

ANNUAL REPORT

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



FOR THE FISCAL YEAR ENDED JUNE 30, 1973

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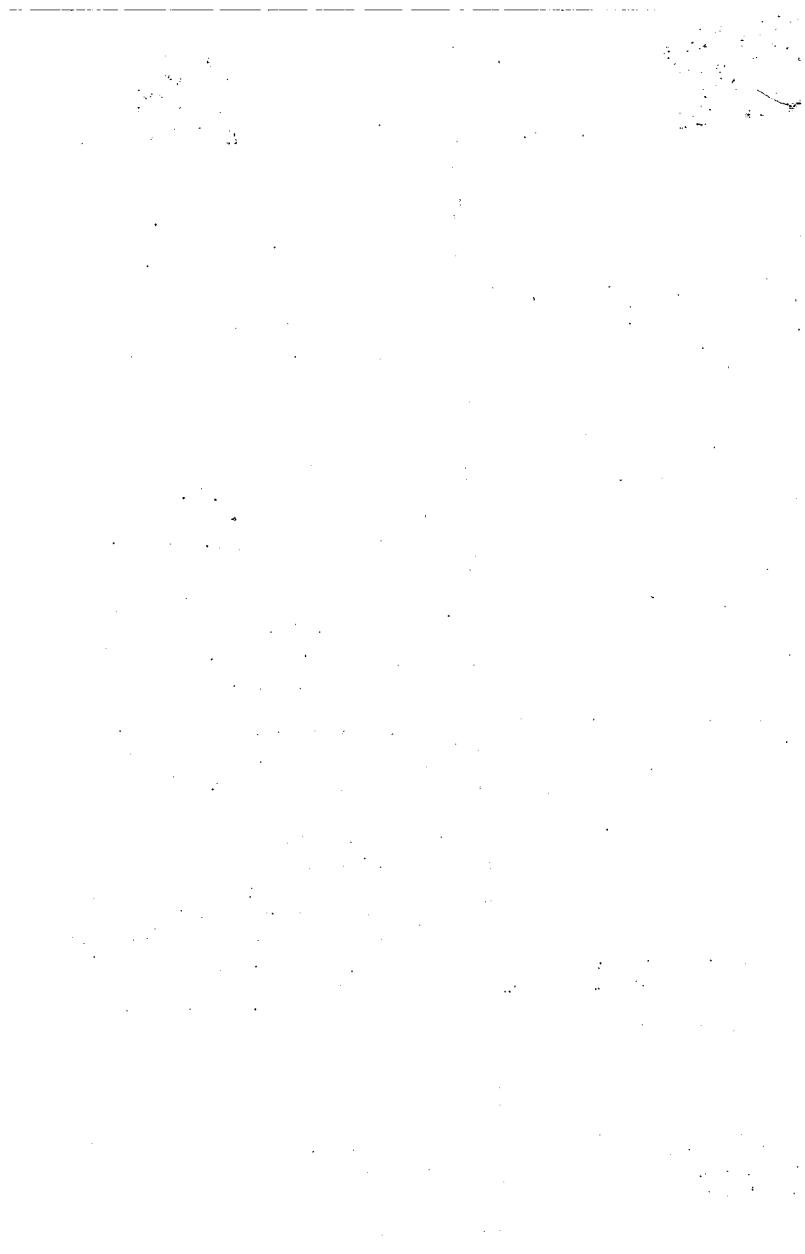
DEPARTMENT OF THE TREASURY

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Secretary

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DEPARTMENT OF THE TREASURY,
Washington, October 26, 1973.

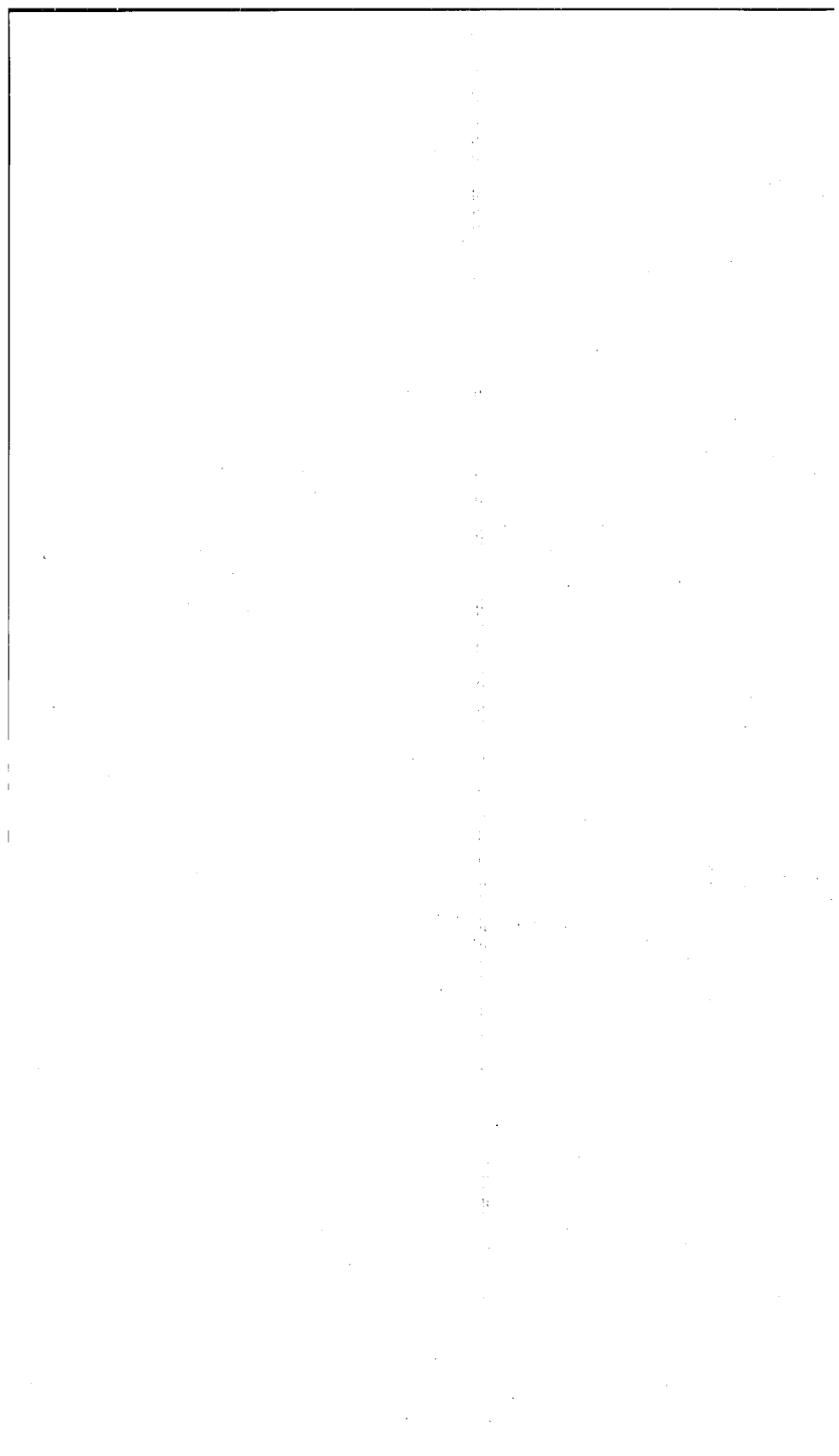
SIRS:

I have the honor to transmit herewith the annual report on the state of the finances of the United States Government for the fiscal year ended June 30, 1973. This submission is in accordance with 31 U.S.C. 1027.

GEORGE P. SHULTZ,
Secretary of the Treasury.

TO THE PRESIDENT OF THE SENATE, PRO TEMPORE.

TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.



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

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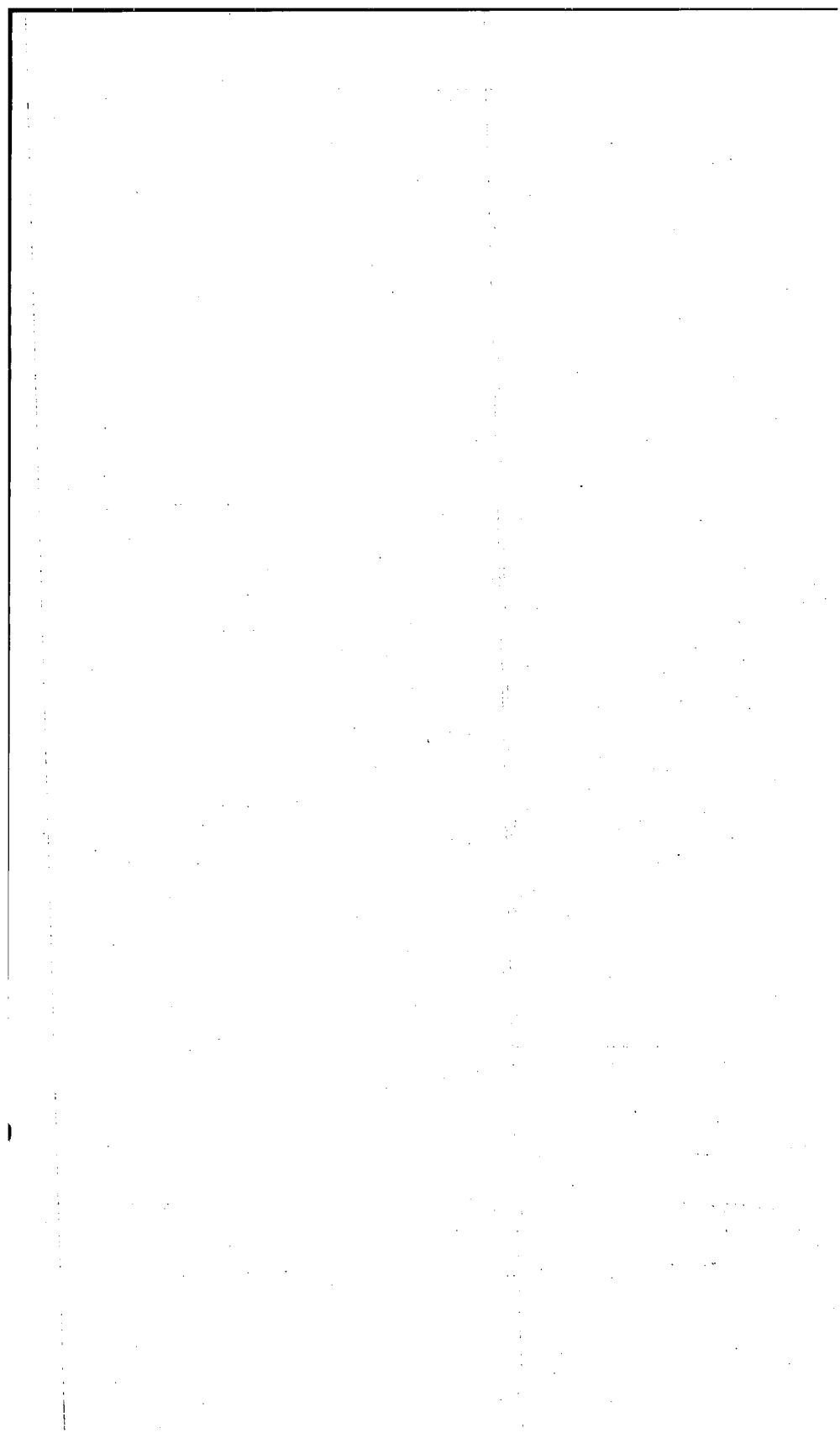
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NOTE.—Details of figures may not add to totals because of rounding.



Secretary, Deputy Secretary, Under Secretaries, General Counsels, Assistant Secretaries and Deputy Under Secretary for Monetary Affairs, serving in the Department of the Treasury from January 21, 1973, through June 30, 1973 ¹

Term of service		Officials
From	To	
June 12, 1972	-----	Secretary of the Treasury: George P. Shultz, New York.
Jan. 22, 1973	-----	Deputy Secretary: William E. Simon, New Jersey.
Jan. 27, 1969	-----	Under Secretary for Monetary Affairs: Paul A. Volcker, New Jersey.
June 12, 1972	Mar. 17, 1973	Under Secretary (Counselor): Edwin S. Cohen, Virginia.
July 1, 1970	June 1, 1973	General Counsels: Samuel R. Pierce, Jr., New York.
June 2, 1973	-----	Edward C. Schmults, New York.
Apr. 1, 1969	Jan. 21, 1973	Assistant Secretaries: Eugene T. Rossides, New York.
Dec. 12, 1971	-----	Edgar R. Fiedler, Maryland.
June 12, 1972	-----	John M. Hennessy, Massachusetts.
Aug. 18, 1972	-----	Frederic W. Hickman, Illinois.
Jan. 22, 1973	-----	Edward L. Morgan, Arizona.
Sept. 23, 1971	-----	Deputy Under Secretary for Monetary Affairs: Jack F. Bennett, Connecticut.
June 15, 1962	-----	Fiscal Assistant Secretary: John K. Carlock, Arizona.
Apr. 11, 1972	-----	Assistant Secretary for Administration: Warren F. Brecht, Michigan.

¹ For officials from September 11, 1989, to January 20, 1973, see exhibit 81.

**PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS OF THE
DEPARTMENT OF THE TREASURY AS OF JUNE 30, 1973**

Secretary of the Treasury-----	George P. Shultz
Deputy Secretary of the Treasury-----	William E. Simon
Under Secretary for Monetary Affairs-----	Paul A. Volcker
Under Secretary-----	(Vacancy)
General Counsel-----	Edward C. Schmults
Office, Secretary of the Treasury :	
Executive Assistant to the Secretary-----	Ronald B. Brooks
Director, Executive Secretariat-----	Gina Price (acting)
Confidential Assistant to the Secretary-----	Barbara M. Otis
Office, Deputy Secretary of the Treasury :	
Executive Assistant to the Deputy Secretary-----	Gerald L. Parsky
Special Assistant to the Deputy Secretary-----	Wm. Howard Beasley
	III
Special Assistant to the Deputy Secretary-----	R. David Ranson
Deputy Under Secretary-----	James E. Smith
Energy Advisor to the Deputy Secretary-----	William A. Johnson
Director, Office of Revenue Sharing-----	Graham W. Watt
Office, General Counsel :	
Deputy General Counsel-----	Donald L. E. Ritger
	(acting)
Assistant General Counsel and Chief Counsel, IRS -----	Lawrence B. Gibbs
	(acting)
Assistant General Counsel-----	Charlotte Tuttle
	Lloyd
Assistant General Counsel-----	Michael Bradfield
Assistant General Counsel-----	Hugo A. Ranta
Assistant General Counsel-----	Donald L. E. Ritger
Special Assistant to the General Counsel-----	Elting Arnold
Director of Practice-----	Leslie S. Shapiro
Director, Office of Equal Opportunity Program-----	David A. Sawyer
Assistant Secretary (Tax Policy)-----	Frederic W. Hickman
Deputy Assistant Secretary (Tax Legislation)-----	John H. Hall
Deputy Assistant Secretary (Tax Analysis) and Director, Office of Tax Analysis-----	Martin J. Bailey
Associate Director, Office of Tax Analysis-----	Emil M. Sunley, Jr.
	(acting)
Deputy to the Assistant Secretary (International Tax Policy)-----	Nathan N. Gordon
Tax Legislative Counsel-----	Ernest S. Christian,
	Jr.
Deputy Tax Legislative Counsel-----	(Vacancy)
Associate Tax Legislative Counsel-----	Dale S. Collinson
	(acting)
International Tax Counsel-----	Robert J. Patrick, Jr.
Deputy International Tax Counsel-----	(Vacancy)

Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations)-----	Edward L. Morgan
Deputy Assistant Secretary-----	James B. Clawson
Director, Office of Operations-----	William F. Hausman
Deputy Assistant Secretary (Enforcement) and Director, Office of Law Enforcement-----	Brent F. Moody
Chief Interpol (National Central Bureau)-----	Kenneth S. Giannoules
Deputy to the Assistant Secretary (Tariff and Trade Affairs) and Director, Office of Tariff and Trade Affairs-----	Matthew J. Marks
Special Assistant to the Assistant Secretary (Customs Cooperation Council)-----	Robert V. McIntyre
Special Assistant to the Secretary (Secret Service)-----	Kenneth E. Balge
Director, Office of Foreign Assets Control-----	Stanley L. Sommerfield (acting)
Assistant Secretary for Administration-----	Warren F. Brecht
Deputy Assistant Secretary and Director, Office of Management and Organization-----	J. Elton Greenlee
Deputy to the Assistant Secretary-----	John C. Gartland
Director, Office of Administrative Programs-----	Robert B. Fredlund
Director, Office of Audit-----	Wilbur R. DeZerne
Director, Office of Budget and Finance-----	Edward J. Widmayer (Vacancy)
Director, Office of Personnel-----	Bruce R. Riggs (acting)
Director, Office of Automatic Data Processing Management and Operations-----	John L. Hart
Special Assistant to the Secretary (National Security)-----	Gerald W. Nensel
Deputy Special Assistant to the Secretary-----	Joseph A. Loftus
Special Consultant to the Secretary for Public Affairs-----	(Vacancy)
Special Assistant to the Secretary (Public Affairs)-----	Alan B. Wade
Deputy Special Assistant to the Secretary-----	William L. Gifford
Assistant to the Secretary for Legislative Affairs-----	James H. Hogue
Deputy Assistant to the Secretary-----	Henry C. Wallich
Senior Consultant-----	Jack F. Bennett
Office, Under Secretary for Monetary Affairs:	
Deputy Under Secretary for Monetary Affairs-----	Edward M. Roob
Special Assistant to the Secretary (Debt Management)-----	Edward P. Snyder
Director, Office of Debt Analysis-----	Oscar M. Mackour
Assistant to the Under Secretary-----	John K. Carlock
Fiscal Assistant Secretary-----	David Mosso
Deputy Fiscal Assistant Secretary-----	Sidney Cox
Assistant Fiscal Assistant Secretary-----	Lester W. Plumly
Director, Operations Planning and Research-----	John M. Hennessy
Assistant Secretary (International Affairs)-----	Sam Y. Cross
Deputy Assistant Secretary for International Monetary and Investment Affairs-----	Richard E. Larsen
Deputy Assistant Secretary for Developing Nations Finance-----	Howard L. Worthington
Deputy Assistant Secretary for Trade-----	Thomas D. Willett
Deputy Assistant Secretary for Research and Balance of Payments Analysis-----	George H. Willis
Deputy to the Assistant Secretary for International Monetary Affairs-----	Ralph Hirschtitt
Inspector General for International Finance-----	Frederick L. Springborn
Director, NAC Secretariat-----	

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PRINCIPAL ADMINISTRATIVE AND STAFF OFFICERS

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
Director, Division of Government Financial Operations-----	Gerald Murphy
Director, Division of Cash Management-----	Sebastian Fama

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

Director-----	Rex D. Davis
Deputy Director-----	John L. West
Assistant Director (Administration)-----	William J. Rhodes
Assistant Director (Criminal Enforcement)-----	William N. Griffin (acting)
Assistant Director (Inspections)-----	William R. Thompson
Assistant Director (Regulatory Enforcement)-----	Lawrence Carlson
Assistant Director (Technical and Scientific Services)-----	A. Atley Peterson
Chief Counsel-----	Matthew J. Werneth

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)-----	Francis B. Frere (acting)
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.

CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

Director-----	William B. Butler
Deputy Director-----	Robert G. Efteland

INTERNAL REVENUE SERVICE

Commissioner-----	Donald C. Alexander
Deputy Commissioner-----	Raymond F. Harless
Assistant Commissioner (Administration)-----	Joseph T. Davis (acting)
Assistant Commissioner (Inspection)-----	Francis I. Geibel
Assistant Commissioner (Compliance)-----	John F. Hanlon
Assistant Commissioner (Accounts, Collection, and Taxpayer 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, Jr.
Chief Counsel-----	Lawrence B. Gibbs (acting)

OFFICE OF THE COMPTROLLER OF THE CURRENCY

Comptroller of the Currency-----	Justin T. Watson (acting)
First Deputy Comptroller-----	Justin T. Watson
Deputy Comptroller-----	W. A. Howland, Jr.
Deputy Comptroller-----	Thomas G. DeShazo
Deputy Comptroller-----	John D. Gwin
Deputy Comptroller (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
Deputy Comptroller (International Division)-----	Robert A. Mullin
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 (act- ing)

UNITED STATES CUSTOMS SERVICE

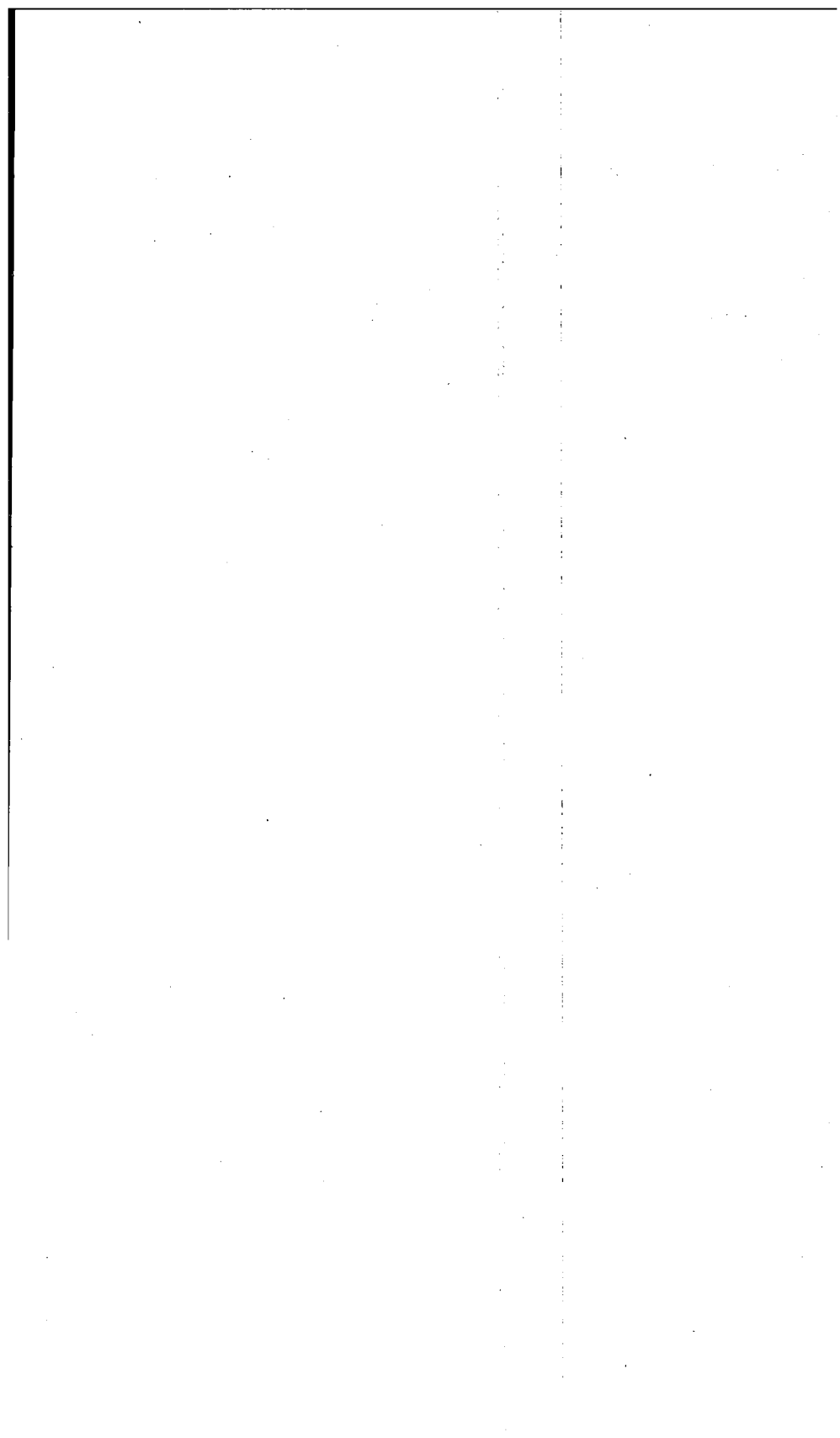
Commissioner of Customs-----	Vernon D. Acree
Deputy Commissioner of Customs-----	Edwin F. Rains
Assistant Commissioner, Office of Administration-----	John A. Hurley
Assistant Commissioner, Office of Investigations-----	Harold F. Smith
Assistant Commissioner, Office of Operations-----	Glenn R. Dickerson
Assistant Commissioner, Office of Regulation and Rulings-----	Leonard Lehman
Assistant Commissioner, Office of Security and Audit-----	William A. Magee, Jr.
Chief Counsel-----	Saul Slomiak

UNITED STATES SAVINGS BONDS DIVISION

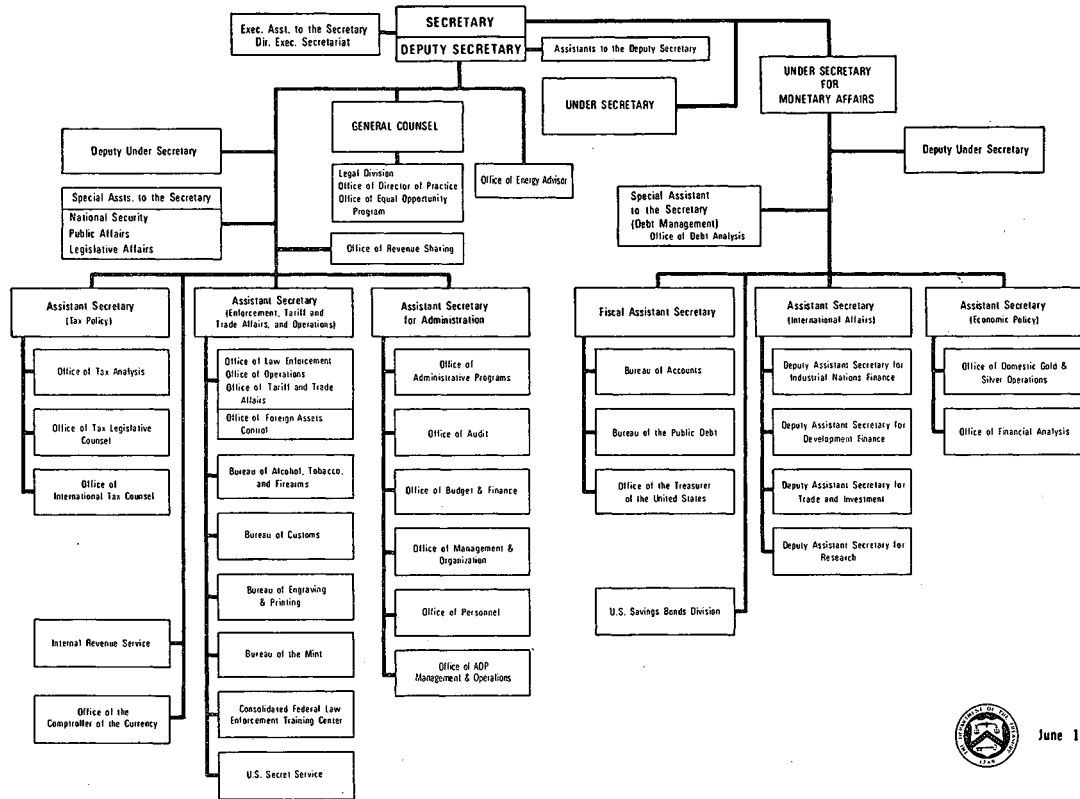
National Director-----	Jesse L. Adams, Jr. (acting)
Deputy National Director-----	Jesse L. Adams, Jr.
Director of Sales-----	Walter P. Johnson
Director of Advertising and Promotion-----	Edmund J. Linehan

UNITED STATES SECRET SERVICE

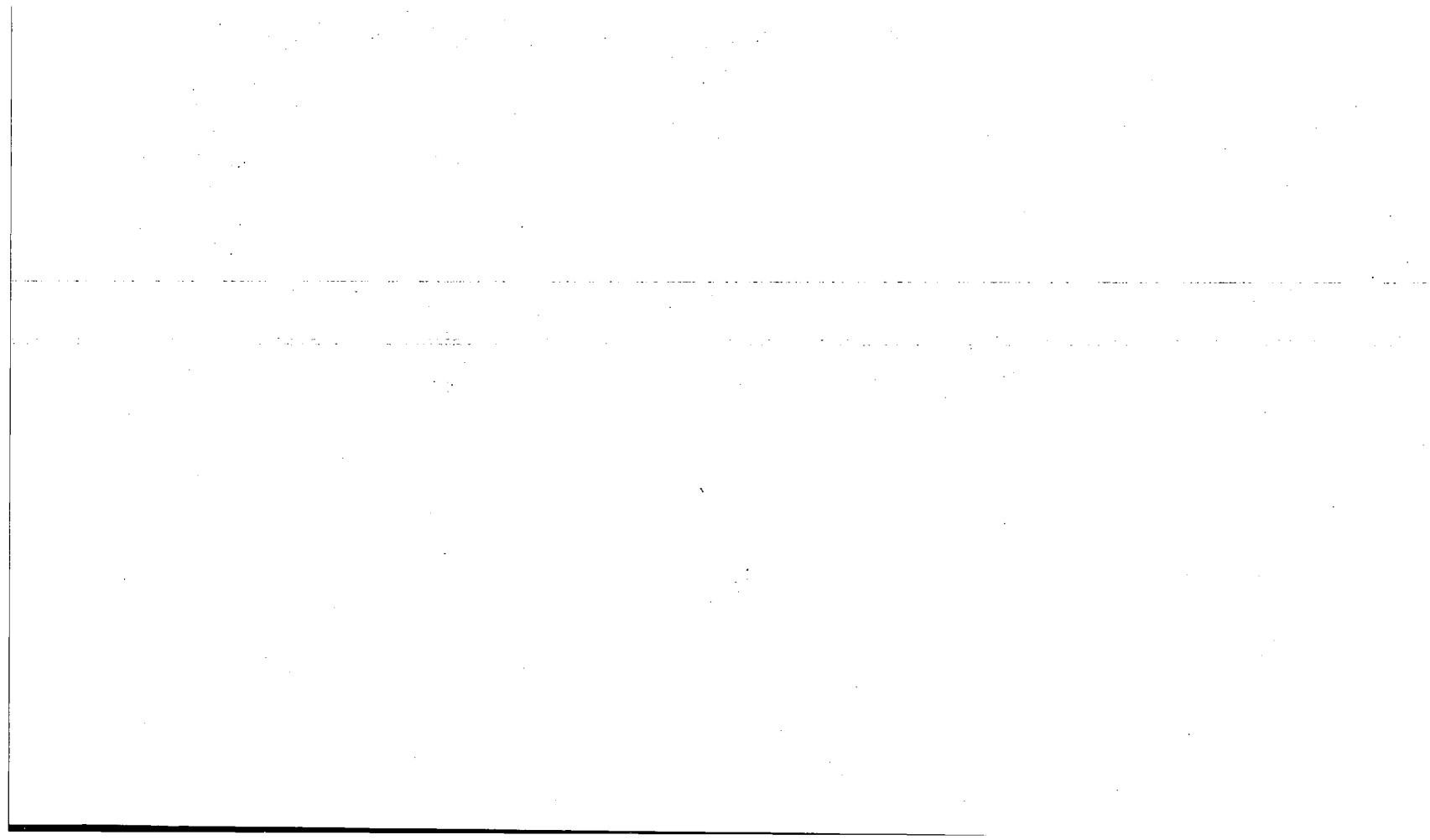
Director-----	James J. Rowley
Deputy Director-----	Lilburn E. Boggs
Assistant Director (Administration)-----	H. Stuart Knight
Assistant Director (Inspection)-----	Jackson N. Krill
Assistant Director (Investigations)-----	Burrill A. Peterson
Assistant Director (Protective Forces)-----	Clinton J. Hill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



ORGANIZATION OF THE DEPARTMENT OF THE TREASURY



June 10, 1973



INTRODUCTION

This brief introduction reviews the major economic developments, both domestic and international, which affected Treasury areas of interest and responsibility during the course of fiscal 1973. More detailed information on the operating and administrative activities of the Department of the Treasury is provided in the main text of the report and its supporting exhibits. Further information is contained in a separate Statistical Appendix.

Domestic Economic Expansion

Fiscal 1973 was a year of strong domestic economic expansion. Impressive gains were scored in production, employment, and real income. By the end of the year, more Americans were employed at higher levels of income than at any time in the past. The Federal budget moved closer to balance, and ample supplies of private credit were available throughout the year at relatively stable long-term rates of interest.

Unfortunately, the rate of inflation, which had subsided by the close of calendar 1972, rose explosively after January 1973, primarily because of rising food prices. As the price upsurge continued in the spring of 1973, it became increasingly apparent that further policy actions were required to contain inflation. On June 13, President Nixon announced the reimposition of a temporary price freeze of up to 60 days' duration while a new Phase IV set of controls was being developed.

In terms of the broadest statistical measure of economic activity—gross national product at current prices—fiscal 1973 was a year of very strong expansion. GNP rose by more than 11 percent compared with about 9 percent in fiscal 1972. Real growth was substantial, averaging more than 6 percent for the year, about the same as the 1972 pace. On the other hand, price performance was irregular—relatively good in the first half of the fiscal year, but bad thereafter.

For example, the comprehensive GNP deflator rose at about a 3-percent annual rate in the first half of the fiscal year and at more than a 6½-percent annual rate in the second half. For the year as a whole, the GNP price deflator was up 4.8 percent in contrast to 2.8 percent in fiscal 1972. Because special factors were largely responsible for the resurgence of inflation, the continuation of appropriate fiscal and monetary policies coupled with the new Phase IV program was expected to lead, in time, to much better price performance.

During the fiscal year, total employment rose by 2.9 million, the civilian labor force increased by 2.3 million, and unemployment fell by nearly 600,000. As a consequence, the unemployment rate averaged a shade below 5 percent in the closing months of the fiscal year in contrast to the 5.7-percent rate averaged in the final quarter of fiscal 1972. During the period of approximately 2 years from the initiation of the President's new economic program in August 1971 to the end of fiscal 1973, more than five million new civilian jobs were created—the largest such increase in our history.

The strong rise in production and employment during the fiscal year was associated with sizable gains in real income, despite the inroads made by inflation. Income per person, after taxes and adjustment for inflation, rose on the average by 5 percent between the second quarters of 1972 and 1973. While the rise was accentuated by a change in the pattern of income tax refunds, it basically reflected the underlying strength of the economic expansion.

It was clear, however, that growth in real output could not be expected to continue indefinitely at the high rates that were characteristic of much of fiscal 1973. During the fourth quarter of calendar 1972 and the first quarter of calendar 1973, GNP at constant prices was expanding at an 8-percent annual rate, and the remaining margins of unutilized capacity were narrowing rapidly. Inevitably the real growth rate would have to come down to something closer to the longrun potential of 4 percent or so.

The question was whether the continued application of fiscal and monetary restraint would achieve a "soft landing" or whether a more abrupt adjustment was in prospect. By the close of the fiscal year, with real growth continuing at a reduced but substantial rate, and with most forward indicators of economic activity showing considerable strength, the odds appeared strongly in favor of a gradual rather than an abrupt adjustment.

Inflation and the June 13 Measures

By January 1973, the annual rate of increase in consumer prices had been reduced to the neighborhood of 3 percent. For the entire period of Phases I and II (from August 1971 to January 1973), the rate of inflation had averaged 3.3 percent, down from 6 percent in 1969 and 5½ percent in 1970. Against this background of fairly steady progress in reducing the rate of inflation, some modest relaxation of the wage-price control program was a natural step to take.

After an extensive consultation process and a review of experience under Phases I and II, Phase III of the stabilization program was announced on January 11, 1973. The objective was to achieve a

continuing contribution to the anti-inflation effort with less danger of injury to the economy. A major feature of Phase III was its greater reliance on self-administration within the standards set by the Government. Special programs were maintained for food, health service, construction, and interest and dividends.

It had been recognized at an early stage of the planning for Phase III that the behavior of food prices would be an important factor determining the success or failure of the program. During 1972, due to bad harvests around the world, food prices had risen much more rapidly than other prices, and by the end of the year adverse weather had begun to affect crop prospects in 1973. Therefore, a number of important steps were taken in 1972 and 1973 to increase domestic agricultural supplies and hold down food prices. The steps taken included removal of meat import quotas, release of up to 50 million acres of farmland for grain production, and sale of Government-owned grain stocks. While these and related steps would eventually lead to an increase in agricultural supplies, it was understood that they could only be expected to yield their results after some lag in time.

Meanwhile, adverse weather conditions combined with rising domestic and foreign demand to drive food prices sharply higher at both wholesale and retail levels. Between January and June 1973, wholesale prices of farm products, processed foods, and feeds rose at nearly a 50-percent annual rate. The wholesale prices of consumer foods rose at about a 25-percent annual rate and retail food prices at a 22-percent annual rate. In response, the Consumer Price Index for all items rose at an 8-percent annual rate between January and June 1973 in contrast to the 3-percent rates characteristic of immediately preceding months.

The resurgence of inflation was not confined exclusively to food and raw material prices, although that was the main problem area. In addition, retail prices of consumer goods, excluding foods, rose at about a 12-percent annual rate during Phase III. Increases on such a scale were to be expected for a month or two in the normal process of moving to the self-administered standards of Phase III, but the continuation of rapid increases beyond that point was particularly disturbing since it suggested that some prices were being raised in anticipation of a return to a tighter control program. This was, to some degree, a self-fulfilling prophecy.

Wage pressures were far from intense at the time. Indeed, the annual rate of increase in current-dollar earnings of nonfarm production workers averaged close to 6 percent during Phase III in contrast to roughly 7 percent during Phase II. But the indefinite continuation of high rates of increase in consumer prices would inevitably begin to undercut the prospects for continued wage restraint.

On June 13, 1973, President Nixon announced an immediate freeze on prices to last for a maximum of 60 days. He pointed out that the greatest part of the unacceptably high rate of inflation was due to rising food prices. This, in turn, was "caused in large measure by increased demand at home and abroad, by crop failures abroad, and by some of the worst weather for crops and livestock here in America that we have ever experienced."

