledges the need of others—as well as its own need—to contemplate future courses with care and thoughtfulness.

At the outset we anticipated that there would be misunderstanding and even misrepresentation of our purposes and objectives. Needless to say, we have not been disappointed.

In the heat of last August the new policy was acclaimed by many abroad—and some at home—as a return to protectionism or even to isolationism. Similarly, after the Smithsonian agreement was announced voices again were raised warning that the United States would not act, as agreed, to increase the price of gold to \$38 per ounce.

The intemperateness of these misrepresentations already has been answered. The temporary import surcharge has been removed. Agreements have been reached committing the United States and other major trading nations to begin comprehensive negotiations aimed at expanding trade by reducing both tariff and nontariff barriers. At the initiative of the administration, Congress is proceeding promptly on the legislation changing the par value of the dollar.

Certainly the commitment of the United States to a liberal trade and payments system is unchanged and unchangeable. Yet it is the very depth of that commitment which requires us today to speak with new frankness—and to act with new directness—in our efforts to move toward arrangements accommodating to today's new realities.

There may be some tempted to seek some profit for their own interests from promoting the instability—or even the wreckage—of the international monetary system. The United States regards such parochialism only as folly.

Our basic point of departure is the Smithsonian understandings. The new exchange rates provide a realistic framework and a fresh opportunity for our own efforts—a framework forged in the crucible of hard bargaining on all sides.

At the same time the Smithsonian agreement contemplates that negotiations should proceed on the longer range issues involved in building a new monetary system. The question of convertibility of the dollar into reserve assets, upon which so much attention has been focused, is certainly one of those issues. But it is just one—inextricably linked to the others. That is the context in which it was put at the Smithsonian, and that is the context in which we intend to proceed.

More than that, we believe premature commitments could only undermine the stability we seek. I distinguish sharply between premature efforts to restore

convertibility and the more technical problem of finding means to facilitate the operations of the International Monetary Fund during this interim period. The Fund has been operating since August 15 without placing special burdens on any member. The future problems seem to me manageable—not simply by looking to the United States to provide whatever reserve assets may be convenient to others but by truly cooperative efforts in which others participate in accordance with their strength.

These concerns, of course, are all part of broader and longer term monetary reform.

We have not yet put forward an "American plan" for the future shape of the international monetary structure. We shall not do so until we have fully wrestled with the complexities of this most complex subject. Nor do we intend to make our decisions until such time as our internal discussions and debates are fully complete and our thinking can be tested against the thinking of others.

Reform of the world's trade and payments structure will not be achieved quickly or easily. Behind the facade of technicalities basic issues of national policy must be faced and basic differences must be reconciled. We need to fit the reform in a longer vision of a world economic and trading order.

Does the European Community want to function as a tightly-knit monetary unit with its members able and willing to renounce independence of action in international monetary affairs? That is a matter for the Europeans to decide. But we cannot escape a close interest in whether monetary unity is a potentially liberalizing and stabilizing force in world financial affairs or will be converted into a vehicle for promoting an inward-looking, defensive bloc.

There are other questions to face.

In future arrangements, how will we overcome philosophical and practical differences between those favoring relatively liberal and unrestricted trade and payments systems and those who regard controls as essential permanent fixtures in any structure?

For our part, we want maximum freedom for international flows of investment capital as well as goods. We realize, however, that others seemingly prefer restricted capital and money markets, whether as counterparts to regional trading blocs or otherwise.

To what extent can differences in national monetary policies be accommodated? In an interdependent world linkages between markets cannot be ignored. Yet countries have different economic structures, different problems, and different monetary and interest rate traditions.

Other questions could be raised. Not least among them, of course, is the difficult question of the forum—or forums—best serving the ends of such negotiations. Discussions of changes bearing on the interests of all nations must be broadly representative. They should be linked to the relevant institutions, particularly the International Monetary Fund. At the same time there is a critical point in the size of a group capable of conducting manageable and effective negotiations without becoming merely an academic seminar.

The Group of Ten has in the past provided a useful forum. That Group, however, is limited to industrial nations and wealthy nations. It provides no link to trade and other aspects of the problem. Other groups and other voices certainly must be heard. The representational pattern of the IMF Executive Board provides one possible approach. In concept, some new grouping could be devised.

I have no settled answer to this question of the forum. I do feel we should work to resolve the question promptly and then proceed to more substantive issues. To that end, I have asked Under Secretary Paul Volcker to begin conferring with officials of other countries to explore possible solutions to this and other problems. In the light of his discussions I am prepared to participate in meetings—formal or informal—as may be needed to facilitate progress in these matters.

During these recent months I have sometimes heard the accusation that I have become a sort of "bully boy" on the manicured playing fields of international finance. You will not expect me to accept that characterization. But I will plead guilty to speaking in plain words as directly as I can. I do so because nuances and ambiguous phrases can only mislead the American people as to the urgency of the problems we face. Equally, our friends abroad should know of our determination to solve those problems, with good will but with firm resolve.

With that determination and resolve I am convinced that the dollar will again be a currency sought after throughout the world, fully capable of carrying its share of the burdens of international finance. Indeed, I believe there is a truly unique opportunity for all nations to begin building a durable trade and payments structure based on equity and realism.

Without the actions initiated 7 months ago that opportunity would not exist today. We would have had, at best, a much smaller realignment, no meaningful trade negotiations in sight, and, worse still, no adequate realization here or abroad of the tasks that lie ahead.

As we continue our efforts in the international forums—whatever they may be—I do emphasize my conviction that we also need to act within our own system, public and private, if we are to grasp our opportunities. The structures of our Government in the area of foreign economic policy needs repair. We need to adhere to the discipline of sound fiscal and monetary policies at home.

We have come to the end of the postwar world. We are willing, I am sure, and we must be able to contribute constructively, effectively, and responsibly, to the building of a new world in which money, trade, and investment serve as instruments of gain and progress for all peoples.

Exhibit 59.—Statement by Under Secretary Walker, July 6, 1971, before the Subcommittee on International Finance of the House Banking and Currency Committee in support of H.R. 8750 to authorize further U.S. contributions to the International Development Association

I am happy to appear this morning in support of H.R. 8750. This bill embodies the administration request which would authorize U.S. participation in the third replenishment of the resources of the International Development Association (IDA), an affiliate of the World Bank.

Under the proposal, the United States would join with 18 other developed countries in providing a total of \$2.4 billion over 3 years for development financing on concessional terms in the poorest of the developing countries. The United States would put up \$960 million—40 percent—or \$320 million per year. Maximum annual cash flows will be far lower since our contribution is made in the form of letters of credit to be drawn over an extended period.

IDA is the leader in multilateral efforts to help countries with low per capita incomes and with limited capacity to borrow internationally. No comparable world-wide institution exists to provide hard currency financing for major capital projects on terms appropriate for these countries.

IDA is, as well, the cornerstone of our efforts to have other developed countries share with us the burden of providing assistance on concessionary terms, mobilizing contributions from substantially all of the economically advanced countries.

When IDA started in 1960, those other countries were providing an aggregate of \$85 million a year through this institution. In the present replenishment they are to provide an aggregate of \$480 million a year—more than a five-fold increase. During the same period the U.S. share of the rising level of IDA contributions has declined moderately.

Mr. Chairman, the situation is urgent. As of June 30, the funds which could be committed from the second replenishment were exhausted.

The other economically advanced countries in IDA are to provide contributions aggregating \$1.4 billion. Enough of these countries have taken the necessary steps to fulfill their pledges so that, with our contribution, the conditions required to bring the replenishment agreement into effect would be met. On the other hand, failure of the United States to act would make it impossible for the agreement to come into effect at all.

IDA's management is currently seeking advance commitments from other contributing countries to bridge the gap left by delay on the part of the United States. While there is precedent for this from the last replenishment, I must emphasize that other countries make such advances in the expectation that the United States will carry out its part of the international bargain.

Mr. Chairman, I can well understand how some could ask why, when domestic needs are so great, the United States should be providing substantial sums to help meet problems in other lands. The brief answer is that in a world community where goods, people, and ideas travel rapidly no nation's concern with other nations can stop at the border. Neglect today may well generate situations that demand our attention tomorrow, and at higher cost. The mature nations of the free world now recognize the need to help the poorer nations in their efforts to improve economic and social conditions. And, in relative terms, we no longer lead among the affluent nations in meeting our responsibilities in this regard.

President Nixon's recent proposal for reshaping our foreign assistance effort reflects the continuing high priority this administration assigns to development assistance. The replenishment of IDA is a vital element in the President's program, which gives special emphasis to an increased role for multilateral development assistance.

At least eight arguments can be outlined as the rationale in support of this shift toward multilateral cooperation:

1. *Burden-sharing.*—Multilateral agencies are the most effective means available for achieving an equitable sharing of the cost of development assistance.

2. *Multinational expertise.*—With a multinational staff, the international financial institutions have a pool of knowledge and expertise on development problems which no single country can provide.

3. *Assistance on basis of development need.*—The multilateral agencies allocate assistance on the basis of development need, relatively free of political coercion and pressures often evident in bilateral lending between industrialized and developing nations.

4. *Collective judgment on development policies.*—The international lending agencies bring international influence on a collective basis to bear on recipient countries to maintain economic discipline and to follow generally acceptable development policies.

5. *Flexibility in imposing performance standards.*—The international financial institutions have broad flexibility to set performance standards and loan conditions because the institutions are not obligated to the foreign policy of any single donor.

6. *Promote open economies and fair treatment of foreign investment.*—The international lending institutions are an important force in developing more open and less restrictive national economies. The World Bank has a firm policy not to lend to countries which are not taking satisfactory steps toward adequate compensation for foreign capital investment that has been expropriated.

7. *Provide a shielding device.*—The international lending agencies relieve this Nation and any other single donor country of undue responsibility for the economic development assistance of any one particular recipient country.

8. *Encourage self-help.*—The international lending agencies require developing nations to establish their own sound performance standards, solid programs, and reasonable development priorities.

These advantages were recognized and endorsed in the Peterson report on the future organization of U.S. development assistance efforts. This report formed the basis for President Nixon's foreign aid message of last September 15, in which the President said:

"International institutions can and should play a major creative role in the funding of development assistance and in providing a policy framework through which aid is provided.

"Such a multilateral approach will engage the entire international community in the development effort, assuring that each country does its share and that the efforts of each become part of the systematic and effective total effort. I have full confidence that these international institutions have the capability to carry out their expanding responsibilities."

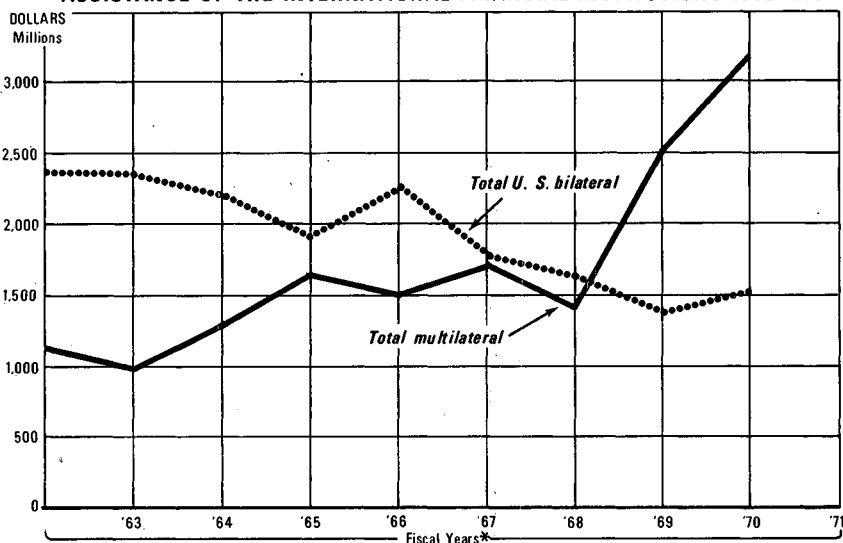
I think you will agree that these advantages are indeed significant.

A clear shift has in fact taken place over the past decade in the direction of greater reliance on multilateral channels of development finance. As is shown in chart A, the annual level of multilateral lending to developing countries has risen from \$900 million 10 years ago to \$3.2 billion in 1970. At the same time, annual U.S. bilateral assistance (AID loans and grants) has declined from \$2.4 billion to \$1.6 billion. The mix of U.S. resources provided bilaterally and multilaterally has also changed significantly in the multilateral direction, as shown in chart B.

The large volume of multilateral financing—cumulatively, \$16 billion over the last decade—was, of course, carried on with the aid of resources drawn from all the members of the international institutions. Chart C shows that our own contribution of taxpayers funds to help make that volume of lending possible was only \$2.9 billion over the decade. We supplemented these with guaranty authority (i.e., callable capital) of \$924 million, which allowed private capital markets to furnish a major portion of total resources.

These brief statistics make it clear that multilateral financing can expand dramatically. As a result, very substantial leverage in terms of development financing results can be obtained—if the United States were to take up its fair share.

U.S. BILATERAL ECONOMIC ASSISTANCE COMPARED TO ECONOMIC LOAN ASSISTANCE OF THE INTERNATIONAL FINANCIAL INSTITUTIONS 1962-1970

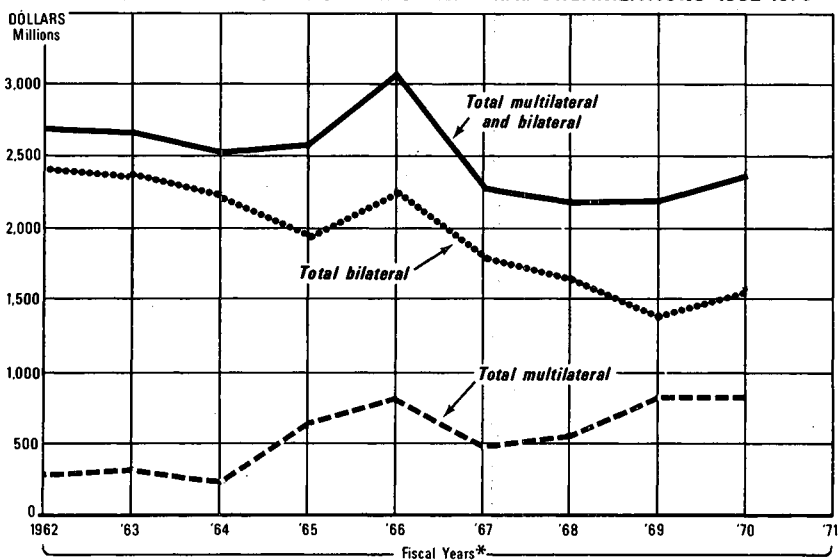


Sources: AID and IFIs. *IOB and ADB components - calendar years.

May 28, 1971

Chart A

TOTAL U.S. BILATERAL ECONOMIC ASSISTANCE AND TOTAL U.S. CONTRIBUTIONS TO MULTILATERAL ORGANIZATIONS 1962-1970

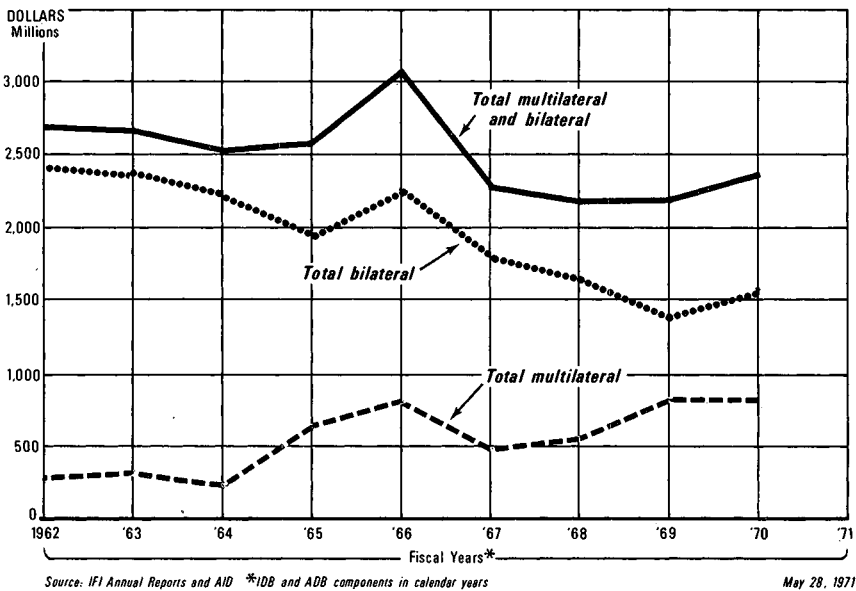


Source: IFI Annual Reports and AID *IOB and ADB components in calendar years

May 28, 1971

Chart B

**TOTAL U.S. BILATERAL ECONOMIC ASSISTANCE AND
TOTAL U.S. CONTRIBUTIONS TO MULTILATERAL ORGANIZATIONS 1962-1970**



May 28, 1971

Chart C

The specifics of the proposed IDA replenishment are dealt with in detail in the report of the National Advisory Council that has been made available to the committee. Accordingly, I will not go beyond the outline I have just given of the proposal, its rationale and its benefits to the United States, except to comment on its implication for the U.S. balance of payments.

I am aware of the fact that there are some who believe that this replenishment of IDA should incorporate so-called balance of payments safeguards similar to those which were part of the second replenishment at U.S. insistence. In brief, those safeguards provided for accelerated use of the contributions of others. Correspondingly, they limited as long as possible the use of the U.S. contribution to the amount of IDA-financed goods procured in the United States. This arrangement deferred the balance of payments impact of that IDA contribution but did not eliminate it. It is not a trying arrangement since the principle of international competitive bidding is preserved.

Although I would not deny that our balance of payments situation is serious, we should not utilize the technique of the earlier replenishment. Such a technique is only a deferral and does not attack the real problem.

Let's face the hard facts. Our balance of payments problem—which is essentially that of equity in trading arrangements and the sharing of military burdens—will not be solved by palliatives that fail to deal with root causes. Moreover, reliance over the years on such actions may well have postponed the inevitable confrontation of these fundamental deficiencies. I believe, therefore, that we should proceed with this multilateral agreement as it was negotiated.

In conclusion, Mr. Chairman, I wish to emphasize that IDA replenishment is critical to the entire multilateral effort in development finance. IDA was set up at U.S. initiative. It has served well our development and burden-sharing goals. It is out of money and has stopped making firm new loan commitments. Eighteen other countries are ready to put up \$1.4 billion as their part of the replenishment agreement. That agreement cannot and will not come into effect unless we act affirmatively. I urge that this committee take the steps necessary to permit the United States to fulfill its appropriate role in this vital instrument of economic and social development.

Exhibit 60.—Statement by Under Secretary Walker, October 26, 1971, before the Subcommittee on International Finance of the House Banking and Currency Committee in support of H.R. 5013 and H.R. 5014 to authorize U.S. contributions to the Asian Development Bank and the Inter-American Development Bank

I welcome this opportunity to testify in support of H.R. 5013 and H.R. 5014, bills which provide additional financial resources to the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB), respectively.

The amounts and purposes of the funds called for in these two bills are identical to those in the omnibus bill approved by the committee last year. Although that legislation passed the full House as H.R. 18306, the portions before you today were later deleted by the Senate. Last week, however, the Senate gave its approval not only to the IDB and ADB legislation now before you but also to the IDA third replenishment already reported by this subcommittee. This action was extremely heartening to the administration and I have no doubt similarly heartening to the members of this subcommittee who have so strongly supported this legislation.

I am here today to urge accomplishment of what this committee, itself, felt should have been accomplished a year ago. Failure again this year to fully authorize our contribution to IDB and ADB Special Funds would be a serious blow to the concept of multilateralism and to international cooperation in the development finance field. What would have been a timely provision of funds last year has now become, because of the delay, an urgent and even critical financial need.

Asian Development Bank

Events since your consideration and approval of this legislation last year have, if anything, strengthened the case for a U.S. contribution to the Asian Bank Special Funds. As stability and security increase in Asia, as direct U.S. involvement in Southeast Asia winds down, as the Asian will to develop manifests itself increasingly at the national and regional levels, the need for development funds on realistically generous terms is accelerated.

Viewed in this broad context, a U.S. Special Funds contribution will give concrete form to our active desire to work together with the nations of Asia. We will, however, be working together toward a goal of peaceful economic and social development in a framework of Asian initiative, growing self-reliance and regional cooperation.

Three recent and more specific factors reinforce this general view:

First, the Asian Development Bank has achieved a solid record of accomplishment in the 4½ years since its founding. As of today, cumulative loan commitments total more than \$500 million and involve 40 separate projects. The pace of lending activity reached in 1970, representing a rise of 150 percent over 1969, has been maintained in 1971.

No longer can the Bank be criticized for a slow start and low level of lending activities. A sound basis was laid in its startup period for the expanded level of activity which, as the pace of its lending bears out, has in fact materialized. There can be little doubt, therefore, that our Special Funds contribution will be under the administration of a prudently managed multilateral institution that has clearly emerged as a sound borrower in international bond markets and as an important financial source of funds for Asian development.

Second, other nations have continued to add to the resources of the Special Funds during the past year. At the end of 1970, commitments amounted to \$127 million, an increase of \$57 million during the year. Since then, additional contributions have increased this amount to almost \$175 million, with Japan now having committed all of its \$100 million multiyear target. The Asian Bank itself has provided \$24.5 million from its own resources, \$14.57 million in 1970 and \$9.93 million this year, giving life to the provisions of the Bank's charter which envisioned from the beginning that a soft loan window would be a vital part of the Bank's operations. Thus at this point, the proposed U.S. contribution would represent approximately one-third of total soft resources.

The Special Funds of the Asian Development Bank have not been established in the form of a multilateral agreement. Nevertheless, all the contributors have assumed that the United States would be providing its fair share and some have explicitly based their own legislative justifications on that reasonable expecta-

tion. We are today, then, in the awkward position of having encouraged others—particularly Japan—to contribute while not carrying through with our own contribution. Others have set the pace and are now out in front of us. At the Bank's annual meeting in Singapore last April, Belgium, Germany, Italy, and Norway announced initial commitments of funds and the Netherlands expressed the intent to sustain its previous support. I would remind you that the proposed U.S. support originally came before the Congress in 1967.

Third, the President has emphasized that U.S. development assistance should rely more on the multilateral financial institutions. The present proposal is directly in line with this policy, which has long enjoyed broad support in this committee.

Last year's legislation differs from our present request only in that the former proposed that our contribution be in three annual installments of \$25 million, \$35 million, and \$40 million for fiscal years 1970, 1971, and 1972 respectively. Because of the passage of time, the first two installments should now be consolidated into a single fiscal year 1972 installment of \$60 million. The balance of \$40 million would be contributed by a single installment in fiscal year 1973.

None of these funds, contributed in the form of letters of credit, is expected to be drawn during fiscal year 1972, and cash drawings in fiscal year 1973 are not expected to exceed \$10 million. Nevertheless, the full amount of our contribution is needed so that the Bank will have the legal basis for making commitments of funds to borrowers.

Limitations contained in the earlier legislation remain in full effect. The principal ones are: The funds can be used only for loans, the United States is to be a minority contributor and not the largest contributor, repayment of loans from these funds will be in dollars, there must be significantly shared participation by other donors in any Special Fund to which our contribution is allocated, and procurement is limited to goods and services from the United States, although there is flexibility to allow procurement outside the United States if the U.S. Governor finds it would be consistent with the U.S. balance of payments position.

Mr. Chairman, in resubmitting this legislation to the 92d Congress and in urging its passage, President Nixon declared that the authorization "will enable the nations of free Asia to assume greater responsibility for the success of their own development." This committee last year found favor with the proposal because it promised a reliable multinational mechanism for channeling U.S. assistance to reconstruction and economic growth in Southeast Asia following the ending of the Indo-China war. It will also provide an important means for reassuring friendly Asian nations of continued American interest in their economic progress. We have already lost much valuable time in making available the resources that will permit these objectives to be achieved.

Inter-American Development Bank

H.R. 5014 covers the \$900 million balance of the \$1 billion U.S. pledge to the IDB's Fund for Special Operations. This pledge represents our share of a multinational agreement negotiated in 1970 to replenish the resources of this Fund. The first installment of \$100 million on this pledge was authorized last December. The \$900 million authorization we are now seeking represents the second and third installments of \$450 million each, due not later than June 30, 1972, and June 30, 1973, as part of a multilateral arrangement involving mutual financial obligations by both the Latin members and ourselves.

Current estimates make clear that even with the \$100 million first installment FSO dollar resources will run out early in 1972. Unless the requested funds become available, the main source of concessionary financing to Latin America will dry up at that time. This would create a situation that could justifiably be called an emergency in the development process—and in particular in the social development process—of the nations in this hemisphere. Neither the economic nor the political interests of the United States would be served if this were allowed to happen.

Because the United States is the only major industrial nation with membership in the Bank, we have been intensely interested in ways of having other such nations make a contribution to the work of this institution. Our efforts in this direction are now bearing fruit. Discussions with the Latin American members of the Bank have now resulted in proposed amendments to its charter that would permit Canada to become a full member and allow other developed countries to be admitted, although with certain limitations yet to be determined. Closely related amendments would broaden the composition of the Bank's

Board of Executive Directors in order to reflect changes in membership. In a letter to Chairman Patman, I have requested that H.R. 5014 be amended to give the U.S. Governor authority to vote for amendments to the charter of the Bank implementing these proposals.

All indications are that Canada will promptly join the Bank and make a significant contribution. Discussions with other potential members are being held.

Mr. Chairman, I want to digress at this point to discuss U.S. policy towards expropriation. As you know, this matter has been under intensive study within the administration, and certain recent developments have heightened the need for a clearly enunciated policy. Although I cannot now describe the precise contents of the President's expropriation policy, I can say that—both in terms of substance and implementation—this new policy will work in the interests of both the developing countries and of the United States. On the one hand it will be a policy helping to bolster the flow of the private capital which is so badly needed in the developing countries. On the other hand it will help protect the legitimate interest of U.S. citizens.

In conclusion, Mr. Chairman, I strongly urge the committee to make it clear that the United States is prepared to do its share in partnership with others to speed the economic and social progress of the developing countries. I urge you to act favorably again on our ADB and IDB Special Funds contributions by reporting H.R. 5013 and H.R. 5014.

Exhibit 61.—Remarks by Under Secretary Walker as Temporary Alternate Governor for the United States, April 21, 1972, before the Board of Governors of the Asian Development Bank, Vienna, Austria

At the outset, let me express the appreciation of the U.S. delegation to the Government of Austria for its gracious hospitality and also for the excellent arrangements made for our meeting in this beautiful city. Secretary Connally, who has asked me to send greetings and express his regrets for being unable to attend, will be even more disappointed when I inform him of the wonderful hospitality.

I would also like to welcome the delegation from the Kingdom of Tonga as a new member of the Asian Development Bank.

The Asian Development Bank has now passed the midpoint of its first decade of operation. This transition point is an appropriate time for a hard look at what the Bank has achieved in these first, critical, 5 years and also to chart the next 5 years. There is every reason to regard the progress of the Bank to date with great satisfaction. After what some considered a slow start, the Bank demonstrated in 1970 that it was capable of achieving a high level of lending. By lending in excess of \$250 million in 1971 it has now shown that it can maintain such a lending level as well. For many borrowing countries, Asian Bank financing has come to represent an impressive proportion of total financing received from external sources and in particular from multilateral sources.

The testing phase of the Bank is likewise over with respect to the establishment of its credit standing in international markets. Borrowings are now approaching \$200 million.

The Bank thus is now a full-fledged member of that group of international institutions that successfully serve as intermediaries between private capital markets and the capital needs of developing countries. The way is now open for the Bank to carry out a selective borrowing strategy. It can and should aim at further diversification. And its borrowing decisions can and should be scaled to an appropriate level of liquidity in relation to loan operations.

The Bank has matured organizationally as well as operationally—a fact well symbolized by its impending move into a new permanent headquarters building provided by the Government of the Philippines.

While consolidating its internal organization, the Bank has also been pioneering in the field of external relationships with borrowing member countries apart from direct lending operations. Extensive assistance to members on project preparation since the Bank's early years is now bearing fruit, where otherwise the formidable task of project planning would have been an insuperable obstacle. On a still broader plane, the Bank's sponsorship of regional surveys, such as the

recently completed regional transportation survey, should provide further guideposts to useful areas of operation by the Bank in the future.

With the initial phase of the Bank's operations now safely behind, I believe the consensus is that the Asian Development Bank is fulfilling the hopes held by its founders in 1965 and 1966. It is here; it is operating well; it is now an important factor in Asian development. It has enjoyed the support of the United States since its inception. Last month President Nixon signed legislation authorizing a U.S. contribution of \$100 million to the Bank's Special Funds supplementing the original U.S. subscription of \$200 million to the ordinary capital of the Bank. An appropriation request for funds in implementation of this authorization is now before the Congress. Once Congress has acted on this request, we shall then be in a position to look further at the ordinary capital needs of the Bank.

It is my firm hope that the Bank will continue to enjoy the full support of the United States. I believe that it will. At the same time it is always necessary—particularly for me as I view the scene from my perspective in the Treasury—to be keenly aware of the many factors that bear on our support for economic development overseas and on the way in which that support can be expressed.

Let me share with you some of the things that we must take into account. Most obviously, the strength and direction of our domestic economic growth will always be an important factor in our ability to provide resources for external assistance.

The U.S. economic picture is now very bright. We are expanding in a balanced and sustainable pattern. The official expectation is that the U.S. economy will grow by \$100 billion this year. I personally feel that we will exceed the \$100 billion goal.

At the same time, we are making progress in the battle against inflation. We anticipated a bulge in the battle against inflation. We anticipated a bulge in the economic indicators of price levels following the 90-day freeze on prices and wages. We have had the bulge. However, it is significant to note that the industrial commodities component of our wholesale price index—the most meaningful current indicator of price behavior—rose by 0.3 percent in March which was only half the increase registered in the 3 preceding months. We will continue to take whatever steps are necessary to dampen inflationary expectation.

As the economy grows and we return to a more stable pricing system unemployment will drop. Since the middle of 1971 the United States has increased employment by close to 2½ million jobs. That is a remarkable performance. Yet because of the rapid growth of our labor force the unemployment rate has remained at unacceptably high levels. We expect our unemployment rate to drop to 5 percent by the end of this year.

In short, the outlook for the U.S. economy is very good. We are expanding. We are winning the fight against inflation. And we will reduce the level of unemployment.

Even if our most optimistic expectations are fulfilled, however, it should be clear that requests for foreign assistance funds, including those for international institutions, will be competing against domestic needs that cannot be deferred.

There is, too, a sharply heightened feeling in the United States today that the economic interests of our country have not been given sufficient weight in international policymaking. What follows from this is that financial and other burdens traditionally accepted without question by the United States can no longer be automatically accepted on that basis. The new international economic environment is radically different from the familiar "postwar period" that must now be regarded as definitively ended. Now, the United States is compelled to weigh its actions in terms of the benefits and the burdens that will result as we presume others have done and still do. Some examples of the way these broad factors relate to the international financial institutions come readily to mind. The United States clearly favors an international trade and payments system that provides maximum freedom in the interchange of goods, services and investment capital. We have accepted the premises on which regional financial institutions were brought into being in the belief that our larger goals could be served thereby. As a regional institution, the Asian Bank is in a position to encourage an outward-looking constructive regional spirit that is fully consistent with the world system toward which I hope we are all striving. To the extent the Bank's activities are oriented in this direction, they serve as a positive factor in the total equation of our foreign assistance effort.

Likewise, the support of the business community in the United States is an important component of what ultimately emerges as the political will to support overseas development. This is, I am sure, true of other donor countries as well. I think there is a special responsibility on the part of international institutions to ensure that the benefits of the business generated by the development process do not accrue disproportionately to some while the burdens fall disproportionately on others.

The problems involved here are as varied as the mix of goods and services that go into a development project. But whether they involve tariffs or bidding procedures or contractor qualifications requirements or any other such factor, they are surely capable of solution—if the fundamental approach is one of achieving absolute fairness among supplier nations.

Yesterday the distinguished President of the Bank noted with good reason that in 1971 “ * * * the spectre of protectionism was raised after 30 years of restless slumber * * *.” I must be frank to state that such forces are especially strong among organized labor groups in the United States. These forces have recently been manifested in the introduction of omnibus trade legislation which, if enacted, would turn the clock back many years and surely damage severely the interests of all free world nations.

Following President Nixon's announcement of new economic policies last August, and related to international negotiations that then ensued, many observers both in the United States and abroad attributed similar protectionist sentiment to the Nixon administration.

I categorically deny that this is true. It is a mistake to identify a firm resolve to achieve fairness in international trade with protectionism. To a man, the policymakers in the Nixon administration are strongly dedicated to liberal and expanding multilateral trade, with minimum hindrances. But the simple fact is that to many U.S. workingmen my country's trade deficit appears, rightly or wrongly, to translate into export of jobs. This is one fundamental reason for the spreading protectionist sentiment in the United States. President Nixon and his policymakers are, therefore, confronted with a difficult challenge to the exercise of political statesmanship—defined as the act of making possible what is indeed necessary. In this instance the absolute necessity is to first blunt and then turn back domestic pressures toward economic isolation in the United States and to do so through actions which will expand rather than contract world trade.

You can be sure that this approach lies at the very heart of the international thrust of the new economic policy. In retrospect, it is quite clear that, as we always intended, the import surcharge was a temporary means of protecting our position while achieving by other means, including a successful exchange rate realignment, a strengthening of the U.S. balance of payments position, which is surely in everyone's interest. And you can also be sure that in continuing negotiations in the inseparable fields of trade and money we shall strive for solutions that will contribute to the rising standards of living which grow out of truly liberal trading relationships.

Mr. Chairman, it is one of the hallmarks of President Watanabe's distinguished guidance of the affairs of the Bank that he looks to the future. I would like to offer some ideas for the future that seem to us worthy of attention by the Bank as it continues to serve the development needs of Asia.

First, the requirements for basic infrastructure in many of the countries of the region remain great and must, in the nature of development assistance, absorb a substantial amount of funds. The Bank must scrutinize its activities carefully, however, to ensure that appropriate consideration is also given to lending for such purposes as education, and credit and other facilities for small farmers.

Second, it is clear that environmental problems are not confined to the developed countries. The cessation of growth cannot be the solution for such problems, either for developed or developing countries. I doubt that the Bank's resources permit it to play a significant role in regard to existing industrial pollution problems, but the Bank can certainly insist in connection with its lending that the environment not be further impaired.

Third, as I noted earlier, the Bank is moving toward the role of principal international lender in many countries of the region. With this role will come new responsibilities. For example, the Bank will have to go beyond consideration of the economics of the particular project or sector and give far greater consideration to the economic policy and performance of the borrowing country itself—

ensuring while doing so that there is full coordination with other international lending agencies.

And there is as well the need to make further progress toward equipping the Bank with a means for systematically and independently appraising the effectiveness of its operations. Modern program evaluation techniques are a management tool of proven utility. The precise way to do this is less important than the resolve to establish it at an early date.

Mr. Chairman, the Bank's record in the past has been commendable. Its agenda for the future is a full one. Meeting the challenges facing it will require great energy on the part of its management, as well as continuing faith by all of us in what cooperative international action can accomplish. Let this annual meeting serve as an occasion for the renewal of that faith.

Exhibit 62.—Statement by Under Secretary for Monetary Affairs Volcker, September 21, 1971, before the Subcommittee on Foreign Economic Policy of the House Foreign Affairs Committee

These hearings provide a welcome opportunity for me to discuss with you the President's new economic program, and particularly our efforts to restore balance of payments equilibrium and develop a strong international monetary system geared to needs of the future.

Basically, the President's program has three major objectives: To solve our inflation problem and break the inflationary psychology; to stimulate the economy immediately and improve efficiency and competitiveness over the longer run; and to clear the way toward strengthening our position in the world economy and to improve the international monetary and trading system.

These objectives, and the specific measures announced by the President to implement them, are interlocking and mutually reinforcing. I would emphasize that success in the domestic elements of the program is essential to lasting success in the international sphere. Domestic stability is a prerequisite to international stability. If we do not resolve the problems of eliminating inflation and improving our productive efficiency while creating more jobs at home, we will not maintain the improved competitive position which is necessary to genuine and lasting improvement in our international financial position.

The proposals for dealing with these domestic needs—including the price and wage stabilization measures, the job development credit, the excise and income tax changes, and the reduction in Federal expenditures—add up to a strong and comprehensive program. It promises to move the domestic economy back toward a path of adequate growth and price stability.

The specific international measures announced in the President's program—the imposition of a temporary surcharge on dutiable imports and the suspension of dollar convertibility—are steps of great importance, both to our Nation and to our trading partners. But, in themselves they are not, and should not be mistaken for, solutions. Rather, those steps are designed to provide needed temporary support to our external financial and trading position while durable arrangements to cope with the difficult problems of international payments are developed and put into place.

Inevitably, it will take time to complete this process. Vital national interests are at stake, not just for the United States, but for others. Mutually satisfactory solutions cannot be imposed by any one country, or group of countries. They can only be worked out through a process of international cooperation and negotiation.

In the first instance, there must be a common understanding of the magnitude of the adjustment required if the U.S. balance of payments is to be secure, and of the implications of that adjustment. Beyond that immediate question are difficult questions as to how the balance of payments adjustments might be achieved more efficiently and continuously in the future, and how the stability of the international monetary system can be better assured.

I do not underestimate the difficulty of working out an international consensus on these issues. Events since August 15 underscore that point. But the key fact is that the process of seeking an international consensus has begun. Immediately after the President's program was announced, we took steps to inform other nations of the program and its underlying rationale. Consultations with our principal trading partners have taken place in a number of forums.

More recently, Secretary Connally and Chairman Burns attended a meeting of the Ministers and Governors of the Group of Ten in London last week. There was no expectation that that meeting could itself produce a solution to the fundamental problems we face. By providing an opportunity for positions to be outlined, however, the meeting did provide the essential, and I believe promising, first step toward that solution. Various positions and views were outlined and, I believe, more clearly understood, and the Ministers and Governors began to come to grips with the thorny questions as to how the complex and interrelated problems posed can best be approached and negotiated.

No attempt was made at this meeting to reach general agreement on the major points of substance. However, I believe a better understanding is already emerging with respect to one key aspect of the problem to which I referred earlier—the magnitude of the adjustment required to restore a strong U.S. balance of payments position—and the necessity to deal with that problem through a variety of means, nonmonetary as well as monetary.

In a world grown accustomed to a persistent U.S. deficit, there has been insufficient appreciation both here and abroad of the extent of the deterioration in our external position. Consequently, there has been difficulty in facing up to the need for substantial changes in exchange rates and measures in other areas to deal with the problem.

In that connection, much of the discussion has begun to center on certain estimates of the size of the adjustment required which have been developed by the United States and were presented by Secretary Connally last week. These estimates are conservative and it may be useful to explain the basis of that analysis.

First, I would emphasize the adjustment required must be calculated not from what our balance of payments position has been in the past but from where it was headed in the absence of corrective measures. The significance of that point is that there has been a deteriorating trend in the U.S. position—a trend which has been observed and emphasized by OECD and IMF experts as well as by ourselves. Adjustment measures will take time to work, and their adequacy must be gauged in terms of the future, not the past.

Furthermore, we are not aiming for an international position which will be satisfactory only when unemployment in the United States is excessive, as it is at present, but for one which is satisfactory when the economies of both the United States and its major trading partners are operating at acceptable employment levels. All the evidence is that as we restore high employment at home our trade balance and current account will deteriorate from recent levels.

Taking these cyclical factors into account and projecting the trend deterioration in our position only a short distance into the future, our own experts concluded in midsummer that next year the United States would have had a “high employment” deficit in its current account (defined as goods, services, and remittances) of about \$4 billion and a slightly larger deficit in the trade account alone. I would point out that, in the past 4 months, despite excessive unemployment, our trade balance has already been in deficit at an annual rate of some \$3 billion a year.

In contrast to that projection, we believe we need a current account surplus of the order of magnitude of \$9 billion, at a minimum. A surplus of that size—only slightly more than what was actually achieved in the early 1960’s when trade and economic activity was much lower—is required to continue financing present levels of aid and capital flows to the developing countries, cover chronic outflows on “errors and omissions,” and to provide for a small margin of safety for short-term capital outflows and a modest reversal of past deficits. The necessary swing in our current account position over the next year or two from projected to required levels thus comes to some \$13 billion, if we are to restore a reasonable payments equilibrium.

In appraising that outlook, I would point out that net outflows of U.S. Government grants and capital and of private long-term capital, averaging about \$6 billion per annum, have in recent years gone almost entirely to the developing countries. If we do not want to cut back on our assistance and investment to these countries, we must have the current account surplus to sustain outflows of at least that magnitude.

Over the years we have noted that the international transactions which our statistics do not record—called errors and omissions—have been on average a negative item of about \$1 billion per year. This figure represents persistent

unrecorded outflows that must be financed as any other persisting outflows. In addition, while not specifically allowed for in our calculations, some short-term capital outflows must also be expected.

After years of erosion in our international position, we cannot afford further deficits. We need a position of unquestioned strength. If we err, it must be on the side of safety, even if the margin we have provided is small.

There are other elements in the estimate that emphasize its conservative character. The allowance for capital flows assumes no significant net long-term capital outflows to other developed countries, despite the fact that we wish to remove the restraints on capital outflows that were imposed some years ago as a temporary measure. Calculations of a viable long-run equilibrium must properly assume such removal. Some developed countries, such as Canada, have normally wished to borrow substantial amounts in the U.S. market, and if there should be no compensating capital inflows, a still larger current account surplus would be required. As indicated, these estimates make no allowance for increases in flows of aid and capital to the developing countries except for some modest increase in borrowing by international institutions.

We fully recognize that a swing in the underlying U.S. position of substantial magnitude will take some time, particularly if it is to be achieved in a context of expanding trade by all. We recognize, too, that difficult questions are posed for our trading partners. What is essential is that the conditions be established promptly to assure that the balance of payments can and will be corrected decisively and in a lasting manner as quickly as feasible.

We have deliberately avoided a detailed blueprint for bringing about the needed adjustment or for required changes in the monetary system. A number of elements enter into the adjustment equation—not only changes in exchange rates but also trading practices and contributions to the common defense. All countries also have a close interest in basic issues of monetary reform.

These are matters which need to be decided, at least in substantial part, in a context of multilateral discussion, taking account of the needs and desires of others. Other countries will in some cases wish to discuss and consider appropriate measures in the light of the intentions of their close trading partners. We are not attempting to dictate a solution. Rather, we will work in cooperation with others in appropriate international forums.

It is that process which has begun. It will continue in the period ahead. At the end of this week in Washington the Ministers and Governors of the Group of Ten will resume their discussions. Further opportunities for contact with our trading partners will be afforded at the annual meeting of the International Monetary Fund immediately thereafter. Working Party 3 in the OECD has already been assigned the task of appraising the size of the adjustment problem.

In all of this we are seeking a lasting solution to difficult issues. We will keep at it until that objective is achieved. I am optimistic. Common understanding of the problem is growing, as reflected in the London communique. Moreover, I believe there is a basic willingness on the part of governments to attack the problems in a forward-looking and constructive spirit. That willingness derives from our common interest in financial stability and flourishing trade.

Exhibit 63.—Remarks by Under Secretary for Monetary Affairs Volcker, October 28, 1971, at the National Economists Club Seminar on Phase II, at the Mayflower Hotel, Washington, D.C., on "President Nixon's New Economic Program—International Policies and Issues"

The title of this seminar, "Phase II of the New Economic Policies of the Nixon Administration," is probably more appropriate to the domestic aspects of the program than to the international aspects. I can, indeed, envisage successful stages in terms of achieving our international objectives, including a thoroughgoing reform of international monetary arrangements. But, clearly, we are not yet ready to move beyond what might be called stage one internationally. I would define that point as achieving a reasonable prospect that the severe deterioration in our basic external payments position has not only been reversed, but that a clear prospect exists for a lasting equilibrium.

This would, in turn, provide the necessary foundation for restoration of stability for the dollar internationally, and on that basis, a broader stability in international exchange markets. From that second stage we could proceed toward

resolving those longer term questions essential to a durable monetary system adequate for the needs of our generation.

In visualizing these stages, let me say at the start that the resolution, even of stage one, is far from clear at this point and cannot be assured in a near-term time horizon. I hope that it can be—I am not pessimistic. But the timing is not simply up to the U.S. Government. It will require hard decisions by a number of governments—decisions that have not yet been made.

I will not review before this informed audience the nature of the international measures announced by the President as a part of his comprehensive program of August 15. The point is that the suspension of convertibility, U.S. Government sales of gold to foreign monetary authorities and the imposition of a temporary 10-percent surcharge on dutiable imports did not in themselves constitute a long-range solution, but they set the stage for necessary change and for the negotiations that must precede generally acceptable new arrangements.

I have encountered no one who has not recognized the correctness of the President's decision to face up with forceable and courageous action to the realities of our eroding international position and the exposed weaknesses of the international financial system. It had become abundantly clear in recent years that the international economic system was subject to recurrent crisis, and more than makeshift repairs were necessary.

It had become even clearer that our balance of payments deficits were no longer sustainable. They were not sustainable financially, given the cumulative strains on our reserve position and strong speculative forces. They were not sustainable economically in the light of the distortions forced on trade and investment patterns. Nor could they be sustained politically in the light of the encouragement they offered to protectionist pressures at home and the restiveness abroad over the need to absorb a large-scale outflow of dollars.

In a nutshell, the time had come to "bite the bullet." In making that decision it was recognized that the necessary adjustments could not be made without strain, pain, uncertainty—and, indeed, without some risk of recrimination and worse.

In this connection, a good deal of attention has focused on our surcharge. It is, of course, not a new device—major trading countries have used it before when in serious balance of payments difficulty—and with a similar justification. It was chosen because it is a nondiscriminatory, market-oriented measure that promises some early impact but without the harshness and arbitrariness of quotas and direct controls more explicitly blessed by GATT. Certainly, it has an impact on trade of others. But that impact is surely less than the exchange rate realignment we seek; it thus by itself moves only part way to the needed adjustment.

Perhaps the attention and sounds of alarm were nonetheless to be anticipated. We have had long experience with a sort of double standard—that measures tolerated and even welcomed in other countries to maintain and improve their competitive and balance of payments position are viewed in a different light when adopted by the United States. That, perhaps, is a penalty of size, prominence, and leadership. But in all the concern let us not lose sight of the fundamental fact that there can be no escape from the need for a sizable adjustment in the U.S. external position. The surcharge is only a temporary means to that end. It can and will be happily removed as soon as other needed adjustment measures in the exchange rate, trade, and burden-sharing areas are undertaken.

It should be plain, our basic objective in the emergency of August 15 was not—and is not—to restrict world trade. The basic objective is just the reverse. We want to beat back restrictive practices on a worldwide basis. We want to create the needed financial and economic platform for the kind of balanced international relationships which permit both the United States and other governments to avoid widespread trade restrictions. We look forward to mutual collaboration in developing new monetary and trading arrangements that assure a basis for maintaining a free and fair flow of trade and payments. I have no doubt you share these basic outward-looking objectives. In striving to achieve them we need your understanding, advice, and support.

In the weeks since August 15, I have been struck by how differently the same problems, or the same set of facts, can be perceived by different observers. Much of what I have heard and read convinces me that this necessary understanding does not exist.

Perhaps this reflects a deficiency on our part in explaining our purposes and policies. Perhaps it reflects the fact that some do not yet comprehend fully the magnitude and significance of the changes in economic relationships which have occurred, the depth of the imbalance in our payments, and the economic realities within which we thus operate.

But whatever the reasons behind it, any misunderstandings about our motives and purposes must be corrected. Otherwise, our actions are likely to be misinterpreted and whatever risks exist of spreading protectionism and retreat from international responsibilities at home or abroad will be unnecessarily magnified.

I can state very simply the main elements of our program :

First, it is imperative that we restore a basic equilibrium in our external accounts. There is no other way to assure monetary stability, which rests so heavily on the dollar. This aim requires that we bring about a major turnaround in our current payments which will, in turn, require a substantial strengthening of our trade position. The inevitable corollary is a corresponding adjustment in the positions of other countries, most of which have come to enjoy persistent and rising surpluses.

Second, we seek that adjustment in cooperation with our trading partners—and in ways that are outward-looking and consistent with our belief in liberal trade and payments, not inward-looking and defensive. In other words, we seek to achieve that result by the removal of trade restrictions, not by the introduction of new restrictions. Certainly, every nation must plead guilty to unnecessary trade barriers. But the point today is that a significant part of the progress needed toward sustainable adjustment can be made by more liberal policies by others—changing practices that have tended to keep U.S. goods from their markets, sometimes in the process contravening the letter or spirit of accepted international trading rules.

Third, a lasting and healthy world payments structure will require not only a removal of trade restrictions but also a major realignment of the exchange rates of leading countries and a rebalancing of defense financing arrangements.

Fourth, we cannot simply paste the international monetary system back together and return to the old premises and old techniques; rather, we and other trading nations will together have to develop improvements and new principles to modify the system to meet the needs of the generation ahead—and to avoid a relapse into the problems of the past.

As we seek to implement these elements of our international program, we have been advised by many to move rapidly out of this first stage of uncertainty. To that I can only say "amen." But the further question that must be answered is "how?" An agreement requires concurrence on both sides. Hard questions are involved. We do not have the power to produce such an agreement by our actions alone. And—this is the theme of my remarks today—there is no point in an agreement that leaves the basic problem unresolved.

Some have suggested that we are engaged in some kind of global poker game in which there are winners and losers, and we may be driving too hard a bargain. I do not understand this view. Our immediate objective is to achieve the prospect of sufficient turnaround in our payments position to assure a stable base upon which to proceed. Failure to achieve that objective would be a failure not just for the United States but for all, because then another crisis could not be long delayed. In my view that would be the real catastrophe, for efforts to build a new international monetary order would founder and renewal of uncertainty and tensions could trigger a massive retreat from a world of liberal trading policies. We can live with the present situation better than pretending to have solved the causes of the problem.

Most of you have probably read of the statistical projections prepared in the Treasury indicating that a \$13 billion turnaround in our payments position would be required between the type of deficit we would have under full employment next year, if no corrective measures were taken, and the position which would be needed to provide a reasonable and sustainable balance in U.S. payments. Those projections are subject to the uncertainties surrounding any attempt to project into the future, but I do not believe they overstate the general magnitude of the problem.

Because there has been confusion on the point, I would like to make clear, however, that we do not expect an actual turnaround of \$13 billion in a single year. Even if we reach full agreement with our trading partners in the next few

weeks on the adjustment measures needed to bring a turnaround of that magnitude, those measures would take literally not only months but years to exert their full effect. No one should be misled into thinking that we are insisting the U.S. deficit must be eliminated overnight—what we do insist is that there must be a reasonable prospect that objective can be achieved on the basis of measures put in place.

Second, it should be clear that we cannot, and should not, blueprint exactly the measures necessary to achieve this adjustment. I suspect that those who want to see, as they say, a specific U.S. "shopping list" would be the first to denounce such a list as an unacceptable ultimatum. In any negotiation it seems to me neither wise nor practical that one side put forward all the proposals.

My feeling is that there is not just one single set of measures which could permit us to restore stability and move on to the second stage of international deliberations. There are different combinations which could achieve the goal of sufficient turnaround in international payments to permit the removal of the temporary U.S. restrictions. We have made a number of suggestions, and we would welcome some suggestions by others. There have not been many, and this brings me to the nub of the problem.

Is there a willingness in the last analysis to make the necessary adjustment? In the broad, at an intellectual level, I find the need accepted, despite some dispute about the exact magnitude. It is when it comes to specific action by specific countries that the major difficulty begins. We are still at a stage, I am afraid, where the tendency is to say yes—but let the other fellows do it.

Those who are impatient and press for immediate realignment and immediate solutions should not underestimate the difficulties. Realignment is a very serious matter for each foreign country. It is an uncharted and quite complex negotiation to establish a new set of exchange rate relationships that all major countries will accept as a reasonably fair deal, taking account not only their rates vis-a-vis the dollar, but against their other important trading partners. One country's action is influenced by another's willingness or unwillingness. A new exchange rate may affect the profitability of industry, the fortunes of particular firms and their workers, interest rates and capital flows, and other aspects of national economic life. It is thus also a political decision, and noneconomic considerations may intrude. All this means it is not surprising that a realignment takes time to jell.

Adjustments could proceed through the less-personal forces of the market. That is precisely what Secretary Connally proposed last month, suggesting that the serious negotiating problem of proper exchange rate levels and interrelationships could be surmounted in this way. But that proposal has so far not been accepted and instead, rate changes are in many cases resisted by new restrictions on international payments. I regret this, but it is symptomatic of the deep reluctance of some countries to allow their current account surpluses to adjust into an internationally consistent equilibrium.

Anyone who doubts the reality of this problem should have been with me at meetings in Paris a week ago where one country after another took a relatively pessimistic view of its payments prospects and the need to avoid any significant adjustment in its own position. In the aggregate, it is plain that existing intentions and goals cannot be reconciled with a viable equilibrium for the United States.

There are many reasons why relatively undervalued exchange rates and strong balance of payments are a desirable goal for an individual country. It provides protection against uncertainty. It sustains jobs. It protects against the full force of international competition.

For years the large U.S. deficits have permitted other countries to sustain surpluses. The world has grown accustomed to this situation, but we can no longer proceed on this premise.

It is not because this Nation is dependent on other nations for the creation of adequate, total effective economic demand on our economy. We have demonstrated ample capacity to create that demand for ourselves—and, in fact, in too many years of the sixties demonstrated an overcapacity in creating such demand. Rather, the point is, as I have suggested, the financial, economic, and political underpinning for U.S. deficits no longer exists. Trading patterns must be reshaped to face that fact if we are to restore an ordered international system.

I should say a short word, too, about the thought that a quick settlement can be reached if we increased the official price of gold. It is argued this would

satisfy some feeling that the United States should stand up and take its psychological punishment in the same way as other countries have followed in the past. But in suspending convertibility, we took that punishment, and other longer range elements are at stake. In recent years, by international agreement, we have begun to shift from reliance on gold as the traditional international reserve asset. This is an important step forward toward a rational, internationally controlled system. An increase in the official price of gold would be a step backward in monetary evolution. It would give an advantage to those monetary authorities which have placed the heaviest strains on the monetary system in recent years by holding an unusually large portion of their reserves in gold rather than dollars. We cannot ignore these considerations any more than we can remove suspicions that such action would not remove the fundamental reluctance of many important countries to see their currency values raised to levels that would stop the long-continued weakening of our own competitive position.

If you conclude from these remarks we have a complicated and difficult problem ahead, you are right. The crucial decisions to permit an early resolution have not been made.

But as I said at the start, I am not pessimistic. I believe those decisions can be made. Progress is being made in clarifying the issues and understanding each country's views and situation.

We do not seek a "solution" at all costs—a solution that is not a solution. The trading world has not broken down since August 15—and with a minimum of good sense and good will it will not in the months ahead. It would be better to live with that situation than to pretend to solve the problem without solving it. That course would give a very brief glow of satisfaction to a few, but it would virtually guarantee renewed and more serious difficulties in the period ahead.

I believe with patience and good will we can find a real solution. That is our only intention and we mean to achieve it.

Exhibit 64.—Remarks by Under Secretary for Monetary Affairs Volcker, November 11, 1971, at the second meeting of the World Economy Study Group, the Adlai Stevenson Institute of International Affairs, Chicago, Ill., on "International Aspects of the New Economic Program—the First 90 Days"

Almost 3 months have passed since President Nixon announced his new economic program and altered the approach for dealing with our major domestic and international economic problems. The initial shock has worn off and it is time for a stocktaking. Tonight I want to comment on some developments in the international aspects of the program and perhaps clarify some possible misunderstandings about what we are trying to do—and what we are trying not to do.

I believe virtually everyone agrees with the validity of the President's decision on August 15 to take forceful action to deal with our own eroding international financial position and with the exposed weaknesses of the international monetary system.

It had become all too clear that the international economic system was subject to increasing strains and recurrent crises and that fundamental reforms, not makeshift repairs, were necessary.

It had become even clearer that U.S. balance of payments deficits were no longer sustainable. These deficits were not sustainable financially in light of the cumulative strains on our reserve position and the strong speculative forces they engendered. They were not sustainable economically in light of the distortions which they forced on trade and investment patterns. And they were not sustainable politically in light of the encouragement they offered to protectionist pressures in the United States and the restiveness they caused abroad about the need of other countries to absorb large and continuing outflows of dollars.

In short, the time had come for decisive action.

The August 15 program set our course toward two major international objectives—reversal of a long period of erosion in the U.S. balance of trade and payments and creation of the conditions for reforming the international monetary system. The specific international measures in that program—most importantly the suspension of convertibility of dollars into gold for foreign monetary authorities and the imposition of a temporary import surcharge—did not in themselves constitute a lasting solution. They were not designed to.

The purpose of those measures was to provide temporary defenses—to yield the needed quick support to our own balance of payments while the framework for a more lasting solution is worked out internationally, and to free us from major speculative risks while we and our trading partners develop and seek agreement on needed reforms of the monetary system.

What do we seek to achieve through this program? Our main objectives can be outlined very simply.

First, we are trying to restore basic strength to our external accounts. We do not want to default on our responsibilities in aid and defense because our balance of payments is weak. We do not want to have to maintain selective restraints and controls on capital indefinitely. We are determined to play our role in the world and we must have the economic and financial capability to do so.

Second, we are trying to gain recognition that this requires a major turn-around in our current balance of payments, which, in turn, requires a substantial strengthening of our trade balance. The inevitable corollary is a complementary adjustment in the positions of other countries, most of which have come to expect and rely on persistent surpluses in their accounts.

Third, the needed adjustment and a healthy world payments structure will require action in several areas: A major realignment of the exchange rates of leading countries, a restructuring of trade practices, and a rebalancing of defense financing arrangements.

Fourth, we seek an international monetary system with improvements and new principles to meet the needs of the generation ahead and to avoid a relapse into the problems of the past.

And fifth, we seek these changes both in the immediate payments situation and in the longer term modification of the system, in ways that are outward-looking and consistent with our belief in liberal trade and payments, not inward-looking and defensive. We seek our payments adjustment though the expansion of trade and the removal of restrictions, not by the introduction of new restrictions. A significant part of the progress needed toward sustainable adjustment can be achieved by more liberal policies by others—changes in practices that have tended to keep U.S. goods from their markets, sometimes in contravention of the letter or spirit of accepted international trading rules. We recognize that others have complaints about U.S. trade practices and some problems will require time for satisfactory mutual solution. But we feel some important changes are needed at the outset, where the problems are pressing, as part of the process of restoring the United States to an equitable position. These are needed now.

Two aspects of the program deserve special comment, since they have been subject to conflicting views and some misunderstanding. And I think it is very important that any misunderstanding of our purposes and motives be corrected. Otherwise, our actions can be misinterpreted and the risk of unwise counteractions by others unnecessarily magnified.

First, we must make it absolutely clear the program is in no way a shift toward protectionism. A temporary surcharge is, of course, not a new device. Major trading countries have used it before when in serious balance of payments difficulty and with a similar justification—a justification which, in our case, was explicitly authenticated by the International Monetary Fund. And these countries removed it, as we will when conditions justify its removal. We chose the surcharge because it is a nondiscriminatory, market-oriented measure that promises some early payments improvement but which avoids the harshness and arbitrariness of quotas and direct controls explicitly blessed by the GATT.

Alarm about the surcharge was to be anticipated. We have had long experience with a system which tolerates and even welcomes measures other countries take to improve their competitive positions and balance of payments but which views the same measures in a different light when they are adopted by the United States. That is a penalty of size, prominence, and leadership.

But there can be no escape from the fundamental fact that a sizable adjustment in the U.S. external position is needed and that this will require an offsetting adjustment in the position of other countries. The surcharge has an impact on trade but far less of an impact than that which would accompany a realistic exchange rate realignment. The surcharge itself is but a partial and temporary safeguard. It is no solution, and we will happily remove it as soon as more lasting adjustment measures are undertaken.

The basic objective of the August 15 program is certainly not to restrict world

trade but just the reverse. We seek to beat back restrictive practices on a world-wide basis. The new program is consistent with the liberal trade and payments concepts which have guided U.S. policy for 25 years. Since World War II, the United States has worked within the framework of the principles of most favored nation and nondiscrimination in trade. But we cannot ignore that some others have appeared to feel more comfortable in moving toward trade blocs, and some of the strongest economic powers in the world still feel the need to protect their economies from international competition by use of controls and quotas. There are cases in which discriminatory trading arrangements tend to make us residual suppliers. Our large and open markets have been a prime target for foreign exporters who often face extensive restrictions in third markets.

The basic point is that liberal and outward-looking policies are, in the end, dependent upon a viable, strong, competitive trading and overall balance of payments position. Our continued leadership in creating a balanced and equitable trading system is thus dependent on the success of our program.

A second misunderstanding which should be cleared up is that some have seen our program as an attempt to shift jobs to the United States from Europe and elsewhere and have forecast worldwide recession. The domestic part of our program is, of course, designed to stimulate the U.S. economy and create jobs—which, incidentally, means a better U.S. market for other countries' exports. We don't want our employment picture unbalanced by trade distortions or inability to compete worldwide.

But this Nation is not dependent on other countries for the creation of adequate total demand in our economy. We have ample experience demonstrating our capacity, sometimes overcapacity, to create demand for ourselves. It is impossible to look rationally at the competing demands on our resources and conclude that we are dependent on the external sector. We are not talking about reductions in U.S. imports or a doubling of U.S. exports but about tapering down the rate of growth of imports and increasing somewhat the rate of growth of exports, within rising levels of trade. We estimate the impact of the surcharge in a full year, assuming it were maintained that long, at \$1½ to \$2 billion, which would only slow down but not stop the rise in U.S. imports.

We have estimated the required turnaround in our current balance of payments at \$13 billion, but we do not seek or expect that turnaround in a single year. Any measures agreed upon would take not only months but years to exert their full effect. We are not insisting that the U.S. deficit be eliminated overnight—what we want is to reach agreement on the measures which will assure a reasonable prospect of that objective within a reasonable period of time.

The impact of the \$13 billion adjustment would not only be spread over time but would also be spread over a number of other industrial nations whose economies in total are as large as ours and whose total foreign trade is several times as large as ours. These adjustments can certainly be accommodated in a context of economic growth. The latest projections prepared by the OECD suggest that, with the existing U.S. program and with the exchange rate shifts which have taken place, the prospect for the first half of next year is for an increase in the rate of economic growth for the major countries in Europe and Japan as a group. This provides reassuring evidence that the projected adjustment would take place within a framework of growth and progress in the international economy, rather than in a climate of recession.

If what we seek and do not seek is quite simple, the attainment of our objective is not. There is now much restiveness about the uncertainty in the international monetary situation and an impatience to reach a settlement with a minimum of delay.

We strongly favor resolving these issues as quickly as possible. But it is clear that hard decisions and complicated questions are involved and that there is no advantage to be gained in a patchwork agreement that leaves the basic problem unresolved. Agreement requires concurrence of both sides. Neither we nor any other single party can impose it.

Those who are impatient for immediate solutions should not underestimate the difficulties. An exchange rate realignment, which is but one element of a solution, is a very serious matter for each foreign country. A multilateral exchange rate negotiation is rather like arranging a bowl of marbles—each one that is shifted changes the position of some of the others. It is uncharted and complex negotiation to establish a new set of exchange rate relationships that all major countries will accept as a reasonably fair deal, taking account

not only of their rates vis-a-vis the dollar but against their other important trading partners. A new exchange rate may affect the profitability of the industry, the fortunes of particular firms and their workers, interest rates and capital flows, and other aspects of national economic life. It is thus also a political decision, and noneconomic considerations may intrude. All this means it is not surprising that a realignment takes time to jell.

Is there a willingness, in the last analysis, to make the necessary adjustment? At an intellectual level, I find the need generally accepted, despite some dispute about the exact magnitude. It is when it comes to specific action by specific countries that the major difficulty begins. The temptation is strong to say yes, an adjustment is needed, but not in my country's position. In recent discussions in Paris one country after another took a relatively pessimistic view of its payments prospects and the need to avoid any significant adjustment in its own position. In the aggregate, it was plain that the expressed intentions and goals could not be reconciled with a viable equilibrium for the United States.

Nor is a solution advanced by insisting upon injecting into the discussions a change in the price of gold which, as Secretary Connally has emphasized, "would be patently a retrogressive step in terms of our objective to reduce, if not eliminate, the role of gold in any new monetary system."

There is no question that we have a complicated and difficult problem ahead. The crucial decisions to permit an early resolution have not been made.

I believe those decisions can be made. Certainly, there is now a better understanding of each country's views and situation. What remains in question is the will to act in a manner that recognizes the facts of the situation and the need for substantial adjustment if stability is to be restored and uncertainty ended.

There is, to my mind, no easy and quick "solution" that does not recognize the need for substantial adjustment and the interrelationships of monetary, trade, and defense problems. Such a solution might give a brief glow of satisfaction to a few, but it would virtually guarantee renewed and more serious difficulties in the period ahead.

Our intention must be to work toward the more meaningful and enduring answers that are potentially within our grasp. With good sense and good will those answers will be found.

Exhibit 65.—Statement by Under Secretary for Monetary Affairs Volcker, January 27, 1972, before the House Committee on Appropriations on "The International Financial Situation in Light of the Smithsonian Agreement"

Nearly 6 weeks have passed since the Group of Ten agreed at the Smithsonian Institution to a multilateral exchange rate realignment and other measures to restore international monetary stability and expand world trade. The committee may be interested in a brief assessment of the international situation in the light of that agreement.

Let me say first that we have been encouraged by the widespread view, here and abroad, that the Smithsonian agreement represents major progress both for the United States and for all countries. Certainly we recognize that much remains to be done in basic monetary reform, trade policy, and defense sharing to attain and maintain a more equitable and balanced world payments structure. Much will also depend—and I would emphasize this—on how well we and our trading partners operate our domestic economies. But the fact that the Smithsonian agreement has been generally accepted as a major step in adjusting to today's realities and a base for further progress is heartening.

In negotiating a multilateral exchange rate agreement covering a number of major currencies, we made new and unique progress in monetary cooperation. There is no science that can tell us with accuracy what set of exchange rates is precisely needed to assure market stability and restore multilateral payments equilibrium. Vital national interests were affected; and a hard negotiating and bargaining process took place. In the give-and-take of negotiations, one side rarely, if ever, can achieve its full objective. But there is a general consensus that a fair blending of competing interests yielded acceptable progress for all. In sum, I believe the agreement is a fair and reasonable one which will make a real and substantial contribution to a better balance in world trade and payments. That was our judgment on December 18 and that is certainly our judgment today.

During the weeks since December 18, the exchange markets have been progressively adjusting to the new circumstances and exchange rates. During the early aftermath, the dollar remained generally at a premium and near the ceiling in terms of the range of the 2¼-percent margins above or below the new stated exchange rates stipulated by the Smithsonian agreement. More recently, the dollar exchange rate has moved down toward the new base rates and, in some cases, beyond. As of yesterday it stood at a premium in terms of five of the G-10 currencies and discount in terms of the other four. It has strengthened slightly since December 18 against the Canadian dollar, which continues to float.

Contrary to the expectations of many, there has not been a heavy flow of dollars from foreign central bank reserves since the new rates were established. I do not believe this is a cause for concern. In our press conference at the conclusion of the Smithsonian agreement, we made clear that the prospects for such a flow were doubtful.