It was clearly the case that Phase III had been bedeviled by difficulties which lay beyond the scope of the program, or for that matter, beyond the scope of the Phase II program from which it had evolved. The fact remained that Phase III had been a disappointment. In the situation that developed by June 1973, a price freeze had the very great advantage of breaking the inflationary momentum and gaining the time during which an effective Phase IV program could be developed and installed. On the other hand, continuation of a freeze for more than a relatively brief period of time could create problems and distortions of its own. By the close of fiscal 1973, planning for Phase IV was well underway.

Budget and Fiscal Developments

There was a significant shift toward fiscal restraint during 1973 and progressive improvement in the Federal budgetary position. In the January 1973 budget message, President Nixon presented a detailed plan for expenditure reductions and program terminations which would hold fiscal 1973 Federal spending to \$250 billion and fiscal 1974 spending to \$269 billion. As a result, it was estimated that the full-employment budget on the unified basis would be in deficit by only \$2.3 billion in fiscal 1973 and in approximate balance in fiscal 1974. Actual budget deficits were projected to be \$24.8 billion in fiscal 1973 and \$12.7 billion in fiscal 1974.

Late in the fiscal year, anticipated tax receipts were running appreciably above the January estimates. Accordingly, the 1973 deficit was reestimated at \$17.8 billion and the 1974 deficit at \$2.7 billion, with the clear possibility that the 1974 budget might be in balance. The actual budget deficit in fiscal 1973 turned out to be \$14.3 billion and there was a small surplus on the full-employment basis.

There was still a need for close restraint over Federal expenditures despite the improving budgetary situation. Part of the rise in receipts simply reflected the excessive pace of inflation in the economy. The fiscal restraint being applied was essential if additional inflation were to be avoided. Monetary restraint had also been applied during the fiscal year and there were signs that the economic expansion, while still rapid, was beginning to slow down to a safer and more sustain-

able pace. From all indications, however, a combination of fiscal and monetary restraint would be necessary into fiscal 1974.

Domestic Finances

A large volume of funds—some \$190 billion—was raised in private money and capital markets during the fiscal year. Credit demands were concentrated in the short-term area and there was a marked rise in short-term interest rates—normal for a period of cyclical expansion. In the long-term area, there was a large increase in mortgage credit, reflecting the housing boom, but corporations and State and local governments borrowed at a reduced pace. Long-term interest rates remained relatively stable despite rising short-term rates.

Federal Reserve policy moved in a restraining direction during the course of the year. The money supply (currency and demand deposits) rose by about 7½ percent, and there was a sizable expansion of bank credit. However, by the end of the fiscal year, money market rates were well above the levels of a year earlier, the Federal Reserve had taken a number of restraining actions, and somewhat slower growth of the monetary aggregates seemed a likely prospect.

Federal financing requirements during the fiscal year were reduced by the improving budgetary situation. Total borrowing from the public totaled \$19.3 billion for the fiscal year, down slightly from \$19.4 billion in fiscal 1972. More than \$17 billion of this borrowing took place in the first half of fiscal 1973. After that point, the rise in tax receipts, both seasonal and because of economic expansion, reduced the Treasury's need to borrow despite large income tax refunds due to overwithholding in the previous year. The reduced Treasury demands on the market were largely offset by the increased credit needs of Government-sponsored enterprises and Government-guaranteed borrowers.

Borrowing from the public includes sales of public debt to foreign as well as domestic purchasers. In recent years, foreign monetary authorities have acquired dollars, on balance, in their foreign exchange operations and have, in turn, invested in U.S. Treasury securities. In both fiscal years 1971 and 1972, this borrowing from abroad was so sizable that domestic private holdings of public debt actually declined despite sizable budget deficits. During fiscal 1973, borrowing from abroad was again important but did not reach the 1971-72 scale, and net borrowing from the domestic public increased as would normally be expected with a budget deficit.

Treasury debt management operations, which include large refunding operations as well as any net borrowing requirements, proceeded routinely during the fiscal year. The bulk of the market financing was

done at short and medium term, but significant use was made of the authority granted by the Congress to issue up to \$10 billion of bonds with interest coupons in excess of $4\frac{1}{4}$ percent. In August 1972, a \$2.4 billion, 12-year bond issue was sold at par with a $6\frac{3}{8}$ -percent coupon. In January and May 1973, 20- and 25-year bonds were sold by use of the uniform-price technique whereby all accepted bids are awarded at the lowest accepted price. The total amount raised in these two auctions was \$1.3 billion, not a particularly large sum by Federal financing standards.

At the close of fiscal 1973, the total interest-bearing public debt amounted to \$456.4 billion, an increase of \$31.0 billion during the year. The computed annual interest rate at the close of the year was 5.872 percent, up from 5.093 percent at the end of fiscal 1972. The average length of the privately held marketable interest-bearing public debt shortened to 3 years 1 month from 3 years 3 months at the close of fiscal 1972.

Proposals for Tax Change

On April 30, 1973, Secretary Shultz presented to the House Committee on Ways and Means a further set of tax change recommendations building on the work accomplished by the legislation of 1969 and 1971. The Secretary's statement¹ to the committee expressed three basic goals toward which the recommendations were directed:

Tax equity. The need for a system which most of the public accepts as fair.

Simplification. Further streamlining of the inordinately complicated provisions of tax law that affect large numbers of individual taxpayers.

Economic growth. Preservation of certain features of the tax law which stimulate economic growth.

The proposals include:

Measures to remove the spectacle of high-income individuals who pay little or no tax by parlaying tax deductions and exclusions or by using tax preferences to "shelter" their regular income from tax.

A new, more comprehensible tax return "form 1040-S" designed for the average taxpayer who cannot use the "short" form 1040-A, possibly because he owns his own home and itemizes his deductions.

An investment credit for exploratory oil and gas drilling to help meet the national energy needs.

A refundable property tax credit to provide major tax relief for elderly homeowners.

¹ See exhibit 43.

A refundable income tax credit for nonpublic elementary and secondary school tuition to help preserve the vital nonpublic school system.

An interest subsidy on State and local authority bonds on which the issuer has elected to pay federally taxable interest, to enable State and local governments to compete for funds more effectively when market interest rates are high.

Amendments in law to tax U.S. shareholders on the earnings (prior to repatriation) from new investments in countries which offer "holidays" from local taxes or other inducements to attract investment.

Reform of Financial Institutions

Events during the latter part of the 1960's showed that U.S. financial markets are ill-equipped to deal with periods of credit restraint. As interest rates rose, thrift institutions faced a severe liquidity crisis and a profit squeeze which threatened both the solvency of the institutions and the availability of funds for housing.

Attempts to alleviate the crisis by regulation (mainly the imposition of ceilings on the amounts financial institutions could pay for funds) limited competition for funds among institutions but failed to keep funds flowing into the institutions at previous levels. Interest ceilings adversely affected the public directly and indirectly. In their role as savers, for whom the thrift institution was a major place at which to save, consumers were denied a market rate of return on their money. Moreover, financial institutions reduced in a disproportionate manner the availability of funds to consumers and small business firms.

Less direct, but equally costly to the public, deposit interest ceilings, which caused a reduction in deposits at thrift institutions, contributed to severe setbacks in efforts to meet our housing objectives, and helped make the Federal Reserve's attempt to combat inflation with monetary policy needlessly costly and complicated.

On August 2, 1973, the President presented to the Congress legislative proposals that had been developed during fiscal 1973 by a Treasury-led team of administration officials. The proposals were designed essentially to correct these defects in U.S. financial markets. As the Treasury report² pointed out, current efforts to fight inflation and preserve the value of the dollar at home and abroad require strong financial institutions. Without them, there is every reason to believe that the burdens of credit restraint will be even greater than before.

Under the administration's reform plans, financial institutions are to be strengthened by eliminating regulation Q after a 5-year period,

² *Recommendations for Change in the U.S. Financial System*, Department of the Treasury, August 3, 1973, from which these paragraphs are adapted.

permitting all federally chartered banks and thrift institutions to offer a full range of checking and savings accounts, and permitting federally chartered thrift institutions to offer consumer and real estate related loans in competition with banks. Housing finance will be further strengthened by the elimination of Federal Housing Administration and Veterans Administration interest ceilings and by a tax credit to all taxpayers investing in residential mortgages which will make possible greater participation by commercial banks in the mortgage market.

The dual banking system will be preserved and strengthened. Federal Reserve requirements on checking accounts will apply only to members of the Federal Reserve and Federal Home Loan Bank Systems. Federal charters will be available for stock thrift institutions and for savings banks. Credit unions are to be strengthened by broadened asset and liability powers and by access to a new source of liquidity administered by the National Credit Union Administration.

Revenue Sharing

The State and Local Fiscal Assistance Act (Public Law 92-512), establishing general revenue sharing, was signed into law by President Nixon on October 20, 1972. Within 2 months, a very small staff had assembled data, prepared the necessary computer programs, and allocated more than \$2 billion to approximately 38,000 States, counties, cities, towns, townships, Indian tribes, and Alaskan native villages. By the end of the fiscal year, \$6.6 billion had been distributed, data collection and verification processes developed, and a recipient liaison program begun. A competent staff of about 40 professional and clerical personnel is administering general revenue sharing.

Energy Policy

Executive Order No. 11703 of February 7, 1973, designated the Deputy Secretary of the Treasury as the Chairman of the Oil Policy Committee. To support the Deputy Secretary in this capacity, the Secretary created the Office of the Energy Advisor. The Office is headed by an Energy Advisor who reports directly to the Deputy Secretary.

Following the appointment of Deputy Secretary Simon as Chairman of the Oil Policy Committee, major changes in U.S. oil policy were initiated. One major policy change involved a complete revision of the mandatory oil import program, which had remained substantially unchanged for 13 years.³ This action followed an intensive study of the Nation's oil import policies relative to current domestic

³ See exhibit 25.

supplies of crude oil and petroleum refinery capacity, and the national security interest of the Nation. The study, conducted by an interagency task force under the direction of the Chairman of the Oil Policy Committee, found that the mandatory oil import program no longer provided the proper climate to support a vigorous domestic petroleum industry. It found that the program was neither adequate to alleviate the threat of near-term crude oil and product shortages, nor adequate to provide longer term incentives for increased investment in domestic exploration and production, and new refinery construction and expansion.

Beginning May 1, 1973, all volumetric controls on oil imports were terminated and a license fee system was instituted in place of existing duties on crude oil and refinery products. In order to provide an equitable transition from the current program to the new license fee system, certain crude oil and product imports were exempted from license fees for a limited period after May 1, 1973. These exemptions will be phased out over a 7-year period.

Another initiative taken involved the allocation of petroleum and petroleum products.⁴ The Economic Stabilization Act Amendments of 1973 provided the authority to set priorities for use and allocation of petroleum products. Pursuant to this authority, a voluntary allocation program was announced on May 10, 1973, calling for suppliers to make available to their customers the same percentage of products that they supplied in the corresponding quarter of the base period (October 1971 to September 1972). It also provided that suppliers of priority customers who could not obtain needed supplies under their program allocation could apply to the Interior Department's Office of Oil and Gas for help in securing additional crude oil.

Public hearings were held on the voluntary fuel allocation program June 11-14. These hearings were designed to provide industry and other public reaction to the voluntary program and to determine whether a mandatory fuel allocation program was needed. Drawing heavily on the public hearings of June 11-14, a proposed draft of a mandatory allocation program was published by the Energy Policy Office for public review. The Office of the Energy Advisor played a prominent role in all stages of the design, implementation, and review of the voluntary fuel allocation program.

The Office has, in addition, engaged in a wide variety of projects designed to assess the domestic energy situation and to offer appropriate policy recommendations. Studies pertaining to domestic energy supplies include analyses of oil shale, propane, naphtha-based syngas plants, emergency capacity (storage), next winter's fuel supplies and

⁴ See exhibit 26.

possible relaxation of air quality standards to enable use of high-sulfur fuel oil, the refinery siting problem (survey to determine those refineries not built because of local or environmental objections), and crude requirements of delead gasoline. Other studies examine the effects of Government controls on domestic energy supplies including a gasoline tax and an investigation of the Federal Trade Commission study of possible divestiture of the major oil companies. Another important area of inquiry concerns energy conservation.

Law Enforcement Operations

In fiscal 1973, Treasury strengthened its enforcement activities on many fronts.

Treasury's campaign against drug abuse was carried forward by the U.S. Customs Service, which established new records in seizures of illicit drugs and arrests of drug smugglers, and by the Internal Revenue Service, which targeted over 800 drug traffickers and financiers for tax investigations, indicted 102, and convicted 45, with many investigations still pending. In the IRS program, \$95 million in taxes and penalties were assessed and \$14 million in cash and property were seized.

Enforcement emphasis in another area was increased by the formation on July 1, 1972, of the Bureau of Alcohol, Tobacco and Firearms from a division with the same name in the Internal Revenue Service and by placing it under the supervision of the Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations. The Assistant Secretary coordinated the Bureau's enforcement of the Gun Control Act of 1968 so as to direct it against targets in the narcotics trafficker program.

The Secret Service removed from circulation or seized prior to circulation greater quantities of counterfeit currency than ever before. Demands on the Secret Service for Presidential, candidate, and foreign dignitary protection were the highest in the history of the Service, due to the Presidential nominating conventions and election campaign and the rise in terrorist attacks against U.S. and foreign dignitaries.

Cases and messages processed by the Washington National Central Bureau of Interpol rose dramatically, with growing use of the Bureau's facilities by law enforcement authorities at Federal, State, and local levels.

The "sky marshal" program, under which Customs Service had provided as many as 1,270 uniformed customs security officers (CSO's) at the Nation's major airports to screen embarking passengers and arrest persons threatening the safety of commercial air flights, was being phased out as the Federal Aviation Administration required

airlines and airports to perform these functions. Down to 487 by the end of the year, the CSO force, over its 2½-year existence, had seized 2,523 dangerous weapons, made 770 arrests of persons threatening air safety, and prevented the skyjacking of any aircraft screened by it.

In other operational areas, the Customs Service intensified its program to improve the security of international cargo at ports and terminals; the Bureau of the Mint moved toward construction of a new mint in Denver, Colo., by 1978; and Treasury studied potential sites for construction of a new facility for the Bureau of Engraving and Printing.

Tariff and Trade Affairs

During fiscal 1973, 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, Treasury made this law a more effective instrument in defending the United States against unfair competition. In fiscal 1973, the average time needed to complete antidumping investigations was reduced by more than one-half since 1968. During 1973, the average completion time was 270 days while the average time in 1968 was 560 days. Activity under the act continued at a high level with an increase of 17 percent in the number of final decisions published by Treasury.

New antidumping regulations became effective in January 1973 which clarify and further tighten the procedures of the Antidumping Act.

Considerable emphasis has also been focused on problems involving countervailing duty, classification, value and marking determinations, quota administration, and coastwise trade exemptions.

International Affairs

The fiscal year ending in June 1973 was characterized by extraordinary developments affecting the international monetary system and the exchange markets. The process of correcting the structural imbalances in world payments that had accumulated over 20 years, a process begun in August 1971, continued during the year.

The longer term project of revising the principles and practices of the international monetary system was also actively pursued in the Committee of the Board of Governors of the IMF on Reform of the International Monetary System and Related Issues (Committee of Twenty).

In the sphere of international trade policy, the enlargement of the European Communities and their special arrangements with non-

member countries led to negotiations to protect our own trading position. Preparations were going forward for the longer term multilateral trade negotiations in the GATT, while the administration's trade bill was taken up in the Congress.

Initial steps in the normalization of U.S. economic and trade relations with the Soviet Union resulted in a grains agreement and separate agreements on trade, maritime relations, and repayment of the Soviet lend-lease debt. The Soviet Union and Poland also became eligible for credits and financial guarantees extended by the Export-Import Bank.

Along with the multilateral work underway in the monetary and trade areas, discussions were initiated in the Organization for Economic Cooperation and Development (OECD) on a broad range of international issues associated with investment. These discussions will be continuing with the objective of seeking to formulate proposals for possible international understandings among OECD members on matters affecting investment.

Exchange markets.—The pattern of exchange rates established at the Smithsonian Institution in December 1971 came under speculative pressure in January 1973, after surviving a brief but heavy run on sterling in June 1972 which caused the British authorities to allow the pound sterling to float. A long period of capital outflow from Italy associated with the internal political and economic situation, took place late in the year 1972 and early 1973, despite a very strong current account surplus. This led the Italian authorities to establish a separate financial market for the lira in January 1973. The Swiss authorities, to avoid accumulating more reserves, soon suspended official purchases of foreign exchange. Following this action, massive amounts of mobile capital moved out of dollars, particularly into yen and deutsche marks. Urgent international negotiations, in which Under Secretary Volcker took a leading role, resulted in a second multilateral realignment of currencies on February 13. At that time the United States announced its intention to devalue the dollar by 10 percent.

However, powerful upward pressure on the deutsche mark reappeared late in February, and official intervention was suspended from March 2 through March 19 in most leading exchange markets. When the European authorities returned to the market, they did not resume pegging their currencies to the dollar, but introduced a joint float of seven continental countries, with margins among this group of countries being maintained by official intervention. The Italian, Japanese, Canadian, and United Kingdom currencies also floated against the dollar with varying degrees of official intervention. As the fiscal year

neared its close, the deutsche mark was revalued again, making a cumulative revaluation against the dollar of nearly 75 percent, including the first revaluation in 1961. At the end of the fiscal year, the average value of the dollar in terms of other major currencies, weighted by our trading pattern, stood at about 83 percent of the April 1971 level, as compared with 91 percent on June 30, 1972.

U.S. balance of payments.—The underlying competitive position of the United States, as measured by the balance on current account (excluding Government grants and loans), in calendar year 1972 showed a deficit at over \$6 billion, dominated by a trade deficit of \$7 billion. However, the current account deficit peaked in the quarter ending June 30, 1972, and fell toward the \$5 billion annual level in the first two quarters of this fiscal year. In January–June 1973, there was an unexpectedly large further drop in the deficit to an approximate balance. Unusual trade developments, especially an extremely steep rise in the volume and value of net agricultural exports (mainly grain and soybeans) brought this sharp improvement. However, there were also indications that the long upward trend in U.S. net imports of manufactured consumer goods was leveling off. The outlook for the future was, therefore, promising though new uncertainties for our trade had arisen from domestic and worldwide shortages of food and petroleum products.

Private long-term capital movements in calendar year 1972 and the first quarter of 1973 were roughly in balance, with a deficit at an annual rate of about \$1 billion in January–June 1973. Government grants and capital continued at the rate of about \$3.5 billion a year.

Under the conditions of inconvertibility prevailing in the final quarter of this fiscal year, the net outflow of dollars on official reserve transactions was halted, as any tendency toward outflow of dollars quickly caused the rates of floating foreign currencies to rise. This was a marked change from the January–March quarter, when successive waves of mobile funds had moved out of the United States, creating an overall deficit in official reserve transactions of over \$10 billion. This figure had raised the cumulative deficit since the end of 1969 to about \$50 billion, illustrating the massive strain on the international monetary system of this period of long-delayed adjustment.

International financial developments.—These large outpourings of dollars into foreign reserves, together with some growth of foreign reserves held outside the United States, had caused global reserves to rise from \$78 billion at the end of 1969 to \$175 billion at the end of March 1973. Because of the two devaluations of the dollar, in 1971 and 1973, the rise in reserves in terms of special drawing rights (SDR's) in the IMF was considerably less, at \$67 billion.

The value of world trade continued to rise faster than the advance of most national economies despite the monetary and exchange adjustments taking place. It appears to be determined essentially by the rate of growth in the major national economies. In calendar year 1972, the rise in terms of constant prices was estimated at about 7-8 percent, as compared with 5-6 percent in calendar year 1971. Despite the very large additions to world reserves in recent years, the ratio of global reserves to the value of world imports in the fourth quarter of 1972, at 37.5 percent, was about the same as the corresponding figure for the full year 1966.

During the year there was growing concern throughout the world regarding persistent and accelerating inflationary pressures. In nearly all industrial countries the rate of increase in consumer prices during the preceding 12 months was higher in June 1973 than in June 1972. At 5.9 percent, the U.S. figure was still well below that of other industrial countries, though it had risen from 2.9 percent in June 1972.

International monetary reform.—At the annual meeting of the International Monetary Fund in September 1972, the reform of the international monetary system received new impetus. Secretary Shultz, on behalf of the United States, put forward "certain specific and inter-related ideas" looking toward a workable international agreement. Recognizing that most countries prefer to have a "central" or "par" value as a fixed point of reference, it was suggested that provision also needed to be made for countries which decide to float their currencies. A modified SDR could replace gold as the formal "numeraire" of the system, and the monetary role of gold would diminish. A more effective and more symmetrical adjustment process would be established, based in part upon disproportionate movements in reserves as an indicator. The prospect was held out that, after a transitional period, the United States would be prepared to undertake an obligation to convert official foreign dollar holdings into other reserve assets as a part of a satisfactory system assuring effective and equitable operation of the adjustment process. The United States would, however, have to reach a demonstrated capacity to meet the obligation of convertibility in terms of its reserve and balance of payments position.

This U.S. initiative was well received, and a number of other Governors also expressed their views on the desiderata to be pursued in monetary reform, generally in less specific terms. At the annual meeting, the Committee of Twenty held its first organizing meeting under the chairmanship of the Governor for Indonesia, Mr. Ali Wardhana.

The Deputies of the Committee held four meetings during the fiscal year in Paris and Washington, and the Ministers met once in Washington at the end of March. The United States set forth its proposals

in more detailed form, and explained the reasons for them, in a memorandum for the Deputies which was subsequently published as a supplement to chapter 5 of the Annual Report of the Council of Economic Advisers to the President.⁵

So far, essential clarification of views has taken place, and a number of important issues have been brought to light and examined. It has become clear to all that on some questions there are quite strong differences of emphasis. The United States has continued to urge that it is essential to have a much stronger and more effective adjustment process, applicable to both deficit and surplus countries. This is essential to make it practical and sensible to reestablish a form of convertibility into a revised SDR as the new international reserve asset. Others look toward reserve asset settlement systems of various types which focus the adjustment pressures more sharply on deficit countries. Other aspects of the system are being examined, such as defining the value and specifying the characteristics of the new SDR, the role of gold and reserve currencies in the future, the treatment of existing balances of reserve currencies, the desire of developing countries for special treatment in SDR allocations, the handling of massive mobile capital flows, the exchange rate policies and practices in the future, and any changes in the structure and role of the International Monetary Fund. All this will require time and patience to sort out. Each part of the system is interrelated with others. Participants do not generally feel able to negotiate on parts of the overall picture in isolation from the whole. Progress is being made, however, as mutual understanding of major issues and points of view is spreading among the individual members of the Committee.

Growing world energy requirements.—The transportation and industrial output needs of the world cannot be supported without large inputs of energy. Under current technology, the bulk of such energy must be met by the fossil fuels, particularly petroleum and natural gas. For the foreseeable future, these resources will have to be furnished by a relatively few energy-exporting countries. As a consequence of these rapidly growing needs for energy and expected increases in revenues per barrel of oil, the gross income of petroleum-producing countries will be vast.

Some energy-producing countries have large unmet needs for manufactured consumer and capital goods. Some feel they must obtain additional equipment for their defense. Countries such as Venezuela, Iran, Algeria, Nigeria, and Indonesia have traditionally used increases in oil revenues for immediate expenditure and investment to improve the living standards of their people. The monies those nations earn can be

⁵ See exhibit 79.

expected to continue to be spent in the industrial nations. In effect, oil will be exchanged for goods which will benefit those in the producing lands.

Another group of producers, primarily those of the Arabian peninsula plus Libya, have small populations, less developed social infrastructures, and limited short-term potential industrial development outside the oil sector. Their combined imports were about \$3 billion in 1972, and are expected to reach \$6 billion at most by 1975 and perhaps \$10 billion in 1980.

Accumulated official reserves of this latter group of countries reportedly reached about \$8.5 billion by the end of 1972. They may be receiving oil revenues of \$10 billion annually by 1975 and up to \$20 billion or more annually by 1980. As expenditures for investment and consumption are not expected to keep pace with their oil earnings, official reserves and foreign investments should mount rapidly, reaching perhaps more than \$75 billion by 1980.

As their earnings increase, the problem of what to do with oil profits will grow. Countries will require stable, secure, and profitable investment opportunities over an extended number of years. Some investments will be in the form of new plants in their own countries, but they will also be looking to investments in the world financial markets. They will in effect be looking to protect future income by transforming a natural depletable asset into a permanent source of income.

In developing its proposals for international monetary reform, the United States has introduced special provisions to allow for the large accumulations of foreign currencies which some oil-producing countries will have available for investment and which differ from normal reserve accumulations in other countries in important respects.

Trade negotiations and legislation.—Work also proceeded during fiscal 1973 on reform of the world trading system. At the 28th session of the GATT contracting parties (CP's) in November 1972, the United States, the European Community, and Japan were joined by the other CP's in a statement of intent to undertake comprehensive multilateral trade negotiations beginning in September 1973. The CP's also set up a preparatory committee to meet periodically to prepare for a Ministerial meeting in September 1973. In addition, the normal work programs of the GATT and the OECD in the trade area were geared during fiscal 1973 to lay the groundwork for the negotiations.

Prior to participation in these multilateral trade negotiations, the administration submitted to Congress on April 10, 1973, the proposed Trade Reform Act of 1973. The bill would provide the neces-

sary authority for the United States to join in negotiating a more open and equitable world trading system. It contains provisions to allow the President to raise and lower tariffs and to negotiate on non-tariff barriers; to deal effectively with rapid increases of imports that disrupt domestic markets and displace American workers; to strengthen our ability to meet unfair competitive practices; to manage our trade policy more effectively; to take extraordinary trade measures to deal with domestic inflation or balance of payments problems; to normalize our relations with the nonmarket economy countries by permitting the President to grant them most-favored-nation status; and to assist developing countries by implementing a generalized system of preferences.

Finally, in order to start the negotiations with all of the developed countries on a more or less equal footing and to safeguard U.S. trade interests, we have continued to hold Article XXIV talks in the GATT with the Europeans. In February 1973, the United States initiated consultations in the GATT on the EC-EFTA arrangements, and in March we agreed to put aside our ongoing discussions with the Europeans on the consistency of the enlarged EC with the GATT in order to begin item-by-item renegotiations (GATT Article XXIV:6) on the many bound items in the tariff schedules of the acceding countries which have increased or will increase as a result of enlargement. The United States has made clear to the parties concerned in both cases that we expect these negotiations to be completed before the commencement of the multilateral trade negotiations and that, if we do not receive satisfaction in the GATT discussions, we will reserve our rights to offset damage to our trade.

The President's visits to the Soviet Union, Poland, and the People's Republic of China in early 1972 opened the way for the improvement of our economic and trade relations with nonmarket economy countries during fiscal 1973. Initial steps toward this normalization featured major trade negotiations with the Soviet Union resulting in the successful conclusion of a grains agreement in July and, in October, agreements on trade, maritime shipping, and repayment of the Soviet lend-lease debt. The Soviet Union also became eligible for Export-Import Bank credits and financial guarantees in October, and Poland in November 1972. Trade with the Soviet Union, the Eastern European countries, and the People's Republic of China improved markedly during fiscal 1973. Total U.S. exports to these countries were \$1.7 billion for the fiscal year, compared with \$455 million in fiscal 1972. U.S. imports from these countries rose moderately to \$455 million, for a trade surplus in this area of approximately \$1.3 billion.

International investment.—During fiscal 1973 there were a number of developments which have had and will continue to have considerable

impact on the nature, direction, and magnitude of capital flows and international investment.

Secretary Shultz in his September 1972 address at the annual meeting of the International Monetary Fund and later at the June 1973 meeting of the OECD Ministers pointed out the need to supplement negotiations in the monetary and trade areas with international discussions on policies and practices affecting investment. These discussions have been initiated in the OECD and are mainly centered in the OECD's new Executive Committee in special session, which held its first meeting in December 1972. The OECD's work program on investment issues has the objective of seeking to develop new understandings and procedures for reducing actual and potential conflicts among developed countries arising from policies affecting investment.

In February 1973, Secretary Shultz, in announcing changes in the exchange rate relationships, stated that the current U.S. restraints on outward capital flows would be phased out by the end of 1974. The phaseout is appropriate in the light of the administration's broad objective of reducing governmental control over private investment and is based on the confidence that the termination will coincide with a noticeable improvement in our balance of payments position.

International financial institutions.—An important part of our foreign economic policy concerns our relations with the developing countries and in particular the programs of the international financial institutions, which are of vital importance to these countries.

During fiscal 1973, substantial but belated U.S. contributions were made to two of the institutions of which the United States is a member—\$320 million to the International Development Association (IDA) and \$418.4 million to the Inter-American Development Bank (IDB). These efforts covered the first installment of the U.S. contribution to the third replenishment of IDA, originally scheduled for fiscal 1972, and increases in the Ordinary Capital and the Fund for Special Operations of the IDB. The IDB contributions only covered half of the amounts requested in the fiscal 1973 budget.

Discussions also began in fiscal 1973 on a fourth replenishment of the IDA and a new unified Special Fund for the Asian Development Bank (ADB). As of June 30, no agreement had yet been reached on levels of funding for either institution, but contributions from all donors of \$4.5 billion to IDA and \$525 million to the ADB Special Fund for a 3-year commitment period were being discussed.

Conclusion

A strong domestic economic expansion continued during fiscal 1973. Gains in employment and real income were sizable and welcome. The Federal budget moved closer to balance and ample supplies of private

credit were available throughout the year. Unfortunately, there was a temporary setback in the effort to bring inflation under better control. Special factors led to a sharp and unexpected rise in food and raw material prices. By the end of the fiscal year, planning for a new, strengthened stabilization effort was well underway, and the outlook for better price performance had improved.

In the sphere of international finance, a second multilateral exchange rate adjustment took place in February, involving a 10-percent depreciation of the U.S. dollar. Since March, however, mobile capital flows and unsettled exchange market conditions have led most major industrial countries to permit their currencies to float in terms of the dollar, with discretionary official intervention. The United States contributed specific suggestions for long-range monetary reform to the Committee of Twenty, emphasizing a symmetrical adjustment process for both surplus and deficit countries. Meanwhile, the administration is also going forward with preparations for longer term multilateral trade negotiations in the GATT.

Discussions on international investment issues have been initiated within the OECD as the United States strives in cooperation with our major trading partners to design equitable and broadly supported understandings on investment policies.

During the fiscal year there was a major expansion in U.S. trade with the Soviet Union, Eastern Europe, and the People's Republic of China. Increasing attention was also devoted to the current and the longer term problems resulting from the rapid expansion in world demand for energy, particularly in the form of petroleum.

REVIEW OF TREASURY OPERATIONS

Financial Operations

Summary

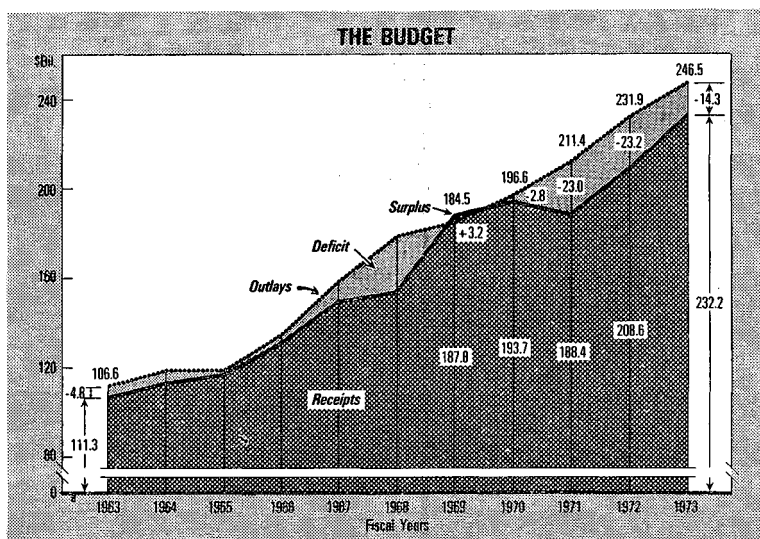
On the unified budget basis the deficit for fiscal 1973 was \$14.3 billion. Net receipts for fiscal 1973 amounted to \$232.2 billion (\$23.6 billion over 1972) and outlays totaled \$246.5 billion (\$14.7 billion over 1972).

Borrowing from the public amounted to \$19.3 billion as a result of (1) the \$14.3 billion deficit, (2) a \$0.8 billion decrease in cash and monetary assets, (3) a \$3.1 billion decrease in deposit fund and other liabilities, and (4) a net \$1.1 billion decrease in all other financing.

As of June 30, 1973, Federal securities outstanding totaled \$469 billion, comprised of \$458 billion in public debt securities and \$11 billion in agency securities. Of the \$469 billion, \$343 billion represented borrowing from the public. The Government's fiscal operations in fiscal years 1972-73 are summarized as follows:

[In billions of dollars]

	1972	1973
<hr/>		
Budget receipts and outlays:		
Receipts.....	208. 6	232. 2
Outlays.....	231. 9	246. 5
	<hr/>	
Budget deficit (-).....	-23. 2	-14. 3
	<hr/>	
Means of financing:		
Borrowing from the public—increase, or decrease (-)....	19. 4	19. 3
Reduction of cash and monetary assets—increase (-), or decrease.....	-2. 5	-0. 8
Other means.....	6. 3	-4. 1
	<hr/>	
Total budget financing.....	23. 2	14. 3
<hr/>		



Receipts

Total budget receipts amounted to \$232.2 billion in fiscal 1973, \$23.6 billion, or approximately 11 percent, above the fiscal 1972 figure of \$208.6 billion. Although receipts from estate and gift taxes and customs duties were somewhat less than in fiscal 1972, receipts from all other categories were sharply increased, primarily reflecting expanding incomes and profits.

A comparison of net budget receipts by major sources for fiscal years 1972 and 1973 is shown in the table below.

(In millions of dollars)

Source of receipts	1972	1973	Increase, or decrease (—)
Individual income taxes.....	94,737	103,246	8,509
Corporation income taxes.....	32,166	36,153	3,987
Employment taxes and contributions.....	46,120	54,876	8,757
Unemployment insurance.....	4,357	6,051	1,695
Contributions for other insurance and retirement.....	3,437	3,614	177
Excise taxes.....	15,477	16,260	783
Estate and gift taxes.....	5,436	4,917	—519
Customs duties.....	3,287	3,188	—99
Miscellaneous receipts.....	3,633	3,921	288
Total budget receipts.....	208,649	232,225	23,577

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

Individual income taxes.—Individual income taxes equaled \$103.2 billion in fiscal 1973, \$8.5 billion more than in fiscal 1972. The increase reflected a sharp rise in incomes and would have been even larger if not

for tax reduction legislation enacted in 1969 and 1971. Also, refunds paid in the first half of calendar year 1973 were uncommonly large as a result of taxpayers' failure to adjust to the new withholding system in calendar year 1972. This added to the dampening effect of tax legislation.

Corporation income taxes.—Fiscal 1973 corporate income tax receipts rose to \$36.2 billion, \$4.0 billion, or better than 12 percent, above the corresponding fiscal 1972 amount. The increase reflected rising profits offset to some degree by liberalized depreciation guidelines and by the 1971 legislation permitting a new investment credit.

Employment taxes.—Employment taxes amounted to \$54.9 billion in fiscal 1973, \$8.8 billion above such receipts in fiscal 1972. The 19-percent rise is attributable to expanding payrolls and number of people employed, as well as to the effects of increases in the social security taxable earnings base and tax rate, both effective January 1, 1973. Also, the full effect of the January 1, 1972, base increase was not realized until fiscal 1973.

Unemployment insurance.—These receipts totaled \$6.1 billion in fiscal 1973, \$1.7 billion, or 39 percent, above the 1972 figure. The increase resulted from changes in employment experience within States and, to a lesser degree, from higher unemployment tax rates.

Contributions for other insurance and retirement.—Such contributions amounted to \$3.6 billion in fiscal 1973, \$0.2 billion more than in 1972.

Excise taxes.—Excise taxes increased from \$15.5 billion in fiscal 1972 to \$16.3 billion in fiscal 1973. The growth in excises was dampened by the year-to-year reduction in the general telephone tax rate.

Estate and gift taxes.—Estate and gift tax receipts amounted to \$4.9 billion in fiscal 1973, less than in 1972. Fiscal 1972 receipts were abnormally large due to an acceleration of tax payments in that year.

Customs duties.—Customs duties decreased by \$0.1 billion in fiscal 1973, totaling \$3.2 billion. The fiscal 1972 figure was unusually large because of the temporary import surcharge, which was not continued into fiscal 1973.

Miscellaneous receipts.—Miscellaneous receipts grew to \$3.9 billion in fiscal 1973, rising \$0.3 billion. The increase was primarily due to larger deposits of earnings by the Federal Reserve System.

Outlays

Total outlays in fiscal 1973 were \$246.5 billion (compared with \$231.9 billion for 1972). Outlays for fiscal 1973, by major agency, are compared to those of 1972 in the following table. For details see the Statistical Appendix.