Indeed there are several factors working to moderate the speed with which speculators and others who transferred funds abroad during the crisis would wish to transfer funds back to the United States in large amounts. Undoubtedly, much of the speculation into foreign currencies was of the nature of leads and lags—businessmen anticipating future foreign payments and the like. This phenomenon would be expected to unwind only over a period of time. Second, interest rates during this period have provided no incentive for reflows to the United States. With the present slack in the U.S. economy, our short-term interest rates have been at the lower end of the international spectrum while a number of European countries, which have been maintaining policies of restraint to slow down inflation, have maintained relatively higher rates. In addition, during much of the period since December 18 the dollar has, as I have indicated, been at a substantial premium in the exchange markets relative to the new base rates. This has meant that anyone transferring funds back to the United States stood a risk of "losing" if the rate for the dollar subsequently moved lower. With the wider margins now in operation, the scope for such rate fluctuations is now increased.

I believe it would be a mistake to conclude that no reflows of short-term funds are occurring, as leads and lags unwind. Reports—admittedly fragmentary—of our payments position over the period since December 18 indicate that our overall official settlements position has probably showed a modest surplus in the past month. There has been some net reduction in total foreign official dollar holdings since the agreement. Since many important elements in our balance of payments were almost certainly in sizable deficit during this period, there must have been a net reflow of short-term funds, not now identifiable, which offset the other deficit items.

Apart from questions concerning short-term flows, there is the question of the impact of the realignment on trade and other elements in our balance of payments. No one should expect the realignment and other measures agreed December 18 to have a large immediate effect on our trade and other basic elements in our balance of payments position, such as direct investment and tourism. In fact, the immediate effects of an exchange rate change are usually perverse—for example, where commitments have already been made to purchase certain imports, the change in exchange rates may merely mean that the U.S. importer must pay more for the same quantity of goods. It is only over an extended period—probably 2 years or more—that the full effects of the rate changes can work their way through the system. While we should see part of the effect much sooner, it is only over such longer period that producers and consumers, in the United States and abroad, can fully adapt to the new rates and the new price structures and competitive opportunities which those rates bring.

I feel that developments since the Smithsonian agreement represent a reasonable adjustment to the new situation. But this is only the experience of a few short weeks. The important question is where do we go from here. And this depends in very large measure on policies which we pursue in our domestic economy.

The United States has an obligation—to its own citizens and to the entire free world—to eliminate the slack in its economy with policies for strong and non-inflationary growth. The advantages of higher employment and increased U.S. production to our domestic prosperity are obvious. But it is not always

recognized how critically important a strong and growing U.S. economy is to a healthy world economy—particularly at a time when growth rates abroad are slackening. Without reasonable growth and employment in the United States, a stable international equilibrium is not likely to be achieved—and a resurgence of protectionism would be a danger.

The challenge is to achieve the needed expansion in our economy while progressing further toward price stability, not only to assure that our expansion brings growth in real output rather than higher prices, but also to enable us to strengthen our ability to compete in domestic and overseas markets with foreign competitors. Only then can we take full advantage of the opportunities provided by the exchange rate realignment to restore our trade and payments position on a lasting basis.

Thus, both our balance of payments and our domestic objectives call for policies of expansion and for the containment of inflation. Those are the policies we are now following. The budget deficit for the present year is certainly very large. But in the context of the desirability of providing an expansionary stimulus through fiscal policy this deficit can be accepted. There is room in the economy to allow for expansion without inflation. Our wage and price program will help to ensure that our expansionary policies lead to growth in real output. The budget for the next fiscal year is held to full employment balance, which means diminished fiscal stimulation as the economy expands. We must maintain that discipline and would welcome its enforcement by a truly effective expenditure ceiling. This is the sensible approach from the viewpoint of our domestic and international economic needs. It will best serve to increase our domestic prosperity consistent with restoring a strong balance of payments.

Exhibit 66.—Remarks by Under Secretary for Monetary Affairs Volcker, May 12, 1972, at the 1972 International Monetary Conference at Le Chateau Champlain, Montreal, Canada

Given my personal activities of the past month in trying to help arrange international monetary forums, I want to claim a certain expertise on the subject. On that basis, I pronounce the judgment that the sponsors of the International Monetary Conference have scored again in providing just what they set out to do—the setting for an uninhibited exchange of views to stimulate the thinking of every one of us. I do envy their freedom from any obligation to work to a consensus!

I can only admire their fine judgment in bringing us to this vital cosmopolitan center, blending elements of the old and new in a manner that exemplifies the unique Canadian heritage. I add my personal thanks to our Canadian hosts for easing our way with such splendid arrangements.

Most of you share with me certain memories of the meeting at Munich a year ago. It opened against a backdrop of heavy speculative pressures and shifting exchange rates—the visible symptoms of an unravelling of what has been known as the Bretton Woods system. It concluded with the hardly less visible entry of Secretary Connally onto what he has called the “well-manicured playing fields of international finance.”

He warned that we were entering a difficult and different period—that we needed to face up to new economic realities—that our mutual capacity to cooperate together in the common interest of our economic prosperity would be tested. With the perspective of a year, I am sure you will agree he did not overstate his case.

This has been a period of strain and ferment. But from the crisis has come progress:

Internationally, we have openly faced up to the festering sore of the persistent and growing imbalance in trade and payments within the industrialized world—the deepening deficit of the United States and its counterpart in the large surpluses of others. Needed changes in exchange rates have been put in place. A small start—but no more than that—has been made toward more balanced defense and trading arrangements.

At home in the United States we cannot help but take some satisfaction in the present evidence of both a quickening expansion and somewhat greater price stability. In this city, I would hasten to add, Canada could lay claim to com-

parable prospects. Looking at growth and price performance together the North American Continent need yield to no other.

Finally, after several years marked by turbulence and alarm, domestic financial and international exchange markets have settled this spring into a calmer period.

I count this as progress. But I would serve neither you nor myself if I conveyed any sense of complacency. Far from it, sometimes, when I talk with people at home or abroad—very often when I read the press—always when I try coldly to assess what needs to be done, I am struck by one simple fact. In important respects, a common appreciation of our problems and purposes is still lacking.

I hope we have laid to rest fears that the actions of August 15 marked a retreat by the United States into provincialism and protectionism. Of course, we took strong and unilateral actions. We did so for a good reason: They were needed.

Financially, the flow of dollars overseas had swelled to a torrent, eventually reaching about \$30 billion in 1971, far beyond what we or foreign countries were prepared to tolerate.

Abstracting from speculative forces and short-term capital, our basic balance of payments was deteriorating at an alarming rate, reaching more than \$9 billion last year.

Underlying that deterioration, our once strong trade and current balance had disappeared, we were hurtling into a large trade deficit, even at a time of slow growth and heavy unemployment.

Yet by December, just as soon as the needed exchange rate realignment was achieved and trade negotiations actively started, the temporary import surcharge was gone and the job development credit was extended to imported products. By February, the short-term trade negotiations were pressed to a conclusion—not without difficulty—with Japan and the European Community. The net result was some immediate reduction in trade barriers and new commitments to liberalizing trade negotiations in the future.

This record reflects no protectionist purpose. But we would be blind if we fail to recognize that such pressures do exist in the United States and that the temptations to look inward extend to slashing defense commitments and our development aid program.

We can—and we do—deplore those pressures. More important, if they are not to spill over into crippling legislation we need to deal with the causes. Those causes have certainly included a deteriorating trade position and the strains on the dollar.

The continuing purpose of the President and Secretary Connally is to demonstrate the administration has a much more constructive approach—one that supports a fair and liberal trading order. In that approach, we neither seek nor require any special advantage or favor in world monetary and trading arrangements. We recognize that, in the end, the growth, productivity, and stability of the American economy will be essential to success. But we also maintain—and I believe the facts of our position and the monetary turmoil we have seen demonstrate—that a new balance must be struck among the benefits and burdens of the nations of the industrialized world. This is fundamentally what our discussions on reform are all about!

I am often counseled by thoughtful men—including some of our best friends abroad—that we have already accomplished a great deal. Don't press our friends. I am told, to do uncomfortable things. Above all, don't forget the political, and defense, and aid, and foreign policy priorities. There is another refrain in such advice—exert American "leadership."

Now, I am the last to reject American leadership. Indeed the events of August 15, in my opinion, were one manifestation of American leadership.

But it is apparent my counselors usually have something else in mind. That something, upon examination, often seems very much like a static adherence to the foreign economic policies followed throughout the postwar period.

In practical terms, for instance, we are asked to provide more economic aid on better terms. This, of course, costs money and foreign exchange. Some suggest we could raise that money elsewhere—perhaps, for example, by cutting defense spending overseas. But mutual security is a vital matter. The case is pressed at least as strongly that, in the absence of other volunteers, the United States must continue to bear a disproportionate share of the defense costs of the free world. This also costs money and foreign exchange.

On the premise that trade liberalization is in the world's interest—a proper premise—we are urged to make the first concession to move trade negotiations along, even at the risk of weakening our trade and payments position. If that is a problem, well then we are blithely told to look to a change in our exchange rate—as if we had not just gone through that trauma and further change would be calmly accepted by others.

In the strictly monetary sphere, the call for leadership has been translated by some into a move toward quickly restoring convertibility or accepting other financial obligations—at a time when we have no assured means of discharging such obligations.

My purpose in this recital is not a futile effort to bring tears to an audience of bankers about the conflicting demands on a finance ministry. Even less do I suggest that the policies advocated are individually foolish or ignoble.

But we have to face the simple fact that, in their totality, such policies are inconsistent and unsustainable without the strong foundation of external economic strength; we see the restoration of a strong trade and payments position as fundamental to lasting strength for the dollar, to the stability of the monetary system, and to maintenance of outward-looking, liberal policies.

If you think we have become preoccupied with the problem of getting our trade and balance of payments in order, you are right. If you consider this a mean and selfish preoccupation, of little or no relevance to the important problems of peace and prosperity, you are wrong. If you consider it will entail a difficult, complex, and potentially contentious negotiating process, then we agree, for all the evidence is on that side.

In broad principle, the basic elements for success are present. Our enormous deficits are reflected in a surfeit of reserves—specifically, a surfeit of dollars—held by a number of other industrial countries. Several of those countries are enjoying record or near-record trade and current account surpluses, in many instances far larger, in relation to their economies, than any surpluses within memory for the United States. In logic, here is an opportunity, it would seem, for those reserve-rich surplus countries to help promote balance of payments adjustment by, for instance, taking such actions as benefiting their domestic consumers by reducing barriers to trade, or their industry by removing barriers to external investment.

But the answers to such suggestions are not slow in coming. We hear that other nations are too divided. They are too small and too uncertain of their future prospects. They fear domestic political consequences. They need more time to adjust and change. We are told to find some other way to eliminate our deficit—almost as if we could trade with the moon!

A good and sensitive friend of the United States put it to me this way: "I understand what you are saying, but the world simply isn't accustomed to looking at it that way. After all, we like to be in surplus. We liked you to be in deficit—so long as it was not too large!"

One can recognize and even sympathize with that nostalgia. But that system broke down. The political and economic tolerance—at home and abroad—for an overextended dollar is gone. A kind of cultural lag in thinking cannot change the reality that underlying shifts in the locus of world economic power from a single country to several centers has profound implications for our trade and monetary arrangements.

No single nation today stands in a position to direct or dominate the process of reform. Nor can we expect to look outside ourselves for some authority to enforce rules and conduct that do not fairly reflect the realities of national objectives and behavior and the economic facts of life.

The real challenge for U.S. economic leadership is this: We need to make our case clearly and forcibly for new policies that will adequately reflect the new balance of power. At the same time, we need to build institutions and codes of conduct that will provide a base for maintaining harmony in a context of expanding trade and mutual prosperity.

In the course of this conference we have all heard lucid and brilliant expositions of the ills that beset the monetary system and methods of dealing with them. Yet after hearing the range of opinion, I suspect you can understand why we in the United States have no prepackaged plan for reform to spring on a waiting world—nor, frankly, have we found other nations yet ready to pronounce their considered judgments. Even the consensus that is said to be emerging that more flexibility in exchange rates is needed in any future system hides substantial

differences in philosophy and brushes over some unresolved dilemmas and difficulties in operational mechanisms.

We have also heard different opinions about convertibility, funding mechanisms, methods of reserve creation, phasing out of the dollar as a reserve currency, reserve settlement accounts, and all the rest.

These are relevant and important items on the agenda for discussion of monetary reform. In approaching that agenda, our views will be firm on some matters—such as reinforcing the trend toward deemphasis of gold—and open-minded on others, such as the role for reserve currencies.

More important, we insist that in considering the various monetary mechanisms they be cast against a vision of our objectives and a realistic appraisal of underlying economic forces. Particular mechanisms will work well or badly as they fit an agreed view of the kind of international economic system nations really want. Basic objectives, philosophies, and economic structures should determine the mechanisms, not the other way around.

I would like to touch upon just four of the underlying issues against which any model of reform must be tested. I do not pretend this listing is all inclusive. I do think it encompasses problems of critical importance. Certainly it reflects some of the basic concerns of the United States.

First, we need to look hard at the implications of forcing symmetry in our monetary arrangements. The concept of symmetry is usually associated with what might be called a pure asset settlement system, an end to the role of reserve currencies, and early and effective action to deal with emerging imbalances in payments. Among other things, it implies use of exchange rate changes and other tools of external adjustment by the United States fully comparable to those long available to other countries.

After more than 20 years of deficit and realizing the heavy burdens on the dollar, there are some features of such a system that have a natural appeal to the United States. But let's also examine the full implications. Given our attenuated external financial position, we would have to start off with a succession of U.S. surpluses, strengthening our reserves. In the long run, beyond the transitional period, no country could expect to maintain consistent surpluses.

Fine. That is the logic. But what will be the practice?

Do we have candidates among the surplus countries for moving their exchange rates, for liberalizing their imports, or for adopting other policies to change surplus positions promptly into deficit? We know how to bring pressure on deficit countries; what are the appropriate mechanisms and the disciplines for enforcing action on surplus countries? Alternatively—and what amounts to the same thing in economic terms—will other countries be willing in the future to see their surpluses transformed into deficits by the exercise of U.S. freedom to change its exchange rate or other policies?

If not, then we had better consider some other system. Certainly we would reject, and every other nation would as well, a system that forces balance only by means of an internal deflation no modern government is willing to accept.

Second, assuming for the moment agreement in principle on the desirability of a symmetrical system and quick payments adjustments, there remain basic differences over how the adjustment might be made. The United States has a deep-seated view, rooted both in philosophy and practicality, that we want a market equilibrium, not a balance that can only be maintained by permanent or recurrent controls on capital or other payments. Such an equilibrium implies for the United States the need for a large current account surplus, which will in turn require a sizable trade surplus. Otherwise we will be in no position to supply aid. We would, in effect, be asking (against the natural forces) for capital to run uphill to the richest country from those less well endowed.

Despite our basic views on this score, we have felt it necessary, during this transitional period before our payments move toward equilibrium, to maintain the existing controls on capital outflows from the United States. A message confirming that decision for all of 1972 is in the mail to companies operating under the direct investment restraint program. The only program modification will be that special care will be taken to avoid inadvertently impeding the ability of these companies to finance their exports.

Third, some proposed models for the monetary system presume by their nature a high degree of coordination among national monetary, fiscal and other policies. None of us who want the benefits of international commerce can be an island unto ourselves. But detailed and continuous coordination of various policy instru-

ments would impose severe restraints beyond those any national government has been willing or able to accept.

Finally, there is an issue of a different kind and character sweeping across the entire fabric of our monetary and trading order. It has implications for every country, but in today's context I can sum it up in two words, "Whither Europe?"

We hear a great deal about the virtues of a "one-world" system and fear of blocs. Yet the palpable fact is that we have a large and expanding preferential trading bloc in being. Seldom a week passes that we do not hear a report of one meeting or another to expand that area through preferential agreements or to reinforce its cohesion in the monetary area.

"Bloc" is an emotive word, but I use it in no necessarily critical sense. After all, the United States has long politically supported the development of the Common Market. Moreover, monetary unity in Europe, taken by itself and if it could be achieved, could on balance become a constructive element in a world monetary order.

What we fear, of course, are antagonistic, competing blocs, aggressively building and extending a pattern of trade and financial restrictions and controls around themselves. We are frankly disturbed by some such tendencies as we see them in Europe.

With the enlargement of the Community, supplemented by preferential trade agreements—actual or under discussion—covering over 60 countries and over half of industrial trade, what is left of that cornerstone of our trading system called the "most-favored nation" principle? Will a regional payments system substitute for, instead of being integrated with, a multilateral system? What is the meaning of exchange rate adjustment when, in the large agricultural sector where the United States and Canada are producing at roughly half European prices and have a large competitive advantage, a system of variable levies automatically discourages our products?

The conclusion seems to me inescapable that here we have a phenomenon that cries out for wider analysis and consideration. It is one prime example of how trade and monetary issues are inextricably tied. Consideration of one without the other would be sterile.

As you long since have realized, I did not conceive of my assignment today as suggesting we face an easy job capable of quick solution from an existing blueprint. After all, we face no less a task than reconciling vital national interests in an agreed, realistic, and desirable monetary and trading system. We must pick our way through an obstacle course of political sensitivities and simple failures of communication.

At the same time, I have a sense of growing confidence.

I believe a consensus is emerging on the manner of proceeding under a suitable broad mandate, reflecting the common will to move ahead and to come to grips with the underlying issues. We are freeing ourselves from the inhibition of defending what is familiar simply because it is familiar, even though it no longer works. We share a common sense of dissatisfaction with the present.

We also share a common responsibility for the future. At stake is our common prosperity and the larger harmony of the world political and economic community.

Make no mistake about the role of the United States in all of this. It would be folly to think we could do it alone. But you know our basic traditions and instinct—to look outward, to work with others, to find prosperity in a larger whole. We expect others to discharge the heavy responsibilities that go with strength. On that basis we have every reason to anticipate we can together build on the achievements of the past.

Exhibit 67.—Statement by Under Secretary for Monetary Affairs Volcker, May 25, 1972, to the Organization for Economic Cooperation and Development Council meeting, Paris, France

Mr. Chairman, if I may, I would like first to convey to you and to the others here the greetings and regrets of Secretary Connally who, as you know, intended, until a certain event last week, to attend the Council meeting here today. I bring the same greetings from Secretary-Designate Shultz, who was particularly concerned to have me convey to the group that, while there would be a certain change in the personalities at the Treasury, as the President indicated in making that change, it is a changing of the guard and not a changing of policies.

I welcome the Secretary General's initiative in scheduling this discussion of international monetary and trade issues and raising the question of the role of the OECD—and particularly the breadth with which he has dealt with this subject.

It seems obvious to me, and I am sure to everyone around the table, that no subject could be more timely. After a period of relatively smooth and really unparalleled progress in trade during the postwar period, the monetary and economic system has been through a period of some tension and shock over the course of the past year. Certainly one of the most urgent tasks now facing all our governments is to undertake serious work on the arrangements which are really going to condition international economic relations for the next 25 years, just as the postwar arrangements served us so well in the past 25 years.

Then there are immediately related questions as to what actions are appropriate in particular circumstances. What particular techniques are appropriate? As you know, the GATT presently justifies use of quotas for a nation in payments deficit but not surcharges, but experience suggests that countries have found it, I think for good and solid reasons, more convenient and more desirable often to use surcharges rather than quotas. It is appropriate to ask whether a distinction created 25 years ago is still valid, is still sensible in the light of recent experience and foreseeable circumstances. Then, of course, you can ask whether the use of either quotas or surcharges is appropriate, or in what circumstances.

Now another kind of question, I think, arises with quite apparent differences of opinion as to whether, and to what extent, equilibrium might be achieved through the use of controls and perhaps, particularly, controls on the investment side of the balance of payments equation. There are those that distinguish sharply between trade and investment in this respect and would focus the adjustment more largely on the investment side of the equation. Obviously, this is a major issue and there was some reference to it yesterday, I recall, by our Canadian colleague, and it implies, in turn, different monetary mechanisms.

I think we, too, Mr. Chairman, have to recognize that regional arrangements in trade and money are a fact of life and that these phenomena have to be related, the trade and the monetary, in a regional sense, one to the other. Yet I think we have to admit that the size and extent of present arrangements of this sort really weren't contemplated in either the basic trading rules or the basic monetary rules under which we are now operating, and there is a real need for developing a new consensus and a new doctrine in this area.

Now I don't raise this point at all in suggesting that the United States has consistently supported the Common Market. But there are important issues emerging from this development that I think we need to deal with frankly and openly lest, by lack of design, we do fall into an environment of competing and inward-looking blocs. And I would be frank to say we are disturbed by some tendencies we see in Europe in the proliferation of trading arrangements and association agreements. On the other hand, my own opinion is that European monetary unity could become an extremely important building bloc for a more satisfactory world system and a more stable monetary system. My point is simply that we can't separate one from the other, and it's a phenomena that does need examination.

I don't want to comment in substance on the deliberations of the high-level group, and I won't claim that degree of familiarity. I was interested in listening to Mr. Rey's comments, but I would just observe in this connection that this group, which was established, of course, with a mandate in trade as I understand it, has found in the course of its deliberations that monetary questions kept arising and emerging and could not be put down. I take it that this is an illustration of the inextricable link that I think does exist between these subjects.

I've been interested too in observing the Japanese actions which we had described to us yesterday. It was quite clear they looked upon certain trading actions as substitutes for exchange rate action. And I welcome their program and I hope that it will be effectively implemented. Again it is another illustration of the way these factors are linked.

Now I want to make sure my comments are not misunderstood in one rather specific way. In discussing trade and monetary linkage and in insisting that they be looked at as part of a coherent whole, I'm talking essentially about reforming the basic rules of the game—the fact that we need a consistent, compatible code of conduct in both of these areas and, without this consistency, I think we

run into grave danger that either the trading arrangements or the monetary arrangements, or both, will break down.

I am not referring to specific trade negotiations, in the traditional sense, over the price of oranges or particular quotas, or nontariff barriers. Those negotiations, I hope, are being prepared for in the proper forum of the GATT. We expect they will take place in that forum. We are looking not at those specific types of negotiations but the general types of rules that should govern trade and monetary relationships and be compatible with each other.

I should say in that connection that I am pleased, as others have also suggested by the calmer atmosphere in exchange markets and in other relationships that have developed in recent months. But I also want to say that I don't derive from that experience any sense of complacency whatsoever. To the contrary, we continue to be impressed by both the need and difficulty of achieving sustainable balance in the economic relationships among our countries, most broadly—and I would say specifically in our own balance of payments. We indeed have a strong conviction that equilibrium in the U.S. payments is an essential ingredient for stability worldwide in the monetary system and in trading arrangements—perhaps the single largest factor and challenge ahead of us. I would certainly hope and expect that that conviction is common ground. Of course, it is not just a shortrun problem of making the adjustment that has to be made in present circumstances. We have to look at the problem of sustaining balance of the United States and for others in the broad perspective of the years ahead and the kind of perspective the Secretary General has been emphasizing.

I am sure, as Chancellor Barber and others have already suggested, that all of us share an interest in moving ahead to reorder the international economic system in a way that really reflects the present and foreseeable realities, and in a way that supports a common interest in liberal and open trade and political harmony.

It struck me in listening to the opening ceremonies yesterday, Mr. Chairman, how different the world is that we live in today from the day when the Marshall plan was inaugurated.

We are no longer dealing with the world of the late 1940's when one nation was dominant. On the other hand, we are not dealing with the world implied by the economic textbooks very often—a world of equal and atomistic states. We quite obviously have a world of several major power centers: The United States, the European Community, Japan, just to name some of the largest.

To be perfectly frank, I am not sure that our thinking has been fully adjusted to this change in circumstances. It does require a rethinking of basic philosophy, basic premises of the system in many ways to make sure the structure of monetary arrangements and the structure of our trading arrangements fit present needs.

If I state the issue most broadly, and I think it is useful to state it broadly, the links between the various aspects of the problem—monetary, trade, investment, whatever—seem rather obvious. A common expression is that money is the handmaiden of trade and investment. We all accept that.

We all accept, I think, in the broadest terms, that the philosophy and structure of our monetary relationships have some relation to the philosophy and structure of our trading relationships.

We established in the postwar period, quite rightly, a nondiscriminatory, multilateral payments system. And that had its counterpart very directly, in the trading order, in the most-favored-nation clause, the cornerstone of liberal and nondiscriminatory trade policies.

I think there is an assumption, implicit or otherwise in a system of relatively unchanging exchange rates, that other elements in the system must contribute heavily to a more smoothly working adjustment process. Or conversely, to take the other extreme, if one assumes flexible exchange rates and heavy emphasis on adjustment through exchange rates, we have to assume that trade is free to move in response to the relative price changes that the exchange rate change entails. If large segments of trade or investment are insulated from the adjustment process—through government intervention, through quotas, through whatever restraints exist—the prospects for smooth adjustment are hampered whatever the monetary arrangements.

We often hear it said that monetary breakdown can lead to inhibitions on trade, perhaps the growth of blocs—antagonistic blocs, competing blocs—and certainly that seems to me a legitimate concern and fear, one that we share. I think

it's equally true that trading arrangements out of keeping with economic realities can lead to monetary problems, inhibit adjustment, and contribute to a breakdown of the monetary system. I think we have had some examples of that around the world.

For those reasons, my Government strongly supports the view that monetary and trade arrangements, in particular, are closely interrelated and must be considered jointly.

We certainly put ourselves fully in support of the notion that the OECD, by its nature, its charter, its experience, is especially well-placed to equip itself to deal with the interrelated problems.

Indeed, I think the OECD has the potential of making a unique contribution to this field. I think we would really be negligent in fulfilling our responsibilities and the OECD in fulfilling its responsibilities, if this organization did not move promptly to prepare itself to make a full and maximum contribution to the task ahead.

Now I would like to be a little more specific, Mr. Chairman, about some of the trade and monetary linkages that we see immediately ahead of us, particularly in terms of the reform of the monetary system.

Mr. Van Lennep referred to the discussion of a more symmetrical monetary system. I think we are all familiar with some elements of that discussion. It may have different meanings, as he suggested, for different people in different contexts. But it does at the least, I think, mean a system in which nations are required to settle payments deficits and surpluses with reserve assets (to look at the monetary implication) and to eliminate the imbalances promptly and to move rapidly on the adjustment process.

That kind of system, I will tell you quite frankly, has a certain amount of appeal to the United States after more than 20 years of deficit. I should say it means that, for a starting period, the United States should think in terms of running a surplus to restore the strength of our international financial position, but in the longer run it means the United States and all countries would have to stay close to approximate balance in their international payments. Now for the United States that means moving from a long period of deficit. For other countries it would mean moving the opposite direction.

This, of course, raises the question of what the disciplines are in the system, what pressures there are for adjustments that in many cases may not appear—looking at an individual country and its immediate interests—will not appear the most delightful or pleasing kind of adjustment. If this kind of a system is going to be a reality, if quick and full adjustments are to be more than pious hopes and become practical realities, we have to think about what kind of disciplines are necessary. The disciplines on deficit countries, I think, have received a good deal of attention and they should. But the question is equally raised, what about the disciplines on the surplus countries? I think there must be a symmetry here for the system to work correctly.

If that is correct, it immediately raises a further question: To what extent do we rely upon monetary measures, such as exchange rate changes, in this adjustment process, and to what extent should there be reliance on trade or other measures, particularly when the case for exchange rate changes may be less than clear-cut and ambiguous—trade changes, either in the sense thought of in terms of the IMF scarce currency clause where the question of trade restraints is relevant, or trade action in terms of liberalization of restrictions that might exist?

Now when this question is raised, in my experience at least, there is a quite predictable reaction, depending upon what group one is talking to. Trade people are inclined to take the position that these are very interesting and relevant problems, but, of course, it's a monetary problem, and one should look to the exchange rate area or otherwise. When one talks to a monetary group and they are impressed with the difficulties of exchange rate changes, they are inclined to say, well, of course, this is a difficult and relevant problem, but go discuss it with the trade people. I think this is illustrative of the kind of link, the kind of problem to which we must address ourselves.

Now one word about the relationship I see here between the OECD and other forums, actual or proposed. We plainly hope and anticipate that a group will be set up under the auspices of the IMF, the so-called G-20 to take under its wing promptly the questions of monetary reform and relate those to the wider trading issues. This group in a sense will be, we hope, the fully appointed, constitutional forum where the real negotiations should appropriate worldwide representation.

At the other end of the spectrum, the trade negotiations to which I referred, trade negotiations are properly the concern of GATT, and I think GATT is going to have its hands full in those terms.

The OECD, on the other hand, is not a negotiating body. It is a discussion forum and we think a highly important forum for discussion among a group of countries with very direct interests and, as I suggested, a group that, by its experiences, competence and talents and charter, is well suited for the job of examining interrelationships.

So far as the organization of the OECD is concerned, we think it has a great many talents, Mr. Chairman, but it is not fully structured to do the job and meet the challenge that is now before us. The Secretary General, I think, has made some proposals that seem to us useful in terms of bringing the organization fully in accord with the needs. We have essentially what has been a vertically organized organization, dividing up the substantive areas. What we need to do is bring some of the substantive areas into better focus on a horizontal basis.

None of the existing groups, as we see it, has sufficiently broad competence to fully examine the linkages. And there could be a danger that no OECD body, despite its general competence, will do the job of looking at the interrelationships.

So we do feel there is need of focussing attention, having a group at an appropriate level, a relatively manageable group with broad competence to consider the linkages of the trade and monetary fields, and we think it is extremely important that the OECD take up this challenge and fully equip itself to do that job. We shouldn't let present organizational structure and restrictions stand in the way of the OECD participating fully in this work in the best way possible.

The challenge is clearly here, Mr. Chairman. I am absolutely convinced that the negotiations, as a whole, will be speeded and facilitated if the OECD itself is equipped to make a maximum contribution to the effort. I think we are at a point of decision. We can by indecision, in effect, opt out of these very important negotiations. I don't think we should opt out; we should move to seize the opportunity to take advantage of the very great competence of this organization. The people competent to make the decision are assembled here, and we believe we should act now.

Thank you, Mr. Chairman.

Exhibit 68.—Remarks by Under Secretary Volcker, May 30, 1972, at the Conference Board's Third International Conference on the Financial Outlook, Geneva, Switzerland, on "Realism in International Monetary Reform"

I appreciate this opportunity to participate in the Third International Conference on the Financial Outlook, and to meet directly with a cross section of leaders intimately concerned with the practical problems of international business and finance. The setting at the conference in this internationally minded city of Geneva itself emphasizes that we are dealing with issues that cut across national boundaries and interests and can only be resolved with close cooperation and understanding.

I suspect there would be no disagreement with a statement that we have been through a period of considerable financial turmoil and uncertainty in the past year.

Monetary arrangements to which we had long grown accustomed have been changed. They have been changed not out of whimsy or neglect or selfishness. Rather, they had to be changed because the basic premises underlying those arrangements were no longer valid.

You—and I—have had to adjust our thinking to new economic circumstances and to a fundamentally new balance in world economic power. These circumstances evolved over a period of years. The evolution of the monetary and trading system failed to keep pace—until, finally, sudden change was forced upon us.

The process of change is never easy, never painless. The general realignment of exchange rates, including the change in the parity of the dollar itself, was a difficult process. We are today operating without the familiar convertibility of the dollar into reserve assets. Important issues of trade policy—more or less submerged for a time—have been projected forcibly into our consciousness.

Underlying much of the turmoil has been the prolonged and aggravated weakness in the external financial and economic position of the United States. That weakness must be corrected if there is to be any lasting prospect of stability in the international monetary system. More than that, a stable dollar and repair of the competitive position of the United States seems to me an essential ingredient of any effort to work together to extend the liberal and open trading order that has been the hallmark of the postwar world.

The essential facts that reflect our balance of payments difficulties are well known:

After 20 years of more or less limited balance of payments deficits, the accumulating pressures on the external position of the United States were reflected in a basic deficit on current and long-term capital on the order of some \$10 billion last year.

The primary factor in the deterioration in our balance of payments has been a shift from a once large trade surplus—a peak of about \$7 billion in 1964—to a sizable deficit today, a stark reflection of the cumulative pressures on the relative competitive capabilities and opportunities of U.S. industry.

Obviously, U.S. inflation in the latter part of the 1960's contributed to those pressures. Yet, overall, our internal price performance over a period of years has been better than that of virtually any other major industrialized country. Clearly, the causes go deeper. The remarkable resurgence of the productivity, capacity, and marketing capability of industry in Europe and Japan during the postwar years has not been matched by needed changes in our monetary and trading arrangements.

I will be emphasizing today both the need for, and the difficulties of, change. I also want to retain a sense of perspective. In the face of monetary adjustments without parallel since the late 1940's, world trade is today substantially greater than a year ago. Private financial markets themselves, including the huge Euro-dollar market about which we have heard so much, proved capable of adjusting to the new circumstances with remarkable resiliency.

Since late winter, calm has returned to exchange markets. Indeed, very little central bank intervention in exchange markets has taken place for almost 3 months. Reflect upon that fact a moment. There have been few periods of comparable length in recent years in which a similar statement could be made.

We cannot conclude from this experience that present arrangements are satisfactory for the longer run. In the Smithsonian agreement, new exchange rates were put in place after hard bargaining to reconcile differing national views. The United States, as other leading countries, accepts the exchange rates then established as a basic point of departure in dealing with remaining problems.

A wider band for fluctuation around those exchange rates was also introduced at the Smithsonian. Trade agreements were soon reached to deal with certain immediate problems in a sensible and effective way and to prepare the ground for more comprehensive negotiations.

But all of this is an interim phase. The necessary adjustments have been launched but not completed. The challenge remains to rebuild monetary and trading agreements and institutions to serve the world for the next generation.

There is impatience to get ahead with that job. I share that impatience. Indeed, I admit to a certain volume of travels and discussions in recent weeks to that end. But I am also convinced that, if we are to achieve lasting progress, we must be willing to take the time to face squarely and openly the difficulties and obstacles in our path.