[In millions of dollars]

	1972	1973	Increase, or decrease (—)
Funds appropriated to the President.....	4,269	3,733	-536
Agriculture Department.....	10,943	10,028	-914
Defense Department.....	76,679	75,000	-1,679
Health, Education, and Welfare Department.....	71,779	82,042	10,263
Housing and Urban Development Department.....	3,642	3,592	-50
Labor Department.....	10,033	8,639	-1,395
Transportation Department.....	7,531	8,183	652
Treasury Department.....	22,124	30,983	8,859
Atomic Energy Commission.....	2,392	2,393	1
National Aeronautics and Space Administration.....	3,422	3,311	-111
Veterans Administration.....	10,710	11,968	1,258
Other.....	16,208	15,031	-1,177
Undistributed intrabudgetary transactions.....	-7,858	-8,378	-521
Total outlays.....	231,876	246,526	14,650

Cash and monetary assets

On June 30, 1973, cash and monetary assets amounted to \$18,392 million, an increase of \$846 million over fiscal 1972. The balance consisted of \$13,854 million in the general account of the Treasurer of the United States (this balance was \$2,068 million more than June 30, 1972, and included \$112 million net transactions in transit as of June 30); \$3,973 million with other Government officers (\$1,272 million less than 1972); and \$566 million with the International Monetary Fund (\$50 million more than 1972). For a discussion of the assets and liabilities of the Treasurer's account see page 120. The transactions affecting the account in fiscal 1973 follow:

Transactions affecting the account of the Treasurer of the United States, fiscal 1973

[In millions of dollars]

Balance June 30, 1972.....		11,785
Less: In transit at June 30, 1972.....		476
Excess of deposits, or withdrawals (—), budget, trust, and other accounts:		
Deposits.....	253,207	
Withdrawals (—).....	276,736	
		-23,529
Excess of deposits, or withdrawals (—), public debt accounts:		
Increase in gross public debt.....	30,881	
Deduct:		
Excess of Government agencies' investments in public debt issues.....	12,460	
Accruals on savings and retirement plan securities and Treasury bills (included in increase in gross public debt above).....	8,236	
Certain public debt redemptions (included above in withdrawals, budget, trust, and other accounts).....	-5,694	
Net deductions.....	15,002	
		15,879
Excess of sales of Government agencies' securities in the market.....		7,717
Net transactions in clearing accounts (documents not received or classified by the Office of the Treasurer).....		2,365
Net transactions in transit.....		112
Balance June 30, 1973.....		13,854

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 as liabilities in the periodic financial statements of the Government corporations and agencies. In fiscal 1973, borrowings from the Treasury, exclusive of refinancing transactions, totaled \$10,711 million, repayments were \$10,412 million, and outstanding loans on June 30, 1973, totaled \$34,237 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 1973, Congress granted new authority to borrow from the Treasury in the total amount of \$1,883 million, and reduced existing authority by \$47 million, a net increase of \$1,836 million. The status of borrowing authority and the amount of corporation and agency securities outstanding as of June 30, 1973, 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 agency securities held by the Treasury on June 30, 1973, is shown in the Statistical Appendix.

During fiscal 1973, the Treasury received from agencies a total of \$1,337 million in interest, dividends, and similar payments. (See the Statistical Appendix.)

As required by Circular No. 966, revised in fiscal 1973, semiannual statements of financial condition, and income and retained earnings are submitted to the Treasury by Government corporations and business-type agencies (all other activities report on an annual basis). 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, 1973, are shown in the Statistical Appendix.

Government-wide financial management

Accrual reporting concepts.—During the year, the central financial agencies stressed the use of accrual accounting and productivity measures in agency management. Treasury staff continued its efforts to compile reliable Government-wide financial information on the accrual basis. The General Accounting Office revised its accounting principles and standards during the year, and at yearend revised regulations on reporting accrued expenditures to Treasury were being readied for publication.

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 (OMB), 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.

A second annual progress report was submitted to the Congress August 31, 1972. Based on the congressional information needs set forth in GAO reports of February 17, 1972, and November 10, 1972, it is apparent that the scope of the system as envisaged by the Congress is substantially larger, and the level of information much more detailed, than that initially perceived by OMB and Treasury.

During the year, Treasury was active on three broad fronts. First, an in-house group was established to develop methodologies for fund structure and organization structure codes. The emphasis here was on providing for suitable interfacing with the presently established Government-wide Treasury/OMB financial accounting and reporting network. Second, an advisory group of officials from the central agencies (OMB, Treasury, and GAO) was established to provide direction and top-level guidance to the joint efforts. Third, Treasury assigned two senior professionals on a full-time basis to a six-man task group established June 1, 1973. This group, chaired by OMB, will identify short-range improvement opportunities and develop recommended plans for their implementation as well as longer range system improvements. The task group will work closely with the GAO and the Congress as necessary to gain a full understanding of specific information needs.

Joint Financial Management Improvement Program.—With the transfer of a number of financial management functions from OMB

to the General Services Administration (GSA), the JFMIP principals have invited the Administrator of GSA to become a principal of the Joint Program. Plans are underway to hire a full-time executive director, in addition to the executive secretary who was hired in September 1969, to increase the effectiveness of the Joint Program. Additional full-time staff committed by central agencies and other changes in structure and operations of the Joint Program are being considered.

The second annual Financial Management Conference was held on January 31, 1973. Its theme was "Productivity in the Federal Sector." Admiral Hyman Rickover was the luncheon speaker. The Financial Management Achievement Awards were presented to Robert C. Moot, Comptroller of the Department of Defense, and Richard Miller, Associate Assistant Secretary for Administration, Department of Labor. Seminars on different aspects of productivity were held in the afternoon.

The JFMIP, implementing a suggestion by the Internal Revenue Service, developed and published a directory of agencies' financial management personnel. The directory shows the names, titles, addresses, and telephone numbers of the heads of each financial management organization by agency.

A model financial management intern program was developed by a JFMIP team under the leadership of the Civil Service Commission. This model training program may be used by agencies in forming their own individual programs to develop future financial managers.

On May 31, 1973, the General Accounting Office held a 1-day seminar on establishing closer working relationships between program managers and financial managers in the Government.

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 1973 developed within the Troika and described in the January 1973 Economic Report of the President called for an increase in the aggregate demand for goods and services of about 10 percent from 1972 levels. Of this increase, roughly $6\frac{3}{4}$ percent was expected to be a rise in the physical value of economic activity and 3 percent to be inflation. By the closing months of fiscal 1973, it became apparent that the original projection was too low, primarily because of more inflation than had been anticipated. In early June, the projected increase in calendar year GNP was raised from 10 percent to some $11\frac{1}{2}$ percent, and tax receipts were reestimated by the Treasury on the new basis for use in the midsession review of the 1974 budget and to support a request that the Congress increase the temporary debt limit.

Aside from a more rapid rate of inflation than had been anticipated in January 1973, economic developments conformed fairly close to expectation. Real growth averaged about a $5\frac{1}{2}$ -percent annual rate in the last half of fiscal 1973, down from an 8-percent annual rate in the first half. This reduction in real growth toward a sustainable long-run path was highly desirable and had been a primary goal of fiscal and monetary policy.

Progress toward the goal of reasonably stable prices was unsatisfactory. During the first half of fiscal 1973, it appeared that a smooth transition to lower rates of inflation might be achieved while the comprehensive controls over prices and wages were gradually relaxed.

The Phase III program, announced on January 11, placed more reliance on self-administered standards while retaining some mandatory elements. But very soon the new program was faced with an inflationary upsurge with which it—or for that matter the Phase II program—was incapable of dealing. The prices of farm commodities and a wide range of industrial raw materials rose sharply in both domestic and world markets because of rising world demand, crop failures, and special factors. On June 13, President Nixon announced the reimposition of a temporary freeze on prices, and intensive planning began for a Phase IV effort to help regain control over the price level.

The Secretary of the Treasury serves as Chairman of the Cost of Living Council, which has primary responsibility for administering

the economic stabilization program. The Assistant Secretary for Economic Policy has 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 has been the primary operational unit of the Cost of Living Council in carrying out information and enforcement activities through the IRS field offices.

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 decisionmaking 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.

Federal Debt Management

Federal debt management policies in fiscal 1973 supported the general efforts of the administration to reduce the stimulative impact of the Federal sector as the economy expanded, the rate of unemployment declined, and price pressures remained persistent and troublesome. At the beginning of the fiscal year, the administration stressed the need to limit Government expenditures to \$250 billion. This limitation was desired both to avoid an inflationary stimulus from the Federal sector and to encourage the Congress and the administration to look carefully at Federal expenditures and to avoid the waste and excesses which often occurred in the past.

The Treasury's net cash financing requirements were reduced during the fiscal year by rising tax revenues generated by economic expansion and inflation. The actual budget deficit for the fiscal year was \$14.3 billion, compared with the estimate in the 1974 budget of just under \$25 billion and a May 1 estimate of nearly \$20 billion.

Market financing requirements were further reduced by a large inflow of funds to the Treasury from foreign central banks which invested the dollars acquired in foreign exchange market interventions in special nonmarketable Treasury securities.

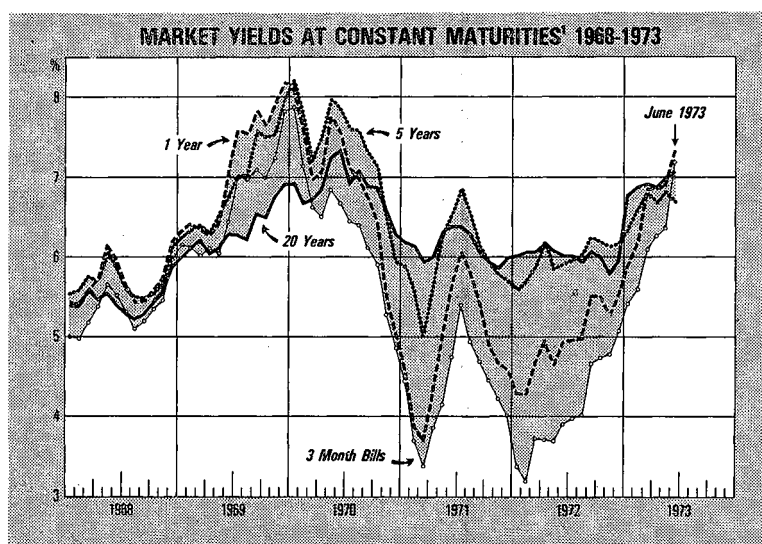
As in fiscal 1972, the Treasury continued to rely primarily on auction sales of coupon securities. In January, the Treasury introduced

use of the uniform-price auction, in which all successful bidders are awarded securities at the lowest accepted price. This type of auction was introduced primarily for selling long-term securities to investors who may be less willing to bid competitively in an ordinary auction in which awards are made at tender prices. In January, a 25-year, 6¾-percent bond was sold in this type of auction; and in May a 25-year, 7-percent bond, callable in 20 years, was auctioned in the same way.

In September 1972, the Treasury instituted two other financing changes. The first was the conversion of the end-of-month 1-year cycle bills to a 52-week bill cycle with offerings to be made every 4 weeks. This was coupled with the phasing-out of the 9-month bill cycle which had not been an important market instrument. Both changes were made to make it possible to increase the amount of larger bills outstanding without increasing the size of the individual offerings.

The second new financing operation instituted in the fall was the auction in October of the first of an anticipated regular cycle of 2-year notes. The second of these notes was auctioned at the end of December 1972. Because of the substantial Treasury cash position in the second half of the fiscal year due largely to foreign purchases of special nonmarketable issues, no other 2-year notes were sold in fiscal 1973.

Over the year as a whole, \$5.4 billion of new cash was raised through the bill market; an additional \$356 million was raised through coupon-bearing issues; and another \$9.5 billion from the sale of special nonmarketable issues to foreign central banks. The savings bonds program continued to grow with net sales over the fiscal year totaling \$3.5 billion.



Changes in Federal securities

The term "Federal securities" includes the obligations issued by Federal Government agencies which are part of the unified budget totals and in which there is an element of Federal ownership, along with the marketable and nonmarketable obligations of the Department of the Treasury. Federal agency securities include 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 1973, outstanding public debt securities totaled \$458.1 billion, an increase of \$30.9 billion from the end of fiscal 1972. Federal agency securities showed an increase of \$200 million over the year compared with a decline of \$1.3 billion during fiscal 1972. Federal agency securities outstanding totaled \$11.1 billion on June 30, 1973. All Federal securities outstanding totaled \$469.3 billion at the end of fiscal 1973, \$31.1 billion above the fiscal 1972 level of \$438.2 billion.

Federal debt and Government-sponsored agency debt

[In billions of dollars]

Class of debt	June 30, 1971	June 30, 1972	June 30, 1973	Increase, or decrease (-)
Public debt securities:				
Marketable public issues by maturity class:				
Within 1 year.....	112.8	121.9	122.8	0.9
1 to 5 years.....	89.1	89.0	88.2	-.8
5 to 20 years.....	33.0	36.2	45.6	9.4
Over 20 years.....	10.7	10.1	6.4	-3.7
Total marketable issues.....	245.5	257.2	263.0	5.8
Nonmarketable public issues:				
Series E and H savings bonds.....	53.0	55.9	59.4	3.5
U.S. savings notes ¹.....	.6	.6	.5	(*)
Investment series bonds.....	2.3	2.3	2.3	(*)
Foreign series securities.....	7.6	16.9	26.8	9.9
Foreign currency securities.....	1.7	2.1	1.7	-.3
Treasury certificates, Eurodollar series ²	2.0			
Other nonmarketable debt.....	.8	.8	.9	.1
Total nonmarketable public issues.....	68.0	78.6	91.6	13.1
Special issues to Government accounts (nonmarketable).....	82.8	89.6	101.7	12.1
Non-interest-bearing debt.....	1.8	1.9	1.8	-.1
Total gross public debt.....	398.1	427.3	458.1	30.9
Federal agency securities:				
Government National Mortgage Association.....	6.0	4.9	4.5	-.4
Export-Import Bank.....	2.6	1.8	2.2	.4
Tennessee Valley Authority.....	1.4	1.9	2.3	.4
Defense family housing.....	1.7	1.6	1.5	-.1
Other.....	.5	.8	.7	(*)
Total Federal agency debt.....	12.2	10.9	11.1	.2
Total Federal debt.....	410.3	438.2	469.3	31.1
Government-sponsored agency securities:				
Federal home loan banks.....	7.7	7.8	12.1	4.3
Federal National Mortgage Association.....	15.0	18.6	20.4	1.8
Federal land banks.....	6.8	7.5	9.1	1.5
Federal intermediate credit banks.....	5.7	6.1	6.7	.5
Banks for cooperatives.....	1.8	1.8	2.3	.5
Government-sponsored agency debt.....	36.9	41.9	50.6	8.7

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

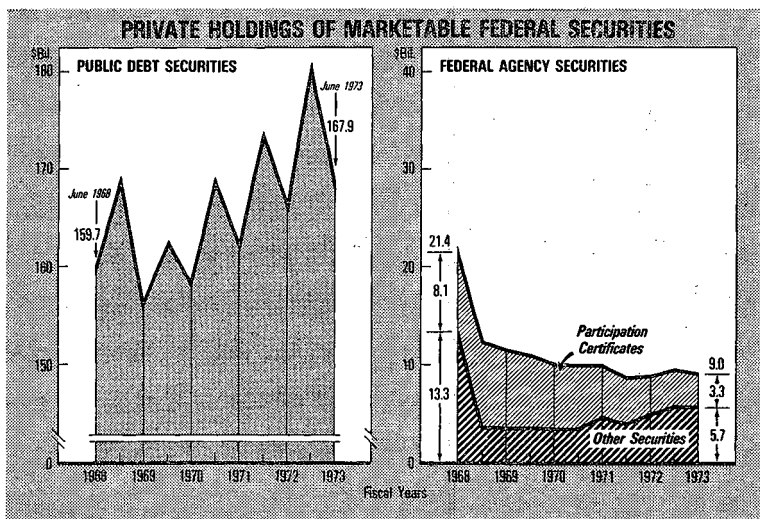
² Treasury certificates, Eurodollar series, first offered to foreign branches of American commercial banks in April 1971.

*Less than \$50 million.

Total marketable public debt securities outstanding on June 30, 1973, amounted to \$263.0 billion. The marketable public debt rose by \$5.8 billion in fiscal 1973 compared with an increase of \$11.7 billion in the previous fiscal year. Of the new cash borrowing, \$5.4 billion represented additions to the volume of outstanding Treasury bills. The remaining increase in marketable issues was a \$356 million increase in Treasury notes and bonds. The Treasury also refunded \$6.9 billion of maturing securities into issues with maturities over 5 years. However, the average maturity of the interest-bearing public debt declined by 1 month over the year and on June 30, 1973, was at 3 years 2 months.

Of the increase in public debt securities in fiscal 1973, \$13.1 billion was due to the sale of nonmarketable issues; \$9.5 billion represented sales of special nonmarketable securities to foreign investors. The remainder was produced by a \$3.5 billion increase in outstanding U.S. savings bonds over the year. The Treasury also issues special nonmarketable securities to Government accounts, which are made up of a variety of trust funds, the largest of which are the social security trust funds. Government account holdings of special issues increased approximately \$12 billion.

Government-sponsored agencies are excluded from the Federal budget totals and their obligations are not part of the Federal debt. However, these privately owned and managed institutions are subject to some form of Federal supervision. Government-sponsored debt increased \$8.7 billion to \$50.6 billion at the end of fiscal 1973.



Ownership

Of the total Federal debt issues outstanding at the end of fiscal 1973, \$268.7 billion, or 57.3 percent, of the total was held by private

investors. The Federal Reserve System and Government accounts held \$200.6 billion. Federally sponsored agency securities held by private investors totaled \$49.4 billion, while \$1.2 billion was held by the Federal Reserve and Government accounts.

Borrowing from the public, including the Federal Reserve System and foreign investors, in fiscal 1973 was \$19.3 billion, about the same as in fiscal years 1971 and 1972. The Federal Reserve acquired \$3.8 billion of these obligations. Private investors increased their holdings by \$15.5 billion—\$10.3 billion by foreign investors and \$5.2 billion by domestic investors.

Private holdings of Government-sponsored agency securities increased \$8.5 billion in fiscal 1973.

Individuals.—During fiscal 1973, individuals increased their holdings of U.S. savings bonds by \$3.5 billion, but decreased their holdings of other public debt securities by \$1.6 billion. On June 30, 1973, individual holdings of marketable public debt issues totaled \$16.4 billion compared with \$18.0 billion in fiscal 1972. Combined holdings of series E and H savings bonds and U.S. savings notes totaled \$59.5 billion at the end of the fiscal year. Individuals held \$75.9 billion of public debt securities on June 30, 1973, representing an increase of \$1.8 billion during the year.

Insurance companies.—Insurance companies decreased their holdings of public debt securities by \$0.5 billion to \$5.7 billion. Insurance company holdings of Federal agency securities also declined slightly during the year. On June 30, 1973, insurance companies held approximately \$0.4 billion of agency securities.

Savings institutions.—Savings and loan associations decreased their holdings of public debt obligations by \$36 million, while increasing their holdings of Government agency securities. At the end of fiscal 1973, savings and loans held \$5.7 billion of public debt securities and \$0.5 billion of Federal agency obligations.

On June 30, 1973, mutual savings banks held \$2.4 billion of public debt securities, a decline of \$300 million from the previous year. Their holdings of Federal agency securities increased, however, by \$137 million to a level of \$675 million.

State and local governments.—State and local governments held public debt securities totaling \$28.3 billion at the end of the fiscal year. This amounted to an increase of \$2.4 billion, an increase substantially above the previous fiscal year's increase of \$400 million. State and local governments also increased their holdings of Federal agency securities during the year to \$3.3 billion.

Foreign and international.—Of total private investors, foreign investors were the largest purchasers of public debt securities during the fiscal year, holding \$60.2 billion of Treasury securities, an increase

Estimated ownership of public debt securities on selected dates 1963-73

[Dollar amounts in billions]

	June 30, 1963	June 30, 1971	June 30, 1972	June 30, 1973	Change during fiscal 1973
Estimated ownership by:					
Private nonbank investors:					
Individuals: ¹					
Series E and H savings bonds	46.0	52.5	55.4	58.9	3.5
U.S. savings notes ² .....		.6	.6	.5	(*)
Other securities	20.1	23.0	18.0	16.4	-1.6
Total individuals	66.1	76.2	74.0	75.9	1.8
Insurance companies	10.9	6.6	8.2	5.7	-.5
Mutual savings banks	6.0	2.9	2.7	2.4	-.3
Savings and loan associations	6.1	6.4	5.7	5.7	(*)
State and local governments	21.4	25.5	25.9	28.3	2.4
Foreign and international	15.8	32.7	50.0	60.2	10.3
Corporations	18.7	10.1	10.3	12.0	1.7
Miscellaneous investors ³	8.9	8.4	9.1	11.7	2.5
Total private nonbank investors	153.9	168.7	183.9	201.8	17.9
Commercial banks	64.3	61.0	60.5	57.9	-2.6
Federal Reserve banks	32.0	65.5	71.4	75.0	3.7
Government accounts	55.6	102.9	111.5	123.4	11.9
Total gross debt outstanding	305.9	398.1	427.3	458.1	30.9
Percent					
Percent owned by:					
Individuals	22	20	17	17	-----
Other private nonbank investors	28	23	26	27	-----
Commercial banks	21	15	14	13	-----
Federal Reserve banks	11	16	17	16	-----
Government accounts	18	26	26	27	-----
Total gross debt outstanding	100	100	100	100	-----

* Revised.

¹ Including partnerships and personal trust accounts.² U.S. savings notes first offered in May 1967; sales discontinued after June 30, 1970.³ Includes nonprofit institutions, corporate pension trust funds, nonbank Government security dealers and Federal-oriented agencies not included in Government accounts.

* Less than \$50 million.

of more than \$10 billion. The largest increase in foreign holdings came in the area of special nonmarketable issues, which increased \$9.5 billion. Foreign holdings of marketable public debt securities increased by \$7 billion. Their holdings of Treasury notes and bonds increased \$3.6 billion, while holdings of bills declined by nearly \$3 billion. Foreign holdings of Government agency securities decreased by \$25 million to \$465 million at yearend.

Nonfinancial corporations.—Corporations added to their holdings of both public debt and agency securities. Corporate holdings of public debt securities increased by \$1.7 billion over the fiscal year to \$12.0 billion. Holdings of agency issues increased by \$0.1 billion to \$0.2 billion.

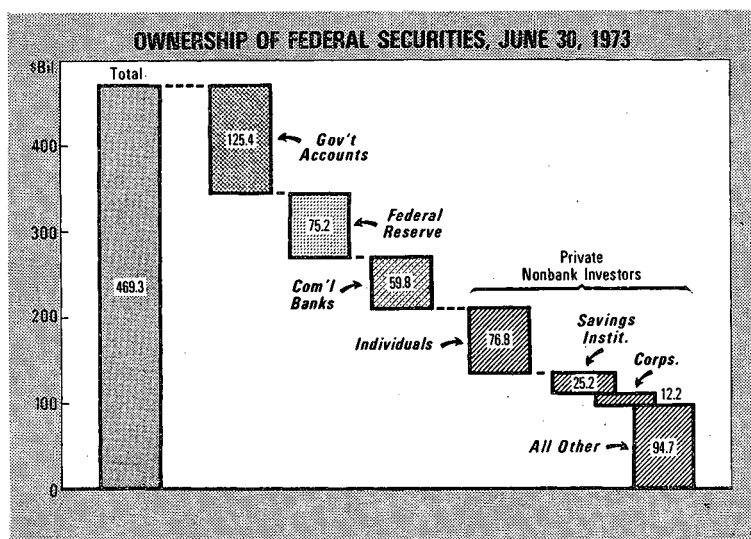
Other private nonbank investors.—Holdings of public debt securities by private nonbank investors increased by \$2.5 billion during fiscal 1973, compared with an increase of \$7 billion in the previous year. These investors, including nonprofit associations, corporate pension

funds, and dealers and brokers, held \$11.7 billion of Treasury securities on June 30, 1973.

Commercial banks.—Commercial bank holdings of Treasury securities declined for the second year. Commercial bank holdings amounted to \$57.9 billion, a decline of \$2.6 billion. At the end of the year, banks held agency securities totaling \$1.7 billion.

Federal Reserve System.—The Federal Reserve System acquired \$3.7 billion of public debt securities during the year increasing their total holdings to \$75 billion. Federal Reserve holdings of Government agency securities also increased. At yearend, the System held \$160 million of agency securities, an increase of \$90 million.

Government accounts.—Government accounts increased their holdings of public debt securities by almost \$12 billion. The majority of the increase was in their holdings of special nonmarketables which increased by \$11.7 billion. Government account holdings of marketable public debt securities increased by slightly more than \$200 million. Government accounts decreased their holdings of agency securities by \$104 million. At the fiscal yearend they held almost \$2 billion of agency issues.



Financing operations

Although nearly \$51½ billion of marketable debt was retired between mid-May and June 30, the Treasury ended fiscal 1972 with an operating balance of \$10.1 billion. Despite the size of the cash balance, however, market participants anticipated heavy Treasury demands on security markets during the first half of the fiscal year.

As the summer progressed, the Treasury's operating balance continued to benefit from larger-than-expected tax receipts and the success of the administration in holding expenditures to target levels. Renewed disturbances in foreign exchange markets in the summer resulted in the issuance of nearly \$4.5 billion of Treasury nonmarketable issues to foreign central banks. In addition, \$200 million of new cash was raised each week through the weekly bill auctions from mid-July through mid-August when the cycle was completed.

With the Treasury's operating balance remaining strong and interest rates tending to move lower, by mid-July security market participants had begun to anticipate the possibility of an advance refunding in connection with the Treasury's August refinancing operation.

On July 26, the Treasury announced an extensive refunding operation, which included the prerefunding of issues maturing during the remainder of 1972 as well as the advance refunding of the note and the bond due on November 15, 1974, and the two notes maturing on February 15, 1975. In total, nine outstanding issues, for which public holdings totaled \$19.7 billion, were involved in the exchange. Holders of the five issues of notes and bonds maturing in 1972 were offered the option of exchanging into a 5 $\frac{7}{8}$ -percent note due February 1976, priced to yield 5.96 percent; a 6 $\frac{1}{2}$ -percent, 7-year note priced at par; or a 6 $\frac{3}{8}$ -percent, 12-year bond priced to yield 6.45 percent. Holders of the November 1974 and February 1975 issues were offered the option of exchanging into either of the two longer securities. The 12-year bond was also offered to individuals for cash in amounts not to exceed \$10,000. Subscription books closed on August 2.

In announcing the terms of the August refunding, the Treasury said that it would not undertake any cash financing immediately following the exchange and that a cash financing would be unlikely until early September. The absence of a very short option in the financing and the postponement of any cash financing until later in the fall elicited a strong response to financing. Approximately 42 percent of the issues eligible for exchange by the public were exchanged for new issues. Of the \$2.3 billion privately held securities maturing on August 15, 1972, all but \$600 million was exchanged.

To meet September cash needs, the Treasury announced, after the August refunding, plans to restructure the monthly bills. It said it would increase the monthly bill auctions at the end of August, September, and October by \$600 million each. At the same time, it would shift the annual bill cycle to a 52-week cycle and discontinue sale of 9-month bills after October. Markets reacted defensively to this announcement and long-term bill rates as well as yields on shorter maturity Treasury notes and bonds moved higher. The impetus to higher rates for short-

term instruments was strengthened by further increases in the commercial bank prime lending rate which had moved steadily higher from the $5\frac{1}{4}$ -percent level of early summer to $5\frac{5}{8}$ percent at some banks in early September.

As the fall progressed, market interest rates responded to the ebb and flow of Vietnam peace rumors and to fluctuating movements in general economic indicators. By early October, however, the market focused on the possibility of the Treasury's satisfying its October cash needs through the auction of a 2-year note instead of through further cash financing in the bill market. These expectations were confirmed when on October 5 the Treasury announced that it would auction \$2 billion of 6-percent notes on October 11. These notes would mature on September 30, 1974. In its announcement, the Treasury also said that it contemplated issuing additional 2-year notes at quarterly intervals as a part of its overall program for raising cash during the fiscal year and indicated that a further issue was planned for December or early January. A total of \$4.8 billion of tenders were received in the auction. The average price for accepted tenders was 100.25 for an approximate yield of 5.86 percent. A total of \$300 million of noncompetitive tenders were accepted at the average price. Commercial banks were allowed full tax and loan account credit in payment of their subscriptions.

Commercial banks took the larger portion of the new note in the first instance. Other investor demand subsequently proved disappointing, and the market turned cautious. Bank selling of the new notes was not heavy, however, and dealers were generally willing to absorb the supply as it came into the market.

As the month proceeded, peace rumors once again dominated the market. As a result, yields stabilized and even tended to recede somewhat for longer maturities. In this atmosphere, the Treasury announced on October 24 that it would meet a portion of its forthcoming cash needs through additions of \$100 million to each of the 13- and 26-week bill auctions beginning with the auction on October 30. The market received this news routinely, and there was little upward rate adjustment to the anticipated additional supply of bills.

On October 25, the Treasury announced that it would sell at auction an additional \$3 billion of $6\frac{1}{4}$ -percent notes to mature on November 15, 1976. These notes would be used to pay off the \$1.3 billion of notes maturing November 15 and to raise an additional amount of new cash. At the same time, the Treasury indicated, including the amounts needed to pay off the November maturities and \$1.4 billion of bonds maturing December 15, that borrowing in the neighborhood of \$12 billion might be needed through the latter weeks of 1972 and the early

weeks of 1973. The \$3 billion of new 6¼-percent notes would provide a part of that amount.

The 4-year notes were auctioned on November 1 at an average price of 100.18, equivalent to a yield of 6.20 percent. Banks were allowed to make payment for up to 75 percent of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts. Noncompetitive tenders of up to \$400,000 were accepted at the average price. A total of \$7.1 billion of tenders were received, including \$500 million of noncompetitive tenders.

In line with the earlier statement that a sizable portion of its financing in the remainder of the year would be in the bill area, the Treasury announced on November 10 the sale of \$4.5 billion of tax anticipation bills—\$2 billion of April bills to be auctioned on November 17 and \$2.5 billion of June bills for auction on November 29. Both issues could be paid for by banks through credit to tax and loan accounts.

The Treasury's announcement strengthened the intermediate- and long-term coupon markets and by the November 15 payment date for the November refunding, the 6¼-percent notes had risen by about one-half point over their auction price. The auction of the April tax bills elicited about \$6.4 billion of bids including \$339 million of noncompetitive bids. The average price of 98.072 was equivalent to a discount rate of 4.722 percent per annum. Distribution of the bills was accomplished fairly routinely, although pressure from foreign sales of bills and the further upward adjustment of the commercial bank prime rate led to some increases in bill rates. The \$2.5 billion of June tax bills were auctioned at an average price of 97.187, a rate of discount of 5.089 percent per annum. Approximately \$5 billion of bids for this issue were received, including \$377 million noncompetitive tenders which were accepted in full at the average price. Following the sale of the June tax anticipation bills, the increased supply of bills in an atmosphere of only moderate investor demand pushed rates on the bill market steadily higher.

On December 14, the Treasury announced the auction on December 20 of \$2 billion of 5⅞-percent notes to mature December 31, 1974. This was the second in the Treasury's program for establishing a 2-year note cycle which was announced in mid-October. Full payment for awards to commercial banks for their own and customer accounts could be made through credit to tax and loan accounts. Noncompetitive tenders, to be awarded in full at the average price, were accepted in amounts not to exceed \$200,000. There was considerable interest in the new notes, in part because of their end-of-year maturity date, and accepted tenders were in a relatively narrow range around the average price of 100.09, equivalent to a 5.83-percent yield.

On December 27, the Treasury announced the details of the long-term bond which it had earlier announced would be sold in early January. A total of \$625 million of 6¾-percent, 20-year bonds were to be auctioned on January 4, 1973. These bonds were the longest securities to be offered by the Treasury since 1965 and formed part of the Treasury's continuing effort to improve the maturity structure of the debt reestablish a viable market for long-term Treasury obligations, and finance Treasury's cash requirements in a manner supportive of the administration's economic policies.

The procedure under which awards were made in this auction differed from that customarily used in auctions for shorter term securities. All accepted tenders were awarded at the price of the lowest accepted tender. As in the usual auctions, the Treasury accepted bids starting with the highest price bid and ranging downward to the bid which provided a total of \$625 million. (The Secretary of the Treasury reserved the right, of course, to accept less than \$625 million of tenders.) This procedure provided investors an incentive to bid at prices sufficiently high to be sure of an award, while also assuring each bidder that, if he bid at a price within the range of accepted prices, he would be awarded bonds at the same price as every other bidder.

The sale of longer term bonds at auction with the uniform-price method of making awards continued the Treasury's search for more efficient means of marketing various categories of Federal securities.

In the bond auction, a total of \$1.7 billion of bids were received, and awards were made at a price of 99.50, to yield 6.79 percent. Non-competitive awards, which were accepted in amounts up to \$250,000, totaled \$81 million.

At the beginning of calendar 1973 the Treasury's operating cash balance stood at \$11.1 billion. Interest rates were rising slowly, but much of the movement resulted from anticipation of tighter credit conditions in the near future, despite action taken by the Federal Reserve to ease monetary strains.

Despite the high end-December operations balance, revenue-sharing payments and normal seasonal outflows rapidly drained cash. There was also concern that larger-than-usual tax refunds from earlier overwithholding would put additional strains on the Treasury's cash position.

To supplement its cash balance, therefore, the Treasury announced at the beginning of January, in addition to the \$627 million raised by the long-term bond sale and the continuing \$100 million additions to the year bills, that it would increase each of the 13- and 26-week bill auctions in January by \$100 million, raising a total of \$800 million in new cash.

On January 11, Phase III of the new economic program was announced, and on the 12th the discount rate was raised from $4\frac{1}{2}$ to 5 percent, as monetary policy joined actively in the fight to halt the inflation. By the time of the regular February financing announcement, a pattern of sharply rising short-term yields accompanied by some moderate long-term increases was already evident.

The February financing, announced on January 31, consisted of an exchange offering of $6\frac{1}{2}$ -percent notes maturing August 13, 1976, priced at 99.70, to yield 6.60 percent, for the \$4.7 billion publicly held Treasury notes maturing February 15 and \$1.0 billion of $6\frac{5}{8}$ -percent notes maturing November 15, 1979, offered in a cash auction February 7.

In the exchange, 52 percent, or \$2.5 billion, of the maturing $4\frac{7}{8}$ -percent and $6\frac{1}{2}$ -percent notes were exchanged for the new $6\frac{1}{2}$ -percent securities. Tenders in the auction totaled \$1.7 billion, of which \$1.0 billion was accepted at an average price of 99.40, to yield 6.74 percent. Noncompetitive tenders of \$400,000 or less were accepted in full and totaled \$88 million.

Beginning in late January, massive speculation against the U.S. dollar erupted in foreign exchange markets. This continued with increasing intensity until a second devaluation of the U.S. dollar, by 10 percent, on February 12. As a result of this speculation, foreign central banks acquired very large amounts of U.S. dollars in defending existing exchange rates and, to invest these dollars, bought both marketable and special nonmarketable Treasury securities. In February, outstanding nonmarketable special issues increased by \$5 billion and a further rise of nearly \$3 billion of such issues was realized in March.

These sales of special nonmarketable issues increased the Treasury balance and alleviated other cash-raising operations in the spring months. Thus, sale of the third note in the 2-year note cycle, which would have probably taken place in late March, was postponed. At the end of March, the Treasury's operating balance stood at nearly \$13 billion and the Treasury was able to meet its early April cash demands and to pay off the \$2 billion of maturing tax bills with no difficulty. Throughout this period, \$100 million was added monthly to the Treasury's cash position as \$1.7 billion of annual bills matured and \$1.8 billion of new bills in the 52-week cycle were sold.

The Treasury's operating balance continued to improve through the month of April as revenues increased from the high level of economic activity and overwithholding of personal income taxes continued. There were also large receipts from proprietary asset sales. As

*Offerings of marketable Treasury securities excluding refunding of regular bills,
fiscal 1973*

[In millions of dollars]

Date	Description	Cash offerings		Exchange offerings		Total
		For new money	For re-funding	For maturing issues	In advance refunding	
1972						
NOTES AND BONDS						
Apr. 1	1½-percent note, Apr. 1, 1977 ¹			2		2
Aug. 15	5½-percent note, Feb. 15, 1976			2,413	2,532	4,945
Aug. 15	6¼-percent note, Aug. 15, 1979			735	3,824	4,559
Aug. 15	6¾-percent bond, Aug. 15, 1984	41		268	2,044	2,353
Oct. 1	1½-percent note, Oct. 1, 1977 ¹			17		17
Oct. 19	6-percent note, Sept. 30, 1974 ²	2,060				2,060
Nov. 15	6¼-percent note, Nov. 15, 1976 ³	1,715	1,326			3,041
Dec. 28	5½-percent note, Dec. 31, 1974 ⁴	2,102				2,102
1973						
Jan. 10	6¾-percent bond, Feb. 15, 1993 ⁵	627				627
Feb. 15	6½-percent note, Aug. 15, 1976 ⁶			3,883		3,883
Feb. 15	6¾-percent note, Nov. 15, 1979 ⁷	1,009		595		1,604
Apr. 1	1½-percent note, Apr. 1, 1978 ¹			15		15
May 15	6½-percent note, May 15, 1980 ⁸	2,044		5,221		7,265
May 15	7-percent bond, May 15, 1993-98 ⁹	652		40		692
Total notes and bonds		10,250	1,326	13,189	8,400	33,165
BILLS (MATURITY VALUE)						
Increase in offerings of regular bills:						
1972	July-September	1,715				1,715
	October-December	2,985				2,985
1973	January-March	1,121				1,121
	April-June	-408				-408
Total increase in regular bills		5,413				5,413
1972 Tax anticipation bill offerings:						
Nov. 24	4.721 percent, 147-day, maturing Apr. 20, 1973	2,012				2,012
Dec. 5	5.089 percent, 199-day, maturing June 22, 1973	2,510				2,510
Total tax anticipation offerings		4,522				4,522
Total offerings		20,185	1,326	13,189	8,400	43,100

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

² Auctioned at an average yield of 5.86 percent.

³ Auctioned at an average yield of 6.20 percent.

⁴ Auctioned at an average yield of 5.83 percent.

⁵ All accepted bids awarded at a yield of 6.79 percent.

⁶ \$1,392 million was allotted to the Federal Reserve System and Government accounts.

⁷ Auctioned at an average yield of 6.74 percent. \$595 million was allotted to the Federal Reserve System and Government accounts at the average price in exchange for maturing notes.

⁸ Auctioned at an average yield of 7.01 percent. \$5,275 million was allotted to the Federal Reserve System and Government accounts.

⁹ All accepted bids awarded at a yield of 7.11 percent. The Federal Reserve System and Government accounts were allotted \$140 million of the bonds at a yield of 7.11 percent.

a result, the Treasury ended April with an operating cash balance of \$14.2 billion.

In these conditions, the Treasury announced on April 25 that it would sell to the public at auction up to \$2 billion of 6⅞-percent notes to mature in May 1980 and up to \$650 million of 7-percent Treasury bonds maturing in May 1998 but callable after May 15, 1993. These new issues were intended to refund partially the \$4.3 billion of Treasury notes maturing on May 15; the balance of maturing issues, \$1.7 billion, was to be retired out of available cash balances.

Disposition of marketable Treasury securities excluding regular bills, fiscal 1973

(In millions of dollars)

Date of re- funding 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 ad- vance re- funding	
1972						
NOTES AND BONDS						
Aug. 15.....	5-percent note, Aug. 15, 1972.....	May 15, 1971.....	232	2,342		2,574
Aug. 15.....	4-percent bond, Aug. 15, 1972.....	Sept. 15, 1962.....	379	1,074		1,453
Aug. 15.....	2½-percent bond, Sept. 15, 1972.....	Oct. 20, 1941.....			1,499	1,499
Aug. 15.....	6-percent note, Nov. 15, 1972.....	June 29, 1971.....			960	960
Aug. 15.....	2½-percent bond, Dec. 15, 1972.....	Nov. 15, 1945.....			1,193	1,193
Aug. 15.....	5¾-percent note, Nov. 15, 1974.....	Nov. 15, 1967.....			1,770	1,770
Aug. 15.....	5¾-percent note, Nov. 15, 1974.....	Nov. 15, 1967.....			1,770	1,770
Aug. 15.....	3¾-percent bond, Nov. 15, 1974.....	Dec. 2, 1957.....			1,021	1,021
Aug. 15.....	5¾-percent note, Dec. 15, 1974.....	Feb. 15, 1968.....			1,134	1,134
Aug. 15.....	5¾-percent note, Feb. 15, 1975.....	Oct. 22, 1971.....			823	823
Sept. 15.....	2½-percent bond Sept. 15, 1972.....	Oct. 20, 1941.....	454			454
Oct. 1.....	1½-percent note, Oct. 1, 1972.....	Oct. 1, 1967.....	33			33
Nov. 15.....	6-percent note, Nov. 15, 1972.....	June 29, 1971.....	1,326			1,326
Dec. 15.....	2½-percent bond, Dec. 15, 1972.....	Nov. 15, 1945.....	1,354			1,354
1973						
Feb. 15.....	6½-percent note, Feb. 15, 1973.....	Aug. 16, 1971.....	1,089	1,425		2,514
Feb. 15.....	4¾-percent note, Feb. 15, 1973.....	Nov. 15, 1971.....	1,215	3,053		4,268
Apr. 1.....	1½-percent note, Apr. 1, 1973.....	Apr. 1, 1968.....	34			34
May 15.....	7¾-percent note, May 15, 1973.....	Oct. 1, 1969.....	3,181	2,663		5,844
May 15.....	4¾-percent note, May 15, 1973.....	May 15, 1972.....	1,194	2,598		3,792
Total coupon securities.....			10,491	13,155	8,400	32,046
1973						
TAX ANTICIPATION BILLS ²						
Apr. 20.....	4.721-percent (tax anticipation).....	Nov. 24, 1972.....	2,012			2,012
June 22.....	5.089-percent (tax anticipation).....	Dec. 5, 1972.....	2,510			2,510
Total tax anticipation bills.....			4,522			4,522
Total securities.....			15,013	13,155	8,400	36,568

¹ Included in August 1972 refunding.² Including tax anticipation issues redeemed for taxes in the amounts of \$912 million in April 1973 and \$1,687 million in June 1973.

Tenders for the 6⅞-percent note totaled \$3.2 billion, of which \$2 billion were accepted at an average price of 99.29, equivalent to a yield of 7.01 percent. Noncompetitive tenders were accepted at the average price up to an amount of \$400,000 and totaled \$325 million.

The 7-percent bond, which was sold with the uniform-price auction technique, elicited \$1.2 billion of tenders. Awards totaling \$652 million were made at a price of 98.75 (7.11 percent) and included \$23 million of noncompetitive tenders.

Despite the repayment of debt in the May financing, the Treasury's cash balance remained high and the Treasury reduced its offerings of weekly bills by \$100 million from mid-May through the end of the fiscal year. In June, the \$2.5 billion of maturing tax bills were repaid out of existing cash holdings, and the Treasury ended the fiscal year with an operating cash balance of \$11.1 billion.

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 deputies and three staff offices (Offices of Law Enforcement, Tariff and Trade Affairs, and Operations) to supervise them. The bureaus are Customs Service, Engraving and Printing, Mint, Secret Service, Consolidated Federal Law Enforcement Training Center, and Alcohol, Tobacco and Firearms. Enforcement aspects of the responsibilities of the Internal Revenue Service also receive the Assistant Secretary's coordinating supervision. During fiscal 1973, activities in these areas continued to increase.

LAW ENFORCEMENT AND OPERATIONS

The Deputy Assistant Secretary for Enforcement and Director, Office of Law Enforcement, developed and reviewed the policy and strategy of Treasury law enforcement activities, with particular attention to application of new concepts, technology, and tactics; coordination between bureaus; coordination of Treasury's contributions to interdepartmental law enforcement efforts; interaction of strategy with other departments, agencies, and governments; and impact on public affairs. He had primary cognizance over the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the Consolidated Federal Law Enforcement Training Center, the antinarcotics traffic programs of IRS and Customs Service, the Office of Foreign Assets Control, and the Interpol National Central Bureau.

The Director, Office of Operations, under the supervision of the principal Deputy Assistant Secretary, maintained oversight of 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 senior personnel appointments, development and review of management information reports and budget proposals, and, for non-enforcement activities, adequacy of long-range planning. The Deputy Assistant Secretary had primary cognizance over Customs, Mint, and Engraving and Printing.

Antinarcotics program

During fiscal 1973, Treasury maintained the momentum of President Nixon's high-priority program to combat illegal drug trafficking.¹

A supplemental appropriation of \$4.5 million permitted Treasury to increase its efforts in the IRS narcotics trafficker program, which expanded to 82 cities in 46 States and the District of Columbia. IRS's systematic, nationally coordinated program subjects middle and upper echelon distributors and financiers in the illicit drug traffic to intensive tax investigations. The objective is to disrupt the narcotics distribution system by prosecuting those guilty of criminal

¹ See exhibit 31.

violations and by siphoning off working capital and drastically reducing profits. Targeting for this program involved the Customs Service and the Justice Department's narcotics agencies, with other Federal, State, and local enforcement agencies also cooperating in investigations and in seizures of funds.

During fiscal 1973, the second year of operation, 829 additional major narcotics traffickers, smugglers, and financiers were identified for intensive tax investigation; another 1,700 lesser traffickers were under tax scrutiny. As a result, \$94.5 million in proposed taxes and penalties was assessed during fiscal 1973, with \$11 million being collected. An additional \$14.2 million in cash and valued property was seized. During the fiscal year, 102 major narcotics traffickers were indicted on criminal tax and related charges and 45 were convicted. Criminal tax investigations were completed with respect to another 83 major drug distributors. In each of these cases prosecution was recommended.

It is anticipated that during fiscal 1974 this ongoing program will subject an additional 650 significant narcotics traffickers to full-scale IRS investigation.

A budget increase of \$8 million in fiscal 1973 enabled Customs also to increase its forces interdicting illicit drug importations at ports and borders. New records for numbers of arrests and seizures directly by U.S. Customs were established, and amounts of illicit drugs seized substantially exceeded those of the previous year in most categories although amounts of heroin seized declined sharply.

Customs role in combating the illicit narcotics traffic was greatly curtailed at the end of the year with the transfer of all its antinarcotics investigative and intelligence functions, personnel, and funding to the newly formed Drug Enforcement Administration under President Nixon's Reorganization Plan No. 2.

Treasury continued its participation in activities of the Cabinet Committee on International Narcotics Control, helping to update narcotics control action plans in 58 countries and to develop for those countries customs-to-customs programs for advising and training foreign customs border control officials.

Organized crime

Treasury agencies continued to contribute manpower and resources directly to the joint strike force program operating against organized crime in 18 major cities throughout the country. Treasury established the Treasury Organized Crime Council to provide policy oversight and interagency coordination for this program led by the Depart-

ment of Justice. In addition, Treasury's own programs supported the organized crime drive through:

- (1) The 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

Under the program to provide security for commercial air flights which is managed by the Federal Aviation Administration, customs security officers (CSO's) continued to provide all uniformed Federal law enforcement support at the Nation's major airports. Beginning in February 1973, FAA regulations required airlines to inspect embarking passengers and airports to furnish enforcement support. This effectively eliminated the need for CSO's except for 110 on duty at the two Federal airports, Dulles International and Washington National, and several hundred continuing to serve on a reimbursable basis at nine other airports which could not immediately obtain the required local enforcement personnel.

By the fiscal yearend, the CSO force had declined from a high of 1,270 to 487. There had still been no skyjacking of any aircraft for which CSO's provided preembarkation screening.

From the beginning of the program in January 1971 to the end of fiscal 1973, CSO's had made 48 arrests aboard aircraft, 722 on the ground for possession of weapons or making threats, and 1,423 for possession of drugs, with an additional 1,401 apprehended as illegal aliens. Weapons seized totaled 2,523 plus 66,434 detained and returned after flight.

Counterfeiting

In fiscal 1973, counterfeiters continued to produce large volumes of counterfeit currency, but with less success in introducing it into circulation. The Secret Service found that \$3.3 million had been entered into circulation and seized an additional \$22 million prior to circulation. Loss to the public was reduced over \$1.5 million, or 31 percent, from the comparable period last year. Throughout fiscal 1973 there was a continuing downward trend in the amount of counterfeit currency passed.

Presidential, candidate, and foreign dignitary protection

Demands on the Secret Service for protective efforts continued to increase in fiscal 1973. Permanent details were maintained with the

President, First Family, Vice President, former Presidents, Kennedy children, and Mrs. Mamie Eisenhower. After former Presidents Truman and Johnson died, protection to their widows continued.

Protective problems were increased by activities of the President, members of his immediate family, and the Vice President during the 1972 election campaign.

During the campaign, a total of 13 candidates/nominees from the Democratic, American Independent, and Peoples Parties were protected. Extraordinary manpower, logistical, and other problems confronted the Service in providing protection during the two major nominating conventions in Miami Beach, Fla. Security measures for the 1973 Inauguration required maximum utilization not only of Secret Service personnel but also of Treasury agents in other bureaus.

In fiscal 1973, protection was provided for over 40 heads of state or government and over 70 other foreign dignitaries. The latter category grew by 300 percent over fiscal 1972 when only 17 dignitaries of this type were protected. In addition, 33 official representatives of the United States performing special missions abroad were protected at the direction of the President.

Treasury enforcement communication system (TECS)

In December 1972, TECS was established to provide a computerized network of communication links among law enforcement personnel of the Customs Service, the Bureau of Alcohol, Tobacco and Firearms, and the Intelligence and Security Divisions of the Internal Revenue Service, both in the field and at national headquarters. The system permits all participants access to commonly indexed Treasury law enforcement information as well as to FBI National Crime Information Center (NCIC) data.

The backbone of the system is the computer facility of the former customs automated intelligence network (CADPIN), which was phased out in March 1973. TECS will operate about 500 terminals (compared with 320 initially authorized for the CADPIN system) at major airports, seaports, and border stations and at regional and district offices of the member bureaus.

Anti-terrorism

Treasury, as a member of the Cabinet Committee to Combat Terrorism, contributed to the development of President Nixon's program to thwart international terrorism and to establish emergency plans for coping with terrorist incidents.¹ The Office of the Secretary, the U.S. Secret Service, the U.S. Customs Service, and the Bureau of Alcohol,

¹ See exhibit 33.

Tobacco and Firearms joined to intensify both intelligence and security measures aimed at preventing terrorist incidents.

Interpol

In fiscal 1973, the U.S. National Central Bureau of the International Criminal Police Organization processed a total of 3,912 cases, representing a 69-percent increase over fiscal 1972 and a threefold increase since fiscal 1969. Of these cases, 1,098 were referrals for foreign investigation on behalf of U.S. enforcement agencies. In contact with 39 other countries, Interpol Washington transmitted 3,390 messages and received 3,428.

In September 1972, Treasury led the U.S. delegation to the 40th Interpol General Assembly in Frankfurt, Germany, which adopted substantive resolutions and proposals concerning Interpol's participation in antiterrorist activities and in curbing drug abuse.

Illustrating police cooperation through Interpol was a request from the Santa Clara County, Calif., district attorney's office for assistance in locating a suspect indicted on 12 counts of grand theft. Queries to Interpol bureaus in Australia, New Zealand, Hong Kong, and Singapore produced information from Interpol Melbourne in February 1973 which enabled the California authorities to extradite the subject from Mexico.

Also, in March of 1972, Interpol Caracas advised Interpol Washington that a Cuban citizen, arrested in Caracas, had implicated himself in the killing of a Colombian citizen in Miami, Fla., in 1969. Subsequent assistance by Interpol Washington resulted in Dade County, Fla., Department of Public Safety officers being dispatched to return from Caracas with the subject on August 16, 1972.

Financial recordkeeping

The Financial Recordkeeping and Reporting Regulations (part 103, title 31 CFR), which were issued by Treasury to implement Public Law 91-508 and became effective July 1, 1972, were primarily designed to ensure that financial institutions maintain certain records that have been determined to be highly useful in the investigation of tax, regulatory, and criminal matters.¹ The regulations also required reports of unusual currency transactions, the international transportation of monetary instruments, and interests in foreign financial accounts, with the objective of deterring the use of foreign bank accounts by U.S. persons for illegal purposes.

Responsibility for ensuring compliance was delegated to the bank supervisory agencies, the Securities and Exchange Commission, the

¹ See exhibits 35 and 36.

U.S. Customs Service, and the Internal Revenue Service, with the Assistant Secretary of the Treasury (ETTO) having overall responsibility for coordinating the procedures and efforts of those agencies.

The regulations and the underlying law were challenged in U.S. District Court of the Northern District of California by the California Bankers Association and Mr. Fortney H. Stark, Jr. The matter is now pending before the U.S. Supreme Court. In the meantime, the Treasury is restrained from enforcing those provisions of the regulations that require reports of unusual currency transactions.

International financial crimes and frauds

The United States and Switzerland signed a Treaty on Mutual Assistance in Criminal Matters on May 25, 1973, representing the first such major agreement for the United States. The treaty culminated negotiations over a period of 4 years in which Treasury played a leading role.

The treaty provides for broad assistance between the two countries and special assistance where organized crime is involved, and overcomes the Swiss concept of bank secrecy in specifically delineated cases. Tax crimes are excluded from the treaty.

Gun and explosives control program

As a part of the oversight of the Bureau of Alcohol, Tobacco and Firearms, the Office of Law Enforcement coordinated ATF's support of the narcotics trafficker program through enforcement of the criminal sanctions of the Gun Control Act of 1968 against targets in the antidrug program. The Office of Law Enforcement also assisted in negotiating guidelines agreed upon by Treasury for ATF, the Department of Justice for the FBI, and the Postal Service for the Postal Inspection Service with respect to investigative jurisdiction over crimes involving the use of explosives or bombs as set forth in title XI of the Organized Crime Control Act of 1970.

Cargo security program

The Office of Operations continued Treasury's cooperation with the Department of Transportation and other departments and agencies in President Nixon's program to suppress theft of cargo.

The Customs Service, as the unique agency with Federal officials physically present at all ports of entry and border crossings where international cargo arrives and at terminals where international cargo is cleared, extended and intensified its cargo security program during the year. Additional field personnel were given technical training in security standards and procedures, more detailed surveys of deficient

piers and terminals were made, and additional Customs patrol officers were assigned to ports of entry.

Treasury-sponsored legislation to fill out Customs authority in this field (the Customs Port Security Act) passed both Houses of Congress but failed in conference because of a controversial rider.

Automated merchandise processing system (AMPS)

Customs AMPS program to automate the examination, classification, appraisal, and liquidation of entries of imported merchandise was given new direction and fresh impetus through an early implementation orientation. The Seattle field test, which was to lead to a completely integrated systems design by 1975, was cancelled in favor of a program that would give actual operating assistance in selected functions to hard-pressed customs officials at ports and border crossings in 1974.

Management information system

The system of monthly and quarterly management reports initiated by the Office of Operations in the previous year was in full operation for all bureaus in fiscal 1973. Converting of tabular information into graphic displays and equipping of a management briefing room were begun.

Engraving and printing

Three important contract studies affecting future developments for the Bureau of Engraving and Printing were completed and reviewed by the Office of Operations: (1) A study of potential sites in the interior of the United States for construction of an additional facility by 1980; (2) a study of the Bureau's system of charges to customers for its products and of methods to generate funds for acquisition of new production equipment; and (3) a study of recruiting and career planning for management personnel to ensure the availability of qualified candidates for top management in the 1970's and 1980's.

Additional mint capacity

Steadily increasing requirements for coinage dictate construction of a new mint by 1978. A site in downtown Denver was selected and, in December 1972, the City of Denver informed the Treasury that the city council had taken all steps necessary to make the site available on terms stipulated by the Federal Government.

TARIFF AND TRADE AFFAIRS

The Office of Tariff and Trade Affairs was established in 1971 to provide policy direction and review of actions and recommendations

by the Customs Service on administration of the Antidumping Act and the countervailing duty law. These statutes represent the sword-point in the administration's efforts to combat unfair trade practices by foreign companies and governments.¹ The office is also responsible for policy review in other actions under the tariff laws, including classification, value, marking, and quota regulations.

Amended Antidumping Regulations, effective in January 1973, contained new provisions to promote improved administration of the Antidumping Act. Detailed reporting requirements were established in discontinued investigations so that prices of the foreign merchandise in question can be properly monitored to ensure adherence to price assurances. In addition, if the price assurances are violated, new procedures permit a reopening of the investigation with an immediate withholding of appraisement. Other new provisions in the Regulations concern time limits for processing antidumping cases, the investigation of merchandise sold in a condition different from that in which it was imported, and revisions to the technical adjustments in the comparison of home market and export prices.

Increased emphasis on the administration of the Antidumping Act yielded substantial results. The revisions in the Regulations and expansion of professional staff assigned to investigations helped reduce the time to process antidumping cases. The average number of days to complete an investigation in 1968 was 560, with some cases taking 2 years or longer. During 1973, however, the average completion time was reduced to 270 days. This expeditious processing of cases is advantageous to all persons concerned. The domestic industry is ensured of quick defense against the possibility of an injurious price discrimination, and the importer and foreign interests are relieved of the burden of uncertainty during lengthy investigations.

Activity under the act continued at a high level in fiscal 1973 with an increase of 17 percent in the number of final decisions published by Treasury. Due to a decline in the number of complaints received, however, the number of cases initiated dropped from 39 to 27. The 42 final actions taken by Treasury in 1973 marked the highest number of such decisions made in the last 7 years.

The countervailing duty law is designed to offset the harmful effects of subsidies by foreign governments for products entering the United States. If the subsidy is found to be a "bounty or grant" within the meaning of the statute, an additional duty equivalent to the amount of the subsidy is assessed on the imported merchandise. After years of inactivity under this law (no actions between 1959 and 1967),

¹ See exhibit 32.

Treasury has countervailed 13 times since 1968. There were two such actions in fiscal 1973.

Subsidies paid by foreign governments to encourage expansion of productivity and export sales are becoming an increasing problem in the maintenance of a fair trading system. The countervailing duty law will be utilized more frequently as harmful subsidy practices that permit unfair competition in U.S. markets are uncovered.

The Trade Analysis Section has done research regarding foreign price discrimination and dumping, foreign subsidies on exports, and countervailing duty policy, as well as balance of trade implications of 1971 currency revaluations. Quantitative research has involved survey design and multivariate analysis of survey data, with application of time-series econometric techniques.

Special efforts were focused on the defining of trade data requirements for Treasury as a whole and on securing special trade data tapes from the Bureau of the Census.

Classification and value cases before the Customs Service, country-of-origin marking cases, and the administration of mandatory quota restraints were reviewed for overall trade impact. Studies of the system of Brussels Tariff Nomenclature for classification of imported merchandise, of the Brussels Definition of Value, and of techniques for reporting trade statistics on a c.i.f. (cost, insurance, and freight) basis continued.

Taxation Developments

In his budget message on January 29, 1973, the President urged the Congress to avoid further inflation and higher taxes by holding down Federal spending. In his state of the Union message of February 22, 1973, the President reemphasized the point that controlling Federal spending would avoid tax increases. The President also urged prompt congressional action on his tax recommendations, including alleviation of property tax burdens for older Americans, provision of an income tax credit for tuition paid to nonpublic elementary and secondary schools, and improvement of the private pension system. In addition, the President urged prompt action on his economic programs.

Tax reform

On April 30, 1973, Secretary Shultz presented the administration's proposals for tax changes in testimony before the House Committee on Ways and Means.¹ The proposals were intended to provide greater tax equity, to simplify the tax structure, and to improve economic growth. The Secretary stated that the recommendations were essen-

¹ See exhibit 43.

tially neutral in their budgetary effect. No specific recommendations were made on the taxation of political contributions and activities or on the taxation of estates and gifts. The Secretary urged the committee to consider the important question of the taxation of political contributions and activities and expressed the Treasury's willingness to work with the committee on matters relating to estate and gift taxation.

The major recommendations of the administration's tax program are as follows:¹

(1) To achieve a more equitable and efficient tax system, a new minimum taxable income concept and a limitation on artificial accounting losses were proposed. These proposals would apply to individuals. The existing minimum tax on individuals would be repealed.

(2) To simplify the task of taxpayers in preparing their tax returns, a new simplified individual income tax form was proposed along with recommended revisions to achieve further simplification of the tax law pertaining to the child care expense allowance, the retirement income credit, the medical expense and casualty loss deduction, the deduction of miscellaneous employee expenses, etc., the dividend exclusion, the sick pay exclusion, and the tax tables.

(3) To provide property tax relief for low- and middle-income elderly homeowners, a refundable property tax credit under the income tax was proposed. An equivalent credit was proposed for the low- and middle-income elderly who rent their homes.

(4) To help preserve the national benefits of the nonpublic school system and to provide needed tax relief for low- and middle-income families who bear a large part of the cost, a refundable income tax credit for tuition paid for nonpublic elementary and secondary school education was proposed.²

(5) To help meet the national energy needs, a new investment tax credit for domestic exploratory drilling of oil and gas was proposed.

(6) To increase the financing capabilities of State and local governments and to reduce the amount of tax-exempt interest, a Federal interest subsidy was recommended for State and local obligations to be issued on a taxable basis at the option of those governments.

(7) To prevent windfall profits from arbitrage activities in the advance refunding of tax-exempt State and local obligations, certain restrictions were proposed.

(8) To provide for greater responsibility by tax return preparers for the returns they prepare, provisions relating to liability and control were proposed.

¹ See exhibit 45.

² See exhibit 39.

(9) Revisions in the taxation of foreign source income were proposed to neutralize the impact of foreign income tax incentives to attract U.S. investment.

The House Ways and Means Committee began hearings on tax reform on February 5, 1973. Subsequent to Secretary Shultz' testimony on April 30, 1973, the committee considered trade legislation for the remainder of the fiscal year.

Environmental taxation

In accordance with the President's state of the Union message of February 15, 1973, there was transmitted to the Congress on February 19, 1973, 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. H.R. 5584, introduced on March 14, 1973, included the provisions of the draft bill.

Federal collection of State income taxes

Title II of Public Law 92-512, approved on October 20, 1972, is cited as the Federal-State Tax Collection Act of 1972. The act authorizes the Department of the Treasury to enter into agreements with States for Federal collection of State income taxes on individuals, estates, and trusts. It excludes Federal collection of State corporate income taxes. This voluntary program is popularly referred to as the "piggyback" system, and its objective is to obtain more efficiency in tax administration and reduce the costs of taxpayer compliance. To make Federal administration feasible, the act requires existing procedural and administrative provisions of the Internal Revenue Code generally to be applied to Federal collection of State taxes in the same manner as if such taxes were imposed by the Federal Government.

Pension reform¹

The President's pension reform message of April 11, 1973, called for enactment of his recommendations to strengthen the private pension system. The major recommendations included: (1) A minimum vesting standard for preserving the retirement rights of employees who leave their jobs before retirement; (2) a minimum funding standard

¹ See exhibit 46.

for vested benefits under employer-financed defined benefit pension plans; (3) a deduction on individual income tax returns of amounts set aside by employees for their retirement if not covered by an employer plan and by covered employees in employer plans with inadequate benefits; (4) a larger tax deduction for self-employed persons who invest in pension plans for themselves and for their employees; and (5) tax deferment until retirement on lump-sum payments from pension plans received by workers who leave a job before retirement if he reinvests the funds in a qualified individual retirement account. S. 1631 was introduced which incorporated these recommendations. On May 22, 1973, Secretary Shultz testified before the Senate Finance Committee on the President's pension proposals.

Social security

Public Law 92-336, approved July 1, 1972, an act to provide for an extension of the 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 \$10,800, 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 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.

Public Law 92-603, approved October 30, 1972, revised the benefits structure, including, for example, higher benefits for aged widows and widowers, higher minimum benefits for low earners, and liberalization of the retirement test by raising the annual amount of exempt earnings from \$1,680 to \$2,100 with future automatic adjustments to keep pace with increases in earnings levels.

The increased costs of the cash benefits and hospital insurance programs are financed by higher social security taxes. For 1973, the employee and employer tax rate is increased from the previously scheduled 5.5 percent each to 5.85 percent each. The maximum earnings base enacted under Public Law 92-336 was retained.

At the close of the fiscal year, amendments affecting social security had been added to the Renegotiation Act Extension (H.R. 7445). Included was an across-the-board benefit increase of 5.6 percent, effective

in June 1974. The raise was regarded as an acceleration of the automatic cost-of-living adjustments first scheduled to become effective under Public Law 92-336. The benefit increase was based on the cost-of-living increase between June 1972 and June 1973. In addition, the retirement test would be liberalized. The annual earnings limitation would be increased from \$2,100 to \$2,400, effective January 1974. For earnings in excess of this amount, benefits would be reduced by \$1 for every \$2 of earnings. The maximum earnings base would be increased to \$12,600 in 1974, rather than the \$12,000 scheduled under Public Law 92-336.

Unemployment insurance

On April 12, 1973, the President sent a message to the Congress proposing reform of the unemployment insurance system. The President requested establishment of minimum benefit standards for the States, providing at least 50 percent of a covered worker's average weekly wage, up to a State maximum of at least two-thirds of the average wage for covered workers in the State. Also requested were the extension of unemployment insurance coverage to farm employees and the prohibition of the payment of benefits to strikers or denial of benefits to nonstrikers.

These recommendations, plus an increase in the net Federal unemployment tax, were incorporated in a draft bill sent to the Congress on May 7, 1973, by the Secretary of Labor. Public Law 92-329, approved June 30, 1972, had provided a temporary increase in the net Federal unemployment tax from 0.5 percent to 0.58 percent for calendar year 1973 only. The draft legislation would extend the 0.58-percent increase for 1973 to 1974 and 1975.

Federal tax expenditures

Estimates of Federal tax expenditures for tax years 1967 through 1972 were prepared by the Treasury staff in cooperation with the staff of the Joint Committee on Internal Revenue Taxation. The House Committee on Ways and Means made these estimates available to the public on June 1, 1973.

International tax matters

Legislation, regulations, and administrative procedures.—In his April 10, 1973, trade message, the President urged enactment of his recommendations on taxation of foreign source income.¹ These proposals, which were submitted to the House Committee on Ways and Means on April 30, 1973, provided that:

(1) U.S. shareholders would be taxed currently on future earnings, whether or not distributed, of a controlled foreign corporation engaged

¹ See exhibit 44.

in manufacturing or processing activities where the corporation makes new or additional investment and is allowed a foreign "tax holiday" or similar tax incentive with respect to such investment; (2) U.S. shareholders would be taxed on the future earnings, whether or not distributed, of a controlled foreign corporation where the corporation makes new or additional foreign investment in manufacturing or processing of products exported to the U.S. market, if the income from such investment is subject to foreign corporate tax significantly lower than in the United States; and (3) where a U.S. taxpayer has deducted foreign losses against U.S. income, such losses would be taken into account to reduce the amount of foreign tax credit claimed by such taxpayer on foreign earnings in later years.

The Treasury issued on June 11, 1973, more details of the April 30, 1973, proposals related to foreign tax haven manufacturing corporations. The proposals deal with tax inducements of foreign countries which attract American capital abroad. Major tax inducements include income tax exemptions of manufacturing and processing income for a number of years, partial exemption or lower rates under a corporate income tax, and grants of cash or property which could be treated as a cost recovery benefit, depreciation investment allowances, and investments credits which used singly or in combination provide a substantially greater cost recovery than obtained under U.S. tax law.

Pursuant to a Treasury request,¹ the interest equalization tax was extended by the Congress, with a number of minor amendments, beyond its expiration date of March 31, 1973, until June 30, 1974.

Prior to the end of 1972, issuance of proposed regulations was completed with respect to the DISC legislation enacted as part of the Revenue Act of 1971. This legislation permits deferral of income taxation on a portion of the income of domestic corporations engaged in exporting. Public hearings on the proposed regulations were held in March 1973. By the end of June 1973, more than 4,000 DISC elections had been filed with the Internal Revenue Service.

The Treasury developed a number of regulations under previously enacted laws, including revised regulations for allocation of income and deductions for the determination of foreign and domestic source income, the definition of the Continental Shelf, and the application of estate and gift tax rules to nonresident aliens.

Tax treaties.—A new income tax treaty with Norway, to replace the 1949 treaty, was approved by the U.S. Senate on August 11, 1972, and instruments of ratification were exchanged on September 29.

Negotiations with the Soviet Union were begun during the year and concluded with the signing of an income tax treaty on June 20, 1973.

¹ See exhibits 41 and 42.

The new income tax treaty with Belgium was brought into force by the exchange of instruments of ratification on September 13, 1972. The provisions of the new treaty have effect as of January 1, 1971.

During the fiscal year, draft treaties were initiated with the Governments of Morocco (November 4, 1972), Korea (March 28, 1973), Iceland (May 18, 1973), and Kenya (June 18, 1973). Negotiations continued with Jamaica, Indonesia, and the Republic of China for new income tax treaties, and preliminary negotiations were held with the Governments of Poland and Romania. Discussions were also held with the Netherlands for revision of the present income tax treaty. In response to changes in the internal tax laws of the United Kingdom and Canada, negotiations were begun with those countries for revision of the respective treaties.

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 a number of working parties of the Committee. A Treasury representative was 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.

Administration, interpretation, and clarification of tax laws

The Department of the Treasury, during fiscal 1973, issued 77 final regulations, 8 temporary regulations, and 52 notices of proposed rule making relating to matters other than alcohol, tobacco, and firearms taxes. Of the above, 36 of the final regulations and 10 notices of proposed rule making covered projects under the Tax Reform Act of 1969. Eleven final regulations, 18 notices of proposed rule making, and 2 temporary regulations covered projects under the Revenue Act of 1971. In addition to the above, there were four final regulations and seven 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 Domestic International Sales Corporations (DISC), estate and gift taxation of nonresident aliens, charitable remainder trusts, charitable contributions, private foundations, arbitrage bonds, advance payments, long-term contracts, inventory costs, real estate investment trusts, depreciation, accumulation trusts, and political contributions.

Other tax developments

Public Law 92-336, approved July 1, 1972, an act to increase the temporary debt ceiling, included a provision that allows losses attributable to a disaster that occurs during the first 6 months after a taxable year to be claimed as a casualty loss deduction in the preceding taxable year. The amendment applies to disasters occurring after December 31, 1971.

Public Law 92-418, approved August 29, 1972, places veterans organizations in a special category of exempt organizations and allows losses attributable to a disaster after December 31, 1971, to be claimed as a casualty loss in the preceding taxable year.

Public Law 92-512, approved October 20, 1972, increases the jurisdictional amount for the Small Claims Division of the U.S. Tax Court from \$1,000 to \$1,500, effective January 1, 1974.

Public Law 92-558, approved October 25, 1972, imposes an 11-percent excise tax on manufacturers and importers of bows and arrows and related equipment, effective July 1, 1974.

Public Law 92-580, approved October 27, 1972, permits American Samoans to qualify for more than one personal exemption; provides an exclusion from the gross estate for estate tax purposes of any interest in certain types of employee plans or contracts held at the death of a nonemployee spouse in a community property State; and provides that where the rate of a State or local sales tax on motor vehicles is higher than the general sales tax rate, that part of the tax paid which is equal to a tax imposed at the general sales tax rate will be deductible.

Public Law 92-606, approved October 31, 1972, coordinates the individual income taxes of the United States and Guam.

Proposed legislative programs

The sulphur oxides emissions charge, which would be a special financial charge by the Federal Government on those who produce sulphur oxide emissions, was proposed to the 91st Congress in February 1972 and was recommended by the President in his state of the Union message on February 15, 1973.

POW-MIA legislation was sent to Congress by Secretary Shultz on February 21, 1973. The proposal would resolve income tax problems faced by returning prisoners of war and the families of some men who have been listed as missing in action.

Treasury proposed amendments to the military pension system, which were incorporated in H.R. 4200, passed by the House of Representatives on June 22, 1973. The technical amendments continued favorable tax treatment for survivor benefits.

International Financial Affairs

International monetary reform

As discussed in the following section on foreign exchange developments and operations, fiscal year 1973, particularly the latter half, was a period of major exchange rate developments and much activity in the foreign exchange markets. The year also witnessed the launching of formal negotiations on fundamental reform of the international monetary system. This section discusses the scope and purpose of those negotiations, the U.S. approach to reform, and the status and outlook for the reform discussions at the end of the fiscal year.

The membership of the International Monetary Fund voted in July 1972 to establish a Governors Committee on Reform of the International Monetary System and Related Issues. With the strong support of the United States, the Committee was given broad terms of reference: To "advise and report to the Board of Governors with respect to all aspects of reform of the international monetary system" and, in considering and reporting on those matters, to "give full attention to the interrelation between these matters and existing or prospective arrangements among countries, including those that involve international trade, the flow of capital, investment, or development assistance, that would affect attainment of the purposes of the Fund under the present or amended Articles."

This broad mandate for the Committee, encompassing not only monetary but closely related areas of trade and investment as well, recognizes that a comprehensive approach to reform is needed in order to assure development of a viable and equitable economic system in the future; that, as stated by President Nixon in an address before the IMF annual meetings in September 1972, monetary reform is but "one vital part of a total reform of international economic affairs, encompassing trade and investment opportunity as well." In some instances, the relationships are so close that they must be dealt with on a highly integrated basis—for example, questions relating to the use of trade or capital restrictive measures for balance of payments purposes. In other instances, negotiations should be separate in order to make progress. For example, negotiations on liberalization of specific trade restraints, or on specific capital restrictions need not wait on monetary reform, nor should comprehensive reform await those more limited negotiations. It is essential, however, that the negotiations in the various spheres be conducted from a common view and with a common approach; and that the results of the various negotiations stand up to the tests of consistency, and to the extent possible, be mutually reinforcing.

At the annual meeting of the International Monetary Fund in Washington in September 1972, Secretary Shultz outlined comprehensive U.S. proposals for reform of the international monetary system.¹ The U.S. proposals were subsequently elaborated further in a series of papers submitted to the C-20. (Two of these papers have been published, as exhibit 79 of this report, and as a supplement to chapter V of the 1973 report of the President's Council of Economic Advisers.)

The fundamental objective of long-range monetary reform is to develop the agreed codes of conduct that are necessary for governing behavior in an interdependent world. Each nation naturally likes to retain for itself as much freedom of action as possible. But where a country's actions impinge on others, it is essential to assure that those actions are consistent with the requirements of the system as a whole.

The ultimate failure of the Bretton Woods system was that while its sustainability depended on a broad measure of international financial and economic equilibrium, it was not able to assure that needed equilibrium. In the U.S. view, the main practical objective of reform should be to develop a system which can assure balance and avoid the disruptive disequilibria of the past. The process of balance of payments adjustment must be made more efficient; and the pattern of disciplines, rights, and obligations relating to adjustment must be made more symmetrical and equitable. The system should be as free as possible from reliance on controls, should support progress toward a more liberal trade and payments order, and should afford governments the maximum freedom of choice and action consistent with the needs of the system as a whole.

Guidelines for balance of payments adjustment.—Thus the establishment of clear, agreed adjustment rules and criteria is central to the U.S. reform proposals. Without such rules, there is a danger that adjustment decisions by individual countries will be delayed too long, that adjustment burdens will not fall symmetrically on deficit and surplus countries alike, and that the international community will fail either to note the emergence of significant disequilibria or to bring to bear appropriate disciplines and pressures on countries to take corrective action when it is needed.

The United States has proposed specifically that disproportionate movements in a nation's reserves, as the most comprehensive and readily available indicator of balance of payments disequilibria, be used as an objective criterion to point to a need to adjust and to create a presumption that corrective action would be taken. Adjustment, of whatever form, would not automatically follow the indicator's movement;

¹ See exhibit 48.

the international community would have authority to "override" the indicator if it were judged to be wrong. But the system would establish a bias toward equilibrium and more efficient payments adjustment, to replace the bias toward disequilibrium of the past. In addition, it would provide a needed assurance that pressures to adjust will apply more evenhandedly as between countries in surplus and those in deficit.

In developing its proposals, the United States assumed that most countries would want to maintain established values for their currencies—par values or central rates—supported by convertibility of currencies into primary reserve assets (SDR's, reserve positions in the IMF, and gold). In a convertibility system, there is a danger that such pressures to adjust as do exist will fall asymmetrically on countries in deficit: Deficit countries are ultimately forced to take action as their stocks of reserves are depleted, whereas there are no equivalent limitations on the ability of countries in surplus to accumulate reserves. Thus, in accepting a system of convertibility for the future, the United States has proposed use of a reserve indicator as a symmetrical extension of the convertibility mechanism—disproportionate reserve accumulations would create pressures for surplus countries to adjust, just as in a convertibility system reserve losses naturally create pressures for adjustment by deficit countries.

The U.S. proposal for a reserve indicator provides a rigorous framework for assuring that the system's tolerance for payments imbalance—and a reasonable degree of tolerance for imbalance is needed—is consistent with the supply of international reserves available to finance such imbalances. If countries generally wish to have substantial freedom to run imbalances before having to adjust, this will become clear in decisions on the placement of the reserve indicator points. They must then be willing to create international reserves on a scale consistent with the desired scope for imbalance. Too few reserves would invite a destabilizing and ultimately fruitless competition for scarce reserves. Too many reserves could unduly relax the system's disciplines and promote inflationary tendencies.

As part of a more effective and equitable structure of adjustment rules, the United States has also proposed that the international community be afforded the means to induce countries in deficit or surplus to undertake adjustment when that was needed. Such inducements might take the form, for example, of a loss of scheduled SDR allocations, a refusal to provide credit, or, as has also been suggested, a penalty rate of interest on excessive reserve accumulations. Also, the United States has proposed that in extreme cases, countries should be able to protect their interests against the behavior of a chronic surplus

country that did not adjust in accordance with agreed rules, by imposing a surcharge on imports from that country.