In terms of procedures alone, we have the task of finding appropriate forums for carrying the work forward most effectively and expeditiously. These forums must combine equitable representation, breadth of focus, and manageable size.

That is no small order, but I can report considerable progress. Specifically, we look forward to the formation of one group under the general auspices of the International Monetary Fund but able to draw on the resources of other competent organizations as well. Even before its formation, it has been popularly labelled the "Group of 20."

On the basis of my own recent contacts with officials of a number of other leading countries and discussions in other places such as UNCTAD, I believe that a strong consensus has emerged that the group should be directed not only to examine and propose changes in the "constitution" of the monetary system, but also to consider the essential interrelationships between the monetary system and the world trading order. That thought is incorporated in IMF draft proposals on the group's mandate now circulating.

We also hope and anticipate that the OECD can play an effective role in speeding and facilitating the task before us, especially in relating the monetary questions to trade and investment issues about which it has a high degree of competence. I would confess to some disappointment that there was resistance in meetings in Paris last week to some reshaping of the structure of the organization to focus its unique capabilities more directly on this effort. What did emerge, however, was clear recognition that the issues of trade, money, and investment are interrelated and that the organization should play a role in developing a synthesis among them.

We are, of course, also preparing trade negotiations in the framework of GATT so that we can deal with specific impediments to trade.

The broader common understanding of the nature of the overall problem reflected at the OECD meeting and elsewhere is one reason for encouragement as we look ahead. We can also take some satisfaction, I believe, from what has already been accomplished. To appreciate that, cast your thoughts backwards to the situation a year ago:

It was a time of great uncertainty in exchange markets; financial crisis was in the air, following a succession of increasingly serious monetary disturbances over the previous decade.

The U.S. balance of payments was not only deteriorating at an alarming pace, but correctives adequate to the scale of the problem had not yet been put in place.

In the absence of more constructive approaches, pressures for protectionism and temptations to retreat inward were growing in the United States and in other countries.

I do not suggest that the needed adjustments have yet been dealt with fully and adequately. I do suggest that the problems have now been openly recognized, that fundamental correctives have been adopted, and that the stage is being set for useful negotiations on the remaining and longer term issues.

My confidence in a successful outcome of these negotiations stems in part from a conviction on all sides that we have much to gain in mutual prosperity from working together to preserve a cooperative world order, liberal trade and open economies. But my confidence stems from more than that generality. There are more specific accomplishments and attitudes that provide the needed foundations for negotiations.

These accomplishments have come with what may seem to be agonizing slowness. In the isolation of our offices or on the lecture platform, each of us can spin out our personal version of a comprehensive plan addressed to all our economic problems.

The difficulty is, of course, that those plans often do not converge in their major elements. We sometimes tend to forget we are dealing with matters little understood even by relatively informed citizens. Yet they are matters of vital national interest, and they have sensitive political as well as economic dimensions.

Perhaps the greatest challenge of all is that we need to adapt our collective thinking to fundamentally new circumstances in the world economy. Those circumstances did not, of course, arise suddenly last summer. They emerged more gradually over a period of years. But, as profound changes took place in the world economy, we were intellectually coasting on premises no longer valid.

Today, we are no longer coasting. Instead, by facing openly the fundamental problems and the new realities, I believe we are laying the indispensable intellectual groundwork for the needed consensus on reform.

There are, it seems to me, several important elements in this "new realism."

First is the simple fact that it is now generally accepted that our monetary system is in need of fundamental repair and reform—that new concepts of monetary arrangements are required to replace those which emerged at the end of World War II. In the immediate aftermath of the suspension of the convertibility of the U.S. dollar on August 15, there was an understandable tendency by some to try to return as fast as possible to the old mechanisms. But given the vast changes in the world economy, a patchup of Bretton Woods could not do the job. Today the more realistic premise is widely accepted that thoroughgoing reform of the system is needed.

Secondly, we see recognition today that the problems of the monetary system are inextricably linked to those of the trading order. Last summer, this concept was highly controversial. Yet, within the past 2 weeks a general consensus was affirmed at both the ministerial meeting at the OECD in Paris and at the UNCTAD meeting in Santiago that we need to aim at a synchronized approach

to monetary, trade, investment, and related matters. Policies in these inter-related areas should mutually reinforce each other in encouraging and facilitating needed adjustments.

In some respects, the rules of the trading system and the rules of the monetary system directly overlap. For instance, when we face imbalances in payments, the proper role and function of trade measures—such as surcharges, quotas, or steps to liberalize imports, and of monetary measures, such as exchange rate changes—need to be freshly examined and clarified. The implications of the visible tendency toward a proliferation of preferential trading agreements and the drive toward greater monetary unity among some countries of the world requires a new look. Today, these phenomena are prominent features of the world landscape, but they were almost ignored in shaping the monetary and trading system at the end of World War II.

Third, there is much greater understanding today—in contrast to August 15 and December 18—about the length of time that it will take to eliminate the existing payments imbalances. The recent trade figures of the United States, showing continuation of a large deficit 4 months after the Smithsonian agreement, emphasize again the simple fact that adjustment does take time.

There is no reason to question that the exchange rate adjustments agreed last December will importantly support the U.S. trade and current account position as traders and businesses adjust to new competitive conditions. The relatively better price performance of the United States also promises to yield results over time. But it is equally true that the initial effects of the dollar devaluation have been perverse and that the imbalances in payments have been aggravated by the cyclical phasing of the world economy.

The U.S. economy is now expanding over a broad front and at a more rapid pace. A number of our major trading partners across the Atlantic and the Pacific are still in a phase of relatively slow growth—and therefore of relatively low import demand. In the short run, these cyclical influences tend to dominate trade flows. Fortunately, these same influences have also provided a setting in which international interest rate levels could move toward better alignment so that short-term capital flows need not aggravate underlying payment imbalances.

Fourth and finally, I believe a consensus is emerging on some of the basic concepts that must govern any new monetary and trading order. I will mention three in particular.

I sense a convergence of thinking that our international arrangements must leave reasonable scope for independent action by sovereign nations in shaping their internal policies. No nation will depart from basic policies aimed at high employment, reasonable price stability, and growth, nor can we ignore the plain evidence that internal policy flexibility is neither so complete, so instantaneous, or so effective as we would like. In short, we have to face the fact we neither know enough, nor can practically implement, a finely tuned mix of internal policies adequate to square domestic objectives with every shift in international circumstances.

Certainly, any nation expecting to benefit from international trade and investment must be prepared to accept obligations toward the common order. But we cannot build a durable international monetary system on dreams of full international coordination. We must recognize the hard reality that, in particular situations, objectives will conflict.

There is a direct corollary to this point: The instruments available for balance of payments adjustment need to be reexamined and broadened, and the necessary disciplines need to be enforced reasonably and equitably on deficit and surplus countries alike. Obviously, large and difficult questions arise in developing and implementing effective means to this end. As I suggested earlier, a choice between monetary devices (such as exchange rates) and trade devices (such as surcharges or special efforts to liberalize imports) may arise. These questions are unresolved. But the first vital step is taken: Recognition of the problem and a willingness to deal with it.

The emerging consensus seems to me to extend to the further point: Whatever the particular mechanics of the new system, additional flexibility must be built into the exchange rate regime. Of all the technical problems before us, this may be the most difficult. Fixed exchange rates to be defended through thick and thin entail a simple, easily understood rule. We know how that system works, or at least how it is supposed to work. We also know that in today's world that system broke down because frozen exchange rates lose touch with reality.

What we need is to build enough "flex" or elasticity into the system to permit it to adapt to change more smoothly, thus preserving the larger stability and durability of the whole.

Certainly, there are also important areas in which no consensus is yet emerging in terms of shaping a new system.

I referred earlier to the fact that regional monetary and trading areas are a phenomena essentially outside the framework of the old system. Yet the Common Market is a fact of life. Indeed, the United States has long supported its development.

I see no inconsistency between that support and our deep concern over the proliferation by the European Community of preferential trading agreements, actual or under discussion, to some 50 trading partners beyond the boundaries of the Community itself. We are also concerned about the external implications of its agricultural policies.

At the same time, I personally believe that greater monetary cohesion within a large part of Europe, taken by itself, could potentially become an important building block in the emerging international monetary system. The challenge is to develop the potential in the situation, while resisting the threat of a lapse into the kind of regional blocs that are antagonistic in trade and monetary affairs and disintegrating in terms of our common economic and political objectives.

Another area of contention—present and potential—relates to capital controls. I often hear it said that the U.S. balance of payments problem reduces itself largely or entirely to a question of outflow of capital. This seems to me an illusion. It is, for instance, a fact that on balance over recent years, before the heavy speculative influences in 1971, the United States experienced a net inflow of long-term capital from Europe. It also seems to me undeniable that, if the United States is to support an aid program worthy of our Nation and permit capital to flow to the LDC's, we will need a sizable current account and trade surplus, in contrast to our present deficit.

The United States approaches the question of international capital movements with a conviction that in seeking payments equilibrium—and sustainable equilibrium—balance cannot be forced permanently or recurrently by the use of capital controls. This is partly a question of economic philosophy. But it is also a highly practical judgment that our ability to develop and enforce such controls effectively over a sustained period of time is extremely limited without damaging the very fabric of trade and commerce we seek to support.

The volatility and size of international capital flows—most particularly in the short-term area—give rise to problems that must be dealt with effectively and pragmatically. More than one technique can be and has been adopted to that purpose. Contrasting views on these techniques need to be brought into confrontation and resolved.

No doubt we can also expect controversy about what I think of as the mechanics of the system, the nature, volume, and use of reserve assets; the role (if any) for reserve currencies; and, I would add, appropriate ways and means for avoiding dependence on gold in the monetary system.

In one sense, these matters are the nuts and bolts of the international monetary machine, and they provide a natural agenda for discussion. But I would also urge that in putting those nuts and bolts together, we first need a common vision of the kind of machine we need and want. In other words, the mechanics have to be looked at as part of a coherent whole.

I think it is plain to all of you that I do not minimize the challenge which remains ahead.

In facing this challenge, I take as a fundamental premise the need for leadership from the United States. We, after all, remain the largest and strongest of the world economies. Indeed, I am proud of American leadership in these recent months: Our recognition of the need for change and for fundamental change; our willingness to take hard measures domestically and internationally which, however distasteful in the short run, will accelerate the needed adjustments; our insistence that the old international system could not simply be patched up but requires a fundamental rethinking in cooperation with our trading partners.

I also believe there needs to be some understanding that the nature of American leadership must inevitably change. We are no longer a colossus standing astride the world's economy with unparalleled productivity, competitive position, wealth, and political and military power. Leadership cannot in the circumstances of today be equated with tolerating disproportionate burdens for aid and for defense, and not least for the dollar itself.

Like other countries, we in the United States must fit our performance and our aspirations to our capabilities. All of us have to recognize that today economic power has become much more balanced: that the United States has had deficits in its payments for more than 20 years and that these deficits had reached an unbearable size; that the international assets and the international credit of the United States had been stretched to the breaking point; that other nations, often with the help and prod of American capital, have made enormous economic strides. We need to recognize, too, that with economic strength goes political responsibility.

I put the point very simply and bluntly. We live in a world in which benefits and burdens—monetary, trade, defense, and aid—must be more equitably shared.

It is not a question simply of economic capacity but of a state of mind. National psychologies and national responsibilities do not change overnight. But change they must.

I believe that evolution is going on now. In many ways, it is a wrenching process for it challenges long-accepted assumptions and our capacity to understand and to cooperate together.

But it is also a fundamentally healthy process. I am convinced that out of these changes we can lay a fresh basis for extending and reinforcing the prosperity and political harmony that have been our common heritage from the postwar monetary and trading system.

Exhibit 69.—Statement by Under Secretary for Monetary Affairs Volcker, June 22, 1972, before the Subcommittee on International Finance of the House Committee on Banking and Currency

Mr. Chairman, as you made clear in calling these hearings, there is an intense interest in international monetary reform and an understandable restiveness to see practical results from this important work. The administration fully shares that concern. It is in no one's interest to procrastinate. Equally, it is crucially important that the job be done right.

My intention today is to provide a brief status report, to outline our broad approach toward the task ahead, and to respond to the questions that you may have.

Movement toward international monetary reform was launched by the forthright actions announced by President Nixon last August 15. In essence, those actions recognized that whatever the accomplishments of the existing system—and they were very substantial—some of the basic premises that underlay that system were no longer valid. Fundamental changes would be necessary to meet the problems and circumstances of the 1970's and beyond. Those changes must entail not just the mechanics of the monetary system but new ways of approaching problems that will fairly reflect the existing balance of world economic power and will result in a fair distribution of responsibilities among nations.

Secretary Shultz has asked me to emphasize particularly to the subcommittee that the change in leadership at the Treasury has in no way changed our goal, our basic approach, or our resolve in seeking those changes.

The first few months after August 15 were necessarily devoted to immediate and urgent problems of achieving needed exchange rate changes and resolving other short-range problems essential to viable interim arrangements—in the process setting the stage for consideration of longer range reform.

By March, we could point to a series of concrete accomplishments:

A major and unprecedented exchange rate realignment had been negotiated in the Smithsonian agreement, and legislative action to modify the dollar's par value had been completed.

Trade liberalization steps of tangible value had been concluded with the EC and Japan on certain short-term problems, achieving in the process greater recognition that the problems of the monetary system are paralleled by problems of the trading order.

Agreement was reached on wider bands of fluctuation for market exchange rates about the officially stated exchange rates—a potentially important ingredient in any more permanent system as well as a means of facilitating the exchange rate realignment.

Understandings were reached not only to proceed with monetary reform dis-

cussions but to undertake broad trade negotiations with the objective of supporting the goal of an open, liberally oriented world economy.

It is natural that some time was needed for the Smithsonian agreement and related arrangements to be digested and fully understood and for the dollar exchange markets to settle down. By spring, however, such understanding—and particularly the recognition that we and other nations wholeheartedly accepted and supported that agreement—had been achieved. We naturally welcome the fact that the dollar has not for some time been under pressure in exchange markets, and believe a foundation has been established for dealing in an orderly way with the difficult problems of long-term reform of the trade and payments system.

One element in the more realistic appraisal of the outlook is that it is now widely recognized that exchange rate changes have perverse initial effects and may require 2 years or so before yielding their full benefit toward balance of payments adjustment. Thus, U.S. trade and basic payment deficits for a transitional period are understandable. Indeed, in recent months, the continuing deficit in our underlying accounts has been covered by a substantial reflux of short-term capital, perhaps in part an unwinding of the so-called “leads and lags” in payments that swung heavily adverse in 1971.

I would be the first to emphasize these developments do not by any means assure longrun stability. We continue to face a major challenge in achieving and maintaining a substantially stronger trade position—which, in turn, must be the foundation for lasting equilibrium in our international payments as a whole. The Smithsonian agreement provides a basic point of departure so far as exchange rates are concerned. But we cannot neglect the task of reinforcing the competitive capabilities and opportunities of our industry in other directions—not least by maintaining better wage and price stability at home. This effort is absolutely fundamental not just to us but to the world trading community in general. The stability of the international monetary system cannot be achieved without a stable dollar.

These sensible and effective first steps that have been taken are in no way cast in doubt by the erratic fluctuation in the private market for gold—influenced by a combination of self-serving rumors and reduced sales by South Africa, the main producer. These fluctuations in price have had no significant effect on exchange markets. Indeed, the main lesson to be drawn, in my judgment, is the fact that this commodity—characterized by almost fixed production and increasing industrial use and, more than most, subject to speculative whims—cannot provide a sensible or lasting foundation for an international monetary system.

With the shift of attention from the immediate issues to long-term reform of the system, we must face the difficult task of transferring agreement on the need for reform in the abstract to hard agreement on specifics. In approaching this task, we have felt it essential to ask fundamental questions about the kind of world we have and want. Monetary issues cannot be considered in a vacuum, without taking full account of the interrelationships with trading rules and practices, the character and magnitude of capital flows, and other questions of international economic policy.

Considering the range and complexity of the issues, no one should be surprised that monetary reform will take time, even among the most reasonable of men. Monetary reform is not a matter of finding an answer in the sense that one discovers a unique solution to a puzzle or works out a mathematical problem. There is recognition that all will benefit from a well-functioning system but that generality cannot disguise the fact that vital national interests are at stake, that perceptions of these interests differ, and that, in the end, they must be resolved in a realistic manner. International cooperation involves hard decisions and compromise.

As you know, we have at this stage of discussion presented no monetary blueprint for resolving and reconciling the questions. The problems of technique and mechanism, such as the composition, volume, and use of reserves; the international role of the dollar; the nature of the exchange rate regime itself; methods of influencing capital flows, and the like, are important and difficult. They will not be adequately resolved, in our judgment, without an adequate conception of objectives and the nature of the underlying problems—and I would be less than frank if I did not confess that much of the discussion to which I have been exposed seems to slide past these fundamental points.

For instance, we know that the so-called “adjustment process”—the process

by which surpluses or deficits are corrected—has not been working well. Indeed, this is the key reason the system broke down. We suspect one of the main factors behind this inadequate adjustment is the fact that most advanced countries, for quite natural reasons, like to run surpluses. Over the years they have acted relatively quickly (and often are forced to act) to correct their deficits. There is no similar compulsion to correct surpluses. Yet one country's surplus is another's deficit—and for too many years the United States had provided the residual deficit. Yet our own efforts to correct that deficit, as so vividly revealed last autumn, may be strongly resisted since those efforts unavoidably impinge on others.

A persistent residual deficit for the United States was not consistent, in the end, with the kind of monetary arrangements we had. Many proposals for a new system would require much more effective and rapid elimination of imbalances. In view of our accumulated deficits and the erosion in our reserves, we would need to look forward to a massive strengthening of our reserve position, the prospect of a period of surpluses in our payments, and to longer term equilibrium. The other side of this coin is that others could not, on the average over the years, continue their accustomed surpluses.

This seems to us to imply the need for strong incentives or penalties for corrective action by surplus countries as well as by deficit countries if this balance is to be achieved. How willing are countries to accept such strong international "disciplines?" If there is no such willingness, then monetary systems that depend for their functioning on quick and effective adjustment simply will not work.

A related question is how the adjustment should be made. For both practical and philosophical reasons, we seek a balance of payments equilibrium that can be maintained without reliance on controls; indeed, the very word equilibrium implies as much. We believe in present and foreseeable circumstances sustainable balance in our accounts will require a strong trade and current account position. Yet some others seem to be saying that somehow we are not entitled to such a surplus, that capital outflows lie at the heart of our problem, and that they (and we) should force equilibrium by the indefinite use of controls on investment; or, perhaps, by commitments to raise our domestic interest rates to levels equal to or above those prevailing abroad. Obviously, this issue needs airing.

It is related to the degree of independence that countries—not just the United States but virtually every country—seek to maintain for domestic policy. None of us can live in isolation and proceed oblivious of the efforts of our actions on others. But if we build a system which unrealistically presumes domestic policies can practicably be tuned to each twist and turn in external circumstances, the system would not, in my judgment, work for long.

Some countries with particularly close trading and political links—such as the European Community—may well perceive a greater potential for coordination of internal and external policies among them. This issue is plainly posed by the drive for greater monetary unity within Europe.

I believe we are only beginning to understand the implication of economic and monetary union in Europe for the world economy. From a world standpoint there seem to be both dangers and potential advantages. An aggressively expanding preferential trading area with highly protectionist policies in key sectors directly affects our trading capabilities and has broad implications for the world trading order and the adjustment process. On the other hand, success in achieving monetary unity in Europe could help deal with one source of monetary instability in the past and permit Europe to cooperate more effectively in building an effective world monetary system. In both aspects, trade and money, the European Community is a phenomenon that cries out for more thought as to how it can be fit into arrangements consistent with the broader world interests.

This listing of issues is hardly exhaustive, but it is suggestive. Without discussion and some common appreciation of these basic problems, our examination of techniques will hardly be fruitful. Again and again we find these are the issues that lurk behind much of the controversy on mechanics.

Out of these discussions some fundamental points of convergence are already emerging.

On the question of the scope of the reform. I think there is now almost general acceptance of the need for a wide agenda—for extending the dimensions of the examination to include related issues of trading rules, investment, and development. There is greater recognition that the review must be deep—that fundamental reform is required rather than a patchup of Bretton Woods, that new thinking and new concepts are required to meet today's needs.

The question of finding the most appropriate and effective forums for reform negotiations has been the subject of considerable discussion in recent months. I confess these decisions have not been reached as rapidly as I expected and wished—they have taken time precisely because they are not an idle debate over the “shape of the table,” but because real issues are involved. There is genuine and legitimate concern over the size of the table, for effective negotiation requires that the number of voices be limited. There is concern over who sits around the table, for membership must be balanced, representative, and at a senior level of political authority. And there is concern over what gets placed on the table, in that the negotiators must be given a broad competence to consider all relevant aspects of the operation of the trading order and monetary structure in their search for solutions.

I can report that progress has been made. Nations are in substantial agreement on the formation of a limited but representative group, a committee of 20, under the general auspices of the International Monetary Fund. We have insisted that the mandate extend beyond narrow monetary questions to related trade questions and other related issues, and that the committee be willing and able to draw on the resources of competent persons and groups in a position to assist even though they may be outside the regular fabric of the IMF.

We envisage that this Group of Twenty will be the main negotiating forum, but we also hope and expect such other bodies as the OECD will participate in the effort. I should note as a point of some importance that we do not believe either the Group of Twenty or the OECD should attempt to negotiate specific trade barriers. That kind of bargaining over specific trade measures—tariffs, quotas, and the like—lies properly in the framework of GATT or other forums.

Finally, there seems to be widespread agreement that whatever the particulars of the exchange rate regime, in concept it must provide for greater flexibility than in the past—greater and smoother adaptability to changing economic circumstances. The issue, as I see it, is not stability versus instability for the monetary system but rather how more flexibility in exchange rate practices in the shorter run might contribute to the larger stability of the system as a whole.

Obviously, translating even these broad principles into a specific operational system will take time, and, as I have suggested, there are other points on which profound differences remain to be resolved. We have a lengthy agenda.

If that agenda is to be attacked successfully, the United States must unquestionably play a leading role in this effort. We accept that challenge willingly. But in doing so there must be a realization that the nature of our leadership must change as economic circumstances have changed. Leadership can no longer be equated with magnanimously accepting disproportionate burdens, acquiescing in discriminatory arrangements, or granting one-sided privileges, in the thought our strength is impregnable and others are weak. Leadership no longer can mean, if it ever did, that the world is waiting for us to impose a “Made in the U.S.” label on the monetary order. Leadership does mean using the full measure of our influence and our strength to insist that the monetary and trading system—its burdens, its responsibilities, and its opportunities—fairly reflects today’s balance of economic and political capacities.

We take pride in the record of our leadership since last August 15. We recognized the need for fundamental change. We took the painful measures needed to restore the domestic and international strength of the U.S. economy which must underlie any reformed monetary system. We reached agreement on moves which will yield major support to our balance of payments in the course of 1972 and 1973 after the present period of initial perverse effects ends. We encouraged recognition of the need for reform and the breadth of reform. We pressed for the formation of institutional arrangements in the Group of Twenty and the OECD to facilitate the negotiation. And we helped to develop the consensus, to the extent it has emerged, on the nature and direction of the reform.

We want to move ahead with monetary reform as rapidly as we can and—this is critical—as rapidly as other nations will move. We also want to build a monetary structure which will last for a generation. It would be foolish to idle away our chances for a new and better system. But it would be criminal to accept an unsatisfactory agreement for the sake of a prompt agreement.

Our efforts will be aimed at building a sound and enduring system. The stakes are large, and recognized as such. We approach the task in the conviction that failure is not tolerable; that, with persistence and resolve, success will be achieved.

Exhibit 70.—Statement by Acting Assistant Secretary Hennessey as Temporary Alternate Governor for the United States, May 9, 1972, before the 13th annual meeting of the Inter-American Development Bank, Quito, Ecuador

Mr. Chairman, President Ortiz Mena, fellow Governors and distinguished guests:

I should like to express the appreciation of the U.S. delegation to the Government of Ecuador for the opportunity of participating in the 13th annual meeting of the Inter-American Development Bank in this beautiful city of the Andes. My delegation wishes to thank you for your warm hospitality, and we congratulate you on the excellent arrangements you have made for our meeting.

Governor Connally's greetings have already been directed to you. Let me briefly reiterate his sincere regret at being unable to attend this important meeting.

We would like to join our fellow members in welcoming Canada to membership in the Bank. This addition not only strengthens the Bank, but it brings our hemisphere closer together.

We join also in congratulating Lic. Antonio Ortiz Mena on the completion of his first year as President. With energy, vision, and dedication he has demonstrated his capacity for innovative leadership.

When last we met 1 year ago, we spoke of evolution in the world's economic and political relations. Today there is a more general realization that the world has changed. Our discussions last year and before have been given point and urgency by the visible actions and swift changes that have occurred in the past year. By these changes we have, I believe, begun to face up more forthrightly to the economic realities of our times.

Fundamental and long lasting changes have occurred in the international economy. On August 15, the international monetary system as we have known it for 25 years came to an end. August 15 marked the termination of the postwar era—an era characterized by the economic dominance of one nation, the United States.

By 1971, the positions of the major industrial nations of the world had changed enormously. Just how much these had changed was appreciated by few—even in my country. In areas where the United States was long the leading nation, for example, steel and automotive production, in world trade and in holdings of international reserves, other nations or grouping of nations, such as the European Community, have now taken the lead.

Yet many governments—this included in some degree my own Government—continued to operate under earlier postwar assumptions. These assumptions are no longer valid. We must begin to face the new realities in our economic relationships. What are these new realities?

The first reality is that economic concerns will henceforth stand much nearer the center of the foreign relations of the United States as they long have for most nations. These concerns have achieved a status of parallel importance with political and security concerns which have been dominant in the past. Indeed, there is a new realization that economic strength must underlie our other interests.

The second reality is that the international trading and monetary systems inherited from the early postwar period need fundamental restructuring. Economic statesmen once more will be called upon to shape the form of trade and payments arrangements for the next generations.

A third reality is the existence everywhere of strong forces of protectionism, isolationism, and nationalism. In the negotiations that will be necessary for international reform, the United States is committed to outward-looking, open systems in trade and monetary matters. But to achieve this objective those systems must be demonstrably equitable—systems in which our national interests are secured as are those of other nations. Here there is clear identity of interests of U.S. objectives with those of Latin America.

A fourth and closely related reality is that the ability of the United States to continue to bear its foreign economic and defense responsibility depends on our ability to achieve strength in our economic position, both domestic and international. Our commitment to economic development today is no less strong than in the period when the United States was the architect and chief contributor of economic assistance, providing over \$150 billion in loans and grants since World War II. But the nature and extent of that commitment in the future will necessarily be determined by our financial position.

In a time of rapid change—of necessary adjustment and of more equality in the basic economic strength of industrialized nations—I believe you will recognize that the United States must speak frankly, as other nations have spoken and as we are speaking out here today. We recognize, however, at the same time, that solutions must be achieved through a joint effort. We have no illusion that we alone can shape or direct the international economic system for development, trade or monetary affairs.

And in respect to this latter item, I would like to eliminate any doubt regarding the U.S. position: The United States strongly supports the developing countries' claim for representation in monetary and trade reform negotiations. Further, we believe Latin America has an important role to play in helping shape a world order that permits capital flows and trade to flourish with the least impediment—conditions which are necessary for your continued development.

As we look at Latin America and the developing countries as a whole, we see new economic realities there too. Latin America has made great strides forward, although concern remains that the pace is not fast enough and that the benefits of growth are not fairly enough distributed. We share this concern but we are optimistic. The hard work of the countries themselves together with the Bank and similar institutions is bearing fruit and promises much more.

One of the most striking realities in Latin America is that the earlier myth that countries could not permanently break free of their low levels of income—that they were not masters of their own economic destiny—has or should have been decisively exploded by the facts. The rhetoric does not, however, always keep up with these facts, which are that a number of countries both large and small—comprising a majority of Latin Americans—have experienced vigorous and sustained growth for the better part of a decade—and all indications are for a continuation of this remarkable record. A real challenge for the hemisphere then is to work harder with those members who have not yet attained sustained growth, to provide more technical and financial assistance, to improve general economic policies in order to assure balanced growth in the hemisphere.

In reviewing the success stories in the hemisphere, we find—reasonably enough—that the countries themselves have been responsible for this progress and that a major contributing factor has been the effectiveness of their general economic policies. We have seen that domestic savings can be mobilized and channeled into productive investments, even in the face of price increases; that with realistic and flexible exchange rate policies balanced growth can be attained even with inflationary pressures; that export earnings can be increased through sales to both industrialized and developing countries; and that it is possible to reduce inflation and to do so in a way that supports rather than takes away from other economic and social objectives.

This makes us optimistic about the future and leads us to the conclusion that more attention than ever must be given to general economic policy areas by each country and by the Bank. In this process each nation will, of course, have to build upon its own traditions, its own capabilities, and its own leadership.

In this context, external assistance can only play a complementary role. But it is a very key role. And the United States is willing to continue to do its part in this regard, but expects equal efforts of self-help by borrowing countries and fair burden sharing among contributing nations. I would like to call to the attention of those who question whether the United States is doing its part to the fact that the United States still provides over 40 percent of the economic assistance given by the industrialized nations of the world in spite of the great shifts in relative economic strength.

Another Latin American reality is that widely different viewpoints exist on the utility and role of private investment—domestic and foreign. Many countries have successfully integrated foreign investment into their national economic development plans with great economic benefit and without compromising either national dignity or sovereignty. Obviously, all may not be prepared to take this approach.

It is our strong conviction that private investment is essential to the rapid development of the hemisphere. It is also our strong conviction that we must squarely face the issue of expropriation of private enterprise because it is so important and sensitive a matter. President Nixon and our Congress have stated the U.S. position clearly. While each nation has the undeniable right to expropriate property for a public purpose, in every case there should be prompt, adequate, and effective compensation in accordance with international law. In

this connection, recent legislation in our country requires that the U.S. representative withhold support from loans presented to the Board of multilateral development banks unless and until it is determined that the country is taking reasonable steps to provide adequate compensation. This position is not a political action—as some would have us believe—but rather is based on considerations of international law—and sound principles of economics and finance. Failure to compensate adequately can only affect the flow of needed capital and affect the credit-worthiness of a country.

In passing, I would like to comment on one other issue, the international illicit drug traffic that affects our people and especially our youth. This is an issue of deep concern to the United States and to all nations, as evidenced in various United Nations resolutions. The United States has taken steps to combat the drug problem vigorously and on a broad front, both domestically and internationally, counting on the cooperation of many nations. As one element in our concern, new legislation now requires U.S. representatives not to support loans in international institutions to countries which are not cooperating in resolving this problem. In practice, we expect that no one will be neutral on this issue of great importance.

In this period of change, of greater equality in economic strength, the multilateral development banks have an important role to play. The United States and other nations as well are relying increasingly upon these institutions as channels for development assistance. This means the Inter-American Development Bank will have to continue to assume greater and greater leadership in the hemisphere. I would like to repeat our pledge of full support for the Bank as it does so. Its management is to be congratulated for an outstanding performance last year. We confidently expect the Bank to maintain the high levels of performance and lending it has achieved.

I should like to point out, contrary to the understanding of some here, that our Congress has already provided full authority for the United States to carry out the requirements of the charter to maintain the value of the Bank's present holdings of dollars—an obligation which arose only yesterday when the IMF officially notified a change in the par value of the dollar. This maintenance of value will result in the provision of over \$275 million of new resources to the Bank.

In regard to the area of internal Bank operating efficiency, my Government is very pleased to see that the Bank undertook a major study with the purpose of modernizing its organization to meet future demands. That study points the way to a stronger and more efficient organization; one which will have advanced capabilities for independent project appraisal, encourage and develop better investment opportunities, and provide closer supervision to ensure successful project implementation. We look forward to early action on this reorganization which is essential. As another aspect of the effort to improve operating effectiveness, several new studies were completed by the audit and evaluation areas. We look forward to an increasing number of these useful analyses in each year.

We would also like to commend the Bank for recognizing the need for a strong and sustained drive to help the relatively less developed countries of our hemisphere. As I have already mentioned, this must be vigorously pursued. It is, of course, a part of the overall question of the geographic distribution of the Fund for Special Operations which we are examining here during this 13th annual meeting. The economies of some members are rapidly reaching the point at which they can make the transition from reliance on the Fund by drawing more on the Bank's Ordinary Capital resources—as foreseen in the Punta del Este resolution on replenishment in 1970. It should be expected that they would, in time, actually be able to join the community of development lenders.

And already some of our more advanced countries in the hemisphere are providing assistance to the lesser developed countries. As the economies of these more developed nations continue to expand and prosper, the evolution of intra-American development assistance should not only be encouraged, it should be expected.

A third direction we wish to encourage the Bank to pursue is to work in a coordinated fashion, as it has with the CIAP, the World Bank, and the IMF, toward helping countries to improve their general economic policies. We believe the evidence is clear that sound fiscal, monetary, and exchange rate policies, coupled with adequate external capital flows—both public and private—can achieve social and economic progress in all the nations of this hemisphere.

More—much more—needs to be done to achieve Latin American goals of social

and economic development. More jobs, better living conditions, and fairer income distribution are needed. To describe these needs is to define the challenges confronting the Inter-American Development Bank in the years ahead.

The realities about which I have spoken today demand new responses and innovative policies. They call for the best that is in us, but the end is worth it—a world of economic progress and peaceful development. Thank you.