The expectation, of course, is that in practice such pressures would rarely if ever need to be used. Once the system were agreed upon, countries would be expected to operate their policies in accordance with the basic principle of payments equilibrium—too frequent a use of severe international pressures would indicate a failure of the system. Nonetheless, the system should be capable ultimately of applying such pressures, both to make the operating rules more forceful and meaningful and to safeguard against refusal of a country to live by the agreed “rules of the game.”

Adjustment policies.—It is clear that no international economic system can function smoothly in the absence of basic stability in the domestic economies that comprise it. Sound domestic management is an essential ingredient of a sound international economy, and countries should be expected to follow responsible domestic policies. At the same time, countries must be allowed the freedom to pursue their legitimate domestic objectives, having concern for the international repercussions of the domestic policies they undertake. Nations should not be expected to undertake policies inappropriate to their domestic needs—such as, policies to exacerbate a recession or an inflation—in lieu of alternative adjustment measures.

Within the general framework of freedom of policy choice, however, the United States has also proposed that use of certain measures should be made more acceptable than in the past, and that use of others should be more circumscribed in the new rules.

First, the exchange rate mechanism must be made more flexible and accessible as an instrument of adjustment than it was in the Bretton Woods system up to 1971. It is widely agreed that undue exchange rate rigidity was a major contributor to the accumulation of huge imbalances in the past. The excessive rigidity of the past is reflected in the need for two major and unprecedented multilateral realignments of exchange rates in 1971 and 1973, to provide a rate structure consistent with economic realities and to create a reasonable prospect for international payments equilibrium. Thus, while the system would be centered on par values—which themselves should be adjusted promptly if they became no longer appropriate—countries should also be allowed to float their currencies in accordance with appropriate standards and under international surveillance, if that were best suited to their needs. The United States also proposes that wider margins for exchange rate fluctuation above and below established par values—on the order of the margins agreed provisionally at the Smithsonian Institution in 1971—be made a permanent feature of the system, and

that intervention arrangements be modified to afford the exchange rate of the U.S. dollar the same ability to fluctuate within the margins that other currencies enjoy.

Second, the United States believes that the system should be strongly oriented toward maximum freedom from governmental restraint or inducement for international trade and investment. Thus adjustment in a liberalizing direction, e.g., unilateral reduction of trade restraints by surplus countries, would be welcomed. And there should be a presumption against use of artificial barriers as a means of payments adjustment. An equilibrium based on restraints is not really an equilibrium at all. We have proposed specifically that countries should not be expected to impose controls in lieu of other, more basic, adjustment measures, and that they should not impose or maintain controls in order to preserve an inappropriate exchange rate.

Reserve assets.—The United States has proposed that special drawing rights (SDR's) assume a greatly enhanced role in the future; specifically that instrument would take on the roles of numeraire (or unit of account) and central reserve asset in the new system. We have proposed a number of modifications to the present rules relating to the SDR to make it a more "streamlined," usable, and attractive asset.

The United States also proposes that the diminishing trend in the official monetary role of gold be continued, and approaches toward that end have been discussed. The U.S. position is based on the view that the limited supply of gold and competing private demand result in an availability of gold for official reserves which is wholly unrelated to the system's needs, and that provision of liquidity by means of official price changes would be inherently destabilizing and would provide disproportionate benefits to a few without consideration of the overall needs of the system. The speculative pressures and recent price gyrations in private markets are further evidence that gold, or any other commodity, cannot provide a satisfactory and stable basis for the monetary system.

Finally, the United States envisages a continuing, but diminished role for currencies in the system. The U.S. plans seek no privileged or special role for the dollar, and our proposals as a whole would mean full acceptance by the United States and by all countries of identical rights and identical obligations. Intervention, and foreign exchange accruals, might no longer be centered on the dollar and one or two other currencies, but spread more evenly across a range of currencies. And the U.S. proposals recognize that possible arrangements to deal with large existing balances of dollars in foreign official reserves are a legitimate subject for the reform discussions.

Nevertheless, provision of some continued scope for currencies in the system would be desirable for two reasons. First, there is no need

for the system to try to eliminate all freedom of reserve portfolio management. Second, allowance for some currency holdings in reserves can provide elasticity in global and individual countries' reserves, which may be needed to help cope with large movements of volatile capital. Without such elasticity of currency holdings, and in the absence of exceptionally large availabilities of "primary" reserves, the system might easily break again under the strain of speculative disturbances or large movements attributable to other causes.

Institutional arrangements.—While the United States has as yet not put forward detailed suggestions for institutional change, we have expressed the views that the structure of the International Monetary Fund should be modified, and that the relations between the Fund and other organizations with international economic responsibilities should be closer, more consistent, and better coordinated.

With the considerably stronger international disciplines for adjustment we have proposed, the Fund—and the international rules that embody its Articles of Agreement—would take on a more influential role. Balance of payments adjustment, through whatever means, is a difficult and politically sensitive matter. It is the U.S. view that the activities of the Fund in this critical area, if they are to be effective, must involve participation by politically responsive and responsible officials from the Fund's member governments. Suggestions for ways of moving in this direction have been put forward.

Similarly, and in accord with its view of the need for a comprehensive reform of the international economy, the United States believes provision must be made for closer ties and better coordination between the Fund and the institutions having primary responsibility for the development and administration of rules regarding trade and investment—the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD). Again, the United States has not made specific proposals for changes in institutional arrangements, and the questions in this area have not yet received a great deal of international attention or discussion. This is natural, for the basic issues of substance—the new codes of behavior—must be decided before institutional questions relating to the administration of those codes are decided. But it is clear that the various institutions need to be brought into closer harmony if the reformed system is to be coherent and sustainable.

Negotiations on reform—status and outlook.—The proposals put forward by Secretary Shultz last September and elaborated subsequently in the Committee of Twenty, provided a major focus for the C-20's work. During the course of the period under review, the Committee met at the Ministerial level twice, and at the level of Deputies to Ministers on five occasions.

The earlier meetings of Deputies were devoted to organization of their work and identification and clarification of key issues—a process that at times seems tedious and yields few visible results. Yet the process is an inevitable and necessary part of the reform effort, for the issues at stake affect the basic national interests of all countries involved.

At a meeting in late March, the C-20 Ministers released a press communique noting their discussion of some of the broad principles of a reformed system, pointing to certain areas deserving priority study and endorsing a more intensive work program by their Deputies.¹ Specifically, there was a broad consensus on the following:

(1) The need for a more effective adjustment process with adequate methods to ensure timely and effective adjustment by both surplus and deficit countries (this process to be assisted by improved consultation in the Fund including the use of objective indicators);

(2) An exchange rate regime based on stable but adjustable par values, with recognition that floating rates can provide a useful technique in particular situations;

(3) The need for better management of global liquidity, with the role of currencies being reduced and the SDR becoming the principal reserve asset of the reformed system;

(4) The desirability of a strong presumption against the use of trade controls for balance of payments purposes.

Important as these broad principles are, considerable work remained to define them with precision and make them operative. Following this March meeting, the Deputies established several technical groups to study indicators in the adjustment process, disequilibrating capital flows, and proposals for creation of a link between the SDR and development finance. The Deputies met intensively for 5 days in late May and again shortly after the end of the fiscal year, in preparation for a further meeting of Ministers in late July.

At the close of the fiscal year, many issues of principle, and a number of technical questions of detail having major implications for the operations of the system, had been defined and expressed by the Deputies with sufficient precision and clarity that they could be put forward for Ministerial consideration. Following the Ministers meeting at the end of July, prospects appeared to be good that the Committee could reach agreement on some of the main principles of reform at the September 1973 annual meetings of the IMF in Nairobi. It is recognized on all sides, however, that a completed agreement could not be negotiated until some time beyond the Nairobi meetings and that, in any event, a considerable further period would be needed to

¹ See exhibit 77.

work out details of implementation and to obtain necessary legislative ratification in the member countries.

Foreign exchange developments and operations

The withdrawal by the British of sterling from the Smithsonian exchange rate realignment agreement and the decision by the authorities to allow sterling to float in late June of 1972 raised questions as to whether other countries might also decide to cease support for their currencies at the agreed level. As this fiscal year began, there was considerable speculation that the other EEC countries might allow their currencies to float separately or as a bloc. In view of the continuing adverse balance of payments position of the United States, such a move would have resulted in most cases in an appreciation of these currencies against the dollar.

As a result, the dollar came under heavy speculative pressure in the first 2 weeks of July, with over \$6 billion being absorbed by various foreign central banks, primarily the German, Swiss, Japanese, Dutch, and French. By mid-month the crisis abated as the market became convinced that these monetary authorities were prepared to support the Smithsonian rate structure.

The U.S. authorities decided that the turn in the market would be given a firmer base and enhanced if the United States also demonstrated a willingness to intervene in support of the dollar. It was announced that the United States was willing to intervene in the exchange markets upon occasion when it feels it desirable to help deal with speculative forces and reiterated its view that the speculative pressures growing out of the British decision to float sterling need not affect the basic exchange rate structure. It was also noted that use might be made of the swap facilities, which had been suspended since August 15, 1971, if needed in connection with U.S. exchange market operations.

The first such operation, on July 19, was undertaken in deutsche marks with offerings being made by the Federal Reserve Bank of New York over a period of a few days. In August, operations were also undertaken in Belgian francs. All sales of foreign currencies, either from preexisting U.S. holdings or from small swap drawings, were soon fully covered by market purchases as the dollar strengthened on the exchanges.

The total sales in both currencies amounted to \$31.5 million, although offerings to the market were larger.

Following the disturbance at the beginning of the year the exchange markets settled down and the following 6 months were uneventful. During the period the dollar tended stronger. The proposals for monetary reform made by the United States at the annual meeting of the IMF and IBRD at the end of September were well received.

The U.S. balance of payments and trade balance remained in substantial deficit. Even though it was generally well recognized that exchange rate adjustments take a considerable time to make themselves apparent in balance of payments changes, there was growing concern that the rate realignment agreed upon at the Smithsonian in December 1971 was not working sufficiently or with sufficient speed. In this climate, a relatively unimportant event set in motion a chain of events leading to a new crisis and ultimately to a transitional regime of essentially floating exchange rates.

In January, Italy, with growing downward pressure on the lira, decided to split its exchange market into two tiers, one for capital transactions, which would float, and the other primarily for trade. There had been a persistent, and at times large, capital outflow from Italy that stemmed primarily from political uncertainties rather than basic balance of payments trends. In this situation, a two-tier system similar to those the French and Belgians had adopted much earlier was considered by the Italian authorities to be desirable. The institution of this system and the depreciating trend of the financial lira served, however, to direct some additional capital outflow to Switzerland.

The Swiss franc was already strong and could have been expected to strengthen further as domestic liquidity was tightened to combat inflationary trends. These developments moved the Swiss franc to its ceiling level and generated speculation from other sources and required the Swiss National Bank to intervene and purchase several hundred million dollars. In the face of this influx, the Swiss decided to float the franc, which promptly appreciated by several percentage points.

The floating and appreciation of the Swiss franc again called into question the will of the other monetary authorities to maintain the Smithsonian parities and the soundness of these parities. Pressures grew and in the period of February 1 through 9 over \$9 billion was acquired in support operations by various central banks, of which the Germans alone absorbed about \$6 billion. The United States also intervened in the market by selling \$315 million of DM obtained from Treasury and Federal Reserve balances and by a \$105 million drawing by the Federal Reserve on its swap line.

Discussions between the United States, Japan, and several European countries resulted in the closing of markets on February 12 and 13 and announcement by the United States on the evening of February 12 that a further devaluation of the dollar, amounting to 10 percent, was proposed and had been agreed. The Japanese yen was to be allowed to float, as would both tiers of the Italian lira, and the Swiss franc and British pound would continue their floats. The other major European countries promptly adjusted their market intervention rates to reflect this proposed devaluation of the dollar.

The second devaluation of the dollar in only slightly over 1 year's time came as a considerable shock to the market. The credibility of fixed parities and the will of monetary authorities to support them was severely questioned. Although there was general belief that this further realignment of exchange rates should in time amply restore the U.S. balance of payments position, there were strong doubts as to the maintenance of parities in the face of pressure. After a \$1 billion reflow out of Germany, the mark climbed to its new ceiling, and there was extremely heavy intervention on March 1 by Germany and to a lesser extent by other European countries. Markets were again closed; that is, the central banks withdrew and the currencies were effectively left to float.

In the ensuing weeks the EEC countries of Belgium, Denmark, France, Germany, and the Netherlands, joined by Norway and Sweden, agreed that they would resume maintenance of their central rates in relationship to each other in the 2¼ band and float jointly against the dollar and other currencies. Germany had revalued the mark a further 3 percent and Sweden had devalued by 5 percent in addition to the adjustments made by the proposed dollar devaluation.

The joint float began on March 19, and the dollar strengthened against other currencies so that until mid-May they traded within the same range as that which would have been required had the agreed central rates or parities been maintained. The DM was frequently at the bottom of the joint float band and below its now notional central rate level with the dollar.

The relationship between the dollar and the currencies of its two largest trading partners, Canada and Japan, remained quite stable throughout the remainder of the fiscal year. In fact, the yen tended to weaken and was supported by the Bank of Japan through considerable dollar sales at the level it had quickly reached when allowed to float—some 16 percent above its Smithsonian parity. Sterling, which had depreciated sharply following its flotation the previous year, returned to trade close to its Smithsonian parity, as did the Italian lira, which continued to be subjected to speculative outflows.

The European joint floaters began, however, to show an appreciation of their currencies around mid-May, and by the end of the fiscal year and after some erratic adjustments, were trading about 10 percent above the central or parity levels agreed earlier in the year, or well over 20 percent above the Smithsonian rates.

Strong anti-inflationary measures in Germany caused the DM in particular to show strength, and by late June it traded at the top of the joint float band requiring considerable intervention to maintain the joint float relationship and pulling other currencies in the joint float upward against the dollar. The intervention was undertaken in

the currencies of the countries concerned and not in dollars. To alleviate the strain on the joint float and also abate the inflow of funds to Germany, which ran counter to their monetary policy, Germany, on June 29, revalued the DM by 5.5 percent.

The price of gold in the private markets had reached around \$65 per ounce at the beginning of the fiscal year, climbed to \$70 in early August and returned to \$65 at the end of December, after falling at times to \$60. Not much change was evident in January, but beginning in February the price began to move upward, reaching a high at the London fixing of \$89 late in the month. Prices of around \$90 continued to be maintained until the second week of May, when there was another sharp advance. A high of \$127 was reached on May 5, after which the price subsided somewhat to finish the year around \$123 per ounce, an increase of \$62, nearly double the price of a year earlier.

To a large extent the movement in the gold price paralleled activity in the exchange markets. The general uncertainties concerning the future exchange rates of all currencies encouraged speculation and investment in gold, as did the tight exchange controls imposed by many countries designed to inhibit inflows and which made speculation in those currencies more difficult. The rise in the gold price and the appreciation of some European currencies against the dollar had a ratcheting effect on each other, tending to move both above levels they would probably otherwise have attained.

International Monetary Fund¹

Fiscal 1973 was a period of relatively little activity in the IMF's financial accounts. With the continuation of strong reserve and balance of payments positions in most major countries, and the introduction of floating exchange rates by a number of countries in March 1973, most of the industrial nations did not require recourse to IMF credit during the year.

Purchases of currency (drawings) by IMF members totaled the equivalent of \$1.4 billion, somewhat below the level of the preceding year. A large drawing was made by the United Kingdom in July 1972, amounting to the equivalent of \$704 million or half of total drawings from the Fund during the entire year. Principal currencies drawn were the German mark (in the equivalent of \$370.6 million); the French franc (\$181.4 million); and the Japanese yen (\$140.9 million). Special drawing rights were drawn in the amount of \$365 million equivalent. The U.S. balance of payments was in deficit throughout much of the period, and no drawings were made in U.S. dollars.

¹ Legislation to devalue the dollar (exhibit 52) was pending at the end of the fiscal year. The figures used in this section are reported in dollars having the new par value which will result from this legislation.

Currency repurchases (repayments) totaled the equivalent of \$597.0 million, well below the large repayments recorded in fiscal 1972. Repurchases were concentrated in the currencies of Germany, France, and Belgium, and in SDR's. 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, 1973, cumulative drawings from the beginning of IMF operations amounted to the equivalent of \$31.1 billion, of which \$9.5 billion was in U.S. dollars; cumulative repurchases amounted to the equivalent of \$18.9 billion, of which \$5.6 billion was in U.S. dollars.

No transactions were conducted under the General Arrangements to Borrow (GAB) during the year. As of June 30, 1973, amounts available under the GAB totaled the equivalent of \$7.1 billion.

As a result of various minor transactions, the U.S. reserve position in the IMF increased by a small amount during the period. As of June 30, 1973, the U.S. reserve position amounted to \$522 million, consisting of the balance of the U.S. gold tranche position.

Organization for Economic Cooperation and Development

Secretary Shultz led the U.S. delegation to the 12th Ministerial Council meeting of the OECD in Paris June 6-8, 1973.¹ With inflation widespread throughout the world economy, a primary focus of the meeting was on action nations could take to reinforce their efforts to reduce price pressures. The Ministers also reaffirmed the appropriateness of the exchange rate structure negotiated earlier in the year while pointing to their intention to maintain orderly exchange markets in the transition period leading to a reformed monetary system. The OECD's role in reform of the international economic system was reviewed, and the Executive Committee of the Organization was instructed to press forward with its work on international investment. Ministers also considered cooperative measures that might be undertaken to respond to the long-term energy problem and to assure adequate energy supplies.

During the year, the OECD was intensively involved in efforts to reform the international economic system. Recognizing the significant impact of international investment on trade and monetary relations, the Executive Committee meeting in special session developed a work program for examining the issues related to international investment including the operations of multinational companies. The role of trade safeguards and problems associated with agriculture will also be considered by the Executive Committee as part of the reform

¹ See exhibit 57.

effort. Deputy Under Secretary Bennett represented the Department of the Treasury on the U.S. delegation to the Executive Committee special sessions.

During fiscal 1973, the OECD Council agreed to terminate the European Monetary Agreement (EMA), effective December 31, 1972, in recognition of the fact that its main purpose—to facilitate the return to external convertibility in Western Europe—had been achieved. As a result, assets totaling \$355.5 million were returned to the United States, representing the U.S. contribution to the EMA of \$271.6 million, plus \$84 million in earnings on our contribution. Of the total returned, \$118 million was in the form of liquid assets, \$123.5 million involved the cancellation of an undrawn EMA account with the U.S. Government, and \$114 million took the form of a long-term claim on Turkey which had been consolidated by the OECD prior to transfer to the United States. Arrangements between European members of the EMA for guaranteeing the exchange value of foreign exchange working balances were continued, and a new OECD Committee for Monetary and Foreign Exchange Matters was established to replace consultative arrangements provided for in the EMA.

The Economic Policy Committee's working party on balance of payments matters (WP-3) met periodically during the year to consider problems of the transition to, and prospects for, a more balanced world payments position resulting from the Smithsonian and February 1973 exchange rate realignments. The decisions in March by major industrial countries to float their currencies (either individually or jointly) raised new issues for the working party's consideration. The Treasury, represented by Deputy Under Secretary Bennett, continued to lead the U.S. delegation, as well as serve on the U.S. delegation to the Economic Policy Committee itself. Treasury officials played leading roles in the work of the Economic Policy Committee's Working Group on Short-Term Economic Prospects and in an experts group established by WP-3 to consider problems of adjusting balance of payments figures to take into account cyclical developments.

Treasury involvement in OECD affairs remained at a high level in fiscal 1973. In addition to the activities already mentioned, a Treasury official continued as chairman of the Committee on Fiscal Affairs as it undertook a broad work program in the tax area, covering the impact of depreciation rules, taxation of multinational corporations and a revised model tax convention. Treasury also headed the U.S. delegation to the Group on Export Credit and Credit Guarantees in which attention was focused on export financing terms for commercial aircraft, nuclear power stations, and ground satellite facilities. The Committee on Financial Markets, with Treasury participation, continued

its review of problems and trends in international financial, including Euro-, markets. As part of its task of improving capital markets, it is engaged in examining disclosure requirements for securities, national policies regarding housing finance, and the adequacy of financial statistics. A Treasury official served as a member of the Committee for Invisible Transactions. A major restructuring of the Economic Policy Committee's Working Party 2 on Economic Growth occurred in fiscal 1973, with greater emphasis being placed on resource allocation among competing economic objectives. Treasury officials are participating in efforts to develop common international expenditures statistics as a first step in the new work program contemplated for the working party.

Treasury officials are continuing to work closely with other agencies in the work of the OECD Trade Committee and the Development Assistance Committee. Much of the work of the Trade Committee in the past year was related to trade issues raised in the Executive Committee in special session. The Trade Committee has discussed internal measures that affect trade, outlines of an international safeguards system, and problems of international trade in agriculture. In addition, the Trade Committee Working Party on Government Procurement developed draft guidelines which were sent to the Trade Committee for its consideration. The Development Assistance Committee devoted a considerable amount of its attention during the fiscal year to the problems posed for the developing countries by their external indebtedness.

U.S. balance of payments

All of the commonly used measures of the U.S. payments balance for fiscal 1973 showed improvement over their fiscal 1972 levels. The improvement actually shown in the balances with broadest coverage—the official settlements and liquidity balances—amounted to \$6.0 billion and \$2.4 billion, respectively. However, these balances were strongly affected by speculative capital flows which obscured the underlying developments. The annual balances also obscure the differences of the trends in the more basic categories of transactions which indicate a considerable strengthening in the U.S. payments position between the first and second halves of fiscal 1973.

During the first half of the fiscal year, both the trade balance and the various measures of overall balance were in substantial deficit, though somewhat improved from their levels during the latter half of fiscal 1972. There were several significant sources of improvement during the period, including substantial increases in agricultural exports. The improvement in the trade balance on nonagricultural foods, however, may have been retarded somewhat by the fact that our major trading partners, though embarked on a cyclical expansion, had not

yet approached peak levels of demand, while the United States was well along in its strong domestic expansion.

Other sources of improvement during the first half of the fiscal year included a substantial increase in foreign purchases of U.S. securities, especially stocks, and a large increase in U.S. receipts of income from foreign direct investments. The rise in foreign purchases of U.S. stocks was in part related to recovery in the New York Stock Exchange. The growth in investment income receipts came largely in the October-December quarter, and relate in part to the rapid rise in earnings from foreign investments reported by U.S. oil companies. A negative factor during the October-December quarter was a substantial increase in U.S. bank loans to foreigners, which was repeated in the following quarter.

The drastic deterioration in the liquidity and official reserve transactions balances during the third (January-March) quarter of fiscal 1973 was largely due to capital flows in conjunction with the February 1973 exchange crisis. Thus \$10 billion of the year's \$16 billion official transactions deficit came in this quarter. The causes for the February crisis are, of course, complex. It appears that it was started by developments abroad which were not related to the U.S. balance of payments, but the slow recovery in the U.S. payments position in the second half of last year relative to observers' hopes or expectations probably contributed to the intensity of the crisis, which was fed by a large outflow of U.S. funds and of foreign funds previously invested in liquid assets in the United States. Notwithstanding these large outflows of capital, the favorable trends in exports (especially agricultural products) and in investment incomes continued. Foreign purchases of investment securities, which were still very high in January, declined in the following months.

The period after March, when the requirement to maintain the exchange rate of the dollar with major currencies within specified margins was suspended, saw substantial continued improvement in the U.S. trade and other transactions. The trade account continued to strengthen during the April-June quarter, with further increases in exports coming not only in the agricultural sector but also in industrial products and finished manufactures. In addition, U.S. import growth slackened somewhat. These developments were undoubtedly stimulated by cyclically strong demand conditions in the economies of our major trading partners. The changes in the exchange rate of the dollar also contributed to the improvement in the trade balance although these changes are not likely to have shown their full effect because, for the first time in the post-World War II period, simultaneous high levels of capacity utilization in all major industrial countries may

have limited opportunities or incentives for suppliers to compete with each other.

Investment income receipts also continued at high levels during the last 3 months of the fiscal year. In addition, there were substantial reflows of liquid funds back to the United States, presumably in part reflecting an unwinding of earlier outflows in conjunction with the February exchange crisis. Also benefiting the capital account was a decline in direct investment outflows.

Significant negative elements during the fourth quarter of the fiscal year included a decline in foreign purchases of U.S. securities, and a high level of capital outflows in the form of bank loans. Such loans peaked in the January-March quarter, but remained very large during the April-June period.

As a net result of these developments during the fiscal year, the two balances perhaps the most frequently watched as indicators of the underlying strength of the dollar—the trade balance and the balance on current and long-term capital account—showed substantial improvement over the course of the fiscal year.

Treasury foreign exchange reporting system

The international monetary disturbances that occurred during the early part of calendar 1973 were accompanied by large movements of funds out of the United States and from the dollar into foreign currencies. A large part of these movements appeared likely to escape the established statistical reporting systems for the balance of payments. In view of the need for an adequate explanation of these events, the Departments of the Treasury and Commerce took steps to ensure that the capital movements statistics for the first quarter of 1973 would be as complete and accurate as possible, and to obtain a more complete understanding of the nature of these movements of funds.

On April 23, 1973, Secretary Shultz and Secretary of Commerce Dent sent a joint letter to the presidents of business firms in the United States which file regular statistical reports on their international capital transactions with either or both of the Departments for use in the U.S. balance of payments statistics.¹ The letter requested that the companies undertake a policy level review of the statistical data reported on the Treasury and Commerce forms for the first quarter of 1973, to ensure their completeness, consistency, and accuracy.

Toward the end of the fiscal year, a second letter was sent by Secretary Shultz and Secretary Dent to a small number of representative companies, proposing joint meetings between senior experts of the

¹ See exhibit 78.

U.S. balance of payments, fiscal years 1972-73*

(In millions of dollars)

	Fiscal 1972	Fiscal 1973	Fiscal 1973	
			1st half	2d half
Trade (balance of payments basis) ¹	-5,504	-4,508	-3,318	-1,190
Exports.....	44,299	57,642	25,575	32,067
Imports.....	-49,803	-62,150	-28,893	-33,257
Travel.....	-1,945	-2,158	-1,094	-1,064
Receipts.....	2,604	2,989	1,382	1,607
Payments.....	-4,549	-5,147	-2,476	-2,671
Military.....	-3,381	-3,262	-1,710	-1,552
Receipts.....	1,524	1,349	549	800
Payments.....	-4,905	-4,611	-2,259	-2,352
Dividends, interest and branch profits.....	5,484	6,151	3,014	3,137
Receipts.....	10,893	13,173	6,100	7,073
Payments.....	-5,409	-7,022	-3,086	-3,936
Other services.....	2,266	2,734	1,299	1,435
Balance on goods and services ²	-3,080	-1,043	-1,809	766
Private remittances, Government pensions, and other transfers.....	-1,580	-1,580	-802	-778
U.S. Government economic grants.....	-2,263	-1,927	-1,033	-894
Balance on current account.....	-6,923	-4,550	-3,644	-906
U.S. Government capital, net ³	-1,182	-2,053	-1,136	-917
U.S. direct investment abroad.....	-3,830	-5,102	-1,919	-3,183
Purchases and sales of foreign securities.....	-1,017	92	169	-77
U.S. long-term bank and nonbank claims.....	-1,222	-1,646	-859	-787
Total transactions in long-term U.S. capital invested abroad.....	-7,251	-8,709	-3,745	-4,964
Total long-term foreign capital invested in the United States ⁴	3,369	7,322	3,181	4,141
Balance on current account and long-term capital.....	-10,805	-5,937	-4,208	-1,729
Nonliquid short-term capital ⁵	-1,563	-4,259	-1,412	-2,847
SDR allocation.....	714	354	354	-
Errors and omissions.....	-7,440	-6,808	-3,116	-3,692
Net liquidity balance ⁶	-19,094	-16,650	-8,382	-8,268
Change in net liquid liabilities to private foreigners.....	-3,015	519	2,374	-1,855
Balance on official reserve transactions.....	-22,109	-16,131	-6,008	-10,123
Changes in reserve assets (+ = decrease):				
Gold.....	845	3	3	-
SDR's.....	-560	-345	-354	9
Convertible currencies.....	-107	449	216	233
IMF gold tranche position.....	1,027	-36	-31	-5
Changes in U.S. liabilities to foreign official agencies (+ = increase).....	20,904	16,060	6,174	9,886

* All data are based on seasonally adjusted quarterly data.

¹ 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 1973.

Departments of the Treasury and Commerce and the Federal Reserve System, and representatives of the companies, to discuss the reporting of international capital transactions in greater depth and detail and to explore ways in which the statistical systems might be improved.

Trade policy

Fiscal 1973 has been marked by a number of significant events in the trade policy area. A variety of new issues demanded attention—the entry into force of the treaties implementing the enlarged European Communities and the EC-EFTA arrangements, the movement in the GATT to prepare for a new round of trade negotiations, and presentation to Congress by the administration of a major new trade bill. In addition, work has continued in a number of areas discussed in this report last year, notably in East-West trade and in discussions with the Japanese concerning liberalization of their trading system.

Much attention has been focused on the enlargement of the EC from six to nine members on January 1, 1973, and the entry into force of the EC-EFTA-nonapplicant arrangement on April 1, 1973,* because it is feared that these events will have a negative effect on our trade balance and, more broadly, on the optimal distribution of the world's resources. Consequently, in February 1973 the United States initiated consultations in the GATT on the EC-EFTA arrangements, and in March we agreed to put aside our ongoing discussions with the Europeans on the consistency of the enlarged EC with the GATT in order to begin item-by-item renegotiations (GATT Article 23:6) on the many bound items in the tariff schedules of the acceding countries which have increased or will increase as a result of enlargement. The United States has made clear to the parties concerned in both cases that if we do not receive satisfaction in the GATT discussions, we will reserve our rights to offset damage to our trade.

Fiscal 1973 also saw the continuation of the series of bilateral consultations begun in 1971 to encourage the Japanese to remove the structural impediments to foreign participation in the Japanese trading system and to liberalize Japanese import restrictions and internal barriers to imported products. Although much progress remains to be made, the Japanese did unilaterally lower the bulk of their tariffs, set schedules for lowering and/or phasing out most of their industrial import quotas, and undertake a broad capital liberalization program.

The United States has also continued to work for increased trade with the nonmarket economy countries in the belief that the normalization of these relations is essential in our increasingly interdependent

*This includes all of the EFTA members which did not join the EC with the exception of Norway, scheduled to join on July 1, 1973, and Finland, which has initialed but not signed an agreement.

world. The most notable of our actions taken in this field in fiscal 1973 was the conclusion of a trade agreement in October 1972 between the United States and the U.S.S.R. The agreement includes provisions for most-favored-nation treatment and a tripling of our bilateral trade over the next 3 years. Congress must, however, enact legislation giving the President authority to extend most-favored-nation status before this trade agreement can enter into force. Such enabling authority is included in the administration's Trade Reform Act of 1973. In addition, in June 1973, additional protocols were signed with the U.S.S.R. concerning agricultural cooperation and the promotion of commercial relations between the two countries.

All of these actions are expected to lead to the more efficient and equitable operation of the world trading system. In the longer term, however, reform of the trading system must parallel changes in the monetary area. Fiscal 1973 saw substantial progress in preparing for the new round of trade negotiations intended to achieve these broader reforms. At the 28th session of the GATT contracting parties in November 1972 the United States, the EC, and Japan were joined by the other contracting parties in a statement of intent to undertake such negotiations beginning in September 1973. They also set up a preparatory committee which met periodically to prepare for a Ministerial meeting in September. The negotiations, to begin formally at the September meeting, are expected to result not only in further tariff reductions but also in progress toward liberalizing nontariff barriers to trade in both the industrial and agricultural sectors. Finally, the negotiations are to examine the adequacy of the rules of the current trading system. All of these subjects, particularly nontariff barriers, were the focus of the GATT work program in fiscal 1973.

In order for the United States to participate in the negotiations, the administration submitted to Congress on April 10, 1973, the Trade Reform Act of 1973. The bill would provide the necessary authority to allow the United States to join in negotiating a more open and equitable world trading system. It contains provisions to allow the President to raise and lower tariffs and to negotiate nontariff barriers; to deal effectively with rapid increases of imports that disrupt domestic markets and displace American workers; to strengthen our ability to meet unfair competitive practices; to manage our trade policy more effectively; to take extraordinary trade measures to deal with domestic inflation or balance of payments problems; to normalize our relations with the nonmarket economy countries by permitting the President to grant them most-favored-nation status; and to assist developing countries by implementing a generalized system of preferences.¹

¹ See exhibit 55.

Fiscal 1973 was, thus, a very active year in the trade field. There was also evidence during this period of a reversal in the negative trend in our trade account. The last 6 months of fiscal 1973 saw a trade deficit of \$810 million as compared with \$5.5 billion of the same period of fiscal 1972. Although much of this improvement came from the increased value of agricultural commodities which comprised an increasingly large proportion of our exports, we hope that the figures also reflect the increased competitiveness of U.S. goods as the result of the exchange rate changes of the past 2 years.

International investment and capital flows

In fiscal 1973 there were several notable developments which have had and will continue to have considerable impact on the nature, direction, and magnitude of capital flows and international investment.

International examination of investment issues.—In his September 1972 address at the annual meeting of the International Monetary Fund, Secretary Shultz emphasized the interrelation between monetary, trade, and investment aspects of efforts to reform the international monetary system.¹

The President, in his April 10, 1973, message to Congress proposing the Trade Reform Act of 1973, voiced the U.S. position on international investment by encouraging an open system, "one which eliminates artificial incentives or impediments here and abroad." The President further urged that Congress refrain from enacting broad changes in U.S. laws governing direct foreign investment until it is clear what agreements emerge from multilateral discussions.

Following on this theme, Secretary Shultz at the June 1973 meeting of the OECD Ministers reiterated the need to supplement negotiations in the monetary and trade areas with international discussions on policies and practices which affect international investments.² He emphasized in his address that:

We need new principles, new mechanisms, new information systems, in short, international guidelines for investment which will alert us to conflicts of interest among government policies affecting investment, and which will provide standards by which these policies can be assessed and conflicts reduced.

This has become increasingly necessary due to the actual and potential spreading of investment policies, such as, incentives and subsidy programs, which may distort the patterns of international trade, production, and investment. In the absence of appropriate international understandings and cooperation, their continued use and expansion could lead to conflicts among the economic policies of many countries.

¹ See exhibit 48.

² See exhibit 57.

The OECD Ministers at their meeting in June 1973 instructed the OECD's Executive Committee in special session to press forward with its work on international investment, including the multinational corporations. The United States strongly supports this examination of investment policies as an integral part of a broad effort to improve the international economic system as a whole.

The phaseout of U.S. capital control programs.—Perhaps the most important operative policy decision during the past year regarding capital flows was the decision to phase out U.S. programs that restrain the outflow of capital. In Secretary Shultz' statement on foreign economic policy on February 12, 1973,¹ which announced changes in the dollar exchange rate relationship, the Secretary stated that:

. . . in coordination with the Secretary of Commerce, we shall phase out the interest equalization tax and the controls of the Office of Foreign Direct Investment. Both controls will be terminated at the latest by December 31, 1974.

I am advised that the Federal Reserve Board will consider comparable steps for their voluntary foreign credit restraint program.

The phasing-out of the restraints on capital flows is appropriate in the light of the administration's broad objective of reducing governmental control over private investment and is based on the confidence that the eventual termination will coincide with a noticeable improvement in our balance of payments position.

The Secretary's announcement was further amplified in the communique of the Ministerial meeting of the Group of Ten and the European Economic Community released in Paris on March 16, 1973,² which stated that: "The United States authorities emphasized that the phasing out of their controls of longer-term capital outflows by the end of 1974 was intended to coincide with strong improvement in the United States balance of payments position. Any step taken during the interim period toward the elimination of these controls would take due account of exchange-market conditions and the balance of payments trends." Additionally, the communique noted that ". . . United States authorities are also reviewing actions that may be appropriate to remove inhibitions on the inflow of capital into the United States."

The interest equalization tax (IET).—Although the administration had announced that it would phase out the capital control programs by the end of 1974, the specific steps for implementing this action were not immediately formulated. In fact, faced with the impending expiration of the IET legislation on March 31, 1973, Under Secretary Volc-

¹ See exhibit 51.

² See exhibit 65.

ker appeared before the Senate Committee on Finance on March 7 to propose the extension of the IET for 2 years. He had earlier testified before the House Ways and Means Committee in support of the same proposal.¹

Mr. Volcker emphasized that the Government is pursuing policies at home and internationally to bring an end to the balance of payments deficit and that the two exchange rate realignments had produced a realistic base for repairing the trade and payments position, which, however, would take time. As the beneficial effects of the exchange rate realignments worked themselves out and as the administration took other steps such as trade negotiations and domestic economic action to restore our basic balance of payments position and to maintain our competitive edge, it was important that these objectives not be hampered by a precipitous dismantling of the IET and the other capital restraint programs. It was for this reason that the administration asked for an extension of the IET even though its ultimate phaseout had already been announced.

Congress approved the extension until June 30, 1974. The IET Extension Act, which was signed on April 10, 1973, included several new amendments, the most important of which are: (1) Elimination of U.S. estate tax on debt obligations sold to foreigners by U.S. corporations that elect to have such issues subject to IET when sold to Americans; (2) exemption from IET (under certain conditions) of stocks or bonds issued by foreigners for the purpose of providing a portion of financing for foreign direct investment into the United States; and (3) elimination from the less developed countries' exemption from the IET of obligations issued by shipping companies located in the less developed countries.

International development banks

During fiscal 1973, substantial but belated U.S. contributions were made to two of the institutions of which the United States is a member—\$320 million to the International Development Association (IDA) and \$418.4 million to the Inter-American Development Bank (IDB). These efforts covered the first installment of the U.S. contribution to the third replenishment of IDA, originally scheduled for fiscal 1972, and increases in the Ordinary Capital and the Fund for Special Operations (FSO) of the IDB. The IDB contributions, however, only covered half of the amounts requested in the fiscal 1973 budget. As a result of this and previous failures to appropriate requested contributions to the several international development institutions, the United States was behind schedule on such contributions at the end of fiscal 1973 by close to \$1.5 billion.