Exhibit 71.—Statement by Deputy Under Secretary for Monetary Affairs Bennett, January 24, 1972, before the Subcommittee on International Commerce and Tourism of the Senate Commerce Committee on the proposed Export Expansion Act of 1971

Mr. Chairman, I am grateful for your invitation to represent the Treasury in your discussions this morning. In view of the basic objectives of your inquiry, I am happy to be able to report that all parts of the Treasury have been working strenuously to assist in creating conditions which will permit profitable participation by Americans in international trade. We are convinced that our activities implementing the programs announced by the President last August 15 will have substantial beneficial effects because they deal with underlying forces and seek to remedy basic structural defects which have hampered American producers in international competition.

The large size of the international payments deficits which the United States was incurring was clear evidence that conditions facing the American producer in international competition were in their combined effect powerfully unbalanced against the United States prior to August 15. The significant change in the structure of international exchange rates which have been negotiated since that time is one important contribution to rectifying an unacceptable basic situation. The exchange rate changes will improve the price competitiveness of American resources and American labor both at home and abroad. The new exchange rates will be reflected in lower foreign currency prices for U.S. goods to purchasers abroad and in higher dollar prices for imported goods in our own markets.

While existing techniques of estimating future levels of international trade after a large change in exchange rates are not accurate enough to provide reliable detailed forecasts of the magnitude and timing of prospective benefits to U.S. trade, past experience does suggest that the effect of the recent realignment will be substantial even though gradual.

Initially, the effects of the realignment may actually be perverse on our reported trade statistics as imports having a higher dollar cost continue to enter the country on the basis of business commitments and plans made before the realignment. But the importance of this factor will diminish, and the U.S. trade balance should be reflecting substantial changes by the last quarter of this year as the changes in relative prices and costs are increasingly reflected in new market decisions. We anticipate a reversal of the recently deteriorating trend in the U.S. international trade balance despite the projected upswing in the U.S. economy and despite the less than traditional rates of economic growth expected in a number of important foreign countries during the year. We are starting, however, from the deficit position which we had in 1971, and the effects of exchange rate changes will be fully felt only over a period of several years.

As I am sure you are all aware, agreement has been reached not only on the immediate realignment of currencies but also on the need for further negotiations for reform of the international monetary system over the longer term. The issues for these negotiations are complex, and it should not be expected that major changes in the system can be worked out in a short time. But the United States will be participating in these discussions with the objective of creating conditions less conducive to barriers to U.S. exports and less conducive to other measures which serve to reduce the benefits which Americans can derive from international trade and investment. One beneficial change has already been introduced on a provisional basis: The use of somewhat wider exchange rate margins by most major trading countries. Experience with wider margins will provide a useful basis for consideration of the types of additional flexibility which may be needed to facilitate international commercial payments.

The proposal which we hope to be able to send to the Congress early in February for a change in the par value of the U.S. dollar in terms of gold, is not expected to have any direct effect on the exchange rates prevailing in the markets of the world. This act, therefore, will not directly contribute any further improvement to the competitive position of U.S. producers. The proposed change is, however, highly relevant to our trade position in that it would represent fulfillment of a promise given by us in the successful negotiations which led to the new exchange rates which are now effective in the market. Moreover, submission of the bill, when it is possible, will signify that meaningful progress can be reported to the Congress on negotiations which are now underway with Japan, Canada, and the European Economic Community to remove some existing barriers to U.S. exports. It is our expectation that these current negotiations will be merely the forerunner of broader negotiations which we hope will lead to substantial further improvement over the next 2 years in the conditions which American producers face in competing with foreign producers.

The President's new economic policy also contains a tax change which will assist U.S. exporters by removing the previous disparity of tax treatment between the sales income earned by U.S.-owned corporate subsidiaries abroad and the sales income earned by domestic U.S. corporations on the export of products manufactured in the United States. I refer to the provisions in the Revenue Act of 1971 for a new type of U.S. corporation, the Domestic International Sales Corporation, commonly referred to as the DISC. The DISC provisions are expected to simplify the task of determining tax liability on income earned through exporting and to put the U.S. exporter in the position of greater equality with his competitors abroad with respect to taxation. The DISC provisions, therefore, remove tax disincentives which have faced U.S. companies in producing in the United States for export to foreign markets. This week we expect to be circulating throughout the country an extensive publication to explain to businessmen how they can avail themselves of the new DISC provisions.

All these measures I have discussed have related directly to U.S. foreign trade. Their combined effect in improving our overall trade position will be greatly enhanced, of course, by the basic domestic elements of the President's new economic program. The abatement of inflation in the United States and the improvement of productivity which have already begun will combine with the direct international measures to produce a strong improvement in the relative competitive position of U.S. goods and services in world trade. Some time will be required before events reveal precisely what are the combined effects of these fundamental measures, but it is our judgment that no major new initiatives are required today with respect to governmental measures bearing on the U.S. trade balance. Of course, we should be ready at any time to weigh carefully the potential benefits of any suggested changes which may be justified in their own right, even though they do not respond to crisis conditions. In this light, S. 2754 which you have before you lists a number of possibilities worthy of further study.

Of those possibilities two are of most direct relevance to Treasury Department operations. One of these is the title VIII provision for establishing a discount facility for short-term export credit obligations in the Export-Import Bank. On this subject our judgment supports that of Chairman Kearns, that the Bank already has ample legislative authority for this purpose under existing legislation and that what is needed now is an opportunity to gain experience with the recent expansion of the Bank's discount facilities. The Export Expansion Finance Act of 1971 requires the Bank to submit to the Congress a semiannual report on its own state of competitiveness with foreign government-supported export financing institutions. The first of these reports is under preparation now. I understand that indications are that the report will show Eximbank's facilities, including those in the short-term range, to be fully competitive with corresponding facilities available to the exporters of other major trading countries. If experience or that report reveals the need for further legislative change, I am sure an administration recommendation for such change will be submitted promptly.

A second part of the bill having particular reference to the Treasury is title X, which would authorize the Secretary of the Treasury to approve the duty-free delivery of machinery, raw materials and fuel into foreign trade zones for use in the manufacture of goods in the zone for export to destinations other than the customs territory of the United States, subject to certain determinations by the Foreign Trade Zones Board. From the experience of our Customs Bureau and from Treasury participation in the Foreign Trade Zones Board, we realize that

the use of the foreign trade zone device under existing legislation has been limited and that only a fraction of the products of these zones has ultimately been exported. And we can conceive of circumstances, particularly when a bulky U.S. raw material is involved, when an export manufactured from that material might be salable with use of duty-free and quota-free foreign fuel and machinery and might not be possible with domestic machinery and fuel. But, on the other hand, it would probably be extremely difficult for the Trade Zones Board in any particular case to determine that approval of a long-term manufacturing project in a foreign trade zone would not, over its life, back out of the export of other U.S. products which had embodied the labors of U.S. producers of machinery and fuel. In view of the complexity of this situation, we recommend that time be given for further careful study of this matter before new legislation is undertaken.

Exhibit 72.—Remarks by Deputy Under Secretary for Monetary Affairs Bennett, February 9, 1972, to the Conference on International Money and Capital, London, England, on "A View from the U.S. Treasury"

The last time I made a public speech in London I predicted that the U.S. dollar would not be devalued * * * for 10 years. Fortunately, that was in 1960. Emboldened by that success, I should like to present this morning another prediction: That the central currency values agreed on December 18 will last far beyond the alternative dates being considered by 99.99 percent of those who are these days considering possible current foreign exchange transactions.

I make this prediction, not because of any conviction that the new exchange rates are necessarily "museum pieces" which will last more than 10 years but rather from a realization that those rates were the result of a hard-fought compromise. While the United States urged the desirability of greater revaluations, the Europeans and Japanese felt strongly that more revaluation was not needed and that they were fully prepared to defend the new rates by intervention in the foreign exchange markets.

That these governments are still now strongly of this same view was brought home to me in Paris last week in the meetings of the Working Party 3 and Economic Policy Committee of the OECD. I realize, of course, that some of the slight instability in the exchange markets last week was ascribed to reports emanating from those meetings. The suggestion has even been made that the greatest contribution we could make to the stability of the exchange markets would be not to hold any more OECD meetings. But, in fact, the reports from Paris of probable short-range perverse effects of the December agreement on the U.S. trade balance and of the possibility of a current account deficit for the United States in the calendar year 1972 are all "old stuff." These were the explicit bases for the various discussions in the OECD and the G-10 last fall and were taken into account in the negotiations of the new exchange rates, and I gather that the expectations of "J-curves" after a devaluation are commonplace in the London newspapers.

In the negotiations last fall, we in the U.S. Government argued for larger revaluations, but we all recognize that no one can be certain of his predictions in this area when they are necessarily based on unprovable assumptions about prospective import and export elasticities. Only time, considerable time, can tell who was right and whether December 18, 1971, rates will be appropriate in all cases for 1974.

Nonetheless, in the Paris meetings and elsewhere, some have been urging the United States to impose stringent new foreign exchange controls on all forms of capital movements. I can assure you these are not being contemplated. At the Smithsonian the United States undertook no obligation to institute such measures. We consider them neither necessary nor desirable. We have made clear at all times that we do not consider a balance maintained by controls to be an appropriate and productive balance and that our ultimate objective is to be rid of those controls we still have. On the other hand, while the United States does not consider itself tied to the mast of these new exchange rates, neither have we wished to rock the boat, and we have made literally no change in our existing controls since December 18. We are now, however, well into the new year and we cannot appropriately long delay announcement of the details of our control program for the calendar year 1972. We certainly hope to be able to move in the right direction. Yet those of you gainfully employed in the

Eurodollar business probably have little reason to fear that in the near future the world will be either a place of such stringent controls or, on the other hand, a place of such total freedom from controls that there will not continue to be many who prefer and are able to do their investing and their borrowing through London's efficient Eurodollar facilities.

Since December 18 there have been three major developments often discussed in relation to the durability of the Smithsonian agreement: The absence of the expected large reflow of funds to the United States, the new estimates of recent slower growth in the United States, and the newly announced large budget deficits in the U.S. Government. There has, indeed, been widespread surprise that a large and sudden reflow of funds to the United States did not occur in the days after December 18, though I do recall that in the press conference on December 18, when the new agreement was announced, my boss in Washington, Paul Volcker, expressed serious doubt whether there would be any sudden flow.

Now, after the fact, I gather from talks with European authorities, international bankers, and corporate finance men that there are three principal hunches why the big flow didn't take place:

One is the impact of the wider margins and the possibility clearly recognized by many in the early days after December 18 that one who waited might be able to buy a dollar as much as 4 percent cheaper within the new permissible range of fluctuations. In our view this experience is already substantiating our judgment that wider margins were a beneficial innovation, and I was pleased in Paris to gain the impression that others have been coming to share our viewpoint.

A second reason for the nonevent has been interest rate differentials. Later this morning I would like to mention some of the reasons which lead me to expect these differentials to narrow over the coming months. At the moment I should perhaps also note that to some extent in January the low rates of short-term interest rates in the United States may have been in part the result rather than the cause of the missing reflow since market and Federal Reserve plans may have been based on exceptions that were not borne out as to the amount of short-term U.S. Treasury bills which would be thrown on the market as a result of reflows.

Finally, it seems clear that some who chose not to unwind their unusual leads and lags were motivated by the thought that the new exchange rate bands might not be preserved and that after a little while it would be possible to buy dollars more cheaply than the announced bands would permit. I mentioned earlier some of my reasons for thinking this judgment was misplaced. I should add that to any extent the judgment was based on the thought that the U.S. Congress might decide to legislate a price even higher than \$38 per ounce of gold, there has been a monumental miscalculation. The administration's gold bill is scheduled to be submitted to the Congress today. It will be a simple bill calling for a change in the par value of the dollar to \$38. We anticipate it will be passed promptly after the Congress returns from its mid-February recess, and while there have been a few voices in the legislature opposing the raising of the price of gold at all, there has not been to my knowledge a single voice suggesting any consideration of a greater change than that proposed by the U.S. administration.

While we speculate on these various reasons why there has not been a large reflow to the United States, we should not lose sight of the fact that our preliminary estimates indicate that we have had a sizable reflow, perhaps in the order of \$1½ billion since December 18. About half of this has been in the form of an actual official settlements surplus for the United States, reflected in a reduction of foreign official holdings of U.S. Treasury securities. The other half has offset our probably continuing underlying basic payments deficit. Some of this movement has probably been the result of short-term capital movement decisions but a part has been the result of a quite noticeable flow of European money into new portfolio investment in U.S. securities. In view of the prospects for the U.S. economy, we anticipate this flow will continue to grow.

Possibly this overall gradual orderly reflow into the United States will thus continue and be the best of all possible types, avoiding the instability of sudden massive movements, though I certainly do not wish to be quoted as guaranteeing that some large short-term flows will not develop during the coming months.

The second and third developments since December 18, the reports of slower growth and the large budget deficits, are in large measure just opposite sides

of the same coin. The new estimates relate to downward revisions in the rates for growth of the U.S. economy in the second and third quarters of 1971. These estimates forced substantial downward revisions in the tax revenue estimates for the first half of 1972 and these declines in revenue have been the largest contributors to the new estimate of a \$39 billion deficit in the fiscal year ending in June. To some extent, however, the new enlarged deficit is the conscious result of a planned acceleration and expansion of spending plans in the first half of the year in the light of the less buoyant growth which had been revealed.

Obviously, this deficit and the smaller one to follow in the fiscal year 1973 will require the U.S. Treasury to expand its borrowing activity. This prospect together with recent and possible future reductions in European interest rates will probably reduce markedly the disparity between interest rates on the two sides of the Atlantic. Yet we are confident we can finance the U.S. budget deficit with newly issued Treasury securities and without extreme effect on the U.S. interest rate structure. This confidence arises in part from the high levels of liquidity now held by U.S. corporations and the high level of savings of U.S. citizens.

The confidence also arises in part from a fact which may be less widely recognized, that is, the decline in the last 2 years in the holdings of U.S. Treasury securities by the U.S. public. In fact, if there were no change in the coming months in the holdings of U.S. Treasury securities by foreign authorities, it has been estimated that at the end of the current fiscal year with its \$39 billion deficit the U.S. public would hold fewer U.S. Treasury securities than it held at the beginning of 1971. The explanation of this fact is, of course, the extent to which foreign authorities have been buying U.S. securities. As a bond salesman I should perhaps rejoice in their buying interest, but unfortunately many of those securities were purchased at times when we were urging the foreign authorities not to intervene in the market to prop up the foreign currency price of our dollars and of our Treasury securities.

Final plans have not yet been made for the full financing schedule for 1972. We have announced that we expect to increase our outstanding obligations by about \$4½ billion between now and the end of April. In this process, we shall have to balance short- and long-term considerations. On the one hand there is the desire to issue long-term securities for housekeeping reasons and in recognition of the fact that the average maturity of outstanding U.S. debt is now down to the historical low of 3 years and 4 months. On the other hand we are conscious of the need to avoid any disruption of housing and investment finance, and we are conscious that the short-term market has at times in the past year been somewhat starved for short-term paper as a result of the many purchases by foreign authorities.

With this financing plan and with continuation of the widespread price and wage controls of Phase II, the U.S. administration is confident that it will fully achieve its objective of a rate of growth of the consumer price index of only 2 percent to 3 percent by the end of 1972. On this basis the United States is likely to achieve a rate of inflation appreciably less than that of any other major industrialized country in 1972. This expectation is buttressed by the fact that it appears that, but for Canada, that United States would have achieved such a record already in 1971; and in the 4th quarter of 1971, when the U.S. real GNP was growing at a 6-percent rate, the GNP deflator actually grew by only 1½ percent.

In this connection I was asked insistently by reporters in Paris whether the U.S. Government was not now giving absolute priority to domestic concerns over international obligations. The simple answer is no, but I think it would be more revealing to point out several things: Firstly, that the U.S. Government at this time is certainly not disposed to follow policies which would project, say, 6½ percent unemployment just to make some supposed contribution to international monetary stability; but, on the other hand, the administration has not gone overboard in an attempt to inflate unemployment away. The administration forecast is that it will achieve an unemployment level in the neighborhood of 5 percent by yearend without jeopardizing the objective of movement toward price stability. Five percent is definitely not the ultimate unemployment objective, but it is realized that further reduction below 5 percent will probably require structural measures rather than simple measures of demand management.

While implementation of the new economic budget and financing plans still lies before us, now that the short-term trade negotiations with Japan and the

European Community seem to have been pretty much concluded and now that the gold bill is being sent to Congress, it may be hoped that there will be more time in Washington for concentration on the objectives and means of longer term trade and international monetary reform. Preparations for these reform discussions require that thought be given not only to substantive but also to organizational matters. I noted with interest, for example, the Parliamentary exchange between the Prime Minister and Mr. Jenkins last week on the necessity of insuring that ways must be found to insure that the less developed countries are not excluded from full participation in future long-term reform deliberations.

In the trade field it is by now no secret that the United States as well as specific less developed countries are particularly concerned by the extreme levels of European Community agricultural protectionism that will still prevail even after the small changes recently negotiated, and concerned too by the extreme discriminatory features of the Community policy on trade in industrial commodities. A statement much quoted in Washington these days is that in 1958 only 7 percent of the industrial imports of the 13 major industrial countries were subject to preferential tariffs. When the new entrants are in the Community, 40 percent of such trade will be on preferential bases; and if comparable arrangements are made for the nonparticipating EFTA countries, the proportion could soon rise above 50 percent. Clearly the planned preparatory work in 1972 and the actual negotiations in 1973 will be of tremendous importance for the future of world trade.

In the monetary field we are aware of the many anxious European inquiries as to when convertibility will be restored to the U.S. dollar. Perhaps I should report that there have also been insistent inquiries in the United States as to why the dollar is today not convertible for Americans, not convertible that is in all circumstances into foreign investments of their choice. And you may have seen the accounts in the newspapers yesterday that a number of U.S. legislators would like to know why the U.S. dollar is not convertible for American citizens into gold. Despite these two blemishes on the full convertibility of the U.S. dollar, I think it is appropriate to point out to European questioners that in all other respects the dollar is today fully convertible, and in particular I should note that there is full nonresident convertibility. As far as U.S. authorities are concerned, a private foreign holder of a dollar can spend it on anything he chooses, including gold bought on the market. Since I lived here in London in the pre-1959 days before that form of convertibility was accorded to sterling, I can remember with clarity the barriers to free movement of trade and investment which followed from the absence of convertibility in that really basic sense.

Naturally I realize that when European officials talk of the need for convertibility these days they are not speaking of the need to remove unilaterally imposed U.S. constraints on the use of the dollar but they are suggesting rather that the United States should undertake some form of commitment either to intervene in currency market trading to peg the value of the dollar in relation to other currencies or to engage in trades with other monetary authorities for exchanges among dollars, gold, and other gold-related assets. To us this meaning of convertibility is not a subject suitable for consideration in a broad sense apart from all other interrelated aspects of international monetary reform: We hope discussions on this broad range of subjects can begin soon, but we also believe we should avoid attempts to conclude the discussions in an overly hasty fashion.

The U.S. Government will be approaching the discussions with one view which has already been made clear: That is, that an ultimate objective should be the phasing of gold from its central role in the system. In the U.S. view, if careful plans are not made, gold could become a destabilizing element in the exchange system; and in any event, the time may be coming when gold has become too valuable to waste on money.

The United States will also be entering the reform discussions with the belief that the resulting monetary system should be one clearly capable of accommodating whatever differential rates of increase in productivity and in inflation may develop among various nations over the coming years. For this capacity we believe greater flexibility will be needed than we had in practice in the world monetary system prior to August of last year. In this connection we anticipate that experience with the current wider margins will produce some useful evidence on the desirable degree and kinds of additional flexibility which may be needed in the future. But the U.S. Government retains an open mind on how increased flexibility can best be achieved. Perhaps it could be achieved by a return to

the old Bretton Woods system but with a new determination to recognize and act on basic disequilibria very promptly. Or perhaps some new presumptive criteria are necessary to indicate when governments should allow the foreign exchange values of their currencies to change. Or perhaps, while Europe maintains fixed exchange rates and narrow margins among its currencies, there should be rather freely fluctuating rates between Europe and the dollar and between the yen and the dollar. All these alternatives and others will need careful consideration.

The prospective international negotiations over the next several years will have consequences for many years to come on the trading, banking, and investment endeavors in which you gentlemen are engaged. From your presence here today I take some confidence that you will continue to follow the negotiations carefully and will continue to keep pressure on the governments to do the job right.

Exhibit 73.—Remarks of Assistant Secretary Rossides, May 11, 1972, before the 54th annual meeting of the American Ordnance Association, Washington, D.C., on "The U.S. Position in International Trade"

It is a special privilege to represent Secretary of the Treasury John B. Connally before this assemblage of distinguished and dedicated Americans. I bring you his greetings and his deep appreciation for the honor you have conferred on him by the award of the Baruch Gold Medal.

The theme of your seminar this year, "The Strategic and Economic Role of the United States in Free World Security," is particularly appropriate in view of current events. This meeting comes at a critical juncture in strategic and economic developments for our Nation and also for our free world allies.

The President this week, with courage and statesmanship, took decisive steps to attenuate North Vietnam's undisguised invasion of South Vietnam. The President's decisions were actions which responsible leadership had to take, not only to protect our residual forces in Vietnam but also to preserve the credibility of our support for independent free world countries elsewhere in Southeast Asia as well as in the Middle East and Europe.

At today's critical point in world affairs I am especially glad to be here tonight among so many leaders of our Nation who have maintained America's military and economic strength and supported our goal of preserving independence and self-determination for small nations.

Secretary Connally has asked me particularly to discuss with you the second half of your theme, the economic aspect of national security and the tasks which that involves. Those tasks were set out by President Nixon in his historic address on August 15, 1971.

"The End of the Postwar World"

The President's new economic policy announced that night marked a watershed in world history, not just U.S. history. The President's actions marked the end of one era—"the end of the postwar world" as Secretary Connally has said—and the dawn of a new era in international economic relationships.

The President's goals were three: To curb inflation, to generate jobs by stimulating responsible economic growth, and to strengthen the position of the United States in the international trade and financial community.

Tonight I shall talk primarily about the U.S. position in international trade—a doctrine of fairness—with special emphasis on Treasury's role and responsibilities in this area.

Why are we in a new era?

At the end of World War II, the United States was the wealthiest, most powerful nation on earth. A large part of the world was in ruins, physically, politically, and economically after the holocaust that it had just experienced. The United States exhibited truly unselfish and generous leadership in an effort to bring these ravaged areas back to normal. We did this in our own long-range national interest but at considerable sacrifice.

It made sense for the United States to do everything possible to assist both our former allies and enemies to regain their feet. And so we literally showered U.S. dollars and expertise on these countries. The American taxpayer accepted

the burden of the nearly \$150 billion in economic and military aid that was made available over the past 25 years, for he understood the relationship between a prosperous world economy and his own well-being.

But conditions have changed and we now find ourselves confronted with an entirely different picture. Although the United States is still the most important free world power, it is no longer the only free world power. Other nations are again in a position to challenge us economically and politically. The United States is now one giant among several.

The longrun task

What does this new era signify for the United States and the rest of the trading world? Essentially the longrun task facing the United States and the world community is the creation of an international economic system which, on the basis of mutual advantage, will stimulate international trade and freer competition, draw nations and people together, and thus form the basis for a lasting peace with prosperity.

Progress made since August 15, 1971

In his policy role as chief economic spokesman for the President, Secretary Connally has already sketched in broad outline form the new policies to be followed. The domestic and international fronts, which are interdependent, have seen considerable progress in the 9 months since August 15, 1971.

On the domestic side, economic activity continues to expand vigorously. Industrial production and retail sales are showing strong gains. The latest survey of plant and equipment investment in 1972 indicates an even larger increase than had been earlier expected. Overall, the Commerce Department's index of leading economic indicators remains favorable. All of this is convincing evidence that the economy is in a strong expansionary phase.

On the international side, the Smithsonian agreement of December 18, 1971, was a significant breakthrough and has given the new era a substantial forward thrust. That agreement included a multilateral realignment of exchange rates, commitments to discuss more general reforms of the international monetary system, and commitments to begin discussions to reduce trade barriers, including some most harmful to the United States. Simultaneously with the Smithsonian agreement commitments were made by some of our allies to assume a larger share of the costs of common defense.

For its part the United States agreed to recommend to the Congress that the price of gold in dollars be raised when progress had been made in trade liberalization. Further, President Nixon moved promptly to terminate the temporary 10-percent surcharge, effective December 20.

On February 9, 1972, Secretary Connally transmitted to the Congress a draft bill providing for devaluation of the dollar by 8.5 percent to \$38 per ounce of gold. In signing that bill into law on April 3, the President said that the basic significance of the Smithsonian agreement and the legislation is: " * * * That it provides for continued cooperation among our allies and ourselves—and thus strengthens our unity—as we work toward an 'open world' based on a more balanced monetary system and a more equitable international trading environment."

Substantive agreements have also been reached with the European Community and with Japan to remove or lower certain barriers against U.S. products and to support multilateral and comprehensive trade negotiations in 1973, meanwhile solving more immediate problems in 1972 through the GATT. The administration will seek the necessary legislative authority for these comprehensive negotiations.

Secretary Connally, in his March 15 remarks before the Council of Foreign Relations, stressed the need for an international forum or forums in which the interrelationship of all the factors affecting international economic matters—monetary, tax, and trade—can be discussed, not piecemeal, but as part of the whole endeavor to achieve economic health for all participating nations.

Indeed the international discussions of last fall, following the President's declaration of his new economic policy, were successful in achieving the recognition of the interrelationship between international monetary and trade matters. Accordingly, the President placed in the hands of Secretary Connally, his chief economic spokesman, the broad responsibility and negotiating authority to do the job.

Secretary Connally has commissioned Under Secretary Volcker to discuss with our principal trading partners the development of an appropriate forum or forums.

Under Secretary Volcker has been meeting representatives of our partners in Tokyo, in Europe, and in Montreal. The result is that there is now considerable confidence that we shall soon have agreement on a forum which meets the basic criteria essential for real progress toward monetary reform in the months ahead.

There has been some criticism recently in the press and elsewhere that we are so preoccupied with procedural matters that we are giving no thought to the substance of the negotiations. Nothing is further from the truth. Work has been proceeding vigorously within the administration on the basic aspects and fundamental alternatives for the future international financial system.

I would point out that there is a logical sequence for working toward monetary reform in which the basic questions before the negotiators must be defined and established before meaningful international discussions on the various alternatives can be undertaken and decisions reached. This is the key principle which must underlie any constructive negotiating process.

Doctrine of fairness in international trade—abroad and at home

These are some of the accomplishments to date on the international trade front. All of the U.S. efforts in international discussions have been dedicated to one objective—the establishment of a doctrine of fairness in international trade.

The President and Secretary Connally have served notice that the United States is no longer going to compete with one hand behind its back. To compete fairly abroad we must have fair access to all the markets of the world.

I do not mean to imply that the United States is expecting to obtain something for nothing. We recognize that some of our practices are regarded by other countries as discriminatory. But in our trade negotiations we do have a right to demand a fair bargain. We insist only on the right to compete fairly abroad.

As Secretary Connally said in Munich last May: “* * * No longer will the American people permit their Government to engage in international actions in which the true long-run interests of the United States are not just as clearly recognized as those of the nations with which we deal.”

The point he conveyed to all is that the United States can no longer stand by complacently when markets are closed to us or where the “rules of the game” seem to be rigged against us.

When our foreign friends complained about the temporary 10-percent additional duty adopted as part of the President's new economic program they did not mention in their complaints the barriers they maintain against U.S. exports to their countries.

These barriers take various forms: Quotas no longer justified by economic factors, discriminatory taxes such as progressive taxes on horsepower directed at the export of U.S. automobiles, and discriminatory tariff arrangements such as the Common Market preferences and reverse preferences, which establish a lower tariff on the exports of Common Market members than on those of the United States and others into third markets, both in developing and developed countries.

The Common Market—A closing circle?—At the same time, the United States has followed an open and liberal policy in trade. We have one of the most open markets in the world, but now one of the questions we have to ask ourselves is whether the European Economic Community, which claims to have an outward-looking policy, is not turning its gaze inward instead. Let us look at some specific recent actions by the Community.

The EC has concluded preferential trade agreements with 28 countries which discriminate against third-country trade. It is now in the process of negotiating similar preferential arrangements with at least four other countries: Algeria, Cyprus, Egypt, and Lebanon. At the same time it is negotiating other agreements with Iceland and Portugal as well as with the EFTA neutrals, Austria, Finland, Sweden, and Switzerland. These negotiations presumably are being based on a free trade area in the industrial sector, with the possibility of including preferential advantages for EC agriculture in some of these markets. Is this fair trade?

As the EC expands its membership from six to 10, the United Kingdom, Denmark, Ireland, and Norway will, of course, have to adopt the highly protectionist Common Agricultural Policy of the EC. Furthermore, the EC recently raised the support prices on corn, among other agricultural items, thereby increasing its variable or sliding levy—a levy system which incidentally is in complete contempt of accepted trading practices—against imports of U.S. corn into the EC by 11 percent. Through this variable levy system—which, at present levels, almost doubles the cost of U.S. corn to Community users—American farmers, who are more efficient producers of corn, are excluded from the EC market in favor of the less efficient European farmers. Is this fair trade?

In the past few weeks the European Community has instituted a new system of compensatory duties so as to continue to protect its domestic agricultural markets from more efficient foreign production in the face of the recent currency realignments. In so doing the European Community did not hesitate to break the negotiated rates (to which they are bound) on some \$40 million worth of trade. They did this despite the fact that it was a clear violation of the GATT. The United States has some interest in the EC's actions, for our cost of production for basic agricultural commodities approximates half of that in the Common Market. Is this fair trade?

Since the postwar years the United Kingdom, soon to become a member of the Community, has maintained quotas for balance of payments reasons on imports from the dollar area of fresh, frozen, and canned grapefruit, orange juice, and rum—this despite the fact that the balance of payments justification for these quotas has long since passed. Indeed the British are now in balance of payments surplus, and removal of these quotas, which the United States has been seeking for over 20 years, is certainly long overdue. Is this fair trade?

Similarly, France imposed quotas several years ago for balance of payments reasons on imports of semiconductors. Although the French authorities have liberalized these quotas over the years, an intricate licensing system inhibits our exporters from supplying the French market. The balance of payments justification for protection has long since ceased and this obstacle to trade should have been eliminated years ago.

The Community's regulations have restricted Japanese imports to 6 percent of that country's overall exports—this in contrast to the 30 percent which Japan exports to the United States. By restrictions such as these the Common Market has literally forced the Japanese to concentrate their export drive on the United States.

Now I ask: Are these the policies of an outward-looking trading bloc interested in the expansion of world trade?

Japan—an open market?—Japan now has \$17 billion in foreign assets reserves. We have approximately \$12.5 billion. While the United States had a balance of payments deficit last year—and has had one for over 20 years, and our first trade deficit since 1888, Japan had a trade surplus last year of \$7.9 billion, the highest in the world. This year's balance for them will be even larger since their exports are likely to run 20 percent above 1971. Three and two-tenths billion dollars of Japan's trade surplus in 1971 was with the United States.

Many factors, in addition to U.S. policy, contributed to Japan's economic success. Japan, which was allowed to maintain quotas for balance of payments reasons when it entered GATT, still retains many of these quotas, this despite an economic recovery which is commonly referred to as the "Japanese miracle." Administrative guidance by Japan which impedes our exports and focuses on their export drive to the United States is a central factor in Japan's economic success. Is this fair trade?

Canada—A door swinging one way?—Our good and valued neighbors to the north complain about the "unfairness" of the new economic policy from their standpoint. What Canadians fail to mention, however, is that their basic balance of payments surplus has averaged \$1.2 billion annually over the last 5 years.

What they also tend to overlook is that the patently one-sided automobile agreement contributed to a swing of over \$800 million in our trade balance. While we impose no tariffs or barriers on Canadian exports of automobiles, Canada imposes a 15-percent tariff on individual purchases of U.S. automobiles. Although Canadian manufacturers may import American automobiles duty-free, this is only if they meet certain minimum Canadian production requirements.

These provisions of the automobile agreement were intended as "temporary" safeguards for our Canadian friends, which may have been appropriate at the time the agreement was negotiated. For the past 3 years we have been negotiating for the removal of these temporary safeguards, but to no avail—this despite Canada's continuing large balance of trade surplus with the United States, a huge \$1,880 million in 1971. Is this fair trade?

Also, notwithstanding the balance of trade which is now so favorable to Canada, our friends to the north continue to be considerably less liberal than the United States in granting exemptions to returning tourists. Here, again, we have an example of a measure which might have been temporarily justified at the time it was introduced but which is no longer supportable in the light of today's realities. Is this consistent with a doctrine of fairness?

The Canadians likewise continue to insist on retaining other trade advantages which are a carryover from a bygone era when we were in a position to, and did, assist unstintingly our northern friends. Is this consistent with a doctrine of fairness?

At home—Treasury's role in combatting unfair trade practices

Against this backdrop, there are very positive measures this administration has already taken at home to rectify our trade imbalance and protect jobs in the United States.

From the inception of President Nixon's administration the Treasury Department has vigorously attacked discriminatory pricing techniques of foreign exporters. Treasury and its Bureau of Customs have accelerated and expanded the use of statutes specifically designed to protect U.S. industry against unfair foreign competition. We have institutionalized the supervision of the administration of the Antidumping Act and the countervailing duty statute and other aspects of tariff and trade relations by setting up an Office of Tariff and Trade Affairs in the Office of the Secretary.

The Antidumping Act is designed to prevent injurious international price discrimination, typically, selling in the U.S. market at prices lower than in the foreign home market. The countervailing duty statute is designed to counteract and prevent foreign subsidies on exports to the United States.

The Treasury under this administration has rejuvenated what was largely a moribund Antidumping Statute. We have significantly increased actions under this statute in the past 3 years. We have eliminated loopholes. And we have expedited consideration of complaints from domestic manufacturers by adding manpower and streamlining procedures. In short, Treasury is now administering the Antidumping Act more nearly in the manner intended by Congress. This is what industry has a right to expect. But more is needed.

Perhaps criticism from abroad had to be expected. But the point is that our actions are taken in defense of fair trade and without fairness, prospects for freer trade would be bleak.

Now we are studying possible refinement and expansion of the use of these measures which protect U.S. industry against unfair competition. In new proposed antidumping regulations which were published on April 19 we moved one step further in our plan to clarify and tighten the procedures of the Antidumping Act.

We are examining questions which have been raised regarding the possibility that some countries are providing incentives for their exports which might be bounties or grants under our countervailing duty law. As we move to resolve these questions on a case-by-case basis, the need for reaching an international agreement regarding subsidization of exports should become apparent to all trading nations and the mutual experience gained should be a fertile source for developing fair international rules.

Amendments of our Antidumping Act and countervailing duty statute may be required to achieve freer and fairer competition in international trade. And, once the long-range adjustments of tariffs, quotas, and other barriers are accomplished, these same measures can serve to maintain the integrity of those agreements.

International reforms—GATT

In analyzing what we can do to enable U.S. producers to compete more effectively under fair rules of international trade, we must of necessity examine

closely the implementation of those rules and even question the nature of the rules themselves.

We face a situation in which such basic GATT rules as most-favored-nation treatment are increasingly violated. We are also concerned that foreign dumping and subsidizing of exports to third countries have the effect of freezing U.S. manufacturers out of these markets. Moreover, while we favor U.S. capital investment abroad on as liberal terms as our balance of payments allows, we cannot continue to permit U.S. capital to create jobs abroad if domestic U.S. manufacturers are prevented by discriminatory barriers from selling in these markets on equal terms.

If the GATT itself proves unable to face up to the realities of today's world, and we hope that it can measure up to its responsibilities, we may have to give thought to other ways of meeting the needs. The rules and procedures of the past must be adapted to the world of the 1970's.

Implementation versus policymaking

It has often been said, "Important as it is to make policy, it is even more important to implement it." This administration has used the Antidumping Act effectively and, as I mentioned, is reviewing the countervailing duty law. But there are other aspects of implementing trade policy in day-to-day operations which strongly affect our international trade and our balance of payments.

The main day-to-day operating bureau in the U.S. Government affecting international trade is the Bureau of Customs. Secretary Connally has directed that the trade and tariff aspects of that Bureau's operations be given the highest priority. This includes not only the operating responsibilities of the Bureau of Customs in the area of antidumping and countervailing duty, but also its role in classification and valuation of imported merchandise, administration of quotas and marking requirements, prevention of smuggling, monitoring voluntary restraint arrangements, and investigation of commercial frauds.

All policy decisions in these matters and determinations of priorities will, of course, be made in the Office of the Secretary.

We also have under way a Treasury study to analyze the data that is available in international trade matters. Here again the Bureau of Customs is the prime source for data regarding trade matters and yet, for analyzing and interpreting that data, its resources have not heretofore been fully utilized. This also we are moving to correct.

In summary, President Nixon's administration has moved forcefully to improve our international trade and monetary position. We have given our anti-price discrimination tools the most vigorous exercise they have ever had. We have negotiated the removal of various trade barriers and set the stage for an overhaul of the international monetary and trade mechanisms.

While building a stronger economy at home we remain outward looking and international in our initiatives abroad. This administration is committed to such a course. Of course our foreign friends and trading partners must be equally outward looking and international in their approach to their problems.

As Secretary Connally said when he addressed the Economic Club of New York last fall:

"We do not intend to become provincial. We shall not resort to protectionism. We shall carry our burdens on the international scene. But to do so it is essential to attain an equilibrium in our overall financial balance with the rest of the world. We seek no advantage over others. We propose to suffer no disadvantage. We seek a balance which will be to the benefit of all the nations * * *. At stake is nothing less than the foundation for the freedom and security of this generation and those that follow."

Exhibit 74.—White House press release, January 19, 1972, policy statement on economic assistance and investment security in developing nations

We live in an age that rightly attaches very high importance to economic development. The people of the developing societies in particular see in their own economic development the path to fulfillment of a whole range of national and human aspirations. The United States continues to support wholeheartedly, as we have done for decades, the efforts of those societies to grow economically—out of our deep conviction that, as I said in my Inaugural Address, "to go forward at all is to go forward together;" that the well-being of mankind is in the final

analysis indivisible; and that a better-fed, better-clothed, healthier, and more literate world will be a more peaceful world as well.

As we enter 1972, therefore, I think it is appropriate to outline my views on some important aspects of overseas development policy. I shall discuss these matters in broader compass and greater detail in messages to be transmitted to the Congress in the coming weeks. Nineteen seventy-one saw great changes in the international monetary and trade fields, especially among the developed nations. A new economic policy was charted for the United States and a promising beginning was made on a broad reform of the international monetary system—starting with a realignment of international exchange rates. Now, in 1972, the problem of how best to assist the development of the world's emerging nations will move more to the forefront of our concern.

Any policy for such assistance is prompted by a mutuality of interest. Through our development assistance programs, financing in the form of taxes paid by ordinary Americans at all income levels is made available to help people in other nations realize their aspirations. A variety of other mechanisms also serves to transfer economic resources from the United States to developing nations.

Three aspects of U.S. development assistance programs received concentrated attention during the past year. These were: Continuing a program of bilateral economic assistance, meeting our international undertakings for the funding of multilateral development institutions, and clarifying the role of private foreign investment in overseas development and dealing with the problem of expropriations.

As to our bilateral economic program, it is my intention to seek a regular and adequate fiscal year 1972 appropriation to replace the present interim financing arrangement which expires February 22. I urge that this be one of the first items addressed and completed by the Congress after it reconvenes. Looking beyond this immediate need, I hope the Congress will give early attention to the proposals which I submitted last year to reform our foreign assistance programs to meet the challenges of the seventies.

In regard to our participation in multilateral institutions, I attach the highest importance to meeting in full the financial pledges we make. In 1970, the United States agreed with its hemispheric partners on replenishing the Inter-American Development Bank. Our contributions to this Bank represent our most concrete form of support for regional development in Latin America. While the Congress did approve partial financing for the Bank before the recess, it is urgent that the integrity of this international agreement be preserved through providing the needed payments in full.

These Inter-American Bank contributions—together with our vital contributions to the International Development Association, the World Bank and the Asian Development Bank—are the heart of my announced policy of channeling substantial resources for development through these experienced and technically proficient multilateral institutions. These latter contributions also require prompt legislative action, and I look to the Congress to demonstrate to other nations that the United States will continue its longstanding cooperative approach to international development through multilateral financial mechanisms.

I also wish to make clear the approach of this administration to the role of private investment in developing countries and in particular to one of the major problems affecting such private investment: Upholding accepted principles of international law in the face of expropriations without adequate compensation.

A principal objective of foreign economic assistance programs is to assist developing countries in attracting private investment. A nation's ability to compete for this scarce and vital development ingredient is improved by programs which develop economic infrastructure, increase literacy, and raise health standards. Private investment, as a carrier of technology, of trade opportunities, and of capital itself, in turn becomes a major factor in promoting industrial and agricultural development. Further, a significant flow of private foreign capital stimulates the mobilization and formation of domestic capital within the recipient country.

A sort of symbiosis exists—with government aid efforts not only speeding the flow of, but actually depending for their success upon, private capital both domestic and foreign. And, of course, from the investor's point of view, foreign private investment must either yield financial benefits to him over time or cease to be available. Mutual benefit is thus the *sine qua non* of successful foreign private investment.

Unfortunately, for all concerned, these virtually axiomatic views on the beneficial role of and necessary conditions for private capital have been challenged in recent and important instances. U.S. enterprises, and those of many other nations, operating abroad under valid contracts negotiated in good faith and within the established legal codes of certain foreign countries, have found their contracts revoked and their assets seized with inadequate compensation, or with no compensation.

Such actions by other governments are wasteful from a resource standpoint, shortsighted considering their adverse effects on the flow of private investment funds from all sources, and unfair to the legitimate interests of foreign private investors. The wisdom of any expropriation is questionable, even when adequate compensation is paid. The resources diverted to compensate investments that are already producing employment and taxes often could be used more productively to finance new investment in the domestic economy, particularly in areas of high social priority to which foreign capital does not always flow. Consequently, countries that expropriate often postpone the attainment of their own development goals. Still more unfairly, expropriations in one developing country can and do impair the investment climate in other developing countries.

In light of all this, it seems to me imperative to state—to our citizens and to other nations—the policy of this Government in future situations involving expropriatory acts.

1. Under international law, the United States has a right to expect: That any taking of American private property will be nondiscriminatory; that it will be for a public purpose; and that its citizens will receive prompt, adequate, and effective compensation from the expropriating country.

Thus, when a country expropriates a significant U.S. interest without making reasonable provision for such compensation to U.S. citizens, we will presume that the United States will not extend new bilateral economic benefits to the expropriating country unless and until it is determined that the country is taking reasonable steps to provide adequate compensation or that there are major factors affecting U.S. interests which require continuance of all or part of these benefits.

2. In the face of the expropriatory circumstances just described, we will presume that the U.S. Government will withhold its support from loans under consideration in multilateral development banks.

3. Humanitarian assistance will, of course, continue to receive special consideration under such circumstances.

4. In order to carry out this policy effectively, I have directed that each potential expropriation case be followed closely. A special interagency group will be established under the Council on International Economic Policy to review such cases and to recommend courses of action for the U.S. Government.

5. The Departments of State, Treasury, and Commerce are increasing their interchange of views with the business community on problems relating to private U.S. investment abroad in order to improve government and business awareness of each other's concerns, actions, and plans. The Department of State has set up a special office to follow expropriation cases in support of the Council on International Economic Policy.

6. Since these issues are of concern to a broad portion of the international community, the U.S. Government will consult with governments of developed and developing countries on expropriation matters to work out effective measures for dealing with these problems on a multilateral basis.

7. Along with other governments we shall cooperate with the international financial institutions—in particular the World Bank Group, the Inter-American Development Bank, and the Asian Development Bank—to achieve a mutually beneficial investment atmosphere. The international financial institutions have often assisted in the settlement of investment disputes, and we expect they will continue to do so.

8. One way to make reasonable provision for just compensation in an expropriation dispute is to refer the dispute to international adjudication or arbitration. Firm agreement in advance on dispute settlement procedures is a desirable means of anticipating possible disagreements between host governments and foreign investors. Accordingly, I support the existing International Center for the Settlement of Investment Disputes within the World Bank Group as well as the establishment in the very near future of the International Investment Insurance

Agency, now under discussion in the World Bank Group. The Overseas Private Investment Corporation will make every effort to incorporate independent dispute settlement procedures in its new insurance and guarantee agreements.

I announce these decisions because I believe there should be no uncertainty regarding U.S. policy. The adoption by the U.S. Government of this policy is consistent with international law. The policy will be implemented within the framework of existing domestic law until the Congress modifies present statutes along the lines already proposed by this administration. The United States fully respects the sovereign rights of others, but it will not ignore actions prejudicial to the rule of law and legitimate U.S. interest.

Finally, as we look beyond our proper national interests to the larger considerations of the world interest, let us not forget that only within a framework of international law will the developed nations be able to provide increasing support for the aspirations of our less developed neighbors around the world.

Exhibit 75.—Press release, August 6, 1971, announcing drawing of \$862 million in foreign currencies from the International Monetary Fund

The Treasury today announced that it will draw the equivalent of \$862 million in foreign currencies from the International Monetary Fund on Monday, August 9.

The drawing results principally from the sizable repayments of indebtedness to the Fund, also scheduled for August 9, already announced by the French in the amount of \$609 million and the British in an amount of \$614 million. The United States drawing will be composed of \$415 million in Belgian francs and \$447 million in Dutch guilders.

As part of the same repayment process, France will purchase \$191 million of gold from the United States. The gold will be used by France to meet that portion of its repayment obligation which, as required by articles of the IMF, must be met with gold. This transaction, similar to a sale of \$282 million of gold to France in May when a portion of its IMF indebtedness was paid, will complete the French repayment to the IMF.

In order to provide the gold necessary to cover this sale to France and to maintain the gold stock held in the Exchange Stabilization Fund, a transfer of \$200 million in gold is being made from the Treasury stock to the Exchange Stabilization Fund.

Exhibit 76.—Press release, August 17, 1971, announcing repayment of Eurodollar certificates

The Treasury announced today that it will not roll over the \$516 million of 6½ percent Certificates of Indebtedness Eurodollar Series D-1971 maturing on August 24, 1971. These certificates will be retired at maturity on August 24.

The disposition of Treasury Eurodollar certificates maturing after August 24 will be determined and announced in the light of market conditions near the time of their maturity.

Exhibit 77.—Press relief, August 24, 1971, announcing repayment of \$500 million of Eurodollar certificates

The Treasury announced today that it will not roll over the \$500 million of 6¾ percent Certificates of Indebtedness Eurodollar Series B-1971 maturing on September 1, 1971. These certificates will be retired at maturity on September 1.

The disposition of other outstanding Eurodollar certificates will be determined and announced in the light of market conditions near the time of their maturity.

Exhibit 78.—Press release, September 7, 1971, announcing repayment of \$516 million of Eurodollar certificates

The Treasury announced today that it will not roll over the \$516 million of 6½ percent Certificates of Indebtedness Eurodollar Series E-1971 maturing on

September 14, 1971. These certificates will be retired at maturity on September 14.

The disposition of other outstanding Eurodollar certificates will be determined and announced in the light of market conditions near the time of their maturity.

Exhibit 79.—Press release, September 22, 1971, announcing repayment of \$551 million of Eurodollar certificates

The Treasury announced today that it will not roll over the \$551 million of 6½ percent Certificates of Indebtedness Eurodollar Series F-1971 maturing on September 28, 1971. These certificates will be retired at maturity on September 28.

The disposition of other outstanding Eurodollar certificates will be determined and announced in the light of market conditions near the time of their maturity.

Exhibit 80.—Press release, October 4, 1971, announcing repayment of \$551 million of Eurodollar certificates

The Treasury announced today that it will not roll over the \$551 million of 6¾ percent Certificates of Indebtedness Eurodollar Series G-1971 maturing on October 12, 1971. These certificates will be retired at maturity on October 12.

The disposition of other outstanding Eurodollar certificates will be determined and announced in the light of market conditions near the time of their maturity.

Exhibit 81.—Press release, October 18, 1971, announcing repayment of \$551 million of Eurodollar certificates

The Treasury announced today that it will not roll over the \$551 million of 7¾ percent Certificates of Indebtedness Eurodollar Series H-1971 maturing on October 26, 1971. These certificates will be retired at maturity on October 26.

Exhibit 82.—Press release, February 10, 1972, announcing Treasury has requested the International Monetary Fund to withdraw \$544 million in gold

The Treasury Department today announced that it has requested the IMF, prior to the proposed change in parity of the dollar, to reclaim from the Treasury \$544 million in gold. This amount includes the repurchase of \$400 million in gold which the IMF has the right to repurchase at any time and the withdrawal of \$144 million of gold which the IMF maintains on deposit in connection with the general quota increase of 1965.

The United States believes that there is no longer a compelling reason from the standpoint of either party for these claims on the U.S. gold stock to remain outstanding. The arrangements underlying these gold obligations provide that the United States must maintain the gold value of the respective claims by the IMF on the U.S. gold stock. There is, therefore, no financial consideration or benefit involved for either party in the choice of whether the repurchase and withdrawals are made before or after the parity change of the dollar.

The liquidation of these claims will leave a U.S. gold stock of \$9,662 million (\$10,490 million at the proposed new official price of \$38 per ounce) free of all claims.

The IMF sold \$800 million in gold to the United States in several transactions during the years 1956, 1959 and 1960. These sales were made to the United States to provide the IMF with funds for investment in U.S. Treasury debt instruments to supplement its income in order to assure meeting its administrative expenses without reducing capital and to establish a reserve for this purpose. Half of this investment was eliminated in September 1970 by the repurchase of \$400 million in gold by the IMF. It is now felt the remaining \$400 million should be eliminated. The Fund's accumulated reserves are now approximately \$780 million, of which approximately \$415 million have been realized from the gold investment.

The \$144 million gold deposit in connection with the 1965 general quota increase was designed to mitigate the effects on the U.S. gold stock of concentrated purchases of gold from the United States by other countries which had to pay gold to the IMF as part of the subscription to their quota increases. These deposits originally amounted to \$250 million, of which there have been withdrawals from time to time totaling \$106 million. Under present circumstances there appears to be no useful purpose served in continuing to stretch out withdrawals of the remaining balance.

These two obligations are specific gold liabilities of the United States to the International Monetary Fund. They were not affected by the decision of last August 15 to suspend the general convertibility of dollars into gold. There are no other such gold liabilities of the United States. The requested liquidation of these specific claims against the U.S. gold stock has no significance or implication with respect to use by the United States of any of its remaining reserve assets.

Exhibit 83.—Press release, April 7, 1972, announcing special securities arrangement with German Bundesbank

The Treasury today announced an arrangement with the German Bundesbank to issue to the Bundesbank \$2.5 billion of medium-term special, nonmarketable Treasury securities in exchange for a like amount of shorter term special, nonmarketable, and marketable Treasury securities now held by the Bundesbank.

This arrangement represents a continuation of the program of investments entered into with the Bundesbank and announced in June 1971, and the new investments are to be issued on similar terms to those of last year.

Of the total of \$2.5 billion, approximately \$600 million is being exchanged from shorter term special nonmarketables earlier acquired by the Bundesbank. The remaining \$1.9 billion will be exchanged by the Treasury for short-term marketable Treasury bills held by the Bundesbank. These bills, which have weekly maturity dates spread fairly evenly throughout the second quarter of this year, will be available for gradual sale in the market in the light of emerging Treasury cash requirements and market conditions.

Exhibit 84.—Press release, April 19, 1972, announcing agreement on text of a memorandum of understanding between Paris Club and Chilean Delegation concerning rescheduling of the Chilean external debt

The representatives of the governments of the Federal Republic of Germany, Belgium, Canada, Denmark, Spain, the United States, France, Italy, Japan, the Netherlands, the United Kingdom, and Switzerland announced today that they had reached agreement on the text of a memorandum of understanding with the government of Chile regarding the rescheduling of their external debt. Considering the Chilean balance of payments situation, the representatives will recommend to their governments the adoption of a rescheduling over an 8-year period, including 2 years grace of 70 percent of the debt service (capital and interest) of Chile maturing during the period November–December 1971 and the year 1972.

During the various meetings of the Paris Club a detailed study was carried out of the financial and economic situation of Chile. For this purpose the Chilean delegation presented complete information on the existing and prospective financial situation of Chile. The IMF presented the pertinent reports.

The Chilean representatives presented their short-term financial objectives and the measures their government is taking in order to meet these objectives.

At the same time, the Chilean representatives confirmed their government's policies of recognition and of payment of all foreign debt and its acceptance of the principle of payment of just compensation for all nationalization in accordance with Chilean and international law. Once each member government has adopted the memorandum of understanding it will proceed to bilateral negotiation to implement this multilateral agreement.

The creditor countries declared their willingness to examine the Chilean request for a rescheduling of their 1973 debt service at the end of this year in the light of the Chilean economic situation.

Exhibit 85.—Press release, April 27, 1972, announcing U.S. drawing from the International Monetary Fund

The Treasury announced today that in a unique transaction related to repayment of indebtedness by the United Kingdom to the International Monetary Fund, the United States on April 28 will draw approximately \$3 million pounds sterling from the International Monetary Fund. The drawing is in an amount equivalent to \$217 million at the prospective new dollar parity, and equivalent to SDR 200 million.

The technical effect of this U.S. drawing is to reduce the Fund's holdings of sterling and, thereby, to reduce by an equivalent amount the repurchase obligation of the United Kingdom to the Fund. In this manner, the transaction contributes to the total repayment by the United Kingdom of approximately \$1.1 billion owed to the Fund by that country prior to this drawing.

Pending its ultimate disposition, the sterling acquired by the United States enters into our monetary reserves.

Exhibit 86.—Press release, May 5, 1972, United States formally notifies the International Monetary Fund of dollar devaluation

Secretary of the Treasury John B. Connally today formally notified the Managing Director of the International Monetary Fund of the intention of the United States to change the par value of the dollar from one thirty-fifth to one thirty-eighth of a fine troy ounce of gold. The change is to become effective at 12 noon, May 8, 1972.

This notification by the Secretary of the Treasury represents the final official step by the United States to fulfill its agreement at the Smithsonian last December to devalue the dollar by raising the official price of gold from \$35 to \$38 an ounce. It follows congressional action, completed today, on appropriation legislation enabling the United States to fulfill its so-called maintenance of value obligations resulting directly from the increase in the official price of gold. These obligations call for increases in U.S. subscriptions to the IMF and other international financial institutions proportionate to the gold price increase.

The notification was authorized and directed by the Par Value Modification Act, which was signed into law by President Nixon on March 31, 1972.

Since the change is less than 10 percent of the initial par value of the dollar under the Articles of Agreement of the IMF, approval by the IMF is not required.

The change in par value of the dollar in terms of gold will have no effect on the value of the dollar in foreign exchange markets. These markets have reflected since the Smithsonian agreement in December the change in exchange rates agreed to and announced at that time.

Exhibit 87.—Press release, June 23, 1972, statement concerning floating of British pound sterling

The Treasury today issued the following statement:

The decision of the British Government, in response to speculative pressure over the past week, to permit the pound sterling to float for a temporary period does not, as the British authorities have emphasized, reflect the existence of a fundamental disequilibrium in the British balance of payments. The Treasury has been in touch with other monetary authorities, and we share their conviction that the British action need not disturb the basic exchange rate relationships established by the Smithsonian agreement.

This development arises out of particular circumstances in the British situation. While in that sense the origin of the problem is limited, it does focus fresh attention on the need to move ahead with discussion of monetary reform and to address central issues of the proper functioning of the adjustment process.

Exhibit 88 —Other Treasury testimony in hearings before congressional committees, July 1, 1971–June 30, 1972

Acting Secretary of the Treasury Walker

Statement to be published in hearings on the Foreign Assistance and Related Programs Appropriations for fiscal year 1973, U.S. Senate, on appropriation re-

quests for the International Development Association, Inter-American Development Bank, and Asian Development Bank.

Under Secretary for Monetary Affairs Volcker

Statement published in hearings before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, 92d Congress, 2d session, on bills to modify the par value of the dollar, February 22, 1972, pp. 9-13.

Assistant Secretary for International Affairs Petty

Statement published in hearings before the Subcommittee on Inter-American Affairs of the Committee on Foreign Affairs, House of Representatives, 92d Congress, 1st session, on multilateral financial institutions in Latin America, July 19, 1971, pp. 96-102.

Acting Assistant Secretary for International Affairs Hennessy

Statement given March 1, 1972 and to be published in hearings before the Subcommittee on Foreign Operations of the Committee on Appropriations, House of Representatives, on fiscal year 1973 appropriations for the International Development Association.

Statement given March 8, 1972 and to be published in hearings of the Subcommittee on Foreign Operations of the Committee on Appropriations, House of Representatives, Fiscal Year 1973 appropriations for the International Development Association.

Mint Operations

Exhibit 89.—An act to provide for the striking of medals in commemoration of the bicentennial of the American Revolution

[Public Law 92-228, 92d Congress, H.R. 7987, February 15, 1972]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That in commemoration of the bicentennial of the birth of the United States and the historic events preceding and associated with the American Revolution, the Secretary of the Treasury (hereafter referred to as the "Secretary") is authorized and directed to strike medals of suitable sizes and metals, each with suitable emblems, devices, and inscriptions to be determined by the American Revolution Bicentennial Commission (hereafter referred to as the "Commission") subject to the approval of the Secretary.

American
Revolution
bicentennial.
Commemorative
medals.

SEC. 2. A national medal shall be struck commemorating the year 1776 and its significance to American independence. In addition to the national medal, a maximum of thirteen medals each of a different design may be struck to commemorate specific historical events of great importance, recognized nationally as milestones in the continuing progress of the United States of America toward life, liberty, and the pursuit of happiness.

SEC. 3. The Secretary shall strike and furnish to the Commission such quantities of medals as may be necessary, with a minimum order of two thousand medals of each design or size. They shall be made and delivered at such times as may be required by the Commission, but no medals may be made after December 31, 1983.

Time limitation.

SEC. 4. The medals authorized under this Act are national medals within the meaning of section 3851 of the Revised Statutes (31 U.S.C. 368).

Rev. Stat. 3551.

SEC. 5. The medals shall be furnished by the Secretary at a price equal to the cost of the manufacture, including labor, materials, dies, use of machinery, and overhead expenses.

Cost.

Approved February 15, 1972.

Exhibit 90.—An act to provide for the striking of medals in commemoration of the First United States International Transportation Exposition

[Public Law 92-266, 92d Congress, S. 3353, March 30, 1972]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, in commemoration of the First United States International Transportation Exposition, to be held at Dulles Airport, May 27 through June 4, 1972, the Secretary of the Treasury (hereinafter referred to as the "Secretary") is authorized and directed to strike medals of suitable sizes and metals, and with suitable emblems, devices, and inscriptions to be determined by the Secretary of Transportation, subject to the approval of the Secretary.

First U.S.
International
Transportation
Exposition.
Commemorative
medals.

Cost.

SEC. 2. The Secretary shall furnish the medals to the Secretary of Transportation at a price equal to the cost of the manufacture.

SEC. 3. The Secretary shall also cause such medals to be sold by the mint, as a list medal, under such regulations as he may prescribe, at a price sufficient to cover the cost thereof, including labor, materials, dies, use of machinery, and overhead expenses.

Approved March 30, 1972.

Exhibit 91.—White House announcement, March 23, 1972, concerning the transfer of the old San Francisco Mint from GSA to the Department of the Treasury for restoration by the Bureau of the Mint

The President has announced transfer of the old San Francisco Mint from the GSA to the Treasury for restoration by the Bureau of the Mint and use by the Federal Government and the public.

The structure, dedicated in 1874 and a survivor of the San Francisco earthquake, has been vacant since 1968.

The Bureau of the Mint will house its Numismatic Service Division and data processing department (now in an annex to the new Mint) in the old Mint and also will develop an educational and historical museum for public use.

The building was declared a national historic landmark in 1961. On May 13, 1971, the President signed an Executive Order on protection and enhancement of the cultural environment directing Federal agencies to determine the historical significance of properties and to assure that no properties be sold, altered, or demolished until such an evaluation could be made. At that time, he said: "As we approach the American Bicentennial, it is fitting that we devote greater attention to the protection and enhancement of our cultural heritage."

Exhibit 92.—Press release, April 27, 1972, announcing new White House medal

The United States Mint introduced its new White House medal at the Congressional Club's annual noon breakfast in the Nation's Capital in honor of the First Lady, Director of the Mint Mrs. Mary Brooks announced today.

By special order paid for by the Congressional Club, composed of wives and close relatives of congressmen, a limited edition of 40 percent silver proof quality specimens were struck to launch the new bronze list medal which becomes a part of the Mint's miniature bronze Presidential medal series, $1\frac{1}{8}$ " in diameter. The miniature Presidential medals are replicas of the official 3" medals of the Presidents.

The front of the medal shows the north portico of the White House. The initials E. Z. S. appearing at lower right are those of the designer Edgar Z. Steever, a sculptor-engraver at the Philadelphia Mint.

The Mint's chief sculptor-engraver, Frank S. Gasparro, executed the seal of the President of the United States appearing on the back. It originally appeared on the reverse of President Nixon's official medal.

The new bronze White House medal is available by mail order from the Philadelphia Mint, Philadelphia, Pennsylvania 19130, at 60¢ each, and over-the-counter at the Treasury Department's Exhibit Hall, Washington, D.C., the mints at Philadelphia and Denver, Colorado, and the San Francisco Assay Office, San Francisco, California, at 50¢ each.

Organization and Procedure

Exhibit 93.—Treasury Department orders relating to organization and procedure

No. 82, SUPPLEMENT 1, APRIL 20, 1972.—TRANSFER OF DEPARTMENTAL SECURITY FUNCTIONS

By virtue of the authority granted to the Secretary by Reorganization Plan No. 26 of 1950, and delegated to me by Treasury Order No. 190 (Revision 7), the Office of Security is hereby abolished and its functions, with related staffing and records, transferred as follows:

To the Office of Personnel:

Personnel security, pursuant to E. O. 10450, as amended.

To the Office of Administrative Programs:

Document security

Communications security

Buildings security

Industrial security program

pursuant to E. O. 10865, as amended.

Program provisions of the following issuances remain in effect, modified only to the extent of the above transfer of functions:

1. Treasury Department Order No. 82, Revised 3/9/66
2. TDO No. 160, Revised 7/16/68
3. TDO No. 160-1
4. TDO No. 160-3
5. TDO No. 194, Rev. 2
6. TDO No. 209, Revised 2/6/69
7. Treasury Personnel Manual Chapter 736
8. Admin. Circular No. 208, 4/5/71
9. Admin. Circular No. 191
10. OAP Order No. 1

WARREN F. BRECHT,

Assistant Secretary for Administration.

No. 150-75, AUGUST 19, 1971.—DELEGATION OF AUTHORITY

The authority delegated to the Secretary of the Treasury by Office of Emergency Preparedness Economic Stabilization Order 1 of August 19, 1971, is hereby redelegated to the Commissioner of Internal Revenue. The Commissioner may redelegate this authority to any officer or employee of the Internal Revenue Service.

Under the terms of Section 4(d) of Executive Order 11615 of August 15, 1971, all Treasury bureaus and organizations are available to assist Internal Revenue Service in carrying out the responsibilities assigned by this delegation.

JOHN B. CONNALLY,

Secretary of the Treasury.

No. 150-78, APRIL 24, 1972.—DELEGATION OF AUTHORITY TO THE COMMISSIONER OF INTERNAL REVENUE TO DENY REQUESTS FOR EXEMPTIONS THAT ARE THE SAME OR SUBSTANTIALLY THE SAME AS EXEMPTION REQUESTS CONSIDERED AND DENIED BY THE COST OF LIVING COUNCIL

By virtue of the authority delegated to me as Secretary of the Treasury by Cost of Living Council Order No. 9 (37 F.R. 6883), the authority delegated is hereby redelegated to the Commissioner of Internal Revenue.

The authority delegated herein shall be exercised in consultation with the Secretary, and where major policy issues are involved, with the approval of the Secretary.

This order shall be effective at 12:01 a.m., April 24, 1972.

JOHN B. CONNALLY,

Secretary of the Treasury.

No. 170-12, JANUARY 15, 1972.—TRANSFER OF FUNCTIONS IN THE OFFICE OF THE SECRETARY

By virtue of the authority vested in the Secretary of the Treasury, including the authority of Reorganization Plan No. 26 of 1950, I hereby transfer as of this date responsibility for supervision of the Director, Office of Debt Analysis, from the Assistant Secretary (Economic Policy) to the Special Assistant to the Secretary (Debt Management).

JOHN B. CONNALLY,
Secretary of the Treasury.

No. 200, AMENDMENT 2, MAY 22, 1972.—ORGANIZATIONAL CHANGE, OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, and pursuant to the authority delegated to me by Treasury Department Order No. 190 (Revision 7), the Office of Planning and Program Evaluation (OPPE) is disestablished and its functions, positions, personnel, property, and records are transferred to the Office of Management and Organization (OMO) effective June 1, 1972.

The functions of OPPE which are transferred to OMO for continuation as the responsibility of the new Planning and Evaluation Division include, but are not limited to, the following:

Maintain a comprehensive system of long-range planning that provides specific guidelines for use by Office of the Secretary and bureau officials in systematically planning or modifying programs and activities.

Review and evaluate the program structure for the Department of the Treasury with a view to achieving optimal integration and coordination of missions, operations, and activities.

Review and evaluate Treasury programs and activities in terms of costs and benefits, including the identification, development, and analysis of economic alternatives and/or cost-benefit relationships of existing and proposed programs and activities.

Formulate proposals for the effective and economical execution of programs, including proposals for modification, curtailment, elimination, or expansion of programs and activities.

Coordinate the development of management information systems throughout the Department to permit continuing analysis of actual versus planned programs and activities.

This Order supersedes Treasury Order No. 206 of December 18, 1965. All other orders and regulations concerning the former Office remain in effect to the extent their provisions are not in conflict with this Order.

WARREN F. BRECHT,
Assistant Secretary for Administration.

No. 213-1, NOVEMBER 4, 1971.—TRANSFER OF FUNCTION WITHIN THE BUREAU OF THE MINT

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, and by virtue of the authority vested in me as Assistant Secretary of the Treasury, by Treasury Department Order No. 190 (Revision 7), I hereby transfer, effective November 4, 1971, all of the functions of the engraver of the mint at Philadelphia, with respect to the manufacture of master dies, hubs, and working dies for coinage and master dies, hubs, and working dies for national and other medals, to the Director of the Mint, to be performed by her through such officers and employees of the Bureau of the Mint and at such Mint institution or institutions as she may designate.

WILLIAM L. DICKEY,
Acting Assistant Secretary of the Treasury.

No. 221, JUNE 6, 1972.—ESTABLISHMENT OF THE BUREAU OF ALCOHOL,
TOBACCO AND FIREARMS

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

1. The purpose of this Order is to transfer, as specified herein, the functions, powers and duties of the Internal Revenue Service arising under laws relating to alcohol, tobacco, firearms, and explosives, (including the Alcohol, Tobacco and Firearms Division of the Internal Revenue Service) to the Bureau of Alcohol, Tobacco and Firearms (hereinafter referred to as the Bureau) which is hereby established. The Bureau shall be headed by the Director, Bureau of Alcohol, Tobacco and Firearms (hereinafter referred to as the Director). The Director shall perform his duties under the general direction of the Secretary of the Treasury (hereinafter referred to as the Secretary) and under the supervision of the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations) (hereinafter referred to as the Assistant Secretary).