¹ See exhibits 41 and 42.

Lending activity by the several institutions continued to expand during fiscal 1973—from \$3.9 billion in 1972 to \$4.6 billion. The largest increases were on the part of the IDA and the IDB's FSO.

The World Bank group

The IBRD and its affiliates, the IDA and the IFC, committed a total of \$3.6 billion during the fiscal year—15 percent more than in fiscal 1972—for financing economic development projects in the member countries. The IBRD made new loans to its members totaling \$2,051 million, \$85 million more than in the previous fiscal year. While the bulk of its lending operations continued to be for physical infrastructure and industry, there was a sharp increase in loans for agriculture and education. IDA credits increased sharply from \$1 billion in 1972 to \$1.36 billion, with agriculture and transportation the major lending sectors. IFC investments in equity and loans, to the private sector without government guarantee, totaled \$147 million, largely for manufacturing.

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; but borrowed funds are now by far the most important source. During the year the Bank's outstanding funded debt increased by \$1,931 million, of which \$1,005 million reflected the results of exchange realignments, to the equivalent of \$8,882 million. The debt is denominated chiefly in U.S. dollars (\$3,481.9 million), deutsche marks (\$2,590.8 million equivalent), Japanese yen (\$1,769.3 million equivalent), and Swiss francs (\$586.0 million equivalent).

The World Bank's borrowings during the year totaled \$1,723 million equivalent, compared with \$1,744 million in 1972 and \$1,368 million in 1971. Japan was the largest source, providing the equivalent of \$605 million. Borrowings in Germany amounted to the equivalent of \$371 million and borrowings in Kuwait to \$122 million equivalent. There were no borrowings in the United States.

The \$1,723 million borrowed by the World Bank in fiscal 1973 included \$1,208 million equivalent sold to raise new funds and \$518 million equivalent of refundings. In addition, the Bank signed a loan agreement with the Bank of Japan to borrow up to ¥135,000 million over the period from February 1973 to February 1974, but had borrowed only ¥40,000 million (\$144.4 million equivalent) of this as of June 30, 1973.

The Bank's obligations are marketed widely, as is indicated by the estimated division of holdings by investors as of June 30, 1973—about 27 percent in the United States, 29 percent in Germany, 16 percent in Japan, 5 percent in Switzerland, and 4 percent in Kuwait. The remain-

ing 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 \$691.1 million in 1944 dollars. Of this, \$383.9 million represented further special increases under a resolution passed by the Bank's Board of Governors in fiscal 1971. 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 about \$25.8 billion (in current dollars, about \$31.1 billion). The U.S. share of the increase, \$246.1 million, was authorized by Congress in fiscal 1971 but only half was appropriated. The U.S. payment of this portion as well as a payment for maintenance of value was 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, 1973, amounted to \$7,133 million of which part I (developed) countries had contributed \$6,133 million and IBRD grants supplied \$702 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, 1973, \$6,167 million of these resources had been committed, leaving a balance of approximately \$966 million available for lending. These resources are expected to be fully committed by June 30, 1974.

The third replenishment of IDA's resources, approved by the Board of Governors on February 17, 1971, to cover the 3-year period beginning with fiscal 1972, became effective on September 22, 1972, when the United States formally notified the Association that it would participate. Legislation to authorize the U.S. contribution of \$960 million had been submitted to Congress in May 1971 and approved in March 1972, but payment of the first installment was not authorized until September 1972.

As of June 30, 1973, a fourth replenishment was under discussion but there had been no agreement on the level of replenishment or the U.S. share.

Inter-American Development Bank

During fiscal 1973, the IDB committed a total of \$730.9 million from its two windows, almost \$200 million more than during the previous fiscal year. Of this, \$285.8 million was loaned on hard terms from Ordinary Capital resources and \$445.1 million on soft terms from the Fund for Special Operations. In addition, the IDB committed \$7 million in administered funds.

As of June 30, 1973, cumulative lending by the IDB from its own resources totaled \$5.1 billion. Of this, \$2.3 billion had been loaned from the Ordinary Capital and \$2.8 billion from the Fund for Special Operations. In addition, the IDB had lent \$591 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 1973, three sectors—transportation, power, and agriculture—received most of the funds committed. About 26 percent, \$191.0 million, went to power. The agriculture and transportation sectors received \$141.5 million and \$105.0 million, respectively. On a cumulative basis, agriculture has received the largest amount of funds, \$1,230.3 million (24 percent); power is second, with \$947.1 million (18 percent).

The subscribed capital of the IDB totaled \$5,139.3 million equivalent on June 30, 1973, of which \$4,300.9 million was callable capital. The resources of the Bank's Fund for Special Operations totaled \$4,096.7 million equivalent on June 30, 1973.

In fiscal 1973, the IDB borrowed \$119 million net, with new resources obtained from Europe, Latin America, and Japan. This compares with \$97 million in the preceding fiscal year. Borrowings (gross) included \$41.7 million from Germany, \$27.9 million from Switzerland, \$24.4 million from France, \$13.8 million from Spain, and \$11.3 million from Japan. Additionally, \$53.4 million of 2-year bonds was sold to Latin American countries. The IDB's funded debt on June 30, 1973, amounted to the equivalent of \$1,287 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. A number of developed countries are expected to join as nonregional members.

During the fiscal year, Congress authorized payment of half the amounts requested in the budget, or \$193 million for Ordinary Capital and \$225 million for the Fund for Special Operations.

The 14th annual meeting was held in Kingston, Jamaica, May 7-10, 1973. The U.S. delegation was headed by Secretary Shultz.¹

The Asian Development Bank

During fiscal 1973, the ADB committed a total of \$357.3 million, \$235.9 million from Ordinary Capital and \$121.4 million from Special Funds. This brought the Bank's cumulative total of loans to \$1,045.0 million—\$799.0 million from Ordinary Capital and \$246.0 million from Special Funds. As of June 30, 1973, the Bank had also undertaken 105 technical assistance projects.

¹ See exhibit 54.

In the last quarter of calendar 1972, an increase became effective in the capital stock of the Bank by 150 percent to nearly \$3 billion (current dollars). Authorization for a U.S. contribution to this increase of \$363 million is being requested, and the first of three annual installments of \$121 million is included in the fiscal 1974 budget.

With the accession to membership of Bangladesh, Burma, and the British Solomon Islands, the Bank's membership reached 40—26 regional and 14 nonregional—with subscriptions totaling the equivalent of \$2,324 million.¹ Of this, 32 percent was paid-in capital.

During fiscal 1973, the Bank did not enter the U.S. capital market but borrowed \$42.0 million outside the United States. Total funded debt at the end of the fiscal year was \$209.1 million.

As of March 31, 1973, 9 countries have contributed \$250.6 million to the Bank's Special Funds (apart from technical assistance); in addition, \$29.6 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.

At the end of the fiscal year, the ADB was in the process of refining a proposal for a new unified Special Fund. Under this proposal, a fund of \$525 million would be established for a 3-year commitment period with contributions on the basis of an agreed formula. The suggested U.S. share would be \$150 million; the already authorized \$100 million voluntary contribution would be accepted toward this share.

The sixth annual meeting of the Bank's Board of Governors was held in Manila, Philippines, April 26—28, 1973. Under Secretary Volcker headed the U.S. delegation.²

Debt rescheduling

The Department of the Treasury has recently taken an increasingly active role in shaping and presenting the U.S. position in bilateral and multilateral debt reschedulings. At the direction of the President, Treasury headed the U.S. delegations to discussions on Chile debt rescheduling in fiscal years 1972 and 1973.

In fiscal 1973, there were multilateral debt discussions on the Chile, Ghana, India, and Pakistan/Bangladesh debt situations. No debt agreements were signed.

¹ As of June 30, 1972, subscriptions had not been adjusted to reflect the exchange realignments under the Smithsonian agreement.

² See exhibit 66.

Investment security

President Nixon's policy statement on expropriation of January 19, 1972, and the Gonzalez amendment to authorizing legislation for the multilateral development banks, adopted in March 1972, which defined U.S. Government responses in investment security situations, served in fiscal 1973 as the basis for U.S. positions taken in the IFI's on loans to countries which have expropriated or unfairly treated U.S.-owned interests without providing for prompt, adequate, and effective compensation. An Interagency Committee on Expropriation, whose membership includes the Departments of State, Treasury, and Commerce, was established under the Council on International Economic Policy to implement these new policies. This Committee has continuously monitored investment security situations and met five times in fiscal 1973 to consider actual and potential investment problems. Assistant Secretary for International Affairs Hennessy represented the Department of the Treasury on this Committee during fiscal 1973.

Expropriations involving significant U.S. interests, most notably in Chile, Peru, Iraq, Lebanon, and Syria, required extensive Treasury analysis during the past fiscal year.¹

Bilateral assistance

The Department of the Treasury participates in the U.S. Government development finance program through its membership in the National Advisory Council on International Monetary and Financial Policies, on the Overseas Private Investment Corporation (OPIC) Board of Directors, and on the interagency committees designed to coordinate economic assistance programs. Treasury's principal concern is to relate the various foreign economic assistance programs to overall U.S. balance of payments and international development objectives.

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 OPIC.

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 1972	Fiscal 1973
AID/Development loans.....	604.1	600.0
Agriculture/Public Law 480, food-for-peace.....	790.0	753.3
OPIC/Insurance, issued.....	636.0	649.3
OPIC/Guarantees and direct lending.....	23.9	17.7

¹ See exhibit 74.

Agency for International Development.—As a member of the Development Loan Committee of AID, Treasury primarily focuses on the balance of payments impact of AID development lending and on the financial characteristics of each development loan.

During fiscal 1973, AID authorized new development loans totaling \$600.0 million—\$219.0 million were program loans, \$288.3 million were in the form of project loans, and \$92.7 million were sector loans.

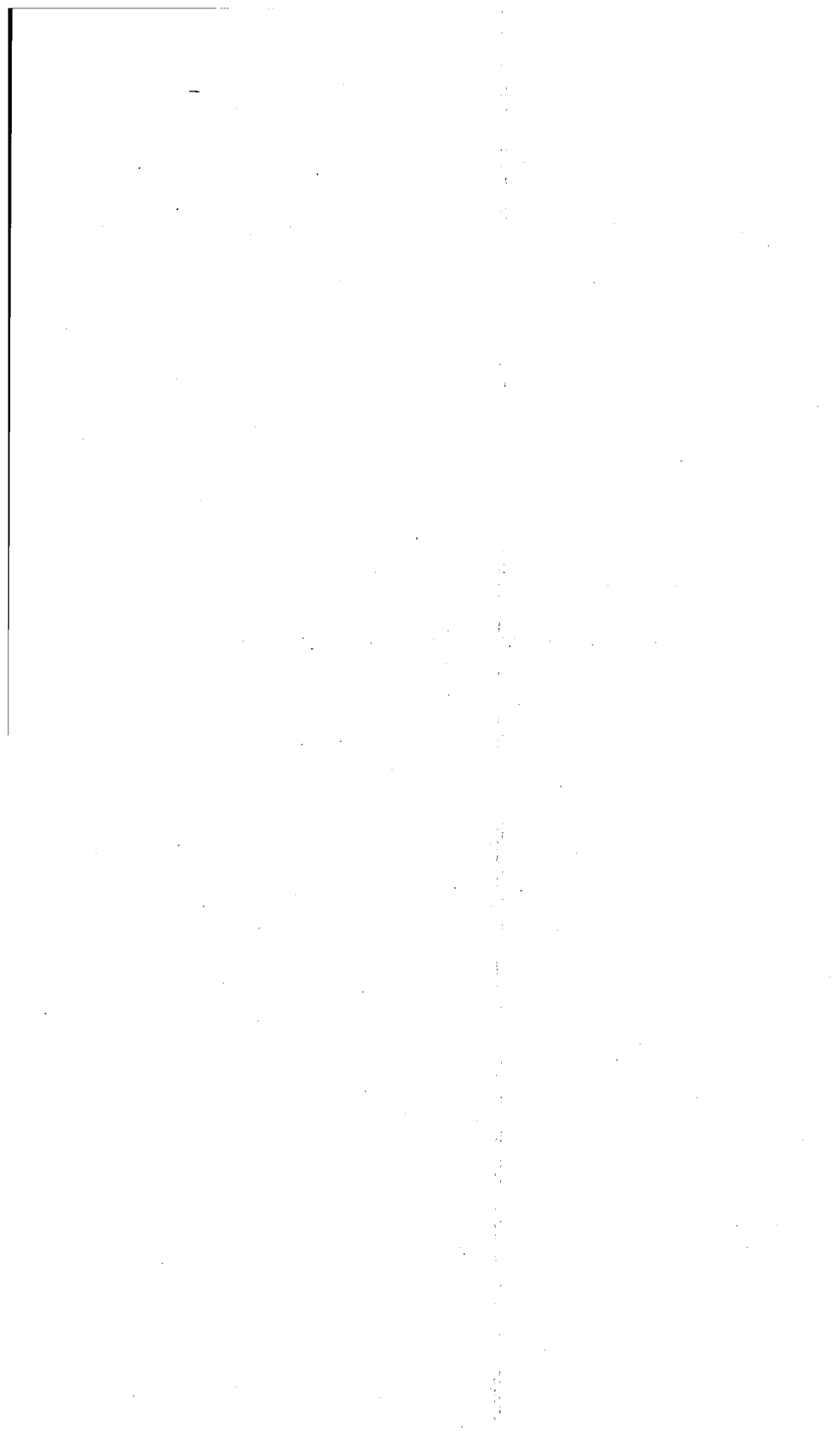
Public Law 480.—Treasury is represented on the Interagency Staff Committee, which reviews all Public Law 480 proposals, and is mainly concerned with the U.S. balance of payments returns associated with the program. During fiscal 1973, Title I sales agreements and amendments were signed with participating governments and private trade entities for a total export market value of \$753.3 million. This was a slight reduction from fiscal 1972 levels of approximately \$790 million. The terms of Public Law 480 credits have gradually hardened in recent years with a favorable effect on the balance of payments.

The Overseas Private Investment Corporation.—Under Secretary for Monetary Affairs Volcker represented the Department of the Treasury on OPIC's 11-man public/private Board of Directors during fiscal 1973. OPIC administers two main incentive programs to encourage U.S. investment in the developing countries: Investment insurance against the political risks of expropriation, inconvertibility, and war, revolution, and insurrection; and investment finance which provides both direct loans and commercial risk guarantees.

OPIC issued \$649 million in investment insurance in fiscal 1973, a slight rise from the \$636 million issued in fiscal 1972. The financing program guaranteed \$5 million of new investment in the developing countries and extended \$12.7 million in direct lending during fiscal 1973. In fiscal 1972, \$20 million guarantees and \$3.9 million in direct loans were signed.

Local currency management.—The Secretary made the annual determination of the foreign currencies in the possession of the United States which are in excess of normal requirements for fiscal 1974 and 1975. They were the currencies of Burma, Egypt, Guinea, India, Pakistan, Poland, Tunisia, and Yugoslavia (through December 31, 1973). Treasury's primary objective in the management of these currencies is to maximize the balance of payments benefits accruing to the United States from their use. In fiscal 1972, the latest data available, the U.S. Government reduced the balance of payments effect of its operations abroad by \$280 million through the use of local currencies held in Treasury accounts.

ADMINISTRATIVE REPORTS



ADMINISTRATIVE MANAGEMENT

Management by objectives

The Department has taken the initial steps in adopting management by objectives as the framework for assuring accomplishment of its basic missions, identifying program priorities, achieving specific improvement objectives, and providing selective program or project emphasis. Work has been started on identifying a limited number of significant policy and operational objectives of potential Presidential interest for possible tracking by the Office of Management and Budget. Similarly, Treasury bureaus and Office of the Secretary officials have commenced identifying key objectives for the special attention of the Secretary and his principal assistants. Through this approach, the Department will seek to provide positive direction for the key elements of its overall mission and keep track of progress and performance.

Special studies, projects, and programs

The management and planning staffs of the Office of the Assistant Secretary for Administration completed numerous studies and projects and initiated new programs at the departmental level to strengthen analytic capability and administrative control, to improve the operation of Treasury activities, and to respond to new responsibilities.

Office of the Assistant Secretary for Administration.—The Office of the Assistant Secretary for Administration was reorganized to provide a more effective and efficient organization in support of the Office of the Secretary.

The Office of Automatic Data Processing Management and Operations was established. Functions of the new office, which will be implemented on a time-phased basis, include development and operation of a departmental computer center, development of specialized software and common data bases, and coordination of Treasury ADP activities.

The Office of Central Services was disestablished, and responsibilities for the administrative and support functions for the Office of the Secretary (except personnel management and fiscal accounting) were reassigned to the Office of Administrative Programs. The Personnel Operations Division was retitled "Office of the Secretary Personnel Division" and reassigned to the Deputy Assistant Secretary for Administration, and a complete staffing, organization, and program analysis of this division led to new program emphases in personnel management and more effective management control and employee utilization. The accounting responsibilities for the Office of the Secretary appropriated funds, the working capital fund, the trust account for revenue sharing, and the Economic Stabilization Act appropriated funds were reassigned into a newly created Financial Management Division reporting to the Deputy Assistant Secretary for Administration. The functions of the Office of the Secretary Financial Manager were also

incorporated into the Financial Management Division, as well as budget and accounting functions for the Exchange Stabilization Fund.

The Administrative Office of the Assistant Secretary (International Affairs) was disestablished and its functions distributed to the appropriate organizational elements under the Assistant Secretary for Administration, thereby centralizing in the Office of the Assistant Secretary for Administration administrative support for all components of the Office of the Secretary.

Office of the Secretary.—The Office of Revenue Sharing was organized to administer the State and Local Fiscal Assistance Act of 1972, and the Office of Energy Advisor was established to support the Deputy Secretary in his capacity as Chairman of the Oil Policy Committee. Supervision of the functions of the Office of Industrial Economics was transferred from the Commissioner of Internal Revenue to the Assistant Secretary (Tax Policy), providing a more effective organizational arrangement for departmental tax analysis functions; and a manpower survey and organizational review of the components of the Office of the Assistant Secretary (Tax Policy) resulted in internal organizational changes and management improvements, to the general benefit of the policymaking process.

An analysis of Office of the Secretary positions was made to determine those performing functions appropriate for funding by the Exchange Stabilization Fund, and a study was made of Office of the Secretary procedures for handling incoming classified information of international economic import.

Departmental.—Improvements were made in the long-range planning system of the Department to integrate it more closely into the established management processes; to improve the usability of the system's information outputs; and to better relate projected resource requirements for each operating program of the Department. Fifteen low-priority departmental programs were identified for potential reduction or abolishment.

In addition, management staff led or participated in a study of the production of clad strip by the Bureau of the Mint, which affirmed that in-house strip manufacture is economically preferable to outside production; an Internal Revenue Service review of administrative functions; and a study evaluating alternative sites for expansion of Bureau of Engraving and Printing production facilities.

Advisory committee management.—As a result of the enactment of Public Law 92-463, Federal Advisory Committee Act, effective January 5, 1973, new requirements and procedures were established for controlling the establishment and operation of advisory committees within the Department, under the direction of the Assistant Secretary for Administration.

Environmental quality program.—During fiscal 1973, the Assistant Secretary for Administration was designated as the Departmental Environmental Quality Officer with overall responsibility for Treasury's environmental quality program. Under his direction the existing program was strengthened by development of day-to-day working relationships with the Council on Environmental Quality, the Environmental Protection Agency, and other agencies. Work was also begun

on a new version of the departmental procedures for environmental impact statements.

Technical assistance to foreign governments and officials.—Treasury continues to participate extensively in the technical cooperation programs of the Agency for International Development. Currently, teams of customs and tax advisors are at work in 14 developing nations throughout the world. In addition, during fiscal 1973 more than 100 man-days of orientation and training programs were arranged for foreign visitors coming to Treasury under the auspices of AID and other agencies.

Emergency preparedness

As a result of a new continuity of Government concept directed by the Office of Emergency Preparedness, the emergency assignments of key personnel and headquarters plans were completely revised. Under the new concept three executive teams have been established to function at three separate locations in the event of an emergency. Coincidental with the revision of emergency plans, a review and determination was made of the essential functions to be performed by Treasury bureaus and the Office of the Secretary during an emergency.

To overcome problems resulting from the classification of defense condition notifications, a new internal alerting system was developed in accordance with guidelines provided by OEP. The system will alert key personnel of an impending emergency without violating security restrictions.

An in-house review was made of Treasury's plan for war-loss sharing. A proposed new concept was developed and circulated for consideration by the staff offices concerned.

Internal auditing

As a result of a review of internal auditing activities at the Bureau of Customs, proposals were made to accompany recent improvements in the audit scope and approach with a centrally coordinated long-range audit planning system and strengthening of the audit staff. Proposals were also made on the scope, staffing, organization, and internal review of a new audit organization responsible for regulatory audits of customhouse brokers and other third parties. In addition, the Bureau of the Mint accepted a recommendation to relocate members of its internal audit staff to major field installations.

The Office of Audit provided audit coverage of the administrative activities of the Cost of Living Council and conducted audits of Office of the Secretary activities, a survey of operating and administrative functions of the Office of Revenue Sharing, and examinations of process accounting procedures for coinage metals at Mint facilities in Denver and San Francisco. A member of the staff chaired the committee auditing the Exchange Stabilization Fund, and the onsite portion of an audit at the Consolidated Federal Law Enforcement Training Center was completed. A review of internal auditing activities in the Bureau of Accounts was also completed.

Supplementing programmed and more formal work, the Office of Audit helped Treasury bureaus locate a number of highly qualified auditors and provided advisory assistance on a variety of financial and audit matters. The staff participated, for example, in meetings on

revenue sharing and assisted in several pilot surveys at nearby local governments receiving entitlement funds.

Substantial benefits were realized as a result of audits at two Government contractors, and costs were questioned on a third contract. Treasury bureaus were encouraged through an administrative bulletin and other means to utilize audit services more fully in the administration of negotiated, cost reimbursable, and other contracts.

ADP management

The Department used 109 computer systems, 24,600 man-years, and \$297 million in its automatic data processing operations during fiscal 1973. These resources continue to provide such benefits as support for implementation of general revenue sharing, improving tax administration, and support of debt management and payment systems.

Financial management

Budgeting.—Budget staff continued to develop policies and procedures and to direct and coordinate the formulation, justification, and presentation of appropriations for budget estimates which totaled over \$34 billion in fiscal 1973. The amount includes \$1.7 billion for operating appropriations, over \$24 billion for public debt and other interest accounts, and \$8.3 billion for general revenue sharing.

During fiscal 1973, the budget staff:

(1) Established and maintained controls on expenditures, number of personnel on the roll, and motor vehicle fleet to comply with limitations and directives prescribed by the Office of Management and Budget.

(2) 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 the reprogramming of funds appropriated to Customs to facilitate that bureau's occupancy of the World Trade Center in New York, establishment and transfer of the Treasury computer center from the Bureau of the Public Debt to the Office of the Secretary, and the transfer of the drug investigation functions from Treasury to Justice as proposed in the President's Reorganization Plan No. 2.

(3) Participated in meetings with representatives of Office of Management and Budget and Office of Emergency Preparedness culminating in the orderly transfer of funds and positions from the Office of Emergency Preparedness to Treasury to support the Deputy Secretary of the Treasury as Chairman of the Oil Policy Committee.

(4) Prepared the budget justification material leading to the establishment of the Environmental Financing Authority. The purpose of this new authority is to assure that the national program for the construction of essential municipal waste treatment facilities will not be interrupted due to lack of funds.

(5) Held the supplemental appropriation request for the cost of pay increases taking effect under Public Law 91-656, Public Law 92-410, wage board actions and administrative actions to \$1.75 million, although the costs totaled \$39.3 million. A total of \$37.5 million of the

increased costs was absorbed by application of management savings, reimbursements, use of budgetary reserves, curtailment of selected operations, and transfers between appropriations.

(6) Assisted in the preparation and presentation of budget requests for funds totaling over \$3.4 billion to be appropriated to the President for the U.S. share of contributions to the international financial institutions of which the Secretary of the Treasury serves as a Governor. Of this total, \$2.25 billion represented a request for an additional appropriation necessary for maintaining the value of the holdings of U.S. dollars by these institutions under the proposed 1973 revaluation of the dollar.

Accounting systems.—Efforts to maintain and strengthen the administrative accounting systems of the Department were continued, primarily by assisting the several relatively new bureaus on problems relating to accounting organizations, accounting system design, and coordination with General Accounting Office systems review activities. During the year, administrative accounting systems for the Internal Revenue Service and the Bureau of Customs were approved. The administrative accounting system for the Consolidated Federal Law Enforcement Training Center was approved by the Comptroller General on June 29, 1973, with two other systems (the working capital fund—Office of the Secretary, and Bureau of Alcohol, Tobacco and Firearms) actually under design and being documented for submission to GAO early in fiscal 1974.

Personnel management

The Secretary issued a statement expressing his personal interest in the labor relations program as well as his concern that the Department's managers give labor relations a high priority. In accordance with the wishes of the President, the Department issued detailed guidelines for managing and organizing the Department's responsibilities under the Federal labor management relations program. Also, a Personnel Manual chapter was issued to guide bureaus in establishing effective systems for intramanagement communication.

Emphasis during the year continued to be given to average grade control and effective position management in line with Presidential policy. At yearend, the Treasury had substantially achieved its OMB-established goals.

Implementation of the central personnel data file received special emphasis. The file, installed at the Civil Service Commission, was established to provide a data base capable of satisfying minimum essential statistical data needs for central management agencies and the public. It covers most Federal employees and is based on personnel actions submitted directly to CSC by agency personnel processing offices. When fully operational, it will not be necessary for departments and agencies to submit most of the personnel reports now required. Statistics necessary for personnel management planning, management decisions, and personnel operations will be available to all departments.

A comprehensive executive and management development program was launched, providing for the identification of midlevel managers with high potential and the preparation of annual individual de-

velopment programs for these managers and all other personnel at the supergrade level.

An extensive supergrade management system was developed and instituted to assure the most effective utilization of supergrade positions on a Department-wide basis.

The new Federal Wage System was implemented throughout the Department except for the Bureau of Engraving and Printing. The Federal Wage System legislation (Public Law 92-392) exempts Engraving and Printing from Federal Wage System coverage. The new system differs from the superseded Coordinated Federal Wage System insofar as Treasury is concerned in two major respects: (1) Night differential pay practices, and (2) increase in the number of within-grade steps for nonsupervisory, regular pay schedules from three to five.

Treasury Department winners of major awards during fiscal 1973 were: Mrs. Charlotte Tuttle Lloyd, Assistant General Counsel—the National Civil Service League's Career Service Award for Sustained Excellence; Edward F. Preston, Assistant Commissioner (Stabilization), IRS—the National Civil Service League's Career Service Award for Special Achievement; Vernon D. Acree, Commissioner of Customs—a Rockefeller Public Service Award; Glenn R. Dickerson, Assistant Commissioner of Customs for Administration, and Fred R. Boyett, Regional Commissioner of Customs, New York, N.Y.—Presidential Management Improvement Awards for accomplishments in reorganizing Customs Region II.

Procurement

The negotiation of 44 blanket purchase agreements for office machines and miscellaneous supplies for use by all Treasury bureaus provided a savings in excess of \$162,000. The consolidation of Treasury requirements for 623 undercover law enforcement vehicles, procured through the General Services Administration, resulted in an improved quality of vehicle, while the average price per vehicle remained below the \$3,000 cost limit authorized by Congress.

Property management

Treasury's personal property program was given special emphasis in fiscal 1973, and transactions during the year included the reassignment within Treasury of property valued at \$487,950; transfer of personal property valued at \$989,368 to other Federal agencies for their use; and the donation of personal property valued at \$656,371 no longer needed by the Federal Government for use by State organizations and nonprofit groups. Treasury also obtained, without reimbursement, personal property valued at over \$1.6 million from other Federal agencies.

Printing

During fiscal 1973, the Bureau of the Public Debt, Bureau of Accounts, and the Office of the Treasurer, U.S., consolidated their printing plants and relocated in the Treasury Annex basement. The new facility was established to accommodate all of the printing needs for the

three Fiscal Service bureaus and to conform with the Joint Committee on Printing regulations on centralizing facilities.

The Bureau of Accounts was assisted in obtaining authorization from the Joint Committee on Printing to purchase 13 check-wrapping, envelope-printing, die-cutting, inserting and collating systems for a total cost of \$1,560,000. Following installation of these systems, beginning with fiscal 1977, it is estimated that savings will be in excess of \$1 million annually.

Paperwork management

Late in the year, the Department launched a new, broader paperwork management program designed to obtain full compliance with all statutory and regulatory standards within the next 2 fiscal years and full use of paperwork management in a total systems approach to improving Department operations and generating savings for use in higher priority activities.

The annual summary of the Department's records holdings for the year showed a total of 889,596 cubic feet in office space, an increase of 39,297 over the previous year. Seventy-seven percent of the Department's holdings are now in records centers, as compared with the Government-wide goal of 50 percent.

Telecommunications

Telecommunications functions at the departmental level have been consolidated and a Treasury Advisory Council for Telecommunications (TACT) has been established with two working groups which are developing recommendations on how to reduce Treasury FTS costs and how Centrex can be integrated into the Treasury telecommunications system. It is anticipated that these efforts will result in better programming with emphasis on total system planning.

National Security Agency (NSA) has agreed to set aside almost \$2 million in research and development money for a communications security device which will satisfy Treasury's requirement to protect its law enforcement radio systems.

The Treasury telecommunications staff coordinated the expansion of the customs automated data processing intelligence network (CADPIN) system into the Treasury enforcement communication system (TECS) working closely with the Office of Law Enforcement and the bureaus involved. TECS provides an immediate response to law enforcement inquiries from the IRS Intelligence Division, IRS Inspection Division, Bureau of Alcohol, Tobacco and Firearms, U.S. Customs Service, and the U.S. Secret Service terminals.

The Main Treasury Telecommunications Center (MTTC) has expanded so that it is now able to handle additional information from NSA and CIA of particular interest to the Secretary and his top advisors. Also, a classified line to the U.S. Secret Service was established.

Safety

Treasury continued to maintain a low disabling injury frequency rate during 1972. The Department's rate, based upon internal reports, was 2.3 injuries per million man-hours worked. This compared favorably with the all-Federal rate of 6.0.

Physical security

Pursuant to Executive Order 11652 and the National Security Council directive of May 17, 1972, Treasury Orders dealing with "National Security Information" and "Safeguarding Officially Limited Information" were distributed throughout the Department. A booklet entitled "Security Do's and Don'ts in the Department of the Treasury" was prepared and disseminated throughout the Department.

Space

The Department has been successful in acquiring a major-size office building, the U.S. Postal Service headquarters, in downtown Washington, D.C. This centrally located 510,000-square foot installation, after a planned renovation and when fully occupied, is expected to resolve certain critical space shortages, allow for the consolidation of organizational elements from 12 locations, and release 6 leased buildings.

Efforts to consolidate Public Debt's Chicago and Parkersburg activities moved closer with the groundbreaking for a 240,000-square foot, multistory office complex. The facility will be located in the Parkersburg, W. Va., urban renewal area, and is expected to be completed by November 1974. An award has been made for construction of a 25,000-square foot microfilm depository in Ravenswood, W. Va. This facility will replace the present depository in Wisconsin and serve the new consolidated Public Debt operations.

Efforts to acquire a site for construction of the new Denver Mint were consummated when the mayor of Denver signed the letter of agreement conveying approximately 38 acres on the west bank of the South Platte River to the Government.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

The Bureau of Alcohol, Tobacco and Firearms completed its first year as a separate bureau within the Department of the Treasury. In addition to its law enforcement responsibilities, ATF is concerned with Federal regulation of the legal alcohol, tobacco, firearms, and explosives industries, and is charged with protection of both consumers and the environment with respect to these regulated industries. Also, during the past fiscal year, ATF collected over \$7.2 billion in excise taxes on alcohol and tobacco products.

On the law enforcement side, ATF enforces the Federal laws relating to firearms, explosives, and illicit liquor. Of the nearly 4,000 employees in the Bureau, approximately 1,600 are special agents, with investigative and arrest authority, stationed at 240 posts throughout the United States and Puerto Rico.

The law enforcement and revenue protection authority currently exercised by the Bureau originated in 1863, when the first Commissioner of Internal Revenue appointed two detectives to ferret out those persons making whiskey without paying the Federal excise tax. The first hundred years were devoted mainly to suppressing the illicit liquor traffic which defrauded the Government of millions of tax dollars each year. At the same time, procedures for regulating the legitimate alcoholic beverage industry were developed.

The first Federal gun law was enacted in 1934 when Congress employed a manufacturing and transfer tax system to control the machine guns, sawed-off shotguns, and short-barreled rifles frequently used by gangsters. It was not until 1942, however, that ATF was given investigatory responsibility for the National Firearms Act of 1934 and the Federal Firearms Act of 1938. In 1951, ATF assumed the regulatory responsibility for these acts.

Because of this experience ATF, functioning as a division of the Internal Revenue Service, was charged with enforcing and administering the Gun Control Act of 1968, which amended the National Firearms Act and expanded the other Federal firearms laws. Sole responsibility for regulating the legitimate explosives industry and joint jurisdiction with the Federal Bureau of Investigation for investigating the misuse of explosive materials were assigned to ATF with the passage of the Organized Crime Control Act of 1970.

On July 1, 1972, the new Bureau was formed, and these functions were transferred to it from the Internal Revenue Service.

Historically, ATF has a long tradition of close cooperation with other law enforcement agencies. Under the laws enacted in the past 3 or 4 years on firearms and explosive materials, the Bureau has deepened its commitment to assisting law enforcement officials at all levels.

Criminal enforcement

The ATF criminal enforcement activity has four principal areas of responsibility: (1) Investigation and apprehension of violators of the Federal firearms statutes, (2) investigation of bombings and explosions and apprehension of violators of the Federal explosive materials laws, (3) enforcement of the Federal laws relating to the production and sale of illicit distilled spirits, and (4) providing assistance to State and local officers in their fight against crime through the sharing of manpower and facilities where there are joint interests.

Firearms programs.—The Gun Control Act of 1968 caused ATF to direct a large part of its investigative manpower to the task of licensing the approximately 155,000 firearms dealers and collectors. While this briefly limited the perfecting of criminal cases for gun violations, it accomplished two important steps toward keeping guns out of the hands of criminals ensuring (1) that only legitimate and responsible dealers were licensed, and (2) that those dealers would keep complete and accurate records.

ATF special agents and inspectors made approximately 25,000 dealer compliance investigations last year in order to ensure that dealers understand the law and are complying with it. The bulk of this work is now being shifted from investigative personnel to those who work in regulatory enforcement, thus freeing special agents for more

direct work on criminals. While less than one-tenth of 1 percent of the licensed dealers checked were found to be in such serious violation of the law as to warrant prosecution, the value of such investigations is illustrated by five cases made in the last 3 years in South Carolina against licensed dealers involving the illegal sale of nearly 40,000 small, cheap handguns. The dealers were falsifying their sales records, selling the guns in bulk lots to unlicensed individuals who sold the guns on the streets of cities in New York and New Jersey. In the latest case, the dealer disposed of about 3,600 handguns, 122 of which were seized by New York City police in connection with crimes of murder, armed robbery, and assault.

Accurate dealer records are important for ATF gun-tracing activities, which increased dramatically over the last 2 years. Requests for firearms tracing now number over 1,000 per month and are increasing by 10 percent per month.

The majority of these requests stemmed from the recovery of a firearm at the crime scene by local law enforcement agencies. Tracings were over 63 percent successful, some of them being completed within hours of the commission of a crime and receipt of the trace request. Eight hundred local and 15 Federal law enforcement agencies utilized ATF's service, which significantly aided crime solving. This success was made possible by the full cooperation of the firearms industry; at their request, the Bureau moved toward the goal of performing all gun tracing in order to reduce expense to the industry from time wasted because of incomplete descriptions of the guns by police officers who are not totally knowledgeable in gun-tracing techniques.

One gun trace during the year involved the Ruger .44 caliber rifle found on the roof of the Howard Johnson's Motel in New Orleans beside a dead man who had held the New Orleans police at bay after killing several persons. ATF received the request to trace the firearm at 6:30 p.m. and 27 minutes later had traced the gun from the factory to a man who lived in Emporia, Kans. His mother in Emporia told ATF agents that her son was living in New Orleans with another individual. New Orleans police were furnished this information and the address of the apartment.

During fiscal 1973, ATF special agents investigated over 67,000 individual purchases of firearms where there was reason to suspect that the person purchasing the gun was a felon or had used false identification in making the purchase.

Complete firearms cases referred to the appropriate U.S. attorney with a recommendation for prosecution totaled 2,840 in 1973, and on-the-spot arrests of 2,258 persons were made for these violations. Additional arrests will be made as the result of grand jury consideration of the cases. The present ATF statistical reporting system does not permit it to record the total number of investigations made during the course of the year. Prosecutions for firearms violations are 78 percent successful, with the majority of defendants entering pleas of guilty.

Illustrative of the types of cases being made by the Bureau are:

On August 3, 1972, in El Paso, Tex., ATF special agents arrested 2 men and seized 15 machine guns, 49 handguns, and 4 shotguns. The firearms had been shipped from California to the El Paso area where they were to be smuggled into Mexico.

On December 7, 1972, in Gary, Ind., ATF special agents, assisted by Office of Drug Abuse Law Enforcement (DALE) agents, executed a Federal search warrant on the premises of a convicted felon suspected of possessing an M-1 carbine in violation of the Gun Control Act. During the search the agents found and seized over 600 packages of heroin along with the carbine. Four persons were arrested.

On October 20, 1972, ATF special agents arrested three men from Baltimore for violation of the Gun Control Act and seized 98 handguns. Working on information supplied by a licensed dealer that the three men were involved in a gun-running scheme, the agents placed them under surveillance. After weeks of work, it was determined they were obtaining firearms from a dealer and transporting them to New York City to sell on the streets at a much higher price. One of these men was an alien who was in the country illegally.

The number of murders committed in 1971 involving guns was 66 percent of total murders committed. Armed robberies increased 175 percent from 1966 through 1971. Special surveys indicate that approximately 63 percent of all armed robberies are committed with a firearm. Thus, considerable ATF investigative manpower, equipment, and materials will continue to be required to assist State and local law enforcement agencies in combating crime.

Explosives program.—Since 1934, Federal law has required that machine guns, sawed-off shotguns, short-barreled rifles, and silencers be registered with the Federal Government, and has vested responsibility for maintaining the National Firearms Registry in the Bureau. The Gun Control Act added “destructive devices,” including bombs of all types, to the registration requirements. Although ATF has over 182,000 gangster-type weapons and destructive devices registered in its files, there is no record of any incendiary, or criminal-type, bomb having been registered; therefore, possession of such a bomb is a violation of the National Firearms Act.

Since December 1968, when the Bureau began investigating bombings, ATF has developed an expertise in making such investigations while, at the same time, working alongside State and local officials. The headquarters laboratory in Washington has built one of the world's finest libraries on explosive materials and has developed techniques for examining minute particles of explosion scene debris to identify the type of explosive.

In fiscal 1973 ATF arrested 282 persons for explosives violations as compared with 280 for the previous year.

The enactment of title XI, Regulation of Explosives, for the Safe Streets Act of 1970, placed primary responsibility for control of explosive materials in interstate and foreign commerce on ATF and provided, in six subsections of the statute, for joint investigative authority between the Secretary of the Treasury and the Attorney General. A working agreement between ATF and the FBI on each Bureau's responsibility under those six subsections has reduced duplication of effort and helped State and local officers understand which Federal agency they should turn to for help in a given situation.

The increasing frequency of bombings led ATF to develop a national incident-reporting system to supply intelligence to field personnel and permit analysis of trends in this type of criminal activity.

"Campus" bombings declined and the bulk of ATF bomb investigations during the last 6 months was in the labor field.

ATF special agents investigated several bombings where the targets were State or Federal witnesses to a crime. The most significant of these caused the death of a school teacher in Oklahoma when a bomb exploded in a pickup truck she started. The truck was usually used by her husband, who was a prosecution witness in a pending case against a well-known Oklahoma gangster. After extensive investigation, the gangster was convicted in State court for the teacher's murder and sentenced to life imprisonment. Six months later a second man was arrested for helping set the bomb. He was convicted on Federal charges and sentenced to 10 years in prison.

In New Mexico, two men attempted to induce an ATF undercover agent to kill a local truck driver with homemade bombs. The two men were convicted in August 1972 for unlawful possession of the bombs and received maximum 10-year prison sentences.

Many ATF investigations of bombings result in charges being filed in State court. In Carteret County, N.C., eight persons were charged under State laws in the bombing of the county high school and several other buildings. ATF special agents, working with State and local officers, spearheaded the investigation, which resulted in the conviction of the ringleader and his sentencing to 20 years in State prison.

The enactment of title XI of the Safe Streets Act of 1970, which required the licensing of dealers in explosives and placed restrictions on the sale of explosive materials, has forced those who would misuse the most common of explosives—dynamite—to resort to theft to acquire a supply. In Sacramento, Calif., ATF special agents watched as three men associated with the Hell's Angels motorcycle gang burglarized an explosives storage bunker. The men, all heavily armed, were arrested by ATF special agents in a safe area after they had left the storage bunker. At the time of arrest, they had 5 tons of dynamite, 17 cases of detonating cord, and over 100 electric blasting caps.

Illicit liquor.—In fiscal 1973, ATF special agents participated in the seizure of 1,693 illicit distilleries, approximately 95 percent of these in the seven Southern States and the fringe areas of Virginia, Kentucky, Arkansas, eastern Oklahoma, and northeastern Texas. Many other distilleries were seized by State and local officers.

Distilleries seized had an average lifespan of 30 days and during that time produced 1,682,458 proof gallons of illicit liquor. This represents a Federal tax loss of \$17.7 million, plus an accompanying loss in State taxes. Had these distilleries been allowed to go undetected, the yearly Federal tax loss would have approached a quarter of a billion dollars.

During the 1960's, ATF conducted a program called "Operation Dry-Up" in South Carolina, Georgia, and Alabama. Basically, it increased investigative personnel in the States and mounted an all-out public information campaign to overcome the apathy of the law-abiding citizen toward "moonshining," since these people made up the juries which tried the moonshiner. In those three States, the legal liquor industry documented the success of the program by increased sales of taxpaid distilled spirits in direct correlation with the enforcement

effort. Over \$100 million in additional revenue has accrued to the Federal Government since the inception of the program.

While there was a definite decrease in the illicit production of whiskey as compared with 15 or 20 years ago, the problem still requires Federal attention. The Southern bootlegger no longer confines his illegal activities to moonshine whiskey, but has branched into counterfeiting and narcotics. On January 16, 1973, a large-scale liquor law violator in the Atlanta area who entered a plea of guilty to Federal charges of possessing and selling nontaxpaid whiskey was sentenced to 2 years in prison to be served concurrently with a 6-year sentence for possession and sale of heroin. Another major liquor violator from the Gainesville, Ga., area received an 8-year State prison sentence on drug charges. Local officers have long found the sale of illegal whiskey to be contributory to crime in the community.

Assistance to local authorities.—ATF assistance to State and local agencies, in addition to actual joint criminal investigations, included 2-week training courses and shorter schooling on bombs and bomb investigations. Training is conducted at sites selected by the requesting agency and sometimes includes police officers from several small departments who have joined together for the instruction. During fiscal 1973, ATF provided training for over 45,000 police officers. Some funds for these ATF courses were provided by the Law Enforcement Assistance Administration.

The Bureau assists State and local officers but does not take over their investigations. Many joint investigations were prosecuted in State courts when the State laws paralleled the Federal firearms statutes. Typical of ATF assistance was an incident in Champaign, Ill., where police requested help in the apprehension of a convicted felon who was the major suspect in a series of armed robberies in two of which the victims were shot. ATF special agents arrested the man on charges of possessing a firearm in violation of Federal laws and the robberies in the Champaign area stopped.

In another case in Michigan, the State police asked ATF help in an investigation relating to stolen property, including firearms. An ATF agent in an undercover role bought six guns from the suspect. The joint investigation resulted in the officers obtaining State search warrants for several locations in the Detroit area and recovering stolen property estimated at \$300,000 in value.

In Salon, Ohio, local police officers asked ATF for assistance in the investigation of a bombing that occurred on a golf course. Three individuals arrested for the bombing admitted committing 30 burglaries, with stolen merchandise valued at approximately \$250,000. They also admitted having committed three arson violations.

Other enforcement activities.—Nineteen ATF special agents were attached to organized crime strike forces established by the Department of Justice in 17 major cities. The Department of Justice selected ATF to coordinate the intelligence on organized crime gathered by all Federal agencies participating in the strike force program. A group of experienced ATF agents provided much of the in-house instruction and training necessary for this coordination.

ATF strike force agents also investigated the activities of mobsters, racketeers, and underworld hirelings for violations of the Federal laws

relating to firearms, liquor, and explosives. Since the inception of the strike force program, the Bureau has developed cases which led to the indictment of 398 members of organized crime.

One such case saw ATF assisting the Cook County, Ill., State's attorney's office in an investigation resulting in murder indictments against three organized crime figures. One of those indicted ranks high in Chicago organized crime lists, and a firearm seized from his home on Federal gun charges is to be used as evidence.

In another case, when the reputed boss of the Rochester, N.Y., organized crime syndicate traveled to Arizona, ATF gathered evidence for a Federal indictment for unlawful interstate transportation of firearms. Also, in Newark, N.J., an ATF special agent, acting in an undercover capacity, bought guns from a man who was a known fence for firearms and ammunition being hijacked by a New York organized crime family. Agents arrested him and seized 60 guns, including automatic weapons.

In fiscal 1973, ATF participated in the Federal drive against drug abuse by assigning 41 agents in 33 cities to full-time duty with the DALE project under the direction of the Department of Justice.

Within its own jurisdiction, ATF applied its knowledge of the close correlation between firearms and narcotics violations to a pilot project to combat drug traffickers in Miami, Fla. Working closely with the Bureau of Narcotics and Dangerous Drugs, the U.S. Customs Service, DALE officials, the Intelligence Division of the Internal Revenue Service, and local officials, ATF placed several agents in undercover roles. Equipped with a target list of over a hundred persons known to be involved in the narcotics traffic, they sought to link those persons with gun violations. Results were excellent. Not only were violations of ATF-controlled laws uncovered, but intelligence on straight narcotics activity was gathered and forwarded to the appropriate agency.

In addition, over 100 ATF special agents assisted the Secret Service in maintaining security at each of the national political conventions this past year and in protecting Government dignitaries and visiting foreign officials at the United Nations.

Regulatory enforcement

In fiscal 1973, the Bureau collected \$71½ billion from commodity taxes on distilled spirits, beer, wine, and tobacco products at a cost of approximately \$17.6 million, or only \$2.32 for each \$1,000 collected. Over 1.1 billion tax gallons of spirits with a potential tax revenue of \$11.6 billion were stored in bonded warehouses at the close of fiscal 1973.

Regulatory enforcement consists of two basic programs—revenue protection and consumer protection—which occupy over 900 inspectors in the field. These inspectors spent 71 percent of their time on revenue protection, through revenue audits and compliance inspections, and 29 percent on consumer protection, ensuring that products were properly labeled and represented and that fair trade practices were employed.

At latest count, there were over one-half million establishments (permittee or licensed premises) in the United States under Bureau

regulation. Of this number, about 405,000 are engaged in the production, distribution, storage, or use of alcohol, wine, and beer. The remainder are in the tobacco, firearms, and explosives industries. Regulation of the latter two is being shifted to the Office of Regulatory Enforcement as soon as resources permit.

Trade practice enforcement.—Congress, in passing the Federal Alcohol Administration Act of 1935, stated that its purpose was to curtail the corruption which existed in the liquor industry under prohibition. But even after the repeal of prohibition, the criminal element continued to engage in the illicit production and distribution of alcohol. Therefore, Bureau inspectors subject each individual desiring to enter the liquor industry, from the producer down through the wholesaler, to an intensive background investigation, and thoroughly investigate each application for a permit to do business in the liquor industry.

A report on organized crime filed by the President's Commission on Law Enforcement and Administration of Justice stated that "law enforcement is not the only weapon that governments have to control organized crime. Regulatory activity can have a great effect." The report also said, "Government at various levels has not explored the regulatory devices available to thwart the activities of criminal groups, especially in the area of infiltration of legitimate business. These techniques are especially valuable because they require a less rigid standard of proof of violation than the guilt-beyond-a-reasonable-doubt requirement of criminal law." The Bureau used this approach in its strike force activity during fiscal 1973 in Baltimore, New Orleans, Chicago, Pittsburgh, and Atlantic City, where retail liquor outlets with suspected organized crime ownership were inspected by teams of Bureau inspectors and special agents. Hidden ownership of the premises by organized crime figures was uncovered in many instances and appropriate action under Federal or local statutes was taken.

ATF increased its attention to unfair trade practices from about 5 man-years to 20 man-years during 1973. In a case in an eastern State where 12 firms were found in violation, offers in compromise totaling \$365,000 were submitted by these firms in lieu of criminal and civil action.

Consumer protection.—This program ranged from checking a formula on a new perfume or the label on a new product to ensuring that a fifth of whiskey, when filled, contained a full fifth. It also included a check of the actual beverage being sold in a bar, because it is not uncommon to find a retail outlet engaged in a "refill violation," substituting a cheap whiskey for a more expensive brand.

To guard against consumer deception, every label for an alcoholic beverage, including imported beverages, must have ATF approval. ATF had pending several cases of varietal wine mislabeling wherein the bottled wine was not that stated on the label. Because of increased demands by consumers to know the ingredients of the products they use, ATF, at the end of the fiscal year, was drafting proposed regulations requiring all labels of alcoholic beverages to show a complete listing of components.

In fiscal 1973, distributors of malt liquors engaged in an advertising campaign touting the alcoholic strength of malt liquor. The law prohibits implications of alcoholic strength in malt liquor advertising

since it is held under the statute to be a drink of moderation and not to be sold on the basis of alcoholic content. ATF required such advertising to be removed from the market.

Each domestic formula for wine and beer is compared by ATF with Food and Drug Administration requirements to ensure there are no ingredients which might be harmful. Last year, after ATF inspectors found traces of asbestos in an alcoholic beverage being distributed in the Midwest, the Bureau required that every bottle be recalled and taken off the market.

ATF officers also frequently inspected bars and retail outlets for unfair competitive practices to ensure that the consumer was given a full choice of products.

Environmental protection.—Under the Federal Water Pollution Control Act, the Bureau must ensure that each of its regulated industries which, in its production processes, discharges waste into navigable waters has a certificate of compliance issued by the proper State authorities before ATF issues or renews a license or permit. Under the National Environmental Policy Act of 1969, the Bureau must also give appropriate consideration to all environmental aspects of any proposed action or decision.

Tobacco products.—Taxes paid on tobacco products, amounting to \$2,207,273 during fiscal 1973, came from the industry through a self-assessment system, with periodic on-premises checks by ATF inspectors.

The classification for tax purposes of "little cigars" provoked considerable public controversy during the year. ATF continued to tax some of these as cigars, but warned manufacturers to conform packaging and marketing of the product, as well as its advertising, to standards consistent with that tax category. Liaison in this matter was maintained with the Department of Justice, Federal Trade Commission, and Federal Communications Commission because of their interrelated statutory responsibilities.

Technical and scientific services

Scientific services.—Bureau laboratories provided support to the Bureau's activities as well as those of State and local law enforcement agencies.

ATF laboratory personnel pioneered the use of neutron activation analysis in law enforcement work. The first acceptance of the technique in Federal court was in New York City where it was used to prove that a truckload of moonshine whiskey seized in New York had originated on the farm of a bootlegger in Georgia. Neutron activation analysis today is the most sensitive and specific method known for detecting gunshot residue and this, too, is a technique developed in the ATF lab, which processed 1,200 cases of this type in 1973 for local law enforcement agencies. Laboratories are located at headquarters, Philadelphia, Atlanta, and Cincinnati.

The ATF laboratory also performed over 1,000 bomb debris examinations during the year.

A complete ATF ink library of approximately 2,500 domestic and European ink standards helped identify inks on questioned documents involved in investigations conducted by ATF and other Federal agencies, including IRS, the Securities and Exchange Commission, and the Department of Justice. A large percentage of the approximately 150

analyses involved tax fraud and organized crime drive cases. The International Association of Identification, one of the world's largest professional forensic organizations, presented its Dondaro Award to an ATF forensic chemist for his outstanding contribution to the field of ink identification.

ATF firearms and toolmark examiners completed over 250 cases coming from all over the country. One ATF examiner testified in California State court in the Juan Corona case, identifying tire tracks at the gravesite as the same type tire as was on Corona's vehicle. This same examiner also testified for the State of California as an expert witness in the mass murder case involving members of the Charles Manson family.

ATF laboratories also offered a wide range of document examination services, such as handwriting and typewriting identification, watermark examination, and deciphering of obliterated writing. During 1973 ATF examined over 10,000 documents. One ATF expert testified that the list of victims written in a ledger book found in Juan Corona's belongings was in the handwriting of Corona.

Alcoholic beverages were checked for fill of containers, additives, and harmful ingredients, such as lead in canned cocktails, asbestos fibers, and antifermentation chemicals in wines. Imported wines were examined to ensure that overcarbonated wines were taxed at the champagne rate. Coloring in alcoholic beverages was analyzed for conformity to Food and Drug Administration standards, and contents of alcoholic beverages, including artificial flavoring, for conformity with labels.

ATF also ensured that denatured alcohol articles (toilet preparations and industrial alcoholic products) were properly labeled as to place of origin (French perfumes) and contained sufficient additional ingredients to prevent recovery of beverage alcohol.

Tobacco was tested to assist in distinguishing between cigars and cigarettes for tax purposes and to protect consumers. Lubricants, filled cheeses, and other articles subject to tax were examined for tax classification.

In addition to the above programs, ATF laboratories were active in fingerprint examination and photography and are developing a voice-print identification capability.

The laboratories also assisted regulatory enforcement activities in protecting the revenue, the consumer, and the environment through sample analysis and technical advice.

Total regulatory enforcement samples received for analysis in fiscal 1973 exceeded 16,000. The headquarters laboratory received more than 4,850 formulas for nonbeverage drawback products (internal medicinal products, flavors, and alcoholic foods); 4,195 formulas for specially denatured alcohol products (toiletries, etc.); and 7,893 labels for toilet preparations.

ADP functions.—The Bureau utilized little automated data processing. Functions which could be computerized, such as licensing, permitting, criminal case recordkeeping, criminal intelligence, firearms tracing, and personnel recordkeeping, were performed manually in the seven regions and at headquarters. However, the Bureau readied a 5-year plan for installing a national ATF computer center to handle these functions.

Technical services.—Under the Mutual Security Act of 1954, ATF registered importers and controlled importations of all implements of war, ranging from battleships to nerve gas. The Bureau also acted on applications to import firearms and ammunition under the Gun Control Act of 1968. Since 1968, over 95,000 import permits covering 4 million firearms have been approved, with disapproval of approximately 4,000 applications covering 640,000 firearms valued in excess of \$9 million.

ATF also examined a wide range of professional and industrial devices utilizing explosives and/or projectiles, such as rivet guns used in construction and tranquilizer hypodermic guns used in veterinary work, for classification as firearms under the 1968 act.

A firearms reference collection of over 1,600 different models of firearms was used by the Bureau and other Federal agencies for research purposes. For example, the Federal Aviation Administration utilized this collection for testing proposed metal-detection devices in its antiskyscraping program.

ATF exercised control over the manufacture and transfer between owners of all firearms defined by the National Firearms Act, including sawed-off shotguns, machine guns, short-barreled rifles, bombs, and grenades, maintaining a national firearms registration and transfer record of all such weapons.

The Bureau also maintained "The Explosives List," published annually and used principally by the chemical and explosives industries. ATF provided scientific and technical information relating to safety to Government agencies engaged in the transportation and use of explosives. Research and development in the explosives industry was monitored and evaluated to help industry comply with the laws without retarding technological progress. ATF personnel performed practical demonstrations and conducted seminars on explosives throughout the United States for local law enforcement agencies.

Bureau support services

Steady progress was made in 1973 in establishing self-supporting administrative operations covering personnel, procurement, budgeting, accounting, training, and related functions.

In addition, an Office of Inspection was created to assist in maintaining the integrity of the Bureau and in evaluating the Bureau's enforcement and regulatory programs.

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

During fiscal 1973, a continuing overview of administrative procedures provided opportunities for improvements in regional and headquarters staff operations. Refinement of procedures and scheduling was achieved, resulting in more efficient examination of national banks.

Continued review of space management resulted in the opening of two subregional offices and relocation of four others. Additionally, a new subregional office was established in London because of the growth in foreign branch banks opened in Europe. This office, the first of the Comptroller's offices located overseas, was established September 1, 1972. A considerable reduction in foreign expenditures is being experienced as a result, and better, more efficient service is being provided to the banking community.

To consolidate different organizational units under a single roof, a new building has been selected and approved which will house the entire Office. A move in the spring of 1974 is planned. Consolidated operations should provide many opportunities to refine administrative procedures and achieve a more effective organization.

Personnel

Personnel administration placed emphasis on two major hiring programs which increased the size of the examiner force by more than 15 percent since May 1972. There are now over 150 employees in the work-study financial intern program. Increased hiring has been necessary to keep pace with the rise in the number of national banks and branches. Additionally, over 85 summer college and disadvantaged youths were hired.

The equal employment opportunity objective of a 10-percent increase in both the number of minority and women professional employees was surpassed. Progress has been made in filling supervisory positions with minority group employees and women, including two positions in the Washington office.

The Office exceeded its established goal of a reduction of one-tenth of 1 percent in the average grade for fiscal 1973, largely by hiring at trainee rather than journeyman levels.

Uniform and more equitable programs were developed for appointing, testing, and promoting examiners and interns. An extensive review of inprocessing forms resulted in a new and more efficient preappointment package.

Renewed emphasis was applied to the training and development of examiners during the year because of the increased level of hiring. Courses in electronic data processing, trust schools, and national bank examiner schools, and correspondence courses were offered. A supervisory handbook, developed during the last fiscal year, was used in several courses.

The personnel management evaluation program provided opportunities for trained personnel specialists from the Washington office to visit regional offices and discuss firsthand personnel programs in

the region. These visits also gave regional staff involved in personnel administration professional assistance in policy matters and specific operational problems. This program has fostered an improved working relationship between headquarters and regional personnel staffs.

Fiscal management

Fiscal 1973 proved to be exceptionally challenging to the Fiscal Management Division in view of the general economic environment. The cost of operating the Office continued to be a matter of concern to management, causing increased emphasis to be placed on cost control and assessment procedures. As a result, expenses for calendar year 1972 rose only 6.65 percent over 1971, significantly below the previous year-to-year increases of 11.03 percent and 18.84 percent.

The innovative change in the method of investing assessment funds, first used in fiscal 1972, produced additional interest income of \$108,000.

Automation of the fixed asset record and the record of total branches by bank enabled the Fiscal Management Division to provide more comprehensive, accurate data than was possible when using manual records.

Through a reorganization at the beginning of the fiscal year, the travel expense voucher payment and audit functions were combined to provide more efficient and expeditious processing of travel claims.

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 decisionmaking 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 4,631 national banks increased by \$57.7 billion, or 14.7 percent, during fiscal 1973, reaching \$449.9 billion at June 30, 1973. This compared with the 11.1-percent increase during fiscal 1972. Total loans of national banks stood at \$254.2 billion at the end of fiscal 1973, an increase during the fiscal year of \$46.8 billion, or 22.0 percent. The spurt in loans contrasted sharply with the relatively small increase in total securities holdings of \$2.9 billion, or about 3 percent. In both fiscal 1972 and fiscal 1973, the increase in time and savings deposits was about triple the increase in demand deposits of national banks. In 1973, the respective figures were \$31.8 billion and \$10.1 billion.

Number of national banks and banking offices, by States, June 30, 1973

State	National banks			Number of branches	Number of offices
	Total	Unit	With branches		
United States.....	4, 631	2, 843	1, 788	14, 157	18, 788
Alabama.....	90	41	49	234	324
Alaska.....	5	0	5	58	63
Arizona.....	3	1	2	244	247
Arkansas.....	71	29	42	103	174
California.....	56	6	50	2, 561	2, 617
Colorado.....	125	110	15	15	140
Connecticut.....	24	6	18	237	261
Delaware.....	5	3	2	4	9
District of Columbia.....	11	0	11	76	87
Florida.....	254	254	0	0	254
Georgia.....	61	19	42	261	322
Hawaii.....	2	1	1	10	12
Idaho.....	6	2	4	118	124
Illinois.....	416	333	83	83	499
Indiana.....	122	43	79	394	516
Iowa.....	100	57	43	66	166
Kansas.....	171	138	33	33	204
Kentucky.....	80	31	49	166	246
Louisiana.....	50	11	39	207	257
Maine.....	19	3	16	114	133
Maryland.....	39	10	29	290	329
Massachusetts.....	80	16	64	461	541
Michigan.....	106	26	80	634	740
Minnesota.....	200	194	6	10	210
Mississippi.....	39	5	34	164	203
Missouri.....	104	65	39	41	145
Montana.....	54	51	3	3	57
Nebraska.....	122	95	27	28	160
Nevada.....	4	1	3	67	71
New Hampshire.....	48	20	28	68	116
New Jersey.....	122	19	103	829	951
New Mexico.....	33	5	28	91	124
New York.....	163	52	111	1, 438	1, 601
North Carolina.....	25	5	20	699	724
North Dakota.....	43	31	12	12	55
Ohio.....	215	60	155	839	1, 054
Oklahoma.....	193	144	49	49	242
Oregon.....	8	1	7	277	285
Pennsylvania.....	270	111	159	1, 159	1, 429
Rhode Island.....	5	0	5	112	117
South Carolina.....	19	4	15	273	292
South Dakota.....	32	22	10	65	97
Tennessee.....	73	13	60	317	390
Texas.....	545	545	0	0	545
Utah.....	10	5	5	82	92
Vermont.....	23	10	13	41	64
Virginia.....	98	17	81	558	656
Washington.....	23	6	17	481	504
West Virginia.....	93	91	2	2	95
Wisconsin.....	127	88	39	75	202
Wyoming.....	42	42	0	0	42
Virgin Islands.....	1	0	1	8	9
Puerto Rico.....	1	1	0	0	1
District of Columbia (all) ¹	14	0	14	113	127

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

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

[In millions of dollars]

	June 30, 1972 (4,607 banks)	Dec. 31, 1972 (4,614 banks)	June 30, 1973 (4,631 banks)
ASSETS			
Cash, balances with other banks, and cash items in process of collection.....	60,197	67,401	61,356
U.S. Government securities ¹	42,893	47,866	43,428
Obligations of States and political subdivisions ¹	51,033	52,717	53,277
Other securities ¹	2,884	3,154	2,995
Total securities ¹	96,810	103,737	99,700
Federal funds sold and securities purchased under agreements to resell.....	12,756	16,672	16,072
Direct lease financing.....	972	1,073	1,330
Loans and discounts ¹	207,414	230,456	254,211
Fixed assets.....	6,975	7,333	7,668
Customers' liability on acceptances outstanding.....	2,080	2,007	2,730
Other assets.....	4,959	6,268	6,857
Total assets.....	392,163	434,947	449,924
LIABILITIES			
Demand deposits of individuals, partnerships, and corporations.....	111,974	130,376	121,004
Time and savings deposits of individuals, partnerships, and corporations.....	147,298	157,663	171,523
Deposits of U.S. Government.....	6,025	7,062	6,681
Deposits of States and political subdivisions.....	30,445	33,445	35,143
Deposits of foreign governments and official institutions, central banks, and international institutions.....	3,658	4,362	5,514
Deposits of commercial banks.....	16,737	20,526	18,731
Certified and officers' checks, etc.....	6,248	5,993	5,640
Total deposits.....	322,385	359,427	364,236
Demand deposits.....	149,877	172,565	159,959
Time and savings deposits.....	172,508	186,862	204,277
Federal funds purchased and securities sold under agreements to repurchase.....	21,541	24,349	30,643
Liabilities for borrowed money.....	1,288	2,370	3,191
Acceptances executed by or for account of reporting banks and outstanding.....	2,149	2,063	2,834
Other liabilities.....	12,118	12,207	12,846
Total liabilities.....	359,481	400,416	413,750
RESERVES ON LOANS AND SECURITIES			
Reserves on loans.....	3,879	4,101	4,221
Reserves on securities.....	83	78	76
Total reserves on loans and securities.....	3,962	4,179	4,297
CAPITAL ACCOUNTS			
Capital notes and debentures.....	1,902	2,129	2,093
Preferred stock.....	43	42	38
Common stock.....	7,153	7,458	7,668
Surplus.....	12,171	12,717	13,161
Undivided profits.....	6,989	7,524	8,434
Reserves.....	462	482	483
Total capital accounts.....	28,720	30,352	31,877
Total liabilities and capital accounts.....	392,163	434,947	449,924

¹ Gross, reserves not deducted.

CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

The Consolidated Federal Law Enforcement Training Center (CFLETC) was formally established July 1, 1970, as an entity within the Department of the Treasury, to function as an interagency training facility under the supervision of the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations).

The Department of the Treasury is the lead agency for operating the Center and serves as the point of authority for implementation of Federal regulations and policies having Government-wide application. The Center's Board of Directors is comprised of representatives at the Assistant Secretary level from the major executive departments which have participating agencies and from the Office of Management and Budget and the Civil Service Commission. The Board has final authority over training policy, programs, criteria, and standards of the Center and for resolving conflicting training requirements.

The CFLETC provides necessary facilities, equipment, and support services for conducting recruit, advanced, specialized, and refresher law enforcement training for personnel of participating Federal agencies. Training is restricted to police officers and criminal investigators who carry firearms, have explicit arrest authority as Federal officers, and are primarily concerned with the prevention of crime and with criminal investigations. At present, 22 Federal agencies from 9 executive departments and independent agencies participate in the Center's program. In fiscal 1973, the Department of Agriculture (U.S. Forest Service rangers and investigators) and the General Services Administration (Federal Protective Service investigators) were added as participating agencies.

The Center also provides support, administrative, and educational personnel for common training courses to (1) consolidate requirements of participating agencies and develop proposed curricula, (2) develop content and teaching techniques for courses, and (3) instruct and evaluate students. These functions are administered through the Police School and the Criminal Investigator School.

Criminal Investigator School

In fiscal 1973 the Criminal Investigator School trained 839 agents in 22 classes in its basic criminal investigation course, including 87 students from non-Treasury agencies. In addition, 49 students were graduated from the Center's Advanced Law Enforcement Photography School. The reduction in number of persons trained as opposed to the preceding year was due mainly to budget restrictions placed on all Federal agencies in fiscal 1973. It is expected that the number of graduates will increase substantially in fiscal 1974, but the reduced student load has permitted more individualized training and allowed participation in the Center by additional Federal agencies.

Police School

On July 10, 1972, the Police School began full operation, thereby expanding the concept of the CFLETC. The school provides basic re-

cruit training for uniformed officers and has ensured quality training for the Federal police officers of participating agencies. The largest contingents have been sent by the National Park Service of the Department of the Interior and the U.S. Marshals Service of the Department of Justice, thus strengthening the consolidated and interagency aspects of the Center.

In its first year of operation the Police School graduated 397 officers from eight agencies, seven of which were non-Treasury. This total also was below that originally projected due to severe budget restrictions on the agencies. Addition of more participating agencies and revised estimates of workload indicate a heavy schedule for training in the Police School for fiscal 1974.

Due to lack of legislative authority by the Center to pay personnel on the police schedules, instructors for the Police School during this first year were provided on detail by agencies participating in the program, on both reimbursable and nonreimbursable bases. By the end of the year, however, four permanent supervisory instructors were employed on the Police School staff. At the close of the year, the entire problem of instructor staffing was being studied by the CFLETC Interagency Working Group.

Staff reorganization

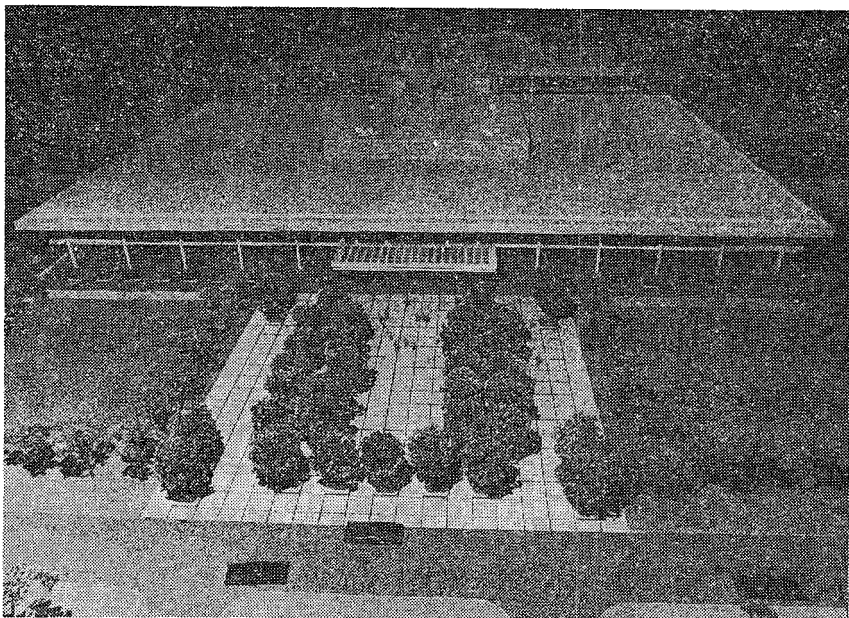
A major staff reorganization was implemented to improve operational effectiveness as the Center expanded. An Office of Administration and an Office of Educational Support were created out of existing units of the staff, and the Basic Police School and the Treasury Law Enforcement School were, respectively, renamed Police School and Criminal Investigator School.

Personnel management, financial management, and administrative services were placed under an Assistant Director (Administration), while curriculum development and learning resources were placed under an Assistant Director (Educational Support). Heads of the two schools were designated Assistant Director (Police Training) and Assistant Director (Investigator Training). These changes have improved management of the Center as the staff has increased from 54 to 76.

Physical facilities

In fiscal 1973 the Center expanded its facilities at 1310 L Street, NW., Washington, D.C., by over 22,000 square feet. Three 45-man, seven 15-man, and three 8-man classrooms were constructed, and 6,200 square feet was utilized for additional office space.

Tentative drawings for both the central structure and the accessory structures of the permanent plant at Beltsville, Md., were approved by the National Capital Planning Commission on January 4, 1973. The architects were then directed to prepare the final working drawings which were presented to the Center on May 28. These drawings excluded only audiovisual and telecommunications capabilities, furniture, and casework and equipment for the PX, snack bar, mailroom, and related facilities. In addition, an architect's scale model of the proposed new facility was constructed and placed in the lobby of the west entrance of the Main Treasury Building for public viewing.



Architect's model of the Consolidated Federal Law Enforcement Training Center.

A court action brought by the Maryland-National Capital Park and Planning Commission and the Prince George's County Council, based on provisions of the National Environmental Policy Act, had effectively halted construction at the Beltsville site. In response to this action, a draft environmental impact statement was filed August 1, 1972, with the Council on Environmental Quality (CEQ) for the express purpose of soliciting comments from the Environmental Protection Agency and other interested Federal, State, and local agencies and private parties. A final impact statement, incorporating submitted comments, was filed with the CEQ on November 24, 1972, along with a recommendation from the Director of the Center that the proposed new facility be constructed at the Beltsville site. On January 4, 1973, the Board of Directors of the CFLETC concurred in the recommendation and on January 5, the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations), having considered both the environmental and nonenvironmental factors pertinent to the question of locating the Center at Beltsville, issued a decisional memorandum instructing the Center Director to proceed with the project.

In light of this decision, the Center filed a motion for summary judgment for dismissal of the lawsuit on grounds that it had conformed to the provisions of the National Environmental Policy Act. That motion was granted by the U.S. District Court for the District of Columbia on May 11, 1973, and the Center proceeded immediately thereafter to award the first contract on the construction schedule.

On June 8, notice of appeal of the District Court's decision was filed by the plaintiffs in the suit, but at the close of the fiscal year no injunction or restraining order pending appeal had been sought; so, on

June 18, construction was resumed with clearing and grubbing of the site for the central structure.

A second factor delaying construction was the lack of sewage facilities for the new Center. The Washington Suburban Sanitary Commission had previously denied a CFLETC request to connect to its sewage facilities, and the Office of Management and Budget rejected approval for apportionment of construction funds until adequate facilities could be secured. Subsequent to a directive from the Potomac River Enforcement Conference to the Department of Agriculture to improve and expand the tertiary plant at the Agricultural Research Center, the CFLETC offered to contribute \$106,000 to the planning and construction of that plant if allowed to tie in to it. The Department of Agriculture accepted the Center's offer and OMB later approved a request for funds to let the first contract.

End of year estimates on expected occupancy of the new facility at Beltsville centered on the latter part of fiscal 1977.

OFFICE OF DIRECTOR OF PRACTICE

The Office of Director of Practice is part of the Office of the Secretary of the Treasury and is under the immediate supervision of the General Counsel. Pursuant to the provisions of 31 CFR, part 10 (Treasury Department Circular No. 230), 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 violated the rules and regulations governing practice before the Internal Revenue Service. He also acts on appeals from decisions of the Commissioner of Internal Revenue denying applications for enrollment to practice before the Internal Revenue Service made under 31 CFR, section 10.4.

On July 1, 1972, there were 104 derogatory information cases pending in the Office under active review and evaluation, 3 of which were awaiting presentation to or decision by an administrative law judge. During the fiscal year, 145 cases were added to the case inventory of the Office. Disciplinary action was taken in 74 cases by the Office or by order of an administrative law judge. Those actions were comprised of 1 order of disbarment, 42 suspensions (either by order of an administrative law judge or by consent of the practitioner), 26 reprimands, and 5 resignations. The actions affected 17 attorneys, 25 certified public accountants, and 32 enrolled agents. Eighty-one cases were removed from the Office case inventory during fiscal 1973 after review and evaluation showed that the allegations of misconduct did not state sufficient grounds to maintain disciplinary proceedings under 31 CFR, part 10. As of June 30, 1973, there were 94 derogatory information cases under consideration in the Office.

During the fiscal year, three certified public accountants petitioned the Director of Practice for reinstatement of their eligibility to practice before the Internal Revenue Service. Favorable consideration was given to each petition and reinstatement was granted. In addition, there was one decision on an appeal from a denial by the Commis-

sioner of Internal Revenue of an application for enrollment to practice before the Internal Revenue Service. The decision affirmed the denial.

Ten administrative proceedings for disbarment or suspension were initiated against practitioners before the Internal Revenue Service during fiscal 1973. Together with the 3 cases remaining on the administrative law judge docket on July 1, 1972, 13 cases were before an administrative law judge during the year. One of those cases resulted in the acceptance of an offer of consent to voluntary suspension pursuant to 31 CFR, section 10.55(b) prior to reaching hearing. Initial decisions imposing disciplinary actions were rendered in six of the cases. In one case, the initial decision of the administrative law judge was that the respondent be disbarred from further practice before the Internal Revenue Service. Suspensions from practice before the Internal Revenue Service were invoked in the remaining five cases. On June 30, 1973, six cases were pending on the docket awaiting presentation to or decision by an administrative law judge.

Under authority of 31 CFR, section 10.71, one case resulted in an appeal to the Secretary from the initial decision for suspension rendered by the administrative law judge. The decision on appeal was an affirmation of the suspension. Such suspension subsequently was nullified by operation of the terms of the decision on appeal. In addition, two decisions were issued by the Secretary on appeals from initial decisions by a hearing examiner (now administrative law judge) pending on July 1, 1972. In both appeals, the terms of suspension from practice before the Internal Revenue Service ordered by the hearing examiner were increased.

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 U.S. Customs Service, and other enforcement agencies.

Use of gold for industrial purposes

Estimated net industrial use of gold in the United States during the calendar year 1972 was 7,285,000 ounces as compared with 6,933,000 ounces in 1971, an increase of 5 percent. The 1972 increase in purchases was due mainly to increased production of gold products. Gold

inventories increased only slightly, under 1 percent. The estimated total purchases of gold and allocation of purchases by industry group for the years 1967-1972 are shown in table 1.