2. The Director shall perform the functions, exercise the powers, and carry out the duties of the Secretary in the administration and enforcement of the following provisions of the law:

(a) Chapters 51, 52, and 53 of the Internal Revenue Code of 1954 and sections 7652 and 7653 of such Code insofar as they relate to the commodities subject to tax under such chapters;

(b) Chapters 61 to 80, inclusive, of the Internal Revenue Code of 1954, insofar as they relate to activities administered and enforced with respect to chapters 51, 52, and 53;

(c) The Federal Alcohol Administration Act (27 U.S.C. Chapter 8);

(d) 18 U.S.C. Chapter 44 (relating to firearms);

(e) Title VII, Omnibus Crime Control and Safe Streets Act of 1968 (18 U.S.C. Appendix, sections 1201-1203);

(f) 18 U.S.C. 1262-1265; 1952; 3615 (relating to liquor traffic);

(g) Act of August 9, 1939 (49 U.S.C. Chapter 11); insofar as it involves matters relating to violations of the National Firearms Act;

(h) 18 U.S.C. Chapter 40 (relating to explosives); and

(i) Section 414 of the Mutual Security Act of 1954, as amended (22 U.S.C. 1934) relating to the control of the importation of arms, ammunition and implements of war.

3. All functions, powers and duties of the Secretary which relate to the administration and enforcement of the laws specified in paragraph 2 hereof are delegated to the Director. Regulations for the purposes of carrying out the functions, powers and duties delegated to the Director may be issued by him with the approval of the Secretary.

4. (a) All regulations prescribed, all rules and instructions issued, and all forms adopted for the administration and enforcement of the laws specified in paragraph 2 hereof, which are in effect or in use on the effective date of this Order, shall continue in effect as regulations, rules, instructions and forms of the Bureau until superseded or revised;

(b) All existing activities relating to the collection, processing, depositing, or accounting for taxes (including penalties and interest), fees, or other moneys under the laws specified in paragraph 2 hereof, shall continue to be performed by the Commissioner of Internal Revenue to the extent not now performed by the Alcohol, Tobacco and Firearms Division or the Assistant Regional Commissioners (Alcohol, Tobacco and Firearms), until the Director shall otherwise provide with the approval of the Secretary;

(c) All existing activities relating to the laws specified in paragraph 2 hereof which are now performed by the Bureau of Customs, shall continue to be performed by such Bureau until the Director shall otherwise provide with the approval of the Secretary.

5. (a) The terms "Director, Alcohol, Tobacco and Firearms Division" and "Commissioner of Internal Revenue" wherever used in regulations, rules, instructions, and forms, issued or adopted for the administration and enforcement of the laws specified in paragraph 2 hereof, which are in effect or in use on the effective date of this Order, shall be held to mean the Director.

(b) The terms "Assistant Regional Commissioner" wherever used in such regulations, rules, instructions, and forms, shall be held to mean Regional Director.

(c) The terms "internal revenue officer" and "officer, employee or agent of the internal revenue" wherever used in such regulations, rules, instructions and

forms, in any law specified in paragraph 2 above, and in 18 U.S.C. 1114, shall include all officers and employees of the United States engaged in the administration and enforcement of the laws administered by the Bureau, who are appointed or employed by, or pursuant to the authority of, or who are subject to the directions, instructions or orders of, the Secretary.

(d) The above terms, when used in regulations, rules, instructions and forms of government agencies other than the Internal Revenue Service, which relate to the administration and enforcement of the laws specified in paragraph 2 hereof, shall be held to have the same meaning as if used in regulations, rules, instructions and forms of the Bureau.

6. (a) There shall be transferred to the Bureau all positions, personnel, records, property, and unexpended balances of appropriations, allocations, and other funds of the Alcohol, Tobacco and Firearms Division of the Internal Revenue Service, including those of the Assistant Regional Commissioners (Alcohol, Tobacco and Firearms), Internal Revenue Service.

(b) In addition, there shall be transferred to the Bureau such other positions, personnel, records, property, and unexpended balances of appropriations, allocations, and other funds, as are determined by the Assistant Secretary for Administration, in consultation with the Assistant Secretary, the Director, and the Commissioner of Internal Revenue, to be necessary or appropriate to be transferred to carry out the purposes of this Order.

(c) There shall be transferred to the Chief Counsel of the Bureau such functions, powers and duties, and such positions, personnel, records, property, and unexpended balances of appropriations, allocations, and other funds, of the Chief Counsel of the Internal Revenue Service as the General Counsel of the Department shall direct.

7. All delegations inconsistent with this Order are revoked.

8. This order shall become effective July 1, 1972.

CHARLES E. WALKER,
Acting Secretary of the Treasury.

NO. 150-77, MARCH 9, 1972.—DELEGATION OF AUTHORITY REGARDING IMPLEMENTATION OF STABILIZATION OF PRICES, RENTS, WAGES AND SALARIES

In view of the changes made in the Economic Stabilization Act of 1970, as amended by the enactment of the Economic Stabilization Act Amendments of 1971, I have determined that it would be appropriate to clarify the authority of the Commissioner of Internal Revenue with respect to implementation of stabilization of prices, rents, wages and salaries.

By virtue of the authority delegated to me as Secretary of the Treasury by Cost of Living Council Order No. 8 (37 F.R. 2727), Price Commission Order No. 2 (37 F.R. 3212) and Pay Board Order No. 4 (37 F.R. 3792), the authority is hereby redelegated to the Commissioner of Internal Revenue effective as of the dates stated in the Orders. This authority includes, effective December 30, 1971, the authority to receive and process revised price schedules and statements submitted by institutional providers of health services and to investigate and approve allowable capital improvement rent increases in accordance with the standards set forth in Parts 300 and 301 of the Economic Stabilization Regulations.

The authority delegated herein shall be exercised in consultation with the Secretary, and where major policy issues are involved, with the approval of the Secretary.

Except as otherwise provided, this order shall be effective as of December 22, 1971.

JOHN B. CONNALLY,
Secretary of the Treasury.

NO. 128 (REV. 4), MARCH 1, 1972.—OFFICE OF FOREIGN ASSETS CONTROL, AUTHORITY AND FUNCTIONS

Treasury Department Order No. 128 (Revision 3) is amended to read as follows:
"By virtue of the authority vested in me as Secretary of the Treasury I hereby order that:

"(1) There is established in the Treasury Department the Office of Foreign Assets Control, successor to Foreign Funds Control. The Office shall function

under the immediate supervision of a Director of Foreign Assets Control, who shall be designated, with my approval, by the Special Assistant to the Secretary (National Security Affairs). The Director shall report to the Special Assistant to the Secretary (National Security Affairs).

"(2) The Director of Foreign Assets Control shall exercise and perform all authority, duties, and functions which I am authorized or required to exercise or perform under

(a) Sections 3 and 5(b) of the Trading with the Enemy Act, as amended, and any proclamations, orders, regulations, or rulings that have been or may be issued thereunder, and

(b) Executive Order 11322 of January 5, 1967, and Executive Order 11419 of July 29, 1968, issued pursuant to Section 5 of the United Nations Participation Act of 1945 and all other authority residing in the President.

"(3) The Director of Foreign Assets Control shall be assisted in the exercise and performance of such authority, duties, and functions by such assistants and other staff as may be appointed or detailed for the purpose.

"(4) This Order shall take effect immediately."

JOHN B. CONNALLY,
Secretary of the Treasury.

NO. 150-76. NOVEMBER 13, 1971.—DELEGATION OF AUTHORITY CONCERNING IMPLEMENTATION OF STABILIZATION OF PRICES, RENTS, WAGES, AND SALARIES

By virtue of the authority vested in me as Secretary of the Treasury, including that delegated to me by Cost of Living Council Order No. 5, Price Commission Order No. 1, and Pay Board Order No. 1, the authority delegated to me by those Orders is hereby redelegated to the Commissioner of Internal Revenue except as to the authority set forth in section 1(c) of each of the Orders relating to the issuance of rulings respecting the regulations and other guidance issued by the Cost of Living Council, Price Commission, and Pay Board, which is redelegated to the General Counsel of the Treasury. The authority vested in the Commissioner and the General Counsel by this order may be redelegated by them.

The authority delegated herein shall be exercised in consultation with the Secretary, and where major policy issues are involved, with the approval of the Secretary.

There is hereby established in the National Office of the Internal Revenue Service the Office of Assistant Commissioner (Stabilization). This office is responsible for administering the service and compliance functions under the Economic Stabilization Act of 1970, as amended. Authority is also granted to establish appropriate additional supporting organizational structure at both the headquarters and field levels to carry out this responsibility.

Under the terms of section 3 of each of the Orders referred to above, all Treasury bureaus and organizations are available to assist the Internal Revenue Service in carrying out the responsibilities assigned by this delegation.

This order shall be effective at 12:01 a.m., November 14, 1971.

JOHN B. CONNALLY,
Secretary of the Treasury.

NO. 107, REVISION 15, JUNE 30, 1972.—AUTHORITY TO AFFIX SEAL OF THE TREASURY DEPARTMENT

By virtue of the authority vested in the Secretary of the Treasury, including the authority conferred by 5 U.S.C. 301, and by virtue of the authority delegated to me by Treasury Department Order No. 190 (Revised), it is hereby ordered that:

1. Except as provided in paragraph 2, the following officers are authorized to affix the Seal of the Treasury Department in the authentication of originals and copies of books, records, papers, writings, and documents of the Department, for all purposes, including the purposes authorized by 28 U.S.C. 1733 (b):

(a) In the Office of Central Services, Office of the Secretary:

- (1) Director, Office of Central Services
- (2) Chief, Communications and Personal Property Division
- (3) Chief, Printing and Reproduction Division
- (4) Chief, Records Management Branch
- (5) Chief, Directives Control and Distribution Section

(b) In the Internal Revenue Service :

- (1) Commissioner of Internal Revenue
- (2) Assistant Commissioner (Compliance) and Deputy Assistant Commissioner (Compliance)
- (3) Chief, Disclosure Staff, Office of Assistant Commissioner (Compliance)

(c) In the Bureau of Customs :

- (1) Commissioner of Customs
- (2) Deputy Commissioner of Customs
- (3) Assistant Commissioner of Customs (Administration)
- (4) Assistant Commissioner of Customs (Investigations)
- (5) Assistant Commissioner of Customs (Operations)
- (6) Assistant Commissioner of Customs (Regulations and Rulings)

(d) In the Bureau of the Public Debt :

- (1) Commissioner of the Public Debt
- (2) Deputy Commissioner in Charge of the Chicago Office
- (3) Assistant Deputy Commissioner in Charge of the Chicago Office
- (6) Assistant Commissioner of Customs (Regulations and Rulings)
 - (1) Director
 - (2) Deputy Director
 - (3) Regional Directors
 - (4) Assistant Director (Criminal Enforcement)
 - (5) Chief, Firearms and Explosives Division
 - (6) Chief, Firearms Branch, Firearms and Explosives Division

2. Copies of documents which are to be published in the Federal Register may be certified only by the officers named in paragraph 1(a) of this Order.

3. The Director of Central Services, the Commissioner of Internal Revenue, the Commissioner of the Public Debt, and the Director, Bureau of Alcohol, Tobacco and Firearms are authorized to procure and maintain custody of the dies of the Treasury Seal.

The officers authorized in paragraph 1(c) may make use of such dies.

Treasury Department Order No. 107 (Revision No. 14) is superseded.

WARREN F. BRECHT,

Assistant Secretary for Administration.

Advisory Committees

Exhibit 94.—Advisory committees utilized by the Department of the Treasury under Executive Order 11007, superseded by Executive Order 11671, dated June 5, 1972

Office of the Secretary

DEBT MANAGEMENT COMMITTEES

The Department of the Treasury, in connection with debt management duties, uses in an advisory capacity the services of a number of committees representing organizations which form a cross section of the American financial community. The committees meet periodically, at the invitation of the Treasury, to discuss and advise upon current and future Federal financings. The Treasury finds discussions with the advisory groups to be of great value, primarily in assessing the general market sentiment prior to a major refinancing of maturing obligations. Their recommendations are carefully considered by Treasury officials and serve as a part of the background environment for the final financing decisions. These committees are as follows :

- American Bankers Association, Government Borrowing Committee
- Securities Industry Association (formerly known as the Investment Bankers Association of America), Government Securities and Federal Agencies Committee
- National Association of Mutual Savings Banks, Committee on Government Securities and the Public Debt
- Life Insurance Association of America and American Life Convention, Joint Committee on Economic Policy

U.S. Savings and Loan League, National League of Insured Savings Associations, The Advisory Committee on Government Securities of the Savings and Loan Business
Independent Bankers Association of America, Government Fiscal Policy Committee

Four meetings were held with the Government Borrowing Committee of the American Bankers Association in fiscal 1972, on July 20-21, October 26-27, January 25-26, and April 25-26. Membership of the Committee was as follows:

Robert M. Surdam (Chairman)	President and Chief Executive Officer, National Bank of Detroit, Detroit, Mich.
Thomas O. Cooper	President, South Des Moines National Bank, Des Moines, Iowa
Gaylord Freeman	Chairman of the Board, The First National Bank, Chicago, Ill.
Russ M. Johnson	Chairman of the Board and Chief Executive Officer, Deposit Guaranty National Bank, Jackson, Miss.
William H. Moore	Chairman of the Board, Bankers Trust Company, New York, N.Y.
A. W. Clausen	President and Chief Executive Officer, Bank of America, N.T. & S.A., San Francisco, Calif.
Richard P. Cooley	President, Wells Fargo Bank, N.A., San Francisco, Calif.
Donald M. Graham	Chairman and Chief Executive Officer, Continental Illinois National Bank and Trust Company, Chicago, Ill.
John A. Moorehead	Chairman and Chief Executive Officer, Northwestern National Bank, Minneapolis, Minn.
Howard C. Peterson	Chairman of the Board, The Fidelity Bank, Philadelphia, Pa.
Paul I. Wren	Chairman of Trust Board, First National Bank of Boston, Boston, Mass.
Robert J. Gaddy	Chairman and President, Tower Grove Bank and Trust Company, St. Louis, Mo.
John A. Oulliber	Chairman of the Board, First National Bank of Commerce, New Orleans, La.
David Rockefeller	Chairman and Chief Executive Officer, The Chase Manhattan Bank, N.A., New York, N.Y.
Robert V. Roosa	Partner, Brown Brothers Harriman and Company, New York, N.Y.
Thomas Trigg	President, National Shawmut Bank, Boston, Mass.
Charles J. Gable, Jr.	Executive Vice President, First Pennsylvania Bank, Philadelphia, Pa.
John J. Larkin	Senior Vice President, First National City Bank, New York, N.Y.
Donald C. Miller	Senior Vice President, Continental Illinois National Bank and Trust Company, Chicago, Ill.
Leland S. Prussia, Jr.	Senior Vice President, Bank of America, N.T. & S.A., San Francisco, Calif.
Allen P. Stults	Chairman and Chief Executive Officer, American National Bank and Trust Company, Chicago, Ill.
Eugene H. Adams	President, The First National Bank, Denver, Colo.
Clifford C. Sommer	President, Security Bank and Trust Company, Owatonna, Minn. Effective November 15, 1971, Vice President, Northwest Bancorporation, Minneapolis, Minn.
Douglas R. Smith	Chairman of the Board and President, National Savings and Trust Company, Washington, D.C.
Ben F. Love	President, Texas Commerce Bank, N.A., Houston, Tex.

Herbert P. Patterson	President, The Chase Manhattan Bank, N.A., New York, N.Y.
James R. Sheridan	Senior Vice President, North Carolina National Bank, Charlotte, N.C.
Mills H. Anderson	President, Bank of Carthage, Carthage, Mo.
James W. Aston	Chairman of the Board, Republic National Bank of Dallas, Dallas, Tex.
George S. Craft	Chairman of the Board, Trust Company of Georgia, Atlanta, Ga.
George S. Eccles	Chairman, First Security Bank of Utah, N.A., Salt Lake City, Utah
Nat S. Rogers	President, First City National Bank, Houston, Tex.
William T. Heffelfinger	A.B. Consultant
Hampton A. Rabon	A.B.A. Staff
William Ford	A.B.A. Staff
John Holton	A.B.A. Staff

Four meetings were held with the Government Securities and Federal Agencies Committee of the Securities Industry Association in fiscal 1972, on July 20-21, October 26-27, January 25-26, and April 25-26. Membership of the Committee was as follows:

Edward D. McGrew (Chairman)	Executive Vice President, The Northern Trust Company, Chicago, Ill.
Robert H. Bethke (Vice Chairman)	Chairman Executive Committee and Director, Discount Corporation of New York, New York, N.Y.
Daniel Ahearn	Vice President, Wellington Fund, Boston, Mass.
David J. Barry	Senior Vice President, Manufacturers Hanover Trust Company, New York, N.Y.
C. H. Baumhefner	Vice Chairman of the Board and Cashier, Bank of America, N.T. & S.A., San Francisco, Calif.
Robert B. Blyth	Vice Chairman, National City Bank of Cleveland, Cleveland, Ohio
Robert H. Britton	President, Briggs, Schaedle & Company, Inc., New York, N.Y.
Carl F. Cooke	Senior Vice President & Director, The First Boston Corporation, New York, N.Y.
G. Lamar Crittenden	Senior Vice President, First National Bank of Boston, Boston, Mass.
Stewart A. Dunn	Senior Vice President, Merrill Lynch, Pierce, Fenner & Smith, Inc., New York, N.Y.
George W. Hall	President, Wm. E. Pollock & Co., Inc., New York, N.Y.
M. Dale Jackson	Senior Vice President, Security Pacific National Bank, Los Angeles, Calif.
Donald R. Koessel	Senior Vice President, First National Bank of Minneapolis, Minneapolis, Minn.
Ralph F. Leach	Chairman of the Executive Committee, Morgan Guaranty Trust Company, New York, N.Y.
Edward R. McMillan	Senior Vice President, National Bank of Commerce, Seattle, Wash.
Robert P. Murphy	Senior Vice President, First National Bank in Dallas, Dallas, Texas
John H. Perkins	Vice Chairman of the Board of Directors, Continental Illinois National Bank and Trust Company, Chicago, Ill.
Robert B. Rivel	Executive Vice President, The Chase Manhattan Bank, N.A., New York, N.Y.
H. Jack Runnion, Jr.	Senior Vice President, Wachovia Bank and Trust Company, Winston-Salem, N.C.
William F. Simon	Partner, Salomon Brothers and Hutzler, New York, N.Y.
Robert W. Stone	Senior Vice President, Irving Trust Company, New York, N.Y.

Paul E. Uhl

Executive Vice President, United California Bank, Los Angeles, Calif.

C. Richard Youngdahl

President, Aubrey G. Lanston & Co., Inc., New York, N.Y.

One meeting was held with the Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks in fiscal 1972, on October 7, 1971. Membership of the Committee was as follows:

Robert J. Hill (Chairman)	President, New Hampshire Savings Bank, Concord, N.H.
Luke A. Baione	President, Metropolitan Savings Bank, Brooklyn, N.Y.
Charles W. Chamberlain, Jr.	President, Watertown Savings Bank, Watertown, Mass.
Anthony I. Eyring	President, Washington Mutual Savings Bank, Seattle, Wash.
William H. Harder	President, Buffalo Savings Bank, Buffalo, N.Y.
Clifford A. Henze	President, The Kingston Savings Bank, Kingston, N.Y.
Francis A. Holmes	President, Peoples Savings Bank of Yonkers, New York, N.Y.
Robert Horsfield	President, Dry Dock Savings Bank, New York, N.Y.
John S. Howe	President, The Provident Institution for Savings in the Town of Boston, Boston, Mass.
Sheldon L. Ladd	President and Treasurer, The Central Bank for Savings, Meriden, Conn.
William B. Licklider	President, United States Savings Bank of Newark, Newark, N.J.
Edward F. McGinley, Jr.	President, Beneficial Mutual Savings Bank, Philadelphia, Pa.
Bernard H. McMahon	President, Springfield, Five Cents Savings Bank, Springfield, Mass.
Albert L. Moore	Treasurer, Waterville Savings Bank, Waterville, Maine
William G. Morton	President, The Onondaga Savings Bank, Syracuse, N.Y.
Lester J. Norcross	Chairman of the Board and President, Syracuse Savings Bank, Syracuse, N.Y.
Donald P. Noyes	President, North Avenue Savings Bank, Cambridge, Mass.
Albert N. Place	President, Woonsocket Institution for Savings, Woonsocket, R.I.
Norman C. Ramsey	Chairman of the Board and President, Broadway Savings Bank, New York, N.Y.
William H. Smith II	President, Holyoke Savings Bank, Holyoke, Mass.
John E. Vroman	President, Home Savings Bank of Upstate New York, Albany, N.Y.
Theodore W. Lowen	President, Savings Banks Trust Company, New York, N.Y.
Saul B. Klamam	Vice President and Chief Economist, NAMSB.
Francis B. Nimick, Jr.	Vice President, NAMSB.
Grover W. Ensley	Executive Vice President, NAMSB.

One meeting was held with the Joint Committee on Economic Policy of the Life Insurance Association of America and the American Life Convention in fiscal 1972, on May 31, 1972. Membership of the Committee was as follows:

J. Henry Smith (Chairman)	President, The Equitable Life Assurance Society of the United States, New York, N.Y.
William H. Abell	Chairman of the Board, Commonwealth Life Insurance Company, Louisville, Ky.
Gerhard D. Bleicken	Chairman of the Board, John Hancock Mutual Life Insurance Company, Boston, Mass.

Franklin Briesse	Chairman of the Board, The Minnesota Mutual Life Insurance Company, St. Paul, Minn.
R. Manning Brown, Jr.	President, New York Life Insurance Company, New York, N.Y.
Earl Clark	Chairman of the Board, Occidental Life Insurance Company of California, Los Angeles, Calif.
George T. Conklin, Jr.	President, The Guardian Life Insurance Company, New York, N.Y.
George B. Cook	Chairman of the Board, Bankers Life Insurance Company of Nebraska, Lincoln, Nebr.
Francis E. Ferguson	President, The Northwestern Mutual Life Insurance Company, Milwaukee, Wis.
Gilbert W. Fitzhugh	Chairman of the Board, Metropolitan Life Insurance Company, New York, N.Y.
William C. Greenough	Chairman, Teachers Insurance and Annuity Association of America, New York, N.Y.
Dean W. Jeffers	President and General Manager, Nationwide Life Insurance Company, Columbus, Ohio
Frederic M. Peirce	Chairman of the Board, General American Life Insurance Company, St. Louis, Mo.
Roger C. Wilkins	Chairman of the Board, The Travelers Insurance Company, Hartford, Conn.
Donald H. Wilson, Jr.	President, Monumental Life Insurance Company, Baltimore, Md.
Orson H. Hart	Vice President and Director of Economic Studies, New York, Life Insurance Company, New York, N.Y.
Ben F. Small	President, Life Insurance Association of America, New York, N.Y.
Ralph J. McNair	Vice President, Life Insurance Association of America, New York, N.Y.
Kenneth M. Wright	Vice President and Chief Economist, Life Insurance Association of America, New York, N.Y.
William B. Harman, Jr.	General Counsel, American Life Convention, New York, N.Y.

One meeting was held with the Advisory Committee on Government Securities of the Savings and Loan Business on October 14, 1971. Membership of the Committee was as follows:

C. L. Clements, Sr. (Chairman)	Chairman, Chase Federal Savings and Loan Association, Miami Beach, Fla.
James A. Aliber	President, First Federal Savings & Loan Association, Detroit, Mich.
Junius F. Baxter	President and Chairman of the Board, Western Federal Savings & Loan Association, Denver, Colo.
Frederick Bjorklund	President, Minnesota Federal Savings & Loan Association, St. Paul, Minn.
Lacy Boggess	President, Mutual Savings & Loan Association, Fort Worth, Tex.
Henry A. Bubb	Chairman of the Board, Capitol Federal Savings & Loan Association, Topeka, Kans.
Carl Distelhorst	Winter Park, Fla.
W. O. Du Vall	Chairman of the Board, Atlanta Federal Savings & Loan Association, Atlanta, Ga.
Fred F. Enemark	Executive Vice President, Bell Savings & Loan Association, San Rafael, Calif.
E. Stanley Enlund	Chairman of the Board, First Federal Savings & Loan Association, Chicago, Ill.
Jonathan M. Fletcher	President, Home Federal Savings & Loan Association, Des Moines, Iowa
Richard G. Gilbert	President, Citizens Savings Association, Canton, Ohio
L. W. Grant, Sr.	Chairman of the Board, Home Federal Savings & Loan Association, Tulsa, Okla.

E. Michael Lallinger	President, Gibraltar Savings Association, Houston, Tex.
George E. Leonard	President and Chairman of the Board, First Federal Savings & Loan Association, Phoenix, Ariz.
Donald P. Lindsay	President, Lincoln First Federal Savings & Loan Association, Spokane, Wash.
Roy M. Marr	Chairman of the Board, Leader Federal Savings & Loan Association, Memphis, Tenn.
Raymond L. Miller	President, First Federal Savings & Loan Association, East Hartford, Conn.
George A. Mooney	President, Washington Heights Federal Savings & Loan, New York, N.Y.
Tom B. Scott, Jr.	President, First Federal Savings & Loan Association, Jackson, Miss.
John W. Stadtler	President, National Permanent Savings & Loan Association, Washington, D.C.
Robert H. Taylor	President, Boston Federal Savings & Loan Association, Boston, Mass.
Donald A. Thompson	Senior Vice President, California Federal Savings & Loan Association, Los Angeles, Calif.
Gerrit Vander Ende	President, Pacific First Federal Savings & Loan Association, Tacoma, Wash.
James A. Hollensteiner (Secretary)	Staff Vice President, United States Savings and Loan League, Chicago, Ill.

Two meetings were held with the Government Fiscal Policy Committee of the Independent Bankers Association of America in fiscal 1972, on July 15 and January 18. Membership of the Committee was as follows:

Milton J. Hayes (Chairman)	Executive Committee Chairman, Mid-America National Bank of Chicago, Chicago, Ill.
Don R. Ostrand (Vice Chairman)	Vice President, First National Bank, Omaha, Nebr.
B. Meyer Harris	President, The Yellowstone Bank, Laurel, Mont.
T. H. Milner, Jr.	Chairman and President, First National Bank, Athens, Ga.
Leo W. Seal, Jr.	President, Hancock Bank, Gulfport, Miss.
Edward L. Trautz	President, East Lansing State Bank, East Lansing, Mich.

TREASURY LIAISON COMMITTEE OF THE BUSINESS COUNCIL

The Secretary of the Treasury proposed this Committee on May 8, 1965, "to keep up a two-way exchange and dialog on areas of material concern to the Treasury and the business community." The Committee consists of members informally recommended and appointed by the Business Council and the Secretary of the Treasury. The functions of the Committee are advisory and consultative. Formation of the Committee was announced on July 8, 1965.

The Committee did not meet in fiscal 1972. The members are:

Thomas S. Gates, Jr. (Chairman)	Chairman, Executive Committee, Morgan Guaranty Trust Company of New York, New York, N.Y.
E. Mandell de Windt	Chairman, Eaton Corporation, Cleveland, Ohio
Frederic G. Donner	Retired Chairman of General Motors, New York, N.Y.
Elisha Gray II	Chairman, Finance Committee, Whirlpool Corporation, Benton Harbor, Mich.
William A. Hewitt	Chairman, Deere & Company, Moline, Ill.
Frank R. Millikin	President, Kennecott Copper Corporation, New York, N.Y.
Charles F. Myers, Jr.	Chairman, Burlington Industries, Inc., Greensboro, N.C.
David Rockefeller	Chairman, Chase Manhattan Bank, N.A., New York, N.Y.
Charles B. Thornton	Chairman, Litton Industries, Inc., Beverly Hills, Calif.

Internal Revenue Service

ART ADVISORY PANEL

The Art Advisory Panel was established in February 1968. The panel consists of members from the three major segments of the art world—museums, universities, and dealers—who provide advice on the valuation of works of art for Federal tax purposes. Meetings were held on July 15–16, 1971 and September 30–October 1, 1971, and again on January 11–12, 1972. Members of the panel who participated in these meetings are:

Richard F. Brown	Director, Kimbell Foundation, Fort Worth, Tex.
Charles E. Buckley	Director, City Art Museum, St. Louis, Mo.
Anthony M. Clark	Director, Minneapolis Institute of Arts, Minneapolis, Minn.
Perry B. Cott	Chief Curator (Ret.), National Gallery of Art, Washington, D.C.
Charles Cunningham	The Art Institute of Chicago, Chicago, Ill.
Kenneth Donahue	Director, Los Angeles County Museum of Art, Los Angeles, Calif.
Louis Goldenberg	Art Dealer, Wildenstein and Co., New York, N.Y.
George H. Hamilton	Professor, Williams College, Williamstown, Mass.
Bartlett H. Hayes	Director, American Academy, Rome, Italy
Sherman E. Lee	Director, Cleveland Museum of Art, Cleveland, Ohio.
William S. Lieberman	Director, Paintings & Sculpture, Drawings & Prints, Museum of Modern Art, New York, N.Y.
Charles F. Montgomery	Professor, Yale University, New Haven, Conn.
Frank Perls	Art Dealer, Perls Gallery, Beverly Hills, Calif.
Esther W. Robles	Art Dealer, Esther Robles Gallery, Los Angeles, Calif.
Alexander P. Rosenberg	Art Dealer, Paul Rosenberg and Co., New York, N.Y.
Merrill C. Rueppel	Director, Dallas Museum of Fine Arts, Dallas, Tex.
Theodore Rousseau	Vice-Director, Metropolitan Museum of Art, New York, N.Y.
Eugene V. Thaw	Art Dealer, E. V. Thaw Co., New York, N.Y.

ADVISORY COMMITTEE ON EXEMPT ORGANIZATIONS

In November 1969, the Commissioner announced the appointment of members of the Advisory Committee on Exempt Organizations who have agreed to serve as Internal Revenue Service consultants to review problems in charting the limitations of the tax law regarding religious, educational, charitable, and other organizations which constitute the majority of tax exempt organizations.

The committee did not meet during fiscal year 1972. Members at the time of the last meeting were:

Carlton P. Alexis	Associate Professor of Medicine, Howard University, Washington, D.C.
Mary Phillips Bogan	Washington, D.C.
Donald T. Burns	Arthur Young and Company, Los Angeles, Calif.
Charles O. Galvin	Dean, School of Law, Southern Methodist University, Dallas, Tex.
H. J. Heinz II	Chairman of the Board, H. J. Heinz Co., Pittsburgh, Pa.
Adelaide Cromwell Hill	Afro-American Studies Center, Boston University, Brookline, Mass.
J. Greenfeld	Attending for Attorney General Lefkowitz, State of New York, New York, N.Y.
Harry K. Mansfield	Ropes and Gray, Boston, Mass.
Bishop Francis John Mugavero	Brooklyn, N.Y.
Albert P. Reichert	Anderson, Walker and Reichert, Macon, Ga.

Fred C. Scribner, Jr.	Atwood, Scribner, Allen and McKusick, Portland, Maine
Richard J. Whalen	Washington, D.C.
Rene A. Wormser	Wormser, Koch, Kiely and Alessandrone, New York, N.Y.
John R. Hogness	Executive Vice President, University of Washington, Seattle, Wash.
Rabbi Ralph Simon	Congregation Rodfei Zedek, Chicago, Ill.
James Roger Hull	President, Mutual Life Insurance Co. of New York, Darien, Conn.

ADVISORY COMMITTEE ON THE CATTLE INDUSTRY

In October 1970, the Commissioner formed an Advisory Committee on the Cattle Industry. A primary purpose of the committee is to counsel the Service in implementing important changes in the tax law; such as, those regarding the holding period for livestock for capital gains treatment, the exchange of livestock, and hobby losses. The Committee will advise the Service on development of policies for administering new code provisions dealing with cattle and will be asked to comment upon proposed administrative guidelines or revenue rulings.

The Committee met on April 27, 1972. The members are:

Tobin Armstrong	General manager & owner of Particcion and Armstrong ranches, Armstrong, Tex.
W. T. Berry, Jr.	Executive Secretary, American Hereford Association, Kansas City, Mo.
Harvie Branscomb, Jr.	Branscomb, Gary, Thomasson & Hall, Corpus Christi, Tex.
Frank D. Brown, Jr.	Mt. Ararat Farms, Port Deposit, Md.
Gordon M. Cairns	Dean, College of Agriculture, University of Maryland, College Park, Md.
Ben H. Carpenter	Chairman of the Board & Chief Executive Officer, Southland Life Insurance Co., Dallas, Tex.
Donald V. Hunter	Vice President, National Livestock Feeders Association, Centerville, S. Dak.
John M. Marble	Rancho Tulareitos, Carmel Valley, Calif.
Robert H. Rumler	Executive Secretary, Holstein-Friesian Association of America, Brattleboro, Vt.
Nelson E. Tamplin	Partner, Ernst & Ernst, Denver, Colo.
John Trotman	President, Trotman Cattle Company, Montgomery, Ala.
Gordon VanVleck	Vice President, American National Cattlemen's Association, Plymouth, Calif.

ADVISORY COMMITTEE ON THE HORSE INDUSTRY

In October 1970 the Commissioner announced the formation of an Advisory Committee on the Horse Industry. Composed of 15 distinguished citizens whose experience and special knowledge of the industry has long been recognized, the committee includes representatives of the academic community and professional groups concerned with horses. The primary purpose of the committee is to apply its special expertise to counsel the Service in implementing important changes; such as, those regarding the holding period for livestock for capital gains treatment, the exchange of livestock, and hobby losses. Members also take part in the development of policies and comment on administrative guidelines or proposed rulings dealing with horses.

The committee met on April 24, 1972. Membership is as follows:

Albert G. Clay	Fairway Farm, Mt. Sterling, Ky.
Benjamin Eshleman, Jr.	Partner, Eshleman-Vogt Ranch, Corpus Christi, Tex.
William S. Farish III	President, Blue Creek Ranch Co., Houston, Tex.
W. Sidney Felton	Herrick, Smith, Donald, Farley and Ketchum, Boston, Mass.
Katherine Haley	Rancho Mi Solar, Ventura, Calif.
Max C. Hempt	Owner of Hempt Farms and officer in numerous horse organizations, Mechanicsburg, Pa.

Edward H. Honnen	Chairman of the Board of Trustees, American Horse Council, Inc., Denver, Colo.
Warner L. Jones, Jr.	Hermitage Farm, Goshen, Ky.
Robert H. Kieckhefer	Chairman, American Quarter Horse Association, judges' committee, Prescott, Ariz.
Robert G. Lawrence	Assistant Professor, Department of Agricultural Economics, University of Maryland, College Park, Md.
Kenneth Merdith	Elmer Fox & Company, Wichita, Kans.
Gayle Mohney	Stoll, Keenou & Park, Lexington, Ky.
Ogden Phipps	Chairman, The Jockey Club, and vice-chairman, the American Horse Council, Inc., New York, N.Y.
Hart H. Spiegel	Brobeck, Phleger & Harrison, San Francisco, Calif.
Frederick L. Van Lennep	Treasurer and member of the Board of Trustees, American Horse Council, Inc., Lexington, Ky.

Comptroller of the Currency

CONSULTING COMMITTEE OF BANK ECONOMISTS

On November 23, 1965, the Comptroller announced the appointment of a Consulting Committee of Bank Economists which included seven national bank economists. This Committee's function was to advise the Comptroller and his staff and work with the National Advisory Committee. The Committee's primary responsibility was to bring their specialized experience and technical knowledge to bear on current problems of banking policy and practice.

No meetings of this Committee were held in fiscal 1972. Members of the Committee are as follows:

John J. Balles (Chairman)	Senior Vice President, Mellon National Bank & Trust Company, Pittsburgh, Pa.
James M. Dawson	Vice President and Economist, National City Bank of Cleveland, Cleveland, Ohio
Walter Hoadley	Executive Vice President and Chief Economist, Bank of America, N.T. & S.A., San Francisco, Calif.
Herbert E. Johnson	Vice President, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.
William J. Korsvik	Vice President, First National Bank of Chicago, Chicago, Ill.
Leif H. Olsen	Senior Vice President & Economist, First National City Bank, New York, N.Y.
Eugene C. Zorn, Jr.	Senior Vice President & Economist, Republic National Bank of Dallas, Dallas, Tex.

INVESTMENT SECURITIES ADVISORY COMMITTEE

In 1962, the Comptroller of the Currency established the Investment Securities Advisory Committee. The purpose of the Committee was to advise the agency on matters pertaining to the regulations concerning investment securities.

No meetings of this Committee were held in fiscal 1972. Members of the Committee are as follows:

John H. Perkins (Chairman)	Executive Vice President, Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill.
Alan K. Browne	Senior Vice President, Bank of America, N.T. & S.A., San Francisco, Calif.
Richard F. Kezer	Vice President, First National City Bank, New York, N.Y.
Lewis F. Lyne	President, Mercantile National Bank at Dallas, Dallas, Tex.
Early F. Mitchell	Executive Vice President, First National Bank of Memphis, Memphis, Tenn.

LeRoy F. Piche	Vice President, Northwest Bancorporation, Minneapolis, Minn.
Arthur H. Quinn, Jr.	Vice President, The Philadelphia National Bank, Philadelphia, Pa.
Thomas L. Ray	Senior Vice President, Mercantile Trust Company, N.A., St. Louis, Mo.
Robert B. Rivel	Executive Vice President, The Chase Manhattan Bank, N.A., New York, N.Y.
Franklin Stockbridge	Executive Vice President, Security Pacific National Bank, Los Angeles, Calif.
James G. Wilson	Senior Vice President, The National Shawmut Bank of Boston, Boston, Mass.

NATIONAL ADVISORY COMMITTEE ON BANKING POLICIES AND PRACTICES

On October 4, 1965, the Comptroller of the Currency appointed this Committee, composed of leading bankers. The Committee has participated in a cooperative effort to bring the thinking of the banking community to bear on the many matters of national concern in which the banking industry is vitally involved. No meetings of this Committee were held in fiscal 1972. Members of the Committee are as follows:

Robert C. Baker	Chairman, American Security & Trust Company, Washington, D.C.
Robert M. Surdam	President, National Bank of Detroit, Detroit, Mich.
Roger C. Damon	Chairman of the Board, The First National Bank of Boston, Boston, Mass.
G. Morris Dorrance, Jr.	Chairman of the Board, President and Chief Executive Officer, The Philadelphia National Bank, Philadelphia, Pa.
George S. Eccles	President, First Security Bank of Utah, Salt Lake City, Utah
J. A. Elkins, Jr.	Chairman of the Board, First City National Bank of Houston, Houston, Tex.
Sam M. Fleming	Chairman of the Board, Third National Bank in Nashville, Nashville, Tenn.
Robert D. H. Harvey	Chairman of the Board & Chief Executive Officer, Maryland National Bank, Baltimore, Md.
William M. Jenkins	Chairman of the Board, Seattle First National Bank, Seattle, Wash.
Mills B. Lane, Jr.	Vice Chairman, The Citizens & Southern National Bank, Atlanta, Ga.
Frederick G. Larkin, Jr.	Chairman of the Board, Security Pacific National Bank, Los Angeles, Calif.
John A. Mayer	Chairman of the Board, Mellon National Bank & Trust Company, Pittsburgh, Pa.
R. A. Peterson	Director, Bank of America, N.T. & S.A., San Francisco, Calif.
W. Harry Schwarzschild, Jr.	Chairman of the Board & President, The Central National Bank, Richmond, Va.
Robert H. Stewart III	Chairman of the Board, First National Bank in Dallas, Dallas, Tex.

REGIONAL ADVISORY COMMITTEES ON BANKING POLICIES AND PRACTICES

On November 11, 1965, the Comptroller of the Currency established 14 Regional Advisory Committees on Banking Policies and Practices to assist the agency in a continuing review aimed at keeping bank regulations abreast of the Nation's needs. The Committees' membership and the dates of the regional meetings during fiscal 1972 follow:

Region 1 meeting date, November 11, 1971.

Arnold M. Leibowitz	President, The Constitution National Bank, Hartford, Conn.
Harry H. Carey	President, First Bristol County National Bank, Taunton, Mass.

John J. Cummings, Jr.	President, Industrial National Bank of Rhode Island, Providence, R.I.
Dudley H. Davis	President, The Merchants National Bank of Burlington, Burlington, Vt.
Ronald R. Findlay	President, First National Bank of Franklin County, Greenfield, Mass.
Leslie N. Hutchinson	President, Bay State National Bank, Lawrence, Mass.
John D. Robinson	President, The First National Bank of Farmington, Farmington, Maine
Miss Maureen M. Smith	Senior Vice President, The State National Bank of Connecticut, Bridgeport, Conn.
William E. Stearns	Chairman, Bank of New Hampshire, N.A., Manchester, N.H.
Widgery Thomas, Jr.	Chairman, Canal National Bank, Portland, Maine
Thomas H. Trigg	Chairman, The National Shawmut Bank of Boston, Boston, Mass.
Fred A. White	President, Dartmouth National Bank of Hanover, Hanover, N.H.

Region 2 meeting dates, November 1, 1971 and May 26, 1972.

Charles A. Agemian (Chairman)	Chairman, Garden State National Bank, Hackensack, N.J.
Richard Beekman	President, Citizens First National Bank, Ridgewood, N.J.
James L. Cooper	Chairman, Atlantic National Bank, Atlantic City, N.J.
Robert H. Fearon, Jr.	President, The Oneida Valley National Bank of Oneida, Oneida, N.Y.
Erwin O. Kraft	President, First National Bank of New Jersey, Totowa, N.J.
Richard F. Lindstrom	President, First Trust Company of Albany, N. A., Albany, N.Y.
Ralph H. Mather	Chairman, The First National Bank of Princeton, Princeton, N.J.
Frederick Palmer	President, Tappan Zee National Bank, Nyack, N.Y.
William I. Spencer	President, First National City Bank, New York, N.Y.
Raymond L. Steen	President, The Broad Street National Bank, Trenton, N.J.
Harry J. Taw	President, First National Bank of Cortland, Cortland, N.Y.
John H. Vogel	President, National Bank of North America, Jamaica, N.Y.

Region 3 meeting date, September 17, 1971.

Thomas L. Wentling (Chairman)	President, Southwest National Bank of Pennsylvania, Greensburg, Pa.
Ernest R. Andrew	Chairman & President, DuBois Deposit National Bank, DuBois, Pa.
James E. Brucklacher	President, Cumberland County National Bank & Trust Co., New Cumberland, Pa.
Harold U. Crouse	President, The Peoples National Bank of Shippensburg, Shippensburg, Pa.
Robert K. Gicking	President, The Hazelton National Bank, Hazelton, Pa.
Merle E. Gilliland	President, The Pittsburgh National Bank, Pittsburgh, Pa.
Roger S. Hillas	President, Provident National Bank, Bryn Mawr, Pa.
John J. McCartney	President, The First National Bank of Allentown, Allentown, Pa.

492 1972 REPORT OF THE SECRETARY OF THE TREASURY

Wilson D. McElhinny	President, National Central Bank, Lancaster, Pa.
M. A. Powers	Chairman, First National Bank & Trust Company, Washington, Pa.
Richard E. Warren	President, The Downingtown National Bank, Downingtown, Pa.
H. Myron Wetzel	President, Third National Bank & Trust Company, Scranton, Pa.

Region 4 meeting dates, October 1, 1971 and April 28, 1972.

Ellis G. Camp (Chairman)	Chairman, The Wayne County National Bank of Wooster, Wooster, Ohio
L. E. Baughman	President, The Second National Bank of Warren, Warren, Ohio
Miss Harriet Brown	President, The Springs Valley National Bank, French Lick, Ind.
Wathen Claycomb	President, The Lincoln National Bank of Hodgenville, Hodgenville, Ky.
Clair E. Fultz	Chairman, The Huntington National Bank of Columbus, Columbus, Ohio
Robert E. Hall	President, The First National Bank & Trust Company, Troy, Ohio
Maurice H. Kirby	Chairman, The First National Bank of Henderson, Henderson, Ky.
Arch G. Mainous, Jr.	President, Citizens Union National Bank & Trust Co., Lexington, Ky.
William J. Riley	Chairman, First National Bank of East Chicago, Indiana, East Chicago, Ind.
J. Fred Risk	Chairman, The Indiana National Bank, Indianapolis, Ind.
Lex B. Wilkinson	Chairman & President, American National Bank & Trust Co. of South Bend, South Bend, Ind.
John W. Woods, Jr.	President, The Third National Bank of Ashland, Ashland, Ky.

Region 5 meeting date, November 11, 1971.

Tilton H. Dobbin (Chairman)	President, Maryland National Bank, Baltimore, Md.
Francis G. Addison, III	President, Union Trust Co., of D.C., Washington, D.C.
W. K. Bentley	President, The Flat Top National Bank of Bluefield, Bluefield, W. Va.
W. T. Clements	President, The Wise County National Bank, Wise, Va.
C. A. Cutchins, III	President, Virginia National Bank, Norfolk, Va.
Joseph M. Gough, Jr.	President, The First National Bank of St. Mary's, Leonardtown, Md.
E. R. Harris, Jr.	President, The Fidelity National Bank, Lynchburg, Va.
Paul O. Hirschbiel	President, United Virginia Bank/National Valley, Staunton, Va.
H. W. Kelly, Jr.	President, The National Bank of Fairfax, Fairfax, Va.
Hector MacLean	President, Southern National Bank of North Carolina, Lumberton, N.C.
W. N. Shearer, Jr.	President, Kanawha Banking & Trust Co., N.A., Charleston, W. Va.
John P. Watlington, Jr.	President, Wachovia Bank & Trust Co., N.A., Winston-Salem, N.C.

Region 6 meeting dates, November 13, 1971, and May 5, 1972.

King D. Cleveland (Chairman)	Chairman, The National Bank of Georgia, Atlanta, Ga.
Clarence T. Ayers	President, The First National Bank of Gainesville, Gainesville, Fla.

W. C. Coleman	President, Palmer First National Bank & Trust Co., Sarasota, Fla.
Michael J. Franco	Chairman, City National Bank of Miami, Miami, Fla.
George L. Grantham	President, First National Bank of Easley, Easley, S.C.
Henry M. Jernigan	Chairman, First National Bank of Fort Pierce, Fort Pierce, Fla.
Jack P. Keith	President, First National Bank, West Point, Ga.
R. H. Makemson	President, Coral Ridge National Bank of Fort Lauderdale, Ft. Lauderdale, Fla.
G. E. Tomberlin	President, Manatee National Bank of Bradenton, Bradenton, Fla.
G. H. Watts	President, The First National Bank of Dalton, Dalton, Ga.
H. E. Wilkinson, Jr.	President, The National Bank of South Carolina of Sumter, Sumter, S.C.
J. B. Williams	Chairman, The First National Bank & Trust Co. of Augusta, Augusta, Ga.

Region 7 meeting date, November 9, 1971.

Lewis H. Clausen (Chairman)	President, The Champaign National Bank, Champaign, Ill.
James W. Carpenter	President, Union Bank & Trust Company, N.A., Grand Rapids, Mich.
James H. Duncan	President, First National Bank & Trust Co. of Michigan, Kalamazoo, Mich.
William G. Ericsson	President, American National Bank & Trust Co. of Chicago, Chicago, Ill.
Don R. Frank	President, City National Bank of Kankakee, Kankakee, Ill.
William G. Hoskins	Chairman & President, The First Lake County National Bank, Libertyville, Ill.
Robert C. Humphrey	President, State National Bank, Evanston, Ill.
Ned A. Kilmer, Jr.	President, City Bank & Trust Co., N.A., Jackson, Mich.
Charles D. Renfro	Executive Vice President, First National Bank in Carbondale, Carbondale, Ill.
James H. Smaby	President, Commercial National Bank of Iron Mountain, Iron Mountain, Mich.
Mrs. Thelma E. Sweeney	Executive Vice President, The First National Bank of Arcola, Arcola, Ill.
Richard E. Willard	President, Farmers & Merchants National Bank, Benton Harbor, Mich.

Region 8 meeting dates, November 8, 1971 and February 9, 1972.

Wayne A. Stone (Chairman)	Chairman, Simmons First National Bank, Pine Bluff, Ark.
W. B. Brannon	President & Trust Officer, First National Bank, Canton, Miss.
William A. Carpenter	President, Whitney National Bank, New Orleans, La.
W. T. Cothran	Chairman, Birmingham Trust National Bank, Birmingham, Ala.
Robert E. Curry	President, First National Bank, Pulaski, Tenn.
C. Bennett Harrison	Chairman, Union Planters National Bank, Memphis, Tenn.
W. E. Howard, Jr.	President & Chief Executive Officer, Commercial National Bank, Laurel, Miss.
W. H. Mitchell	President, First National Bank, Florence, Ala.
W. E. Newell	President, First National Bank, Kingsport, Tenn.
Frank M. Patty	President, Delta National Bank, Yazoo City, Miss.
J. W. Roberson	Chairman & President, First National Bank, West Monroe, La.
D. C. West	President, First National Bank, Berryville, Ark.

Region 9 had no meetings.

Erling Haugo (Chairman)	President, Valley National Bank of Sioux Falls, Sioux Falls, S. Dak.
Alexander M. Castle	President, The First National Bank of Hibbing, Hibbing, Minn.
Norman K. Christensen	President, First National Bank of Wahpeton, Wahpeton, N. Dak.
George H. Dixon	President, First National Bank of Minneapolis, Minneapolis, Minn.
John M. Eldred	President, The First National Bank and Trust Company, Beloit, Wis.
John C. Geilfuss	President, Marine National Exchange Bank of Milwaukee, Milwaukee, Wis.
Donald C. Miller	President, Community National Bank of Grand Forks, Grand Forks, N. Dak.
John F. Nash	President, American National Bank and Trust Company, St. Paul, Minn.
David A. Shern	President, Suburban National Bank of Roseville, Roseville, Minn.
Weber L. Smith, Jr.	President, First Wisconsin National Bank of Madison, Madison, Wis.
G. O. Thorpe	Chairman & President, First National Bank of Chippewa Falls, Chippewa Falls, Wis.
Charles T. Undlin	President, First National Bank of The Black Hills, Rapid City, S. Dak.

Region 10 meeting dates, November 14, 1971 and April 27, 1972.

B. C. Grangaard (Chairman)	Chairman, Central National Bank & Trust Co. of Des Moines, Des Moines, Iowa
C. Q. Chandler	President, First National Bank in Wichita, Wichita, Kans.
Harold R. Deitemeyer	President, The First National Bank & Trust Co. of Beatrice, Beatrice, Nebr.
Eldon G. Freudenburg	President, The First National Bank of West Point, West Point, Nebr.
J. T. Grant	Chairman & President, The First National Bank in Sioux City, Sioux City, Iowa
Bill B. Lee	Chairman & President, The First National Bank in Neosho, Neosho, Mo.
Evans McReynolds	President, The Union National Bank of Springfield, Springfield, Mo.
W. W. Marshall, Jr.	Chairman & President, Commercial National Bank & Trust Co., Grand Island, Nebr.
David H. Morey	Chairman, The Boatmen's National Bank of St. Louis, St. Louis, Mo.
Martin Roggen	President, First National Bank of Ottumwa, Ot- tumwa, Iowa
Willis E. Stout	Chairman, First National Bank in Goodland, Kans.
Merrill H. Werts	President, The First National Bank, Junction City, Kans.

Region 11 meeting dates, October 29, 1971 and June 10, 1972.

Eugene Swearingen (Chairman)	President, National Bank of Tulsa, Tulsa, Okla.
Henry M. Bell, Jr.	President, Citizens First National Bank of Tyler, Tyler, Tex.
Lewis H. Bond	President, The Fort Worth National Bank, Fort Worth, Tex.
Peter G. Brooks	President, Western National Bank of Houston, Houston, Tex.
G. R. Crawley	President, The First National Bank of Lamesa, Lamesa, Tex.
Gene Edwards	President, The First National Bank of Amarillo, Amarillo, Tex.

Grady D. Harris, Jr.	President, Fidelity Bank, N.A., Oklahoma City, Okla.
Frank Junell	President, The Central National Bank of San Angelo, San Angelo, Tex.
O. W. Lamb	President, The First National Bank & Trust Co. of Muskogee, Muskogee, Okla.
Miss Johnnie E. Merchant	President, First City National Bank of Floresville, Floresville, Tex.
J. M. Rector III	President, The First National Bank of El Reno, El Reno, Okla.
Sam C. Tisdale, Jr.	Executive Vice President, First National Bank in Orange, Orange, Tex.

Region 12 meeting dates, November 12, 1971 and June 16, 1972.

T. D. Brown (Chairman)	Executive Vice President, The First National Bank of Denver, Denver, Colo.
L. C. Atkins	President, First National Bank, Torrington, Wyo.
Earl L. Bimson	President, The Valley National Bank of Arizona, Phoenix, Ariz.
Tom J. Gleason	President, The First National Bank in Fort Collins, Fort Collins, Colo.
Ronald S. Hanson	President, Pioneer National Bank, Logan, Utah
Charles K. Johnson	President, The First National Bank of Artesia, Artesia, N. Mex.
J. C. Johnson	Chairman & President, The First National Bank of Belen, Belen, N. Mex.
Delmer P. Keating	President, The Alamosa National Bank, Alamosa, Colo.
W. L. Perry	President, The East Colorado Springs National Bank, Colorado Springs, Colo.
Roger L. Reisher	President, First Westland National Bank, Lakewood, Colo.
F. A. Rummel, Jr.	Chairman & President, The First National Bank of Rawlins, Rawlins, Wyo.
Bernard R. Weber	President, The First National Bank and Trust Co. of Wyoming, Cheyenne, Wyo.

Region 13 meeting dates, September 10, 1971 and April 21, 1972.

LeRoy B. Staver (Chairman)	Chairman, United States National Bank of Oregon, Portland, Ore.
R. C. Bailey	Vice President, Alaska National Bank of Fairbanks, Fairbanks, Alaska
Thomas G. Bourke	Executive Vice President, First Security Bank of Idaho, N.A., Boise, Idaho
W. W. Brokaw	President, The First National Bank of Stanwood, Stanwood, Wash.
W. G. Candland	Executive Vice President, Tri-State National Bank of Montpelier, Montpelier, Idaho
Philip L. Corneil	Executive Vice President, Seattle-First National Bank, Seattle, Wash.
R. M. Doherty	President, Valley National Bank of Auburn, Auburn, Wash.
R. G. Johnson	President, The Continental National Bank of Harlowton, Harlowton, Mont.
D. L. Mellish	President, National Bank of Alaska, Anchorage, Alaska
Robert I. Penner	President, Citizens First National Bank of Wolf Point, Wolf Point, Mont.
F. L. Servoss	President, Crater National Bank of Medford, Medford, Ore.
A. F. Winegardner	President, First National Bank and Trust Co., Billings, Mont.

Region 14 meeting dates, November 5, 1971 and May 5, 1972.

Martin V. Smith (Chairman)	Chairman & President, Commercial and Farmers National Bank, Oxnard, Calif.
Ernest D. Bonta	President, Inyo-Mono National Bank, Bishop, Calif.
W. Gordon Ferguson	President, National Bank of Whittier, Whittier, Calif.
Albert C. Gianoli	Chairman & President, The First National Bank of Ely, Ely, Nev.
Arnold W. Gietz	President, Beverly Hills National Bank, Beverly Hills, Calif.
Elmer Glaser	Chairman & President, West Coast National Bank, Oceanside, Calif.
Carl E. Hartnack	President, Security Pacific National Bank, Los Angeles, Calif.
Alden W. Johnson	President & Chief Executive Officer, Southern California First National Bank, San Diego, Calif.
K. J. Luke	Chairman & President, Hawaii National Bank, Honolulu, Honolulu, Hawaii
Leslie C. Peacock	President, Crocker National Bank, San Fran- cisco, Calif.
Don W. Smith	Chairman & President, Commercial National Bank, Buena Park, Calif.
Don A. Westerman	President, Mid-Cal National Bank, Lodi, Calif.

STATISTICAL APPENDIX

TABLES

The statistical tables to this Annual Report will be published in the separate Statistical Appendix.

INDEX

A

	Page
Accounting systems.....	77, 112-13
Accounts, Bureau of, administrative report.....	111-19
Administrative management.....	75-80
Advisory committees.....	481-96
Agency for International Development.....	70-71, 76
Air security program.....	30-31, 93
AMPS program.....	34, 96
Antidumping.....	XXIV, 34-5, 87, 301-5
Antinarcootics program.....	XXIII-XXIV, 29, 293-8
Asian Development Bank.....	62-3, 66, 69, 420-5
Audit, Office of.....	78

B

Balance of payments.....	XVII-XVIII,
	XXVII, 45-50, 60-62, 72, 222-3, 370-71, 391-6, 402
Banks, status of national.....	82-4
Bills, Treasury :	
1972 operations.....	20-28
Press releases.....	179-82
Summary, 1972 issues.....	183-7
Bonds, Treasury :	
1972 operations.....	20-28
Summary, 1972 issues.....	173-78
Bonds, U.S. Savings :	
Forgery.....	161-3
Issuance and redemption.....	122-3, 276
Promotional activities.....	152-5
Regulations, revised and amended.....	189-207
Budget :	
Accounting and reporting.....	113-14
Accrual basis concepts.....	8-9, 113
Cash and monetary assets.....	6-7
Means of financing.....	XXII, 20-28
Policy.....	76-7
Receipts and outlays.....	XXI, 3
Surplus or deficit.....	XXI, 3

C

Cargo security program.....	33-4, 94, 298-301
Cash management.....	115-16, 124
Central Services, Office of.....	78-9
Charts :	
Budget 1962-72.....	4
Market yields at constant maturities, 1967-72.....	14
Organization of the Department of the Treasury, July 1, 1972.....	XV
Ownership of Federal securities, June 30, 1972.....	20
Private holdings of marketable Federal securities, fiscal years 1968-72.....	16

	Page
Checks, Treasury :	
Claims	124, 129
Forgery	163-4
Issued	114
Paid	129
Unit cost	114
Circulars, Department Nos. :	
300, Dec. 23, 1964, Third Revision, Amend. 5	188-9
653, Dec. 12, 1969, Eighth Revision, Supplement	189-90
530, Dec. 23, 1964, Ninth Revision, Amend. 4	191
1036, Dec. 7, 1971, First Revision	191-4
653, Jan. 19, 1972, Eighth Revision, Supp. 2	194-202
905, Dec. 12, 1969, Fifth Revision, Supp. 1	203-7
300, Dec. 23, 1964, Third Revision, Sixth Amend.	208-14
3-72, May 22, 1972	214-16
3-67, June 19, 1968	216
Claims against foreign governments, payment of	117
Coinage, metal	126
Coins, production	149
Committee of Twenty	XXVII, 52
Comptroller of the Currency, Office of the :	
Administrative report	80-84
Advisory committees	489-96
Conscience fund	119
Consolidated Federal Law Enforcement Training Center, administrative report	85-6
Corporation income taxes. <i>See</i> Taxation: Income and profits taxes.	
Corporations and other business-type activities of the Federal Government, review for 1972	7-8
Cost of Living Council	12, 143, 221
Council on International Economic Policy	XXIX, 68
Counterfeiting	31, 102, 159-61, 287-8
Countervailing duty	34-5, 87
Currency production	104-5
Customs (<i>see also</i> Law enforcement and operations) :	
Bureau of, administrative report	87-99
CADPIN	31, 92, 96
Receipts	6, 88

D

D.C. Development Bank	243-45
Debt management. <i>See</i> Federal debt: Management.	
Defense lending	117-18
Deficit, budget	XXI, 3
Depository services	116, 126
Deposits, withdrawals and balances in Treasurer's account	127
Director of Practice, Office of, administrative report	99-101
Disbursing operations	114-15
Dollar, modification of par value	XXVI, 50-51, 55, 380-411
Domestic Gold and Silver Operations, Office of, administrative report	101-2
Domestic International Sales Corporation	XIX, XXIX, 42, 68, 227-8, 250, 325-6
Drugs. <i>See</i> Law enforcement and operations.	
Drug seizures	29-30, 93

E

Economic policy	11-12, 217-50
Economic stabilization program	XVII-XIX,
	XXV, 132, 136, 143-4, 217-40, 242-3, 425-34
Emergency Loan Guarantee Board	10, 241
Emergency preparedness	76.

Enforcement activities (<i>see also</i> Law enforcement and operations) :	Page
Customs, Bureau of	92-4
Foreign Assets Control, Office of	130-2
Internal Revenue Service	138-43
Enforcement, Tariff and Trade Affairs, and Operations, 1972 review	28-36
Engraving and Printing, Bureau of, administrative report	102-8
Environmental taxation	39
Equal Opportunity Program :	
Office of, administrative report	108-11
Other reports	78, 81, 97, 99, 107-8
Estate and gift taxes. <i>See</i> Taxation.	
Exchange and stabilization agreements	57
Exchange rate realignment	XXVI, 44-5, 49-51, 54-7, 238-9, 387-8
Excise taxes. <i>See</i> Taxation.	
Executive Protective Service	159
Expenditures. <i>See</i> Outlays.	
Export Expansion Act of 1971	456-8

F

Federal debt (<i>see also</i> Public debt) :	
Advisory committees	481-6
Changes in Federal securities	15-20
Disposition of marketable Treasury securities	27
Financing operations	XXII-XXIII, 3, 12-28
Government-sponsored agency debt	15
Management, 1972 review	12-28
Offering of marketable Treasury securities	26
Ownership of public debt securities	17-20
Policy	245-50, 251-81
Federal Financing Bank	XXIII, 250, 273-4, 279-81
Federal tax deposit system	118, 128
Financial operations, 1972 review	3-11
Financial recordkeeping—Public Law 91-508	34, 286-7, 305-14
Food coupon production	105
Food-for-peace program	70-71
Foreign Assets Control :	
Office of, administrative report	130-32
Regulations	287
Foreign exchange developments and operations	54-7
Foreign indebtedness	116
Freedom of Information Act	250

G

General Agreement on Tariffs and Trade (GATT)	58, 67, 371-80
Gold :	
Export and imports	102
Official monetary price of	XXVI
Stock	126
Use of for industrial purposes	101
Gonzalez amendment	69-70
Government corporations. <i>See</i> Corporations and other business-type activities of the Federal Government.	
Government losses in shipment	119
Government-wide financial management	8-11
Gross national product	XVIII-XIX
Group of Ten	49-50
Gun Control Act of 1968	291-2

I

Income taxes. <i>See</i> Taxation.	
Indebtedness of foreign governments to the United States	116-17
Individual Retirement Benefits Act of 1971	359-65
Inter-American Development Bank	62, 64-6, 69, 421-2, 453-6

	Page
Internal revenue, collections and refunds.....	146-7
Internal Revenue Service (<i>see also</i> Director of Practice) :	
Administrative report.....	132-47
Advisory committees.....	487-9
Taxpayer assistance.....	135-7
International Bank for Reconstruction and Development. <i>See</i> World Bank.	
International Development Association. <i>See</i> World Bank.	
International Finance Corporation. <i>See</i> World Bank.	
International financial and monetary affairs.....	XXV-XXIX, 44-72, 218-19, 228-9, 231-6, 365-474
International Monetary Fund.....	XXVIII, 6, 57-8, 389, 470-3
International tax matters.....	42-3, 145-8
INTERPOL.....	32-3, 290-91
Investigative activities :	
Customs, Bureau of.....	92-4
Internal Revenue Service.....	141-2, 285-6
U.S. Secret Service.....	159-60
Investments of Government accounts in public debt securities.....	116

J

Joint Financial Management Improvement Program.....	9-10, 112
---	-----------

L

Law enforcement and operations.....	XXIII-XXIV 28-36, 78, 92, 138-43, 159-65, 281-314
Legislative Reorganization Act of 1970.....	9
Letters of credit.....	129
"Lockheed Story".....	240-42, 250

M

Management improvement program.....	75, 94-6, 111, 119-21, 124-5, 155-6, 157
Mint, Bureau of, administrative report.....	147-52

N

Notes, U.S. Government (<i>see also</i> Currency) :	
1972 operations.....	20-28
Summary, 1972 issues.....	167-72
Numismatic services.....	150-2, 474-5

O

Officers, administrative and staff of the Department of the Treasury.....	IX-XIV
Orders, Department of the Treasury.....	476-81
Organization chart of the Department of the Treasury, July 1, 1972.....	XV
Organization for Economic Cooperation and Development.....	XXIX, 43, 58-9, 440-4
Organized crime. <i>See</i> Law enforcement and operations.	
Outlays :	
1962-72 budget (chart).....	4
1971-72 by major agencies.....	6
Overseas Private Investment Corp.....	70-72

P

Par Value Modification Act of 1972.....	77, 380-411
Pension reform.....	39-40
Postage stamp production.....	105
Postal Savings System, liquidation.....	118

	Page
Property tax study.....	40
Protective responsibilities.....	31-2, 157-9
Public services.....	82, 94, 99, 106, 135-7, 150-52, 334-6
Public debt (<i>see also</i> Federal debt) :	
Bureau of the, administrative report.....	119-23
Donations toward reduction of.....	119
Financing operations, summary.....	20-28
Legislation.....	217
Regulations, amended and revised.....	188-216
Statutory limit.....	217, 251-69

R

Receipts :	
1962-72 budget (chart).....	4
Budget.....	XXI, 3-6
Reconstruction Finance Corporation (RFC) (in liquidation).....	118
Revenue Act of 1971.....	36-9, 42-3, 137-8, 326-34, 337-41
Revenue sharing.....	XXI, 250

S

Safety program.....	79, 108
Smithsonian agreement.....	XXVI, XXVIII, 50-52, 369-70, 434-6
Special Drawing Rights. <i>See</i> International Monetary Fund.	
Strike forces.....	30
Surcharge, 10 percent on imports.....	XXV, 48-9, 219, 222-23, 228

T

Tariff and trade, enforcement operations.....	XXIV, 34-36
Taxation (<i>see also</i> Internal Revenue Service; Revenue Act of 1971) :	
Developments, 1972.....	XIX, 36-44, 14-65
Employment taxes, receipts.....	5
Estate and gift taxes, receipts.....	6
Excise taxes :	
Receipts.....	5
Recommendations and legislation.....	36, 38-9, 217-18, 325, 348-59
Federal tax deposits.....	118, 128
Income and profits taxes :	
Corporation, receipts.....	5
Individual, receipts.....	4
International tax matters.....	42-3
President's recommendations.....	36, 217-18, 225-28, 320-26
Tax treaties.....	43
Trade policy, international.....	XXV, XXIX, 35-6, 45, 66-8, 371-80, 462-7
Treasurer of the United States :	
Account of the.....	6-7, 125
Office of the, administrative report.....	123-30
Securities, held in custody.....	129-30
Treasury, Department of the :	
Circulars, Department. <i>See</i> Circulars, Department.	
Liaison Committee of the Business Council.....	486
Officers, administrative and staff, June 30, 1972.....	X-XIII
Organization and procedure orders.....	476-81
Organization chart, July 1, 1972.....	XV
Secretaries, Deputy Secretaries, Under Secretaries, General Counsels, Assistant Secretaries, and Deputy Under Secretaries for Monetary Affairs; January 21, 1969-June 30, 1972.....	XI
Troika.....	11

U

U.S. savings bonds. <i>See Bonds</i> , U.S. savings.	Page
U.S. Savings Bonds Division, administrative report.....	152-7
U.S. Secret Service, administrative report.....	157-64

W

Wage-price freeze.....	XVII, 132, 143, 218, 220-22, 225, 365-9
World Bank.....	62-4, 69-70, 416-19