TABLE 1.—*Estimated industrial use of gold in the United States, calendar years 1967-72*

	[Thousands of fine troy ounces]					
	1967	1968	1969	1970	1971	1972
Estimated total purchases of gold by U.S. industry.....	6,294	6,604	7,109	5,973	6,933	7,285
Converted into fabricated products.....	5,942	6,073	6,568	6,148	6,542	7,253
Increase in inventories.....	352	531	541	—175	391	32
Allocation of purchases by industry group....	6,294	6,604	7,109	5,973	6,933	7,285
Jewelry and arts.....	3,840	3,908	3,839	3,340	4,299	4,344
Dental.....	566	771	710	658	750	750
Industrial, including space and defense....	1,888	1,925	2,560	1,975	1,884	2,191

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 7,285,000 fine troy ounces used in 1972, 1,603,000 ounces came from U.S. mine production and 5,682,000 ounces were imported. Countries from which the gold was imported are shown in table 2.

TABLE 2.—*Exports and imports of gold into the United States for industrial use, calendar year 1972*

	[Thousands of fine troy ounces]	
Country	Exports	Imports
Belgium.....	77	—
Canada.....	105	2,991
Switzerland.....	—	2,901
United Kingdom.....	231	18
West Germany.....	74	—
Other countries.....	14	13
Austria ¹	—	32
Philippines ²	—	83
South Africa ³	—	145
Total.....	501	6,183
Net imports of gold.....	—	5,682

¹ Purchased from the account of the Austrian National Bank at the Federal Reserve Bank of New York.

² Recovered from base bullion imported from the Philippines.

³ Purchased from the account of the South African Reserve Bank at the Federal Reserve Bank of New York.

NOTE.—Imports are shown from country of final export as reported by Department of the Treasury gold licensees and do not indicate prior shipment from country in which the gold was produced.

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 10 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 and food coupons. In addition, the Bureau prints commissions, certificates of award, permits, and a variety of miscellaneous items. The Bureau also executes certain printings for 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, plants, machinery, and equipment; and stores and delivers its products in accordance with requirements of customer agencies.

Finances

The Bureau was granted \$3 million of the \$6 million appropriation requested for fiscal 1973 to carry out phase II of its 3-year modernization program (1972-1974). In reporting out the 1973 Treasury, Postal Service, and General Government appropriation bill, the House Subcommittee on Appropriations directed the Bureau and the Department to review the pricing policies for services with the objective of establishing prices which would, at least over the relatively long range, generate sufficient funds to cover direct and indirect costs of operations as well as accumulate an adequate reserve for replacement of capital equipment.

To attain this objective, the Bureau is proposing to include in the price of its products a surcharge for financing future capital improvements. Its specific amount would be calculated annually after computing the amount of cash to be generated internally by normal depreciation of equipment already on hand in the Bureau. The additional funds required in each program category (currency, postage stamps, and "all other" which covers the manufacture of Treasury bonds, revenue stamps, and various other items) would be divided by the projected production costs of each program to arrive at the percentage rate of the surcharge to be assessed to each product within a given program.

Meanwhile, in order to obtain maximum benefit from the \$3 million appropriated for fiscal 1973, there is currently in process a Bureau proposal to enter into lease-purchase contracts to obtain as much productivity-enhancing equipment as it can at the earliest possible time. Congress is being asked to permit the Bureau to (a) use as much of the appropriated funds as is necessary for a reserve to support any liquidated damages clause which may be invoked by a lessor as a guarantee for payment of damages resulting either from termination or nonexercise of any renewal option, and (b) as an interim measure, to utilize any part of the appropriation not needed as contingency funds for the purchase of equipment to augment the working capital. Comparative financial statements for fiscal years 1972 and 1973 appear in the Statistical Appendix.

Currency program

Delivered in fiscal 1973 were 3.1 billion currency notes, the same quantity as in the previous fiscal year.

The Bureau program for modernization of its currency manufacturing operations has particularly focused on (a) the replacement of those presses installed in 1957 which are fully depreciated and technologically obsolete, and (b) the acquisition of production models of the currency overprinting and processing equipment which are designed to mechanize certain of the finishing operations.

Currently, the Bureau's working capital is insufficient for direct purchase of this equipment. Therefore, the Bureau is investigating the feasibility of acquiring it under monthly lease-purchase agreements. Any contract for a lease with option to purchase would contain the usual clause reserving the right of the Government to terminate the contract at any time.

With such a termination clause on equipment which is custom designed, lessors might well insist on guarantees for payment of liquidated damages resulting either from the termination or nonexercise of any renewal option. This would require that sufficient funds be available and earmarked. However, the Director of the Bureau, in informal discussions with the suppliers of this specialized equipment, is attempting to eliminate the liquidated damages clause from any contract since the equipment acquired represents the latest in the state of the art and would not be replaced during the period of the contract inasmuch as to do so would cancel the substantial savings in manpower and production costs associated with its installation.

At the end of the fiscal year, plans were underway to issue invitations to bid to prospective suppliers for the lease-purchase of currency presses, and to conduct negotiations with the existing contractor of the currency overprinting and processing equipment for the acquisition of production models of that machine.

During fiscal 1972, the Bureau contracted with a private concern to determine the feasibility of equipment which would automatically examine plate-printed currency sheets (prior to overprinting) and identify any note which might be defective. Phase I of this study concluded that such equipment was within the state of the art. This conclusion was not verified by phase II of the study which disclosed that certain technical problems required further study. Three alternative approaches are being considered prior to attempting to build a model

machine. Other proposals developed by interested parties from private industry are also being studied.

Food coupon program

Approximately 1.9 billion coupons were delivered during fiscal 1973, the same quantity as in the previous fiscal year. To relieve existing equipment and space constraints as well as to reduce abnormal overtime work, the Bureau continued contracting with a private banknote company for the \$2 and \$3 value booklets and late in the year added \$10 booklets to the contract. By the close of fiscal 1974, to further ease staff and space requirements, the remaining food coupons will be contracted out to the private sector.

Postage stamp program

Deliveries of U.S. postage stamps were 26.6 billion pieces in fiscal 1973 compared with 26.7 billion in 1972.

To meet the U.S. Postal Service's increasing requirement for complex multicolor 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, in transit at the end of this year and due to be installed in fiscal 1974, will, after extensive evaluation, be used to print postage stamps in multicolor sheet form. A second press for printing multicolor coil stamps by the intaglio process, costing \$1 million, was installed late in fiscal 1973 and will be placed in production by January 1974. 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 4 years; commercial services will be utilized in the interim. Chrome-plating equipment for the rotogravure cylinders was ordered in fiscal 1972. Orders for photographic and auxiliary equipment to make the negative and positive film required for the etching of cylinders were placed in fiscal 1973. Cylinder-making equipment will be ordered in fiscal 1975. These acquisitions will enable the Bureau to perform in-house the necessary preparatory work and the finishing of engraved cylinders.

New issues of postage stamps delivered in fiscal 1973 are shown in the Statistical Appendix.

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. The Bureau furnished exhibit materials for 32 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 has been most enthusiastic.

In addition, the Bureau produced five distinctive souvenir cards for the following major philatelic and numismatic exhibitions: The Associated Stamp Clubs and Society of Philatelic Americans Exhibition in Philadelphia; the National Postage Stamp Show in New York City; the International Postage Stamp Exposition in San Francisco; the 15th International Stamp Exhibition in New York City; and the

Combined Philatelic Exhibition of Chicagoland in Chicago. Sales 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 fiscal 1973, 794,221 visitors took the self-guided tour through the Bureau. Other tours, geared to technical needs and 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.

Internal audit

The Bureau continued to conduct intensive scheduled and unscheduled audits, both fiscal and operational. Forty-one reports of audit, containing 180 recommendations for improvements, were released for management consideration and action.

Training program

During fiscal 1973, 687 employees completed Bureau and departmental training courses; 164 completed interagency training courses; and 79 attended specialized seminars, training classes, conferences, and exhibits sponsored by non-Government organizations. A general education development (GED) program was announced and 204 employees have registered to participate. Over 100 employees are presently active in the program; half of these are in self-study (programmed instruction) classes while the other half are involved in remedial reading, English, and arithmetic classes.

Training has been supplied at all levels, with special emphasis on supervisory and executive development. An 80-hour supervisory program is offered on a continuous basis. Immediately upon promotion to a supervisory position, an employee is scheduled to attend a 56-hour basic program, covering supervisory responsibilities, communication skills, human relations, and job instruction. Later each new supervisor attends a 24-hour program covering techniques of supervising lower level employees. Additional courses include 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.

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 have 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, 1 noncraft unit, and 1 guard unit. Further, there are 11 approved substantive labor-management agreements. The unions function as a dynamic part of the Bureau and are a major factor in management considerations.

Safety program

Employee safety, because of the industrial character of the Bureau's operations, continues to be of vital management concern. Employee

safety and health standards, as prescribed in the Occupational Safety and Health Act, are receiving increased emphasis in their application to conditions and activities within the Bureau. The issue and use of protective clothing and equipment, such as protective headgear, noise suppressors, respirators, gloves, and safety shoes are carefully monitored. The responsibilities of Bureau safety committees are being re-emphasized through meetings, publication of safety circulars, and other activities. In addition, increased emphasis has been placed on housekeeping throughout the Bureau to minimize unsafe conditions and potential fire hazards.

Equal employment opportunity program

The equal employment opportunity program continued to show steady progress in the advancement of minorities and females. Formal complaints of discrimination increased this year; however, this probably was the result of a new Civil Service Commission regulation which affords probationary employees, terminated for any reason, the right to file EEO complaints. In addition, further contacts were made to improve employment opportunities in the Bureau for Spanish-speaking citizens.

Employee committees for EEO continue to function as a viable communications link between management and employees at the working level. Monthly meetings provide a forum for the discussion of EEO and any other matters affecting the employment, treatment, and advancement of employees. Members of the EEO and Personnel Staffs were actively involved in community action programs that affect employment and employability. This included extensive work with the District of Columbia Public Schools, the Washington Urban League, Spanish-speaking Advisory Committee, and others. A member of the EEO Staff received an award from the Washington Urban League for participation in one of its programs resulting in the hiring of over 90 high school graduates in fiscal 1972 and 1973.

A review of minority statistics shows steady progress in the advancement of minorities and females in apprentice, journeyman, and higher General Schedule positions. Improvement in the economic status of minorities and females was noted, and 36 of them in supervisory positions now earn annual salaries over \$10,000. Seventy-nine percent of the superior work performance and other awards were to minority and female employees.

In summary, the equal opportunity program at the Bureau continues to establish a climate of credibility among the work force by involving the rank-and-file employees in all management actions that affect the well-being and careers of all employees.

Awards program

During fiscal 1973, 771 employees received special achievement awards and 48 received high-quality pay increases.

Nonrecurring savings of \$164,370 were realized in fiscal 1973 from the superior work performance phase of the incentive awards program. Under the employee suggestions phase of the program, 195 suggestions were received and 94 adopted, from which the Bureau will realize estimated annual recurring savings of \$17,854. Of the suggestions processed during this fiscal year, 48 percent were adopted.

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 the Equal Employment Opportunity Act of 1972 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 depositories 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 plans of all of the bureaus, provides consultative services on equal opportunity matters, and reviews and approves action plans promulgated in each bureau. It reviews and adjudicates all investigations 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 through its equal employment management review evaluations (onsite reviews began in summer of 1972) concerning the employment and utilization of minority group persons and women in each bureau.

In fiscal 1973, Treasury's EEO complaint processing system was completely revised to comply with the provisions of the Equal Employment Opportunity Act of 1972. New guidance was issued for all bureaus as an additional effort to assure the timely and expeditious processing and resolution of all complaints coming to their attention. The operation of the system has been greatly enhanced by greater decentralized operating authority. Although investigative and other program administration resources are still limited, a greater quality of work has been achieved in both the processing and resolution-adjustment phases of this system.

Progress in the administration of the Treasury's equal employment opportunity program during fiscal 1973 was marked mainly by increased Department emphasis on the upward mobility program, Federal women's program, and the President's 16-point program for Spanish-surnamed Americans, and the inclusion of these programs in all of Treasury's affirmative action plans.

Treasury's new affirmative action program and plan system was completed in November 1972 and now comprises 134 separate affirmative action plans designed to give greater decentralized direction to the total program and greater benefits to employees located in the United States and overseas. To implement the plans, the Department issued guidance on how to complete skills inventories and utilization analysis, whereby female and minority group goals and timetables can be established where deficient areas are identified. To assist the bureaus in their utilization analysis, a Department-wide and centralized

automated system for reporting of employment statistics in Treasury (REST) was implemented in fiscal 1973 from which data can be produced on the distribution of employment by minority group designation, sex, series, grade, and geographical location in various formats. Such information is now being used by the Department and the bureaus in developing the fiscal 1974 national, regional, district and facility affirmative action plans.

There is every indication that the centralized automated system in conjunction with the multiaffirmative action plan system has enabled managers to assess employment and training needs in a manner that has been beneficial and gives evidence of an increase in the rate of hiring and upgrading of minorities as indicated by the following charted employment statistics from 1968 through November 1972.

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

	1968	1969	1970	1971	1972	Comparison 1971-1972		Comparison 1968-1972	
						No.	Percent	No.	Percent
Total employees*	82,155	85,635	88,351	94,557	102,813	8,256	8.73	20,658	25.2
Negro	11,777	12,251	13,234	13,954	15,619	1,665	11.93	3,842	32.6
Spanish-American	1,052	1,116	1,489	1,754	2,247	493	28.10	1,195	113.6
American Indian	79	85	104	107	128	21	19.62	49	62.0
Oriental	482	505	596	687	813	126	18.34	331	68.7
Other	68,765	71,678	72,928	78,055	84,006	5,951	7.62	15,241	22.2
GS 1-4:									
Total	19,120	19,679	18,867	19,493	24,126	4,633	23.77	5,006	26.2
Negro	4,947	4,948	5,156	4,993	5,904	911	18.25	957	19.4
Spanish-American	255	300	398	502	791	289	57.56	536	210.2
American Indian	25	26	33	36	45	9	25.00	20	80.0
Oriental	80	87	96	125	159	34	27.20	79	98.8
Other	13,813	14,318	13,184	13,837	17,227	3,390	24.49	3,414	24.7
GS 5-8:									
Total	19,480	21,603	23,826	26,494	27,601	1,107	4.17	8,121	41.7
Negro	2,708	3,077	3,467	3,856	4,290	434	11.25	1,582	58.4
Spanish-American	264	281	422	447	551	104	23.26	287	108.7
American Indian	26	24	30	31	35	4	12.90	9	34.6
Oriental	141	139	183	189	249	60	31.74	108	76.6
Other	16,341	18,082	19,724	21,971	22,476	505	2.29	6,135	37.5
GS 9-12:									
Total	28,893	28,737	28,960	30,436	32,321	1,885	6.19	3,428	11.9
Negro	1,144	1,257	1,283	1,457	1,587	130	8.92	443	38.7
Spanish-American	332	316	389	450	519	69	15.33	187	56.3
American Indian	21	27	30	30	34	4	13.33	13	61.9
Oriental	186	179	203	213	222	9	4.22	36	19.3
Other	27,210	26,958	27,055	28,286	29,959	1,673	5.91	2,749	10.1
GS 13-18:									
Total	9,491	9,839	10,665	11,642	12,037	395	3.39	2,546	26.8
Negro	151	167	218	271	307	36	13.28	156	103.3
Spanish-American	35	38	54	72	88	16	22.22	53	151.4
American Indian	3	4	5	5	8	3	60.00	5	166.7
Oriental	55	70	67	77	90	13	16.88	35	63.6
Other	9,247	9,560	10,321	11,217	11,544	327	2.92	2,297	24.8

*The totals include wage board personnel. Grade comparisons are for GS series only.

The U.S. Civil Service Commission gave final fiscal 1973 affirmative action plan approval to Treasury and five other agencies of Government (Tennessee Valley Authority, Civil Service Commission, Department of Transportation, Department of Labor, and the National

Aeronautics and Space Administration). This is a notable achievement in view of the fact that few agency plans fully met the particular requirements of the Equal Employment Opportunity Act of 1972.

With the hiring of a full-time coordinator for the 16-point program for the Spanish-surnamed and a coordinator for the Federal women's program, greater progress in fiscal 1974 should be evidenced in the employment and upgrading of women and Spanish-surnamed Americans. Fiscal 1974 will also be marked by increased equal employment opportunity program operation emphasis, with particular attention being given to implementing the goals and procedures of the Equal Opportunity Operations Manual (FPM-713) to achieve a more effective program administration in all Treasury bureaus and field facilities and at all equal employment opportunity operating levels.

Financial institutions

Approximately 500 onsite compliance reviews were conducted at banks this year with an additional 300 offsite reviews at headquarters. (Offsite reviews are explained in detail below.) A compliance review is an examination of a bank's personnel policies and programs and entails the negotiation of agreements for affirmative action programs, providing technical assistance to assure compliance with Treasury requirements, and the conciliation of grievances, misunderstandings, and allegations concerning discrimination often made by individuals, civil rights organizations, and other government agencies. The number of compliance reviews conducted during the year fell below the anticipated projection of approximately 1,000 in an effort to conserve restricted travel funds.

The Department's guidelines on affirmative action are continually reviewed and revised and have been reissued to financial institutions to assure accurate understanding of Treasury's expectations and to assist in gaining compliance with the various equal employment regulations of the Department, Office of Federal Contract Compliance, Department of Labor, and various State and local equal opportunity commissions and guidelines of the Equal Employment Opportunity Commission, which administers Title VII of the Civil Rights Act of 1964. These guidelines have helped financial institutions achieve meaningful, result-getting equal employment and upward mobility programs. These guidelines continue to be widely distributed and commented upon and supported by the various trade associations (American Bankers Association, United States Savings and Loan League, National Association of Mutual Savings Banks and various State trade associations of the industry), and continue to be reported upon, highly commended, and used as reference materials in issuances by numerous trade and management publications such as Prentice-Hall Reports, Bank Wage and Hour Reports, U.S. Savings and Loan News, and Banking Magazine.

During the past year, full staffing has been completed for all authorized positions at the four regional offices in Houston, Atlanta, Los Angeles, and Chicago. These offices have each been assigned a geographical area for compliance surveillance activities and for continuity, follow-up, and providing technical assistance. It is anticipated that, with these offices now operational and in closer proximity to

financial institutions under their jurisdiction, more significant employment gains and upward mobility opportunities will be attained by minorities and women in the employment at these institutions.

The Department had greater impact in its contract compliance activities during the last quarter of this year through a system of offsite compliance reviews as it implemented the revised Order No. 14 of the Office of Federal Contract Compliance, Department of Labor. Under this system, a two-phase program was initiated; namely, the offsite review followed by an onsite compliance review where deemed necessary. Financial institutions, on a priority scheduling basis, are requested to forward their equal employment affirmative action programs and various support data for departmental offsite review and evaluation, after which a determination is made in a more effective and specific manner as to whether banks require onsite reviews and where as a result the greatest impact for minority employment gains and female upward mobility can be made. This system has permitted the Department to review the equal employment programs of a significant number of financial institutions with less manpower and a reduced per unit expenditure and in many instances has obviated an onsite review. It is anticipated that using this system approximately 2,500 offsite and 1,000 onsite reviews will be accomplished during this next year.

The Department continues to be impressed with the exceptional cooperation and eagerness of the banking and savings industries and their leadership in complying with Treasury regulations and the national policy and laws governing equal employment and also by their cooperation and desire to effect meaningful equal employment opportunity programs. A recent Department study of employment in approximately 2,400 banks, whose total employment is approximately 650,000, disclosed that minority employment has continued to increase significantly. In a comparison for the 6½ years, mid-1966 through 1972, Negro employment increased from 22,581 to 68,000; Spanish-surnamed from 12,587 to 29,000; Oriental from 4,892 to 11,000; and American Indian from 433 to 1,100. These data disclose increases from 40,493 minorities in 1966 to 88,085 in 1970 and 109,100 in 1972 and demonstrate an increase of 250 percent in minority utilization and employment by these banks during this cited period.

Studies by the Office of Federal Contract Compliance, Department of Labor, in both 1971 and 1972 indicate the largest gains made by any industry in the country in the hiring and utilization of minorities has been by banking. Of the many industries studied, banking shows the greatest progress and penetration of minorities in the important endeavor to achieve compliance with the national policy and laws governing equal employment opportunity. These studies have predicted parity in the hiring and utilization of minorities by the banking industry before the end of this decade. This prediction is regarded as a pace setter for other industries studied and as a signal tribute attesting the value of the Department's program. These significant data have disclosed the need by banks for renewed emphasis on increasing opportunities for minorities and women in terms of upward mobility programs and efforts leading to management-type positions. The Department anticipates that affirmative action promotion by both the Government and the industries involved and the programs of Depart-

ment surveillance and technical assistance during this next year will result in numerical increases (industrywide) for minorities and women in the significant white collar, managerial, and technical job categories.

In a continuing 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 in their examinations with regard to the filing of Federal equal employment opportunity reports and the availability of a written affirmative action program. Negative reports filed with Treasury 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 these bank examiners has obviated considerable expense and requirements for additional staffing.

FISCAL SERVICE

Effective July 1, 1972, a planning organization was established in the Fiscal Service entitled "Operations Planning and Research Staff." The staff provides a vital service to the entire Fiscal Service in its many technical roles and missions which have interbureau, Department-wide, and Government-wide implications. The new staff provides leadership on technological research of all kinds having potential effect on one or more major organizational units of the 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 depositary 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.

Personnel

Despite Bureau-wide restraints on appointments and promotions during this year, the Bureau carried out its college recruitment efforts in six Eastern colleges. Fifteen accounting trainees, five of whom are females, were recruited for the Bureau's career development program. Additionally, 20 professional management and computer systems analysts were added to the headquarters rolls, the majority of whom were initially assigned to the Operations Planning and Research Staff.

Youth.—During the summer, 34 summer aide, 11 summer employment exam student, 6 vocational office trainee, and 2 Federal junior fellowship appointments were effected. These statistics reflect 19 student appointments in excess of the assigned quota of 34.

Veterans.—A total of 81 veterans preference eligibles were appointed during the year, 70 of whom are Vietnam-era veterans. This is approximately 5.5 percent above the Government's average.

Women.—Significant achievements in support of the advancement of women within the Bureau were witnessed during the year when women advanced to such responsible positions as Special Assistant to the Commissioner, Deputy Chief Disbursing Officer, Assistant Personnel Officer, Assistant Director/Division of Cash Management, Bureau Classification Specialist, and Assistant Chief/Financial Services Branch. Approximately 45 women were promoted or assigned to professional, technical, supervisory, and staff positions at or above the grade GS-7 level.

Upward mobility.—The Bureau conducted its annual program for progress, reviewing and evaluating each employee's past and recent experience and education in order to identify present skills, to develop full potential, and to recommend supervisory and occupational skills training.

Spanish surnamed.—As in past years, the Bureau effected an increase in the total number of Spanish-surnamed employees, the majority of whom are employed in Austin and San Francisco, cities with concentrated Spanish populations. Between 1968 and the present, the Bureau has employed, respectively, 8, 22, 25, 27, and 47 Spanish-surnamed persons. Continued and more concerted efforts on behalf of this program will result in a more representative number of Spanish-surnamed employees on the rolls.

Labor-management relations.—Three disbursing centers continued as the only Bureau segments with exclusive recognition granted to local union chapters, one of which (Austin) remains without a negotiated contract. Additional union activity is anticipated during the next year at the Philadelphia Disbursing Center.

Systems improvement

The U.S. Civil Service Commission became interested in billing under the simplified intragovernmental billing and collection system due to an increasing workload involving collection of training and investigative fees from other Government agencies. Procedures have been developed by Bureau staff, and it is anticipated that the system, with the CSC as the billing agency, will be implemented in fiscal 1974. Efforts are continuing to expand the system by adding new billing agencies; e.g., General Services Administration (billings to civilian agencies), U.S. Postal Service, and the Government Printing Office.

During fiscal 1973, the Departments of Agriculture and Treasury established a joint task force to study and improve procedures for depositing and reporting proceeds from the sale of food stamps. The proposed system utilizes a standard 80-column data card that readily lends itself to automated systems. Federal Reserve banks would consolidate the card forms into a single certificate of deposit. The original certificate of deposit would flow to Treasury through normal channels

and a copy, along with supporting card forms, would be furnished to the Department of Agriculture, Food and Nutrition Service. The system is presently being tested by the Federal Reserve Bank of Richmond and is expected to be implemented nationwide in fiscal 1974.

Procedural requirements were prescribed for Government agencies concerning: (1) Reporting foreign grants, loans, and credits; (2) composite check procedures; (3) State tax agreements; (4) agency operations under continuing resolutions; (5) EAM- or computer-generated monthly statements of transactions; (6) business-type financial statements; (7) reporting fidelity losses sustained by the United States; (8) requirements for social security account numbers on savings bonds; (9) disbursing; (10) agreements of indemnity in connection with the replacement of checks; (11) regulations for the experimental withholding of city income taxes for three cities; and (12) other fiscal matters including revised regulations for letters of credit.

Central accounting and reporting

Bureau staff continued efforts toward the implementation of accrual basis financial reporting from agencies. Treasury reporting instructions will be revised to coordinate with principles and standards recently issued by the General Accounting Office. An analytic survey will be made in fiscal 1974 of agency accounting systems capability regarding grant accruals and constructive delivery accruals. Upon completion of the survey, Government-wide accrual data will be published in the Treasury Bulletin.

Department Circular No. 966, concerning preparation of business-type financial statements, was revised on December 20, 1972. The circular and procedural instructions issued in the Treasury Fiscal Requirements Manual cover all assets (except cash of accountable officers), liabilities, and equities relating to all programs and activities under an agency's control. The new reports stress bureauwide reporting for management purposes in addition to fund-type reporting. Agencies began reporting under the new instructions for the period ending December 31, 1972.

The fiscal 1972 Combined Statement of Receipts, Expenditures, and Balances of the U.S. Government was released in January under a new format. Major changes for the expenditure chapters included use of a one-column vertical balance sheet format to replace a five-column ending balance analysis, and presentation of ending balances of fund resources and equities previously shown only for the beginning balances.

Publication dates were accelerated for major Government-wide financial reports including the Monthly Treasury Statement, the Combined Statement, the Annual Report of the Secretary of the Treasury on the State of the Finances, the Statistical Appendix to the Annual Report, and the Federal Aid to States report. Release dates for the latter two reports were the earliest in history and the Secretary's Annual Report was published earlier than it has been in over 20 years.

Auditing

During fiscal 1973, the Audit Staff conducted 21 financial and operational audits (17 in central office and 4 in regional offices). An evaluation of a middle management training program was also performed.

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, 1973, a total of 275 companies held certificates.

Disbursing operations

The 11 disbursing offices of the Division of Disbursement produced a total of 538.3 million checks and savings bonds during fiscal 1973 at an average unit cost of \$0.0294, in payment of Government obligations for over 1,300 civilian offices. Almost 98 percent of these payments were produced by computers. In addition, more than 95 million computer-generated Federal tax deposit forms were produced.

Performance of the diversified activities of Treasury's centralized disbursing system by computerized methods continued to result in increased productivity and afforded the Division of Disbursement with the means to provide services which benefited Government agencies and the general public. As in past years, a number of small Government agency offices received automated payroll accounting services provided by disbursing centers.

Significant achievements realized during fiscal 1973 are as follows:

1. The prototype check-wrapping system designed for use in enclosing checks in envelopes was installed in the Philadelphia Disbursing Center during the week of February 26, 1973. Acceptance testing of the prototype model during May 1973 resulted in enclosing an average of 28,000 checks per hour, with minimal check spoilage. Orders will provide for delivery of 13 production models in Philadelphia and other disbursing centers through fiscal 1976. Delivery of the first production model system in Philadelphia is planned for December 1974. Projected annual savings upon installation of all systems is estimated at more than \$1 million.

2. An optical character recognition (OCR) system was installed in the Washington Disbursing Center on June 1, 1973. The equipment, which reads data appearing on voucher schedules for issuance of one-time payments, will lead to estimated savings of \$160,000 in that office, when the system is fully operational by July 1, 1974.

3. Based on the success obtained from the semiautomation of Social Security Administration claims in the Chicago Disbursing Center, plans have been made to extend the procedure to all recurring benefits and tax refunds in fiscal 1974, with annual recurring savings projected at \$50,000.

4. To assist victims of flood disasters inflicted by Hurricane Agnes, emergency branch disbursing offices were established in July 1972 in Richmond, Va., Elmira, N.Y., and Harrisburg, Pa., near each of three major disaster sites, to make emergency payments for the Small Business Administration and the Department of Housing and Urban Development. The offices were discontinued in the spring of 1973 by which

time 180,252 emergency payments, totaling \$896,601,807, had been issued. Special payment operations continued for these emergency programs at the regular disbursing centers.

5. Various agencies automated their accounts payable which allows the use of magnetic tape for check issuance of vendor and miscellaneous payments. As a facet of this payment system, notice-to-recipient cards are mailed with related checks to identify the purpose of the check and provide a permanent payment record for the payee.

6. Approval was obtained for acquisition and installation by October 1973 of third-generation computer equipment for the Chicago, Birmingham, and San Francisco Disbursing Centers. Additional computer equipment for other disbursing centers will be acquired under a formal 5-year schedule.

7. The Department of Agriculture has requested assistance in printing and mailing approximately 600,000 food coupon remittance cards to 6,000 distribution points each year. This activity was previously coordinated by the Office of the Treasurer, U.S. The initial full mailing of the cards is scheduled for August 1973.

8. A new building for the Birmingham Disbursing Center was dedicated on July 10, 1972. The Kansas City Disbursing Center will also occupy a new building by November 1, 1973, which will be similar to those presently housing the Austin and Birmingham centers.

9. The supplemental security insurance (SSI) program, which provides for the federalization of welfare payments to the aged, blind, and disabled, will be initiated in January 1974. The program will have a major impact on manpower and equipment needs in disbursing centers due to an increased yearly workload of an estimated 90 million checks.

The table shown below is a comparison of the workloads for fiscal years 1972 and 1973.

Classification	Volume	
	1972	1973
Operations financed by appropriated funds:		
Checks:		
Social security benefits	294,664,438	309,679,143
Veterans benefits	76,912,925	78,393,185
Income tax refunds	55,517,958	63,410,752
Veterans national service life insurance dividends program	5,185,754	1,742,327
Other	59,715,385	62,084,181
Savings bonds	7,473,003	7,558,533
Adjustments and transfers	301,334	299,109
	499,770,797	523,167,230
Operations financed by reimbursements:		
Railroad Retirement Board	14,586,411	14,085,444
Bureau of the Public Debt (General Electric Co. bond program)	999,822	1,070,522
Total workload—reimbursable items	15,586,233	15,155,966
Total workload	515,357,030	538,323,196

Federal depository system ¹

The types of depository services provided and the number of depositories for each of the authorized services as of June 30, 1972 and 1973, are shown in the following table:

¹ See exhibit 23.

Type of service provided by depositaries	1972	1973
Receive deposits from taxpayers and purchasers of public debt securities for credit in Treasury tax and loan accounts.....	13,049	13,283
Receive deposits from Government officers for credit in Treasurer's general accounts.....	1,153	1,158
Maintain checking accounts for Government disbursing officers and for quasi-public funds.....	7,566	7,561
Furnish bank drafts to Government officers in exchange for collections.....	1,213	908
Maintain State unemployment compensation benefit payment and clearing accounts.....	54	48
Operate limited banking facilities:		
In the United States and its outlying areas.....	209	210
In foreign areas.....	249	231

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. At the end of fiscal 1973, Government trust funds and accounts held public debt securities (including special securities issued for purchase by the major trust funds as authorized by law), Government agency securities, and securities of privately owned Government-sponsored enterprises. 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 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, 1973.

Foreign indebtedness

World War I.—The Governments of Finland and Greece made payments during fiscal 1973 of \$352,705 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 \$67.2 million and an interest payment of \$63.1 million on December 31, 1972, 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, 1973, cumulative payments totaled \$2,181.4 million, of which \$1,198.9 million was interest. A principal balance of \$2,767.5 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 final payment in fiscal 1973 of \$152.8 million in principal including a credit of \$6.9 million and \$3.9 million in interest on its indebtedness arising from postwar economic assistance. Cumulative payments through June 30, 1973, totaled \$490 million principal and \$83.8 million interest which liquidated the account in full.

Indonesia, consolidation of debts.—The Government of the Republic of Indonesia made payments in fiscal 1973 of \$3,048,680.10 in principal and \$335,020.67 in interest on deferred principal installments in ac-

cordance 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 13th 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.

A claims agreement between Hungary and the United States was concluded on March 6, 1973. Under the agreement, Hungary will make 20 annual installments of \$945,000. The initial installment of \$945,000 has been received by the Department of the Treasury. Before any payment can be made on the Hungarian awards, the Foreign Claims Settlement Commission will have to adjudicate and certify new awards. The agreement also released the blocking controls over all Hungarian accounts, and the accounts which were divested and held in blocked accounts by the Department of the Treasury are being released to the persons entitled.

See Statistical Appendix for more details.

Defense lending

Defense Production Act.—Loans outstanding were reduced from \$5.6 to \$2.9 million during fiscal 1973. Further transfers of \$3.6 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 \$32.8 million.

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 \$56.5 million have been paid into Treasury as miscellaneous receipts since July 1, 1957. Total unliquidated assets as of June 30, 1973, had a gross book value of \$6.5 million.

Liquidation of Postal Savings System

Effective July 1, 1967, pursuant to the act of March 28, 1966, the unpaid deposits of the Postal Savings System were required to be transferred to the Secretary of the 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 1973, payments totaling \$56,762,139.47 had been made including \$737,470.41 during fiscal 1973.

Public Law 92-117, approved August 13, 1971, provided 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 \$1,000,230 was made to the States and the other jurisdictions during fiscal 1973.

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 1973, the disbursing centers issued more than 95 million forms. The following table shows the volume of deposits processed by Federal Reserve banks for fiscal years 1960-73.

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	364,556	1,309,668	1,409,527	35,435,582
1973-----	34,606,495	11,202	398,624	1,495,260	1,978,266	38,489,847

NOTE.—Comparable data for 1944-59 will be found in the 1962 Annual Report, p. 141.

Government losses in shipment

Claims totaling \$294,152.91 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.

Donations and contributions

During the year, the Bureau of Accounts received "conscience fund" contributions totaling \$51,894.68 and other unconditional donations totaling \$343,088.32. Other Government agencies received conscience fund contributions and unconditional donations amounting to \$7,841.59 and \$42,801, respectively. Conditional gifts to further the defense effort amounted to \$241. Gifts of money and the proceeds of real or personal property donated in fiscal 1973 for reducing the public debt amounted to \$11,505.43.

Bureau of the Public Debt

The Bureau of the Public Debt, in support of the management of the public debt, prepares Department of the Treasury circulars offering public debt securities; directs the handling of subscriptions and making of allotments; formulates instructions and regulations pertaining to security issues; and conducts or directs the conduct of transactions in outstanding securities. The Bureau performs the final audit of retired securities and interest coupons; maintains accounting control over public debt receipts and expenditures, securities, and interest costs; keeps individual accounts of owners of registered securities and authorizes the issue of checks in payment of interest thereon; and ad-

judicates 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 17,100 financial institutions act as paying agents for savings bonds.

Management improvement

The Division of ADP Services planned for and directed construction of a new data processing center in the Washington office to house a large-scale Univac 1108 computer system, and supervised the installation of the equipment in February 1973. Management of the center will be turned over to the Office of the Secretary during the first half of fiscal 1974. In addition to servicing the Bureau of the Public Debt, the center will provide data processing services to several other Treasury organizations. The Division of ADP Services also completed a major undertaking by converting all 15 computer applications for the Washington office from the Honeywell 200 system to the Univac 1108 system.

A major project was initiated in fiscal 1972 to develop an automated system for maintaining the accounts of owners of registered Treasury and agency securities and for preparing check issue data. A full master record is now maintained on magnetic tape for each registered security from initial printing, through inscription and issuance, to eventual retirement. In addition, the necessary information as to registered interest is maintained for each registered owner, and regular interest payment authorizations are being generated from the computerized system. Conversion to the automated system was completed in October 1972. Parallel operations of the old semiautomated system and the new fully automated system began in July 1972 and will be completed early in fiscal 1974. The first interest checks under the automated system were issued in July 1973. The system will reduce operating costs, decrease processing time, improve the accuracy of the records, and generally enhance the efficiency of operations.

In its continuing efforts to furnish investigative agencies with information concerning missing securities, the Bureau has completed arrangements for the entry of data pertaining to bearer Treasury securities into the National Crime Information Center computer system maintained by the Federal Bureau of Investigation. The data, which includes a complete description of each security reported lost, stolen, or destroyed, will be updated on a daily basis. It is planned to enter information relating to registered securities during fiscal 1974.

The Bureau petitioned the National Archives and Records Service for authority to destroy accumulated retired registered securities, some of which were issued as long ago as 1836. Authority was granted for the destruction of such securities 6 years after the maturity date or

date of call for redemption, or 6 years after receipt in the Department, whichever is later. Destruction of the securities was begun, and eventually approximately 6,000 square feet of floor-space used for storage of securities will be freed for other uses.

In the Washington office, the Division of Management Services was established by consolidating the Office Facilities Branch, Printing and Procurement Branch, Directives Branch, Management Analysis Office, and the Destruction Committee under central direction. The new division has the responsibility for planning, coordinating, and directing administrative and management improvement programs in the Bureau and providing related services in the Washington office.

The word processing center in the Correspondence and Claims Branch of the Division of Securities Operations successfully began operation. The facility utilizes a central dictation system and automatic typewriters to link more than 20 correspondents and supervisors at individual dictating stations to a series of endless loop recorders. The system, with its capability for simultaneous recording and transcribing, is yielding a reduction of approximately two-thirds in the time required for the preparation of correspondence.

Treasury will require that the social security number of the owner or first-named coowner be included in the inscription on all series E savings bonds with issue dates of October 1, 1973, or later. This will enable the Bureau to establish a system of ownership records based on account numbers, which will be more efficient and permit more timely and accurate servicing of inquiries and claims than the present system which is based on name and address information. Similarity of names and multiple changes of address often hamper the identification of bond holdings and the expeditious processing of requests for information or claims for the replacement of lost, stolen, or destroyed bonds. The Bureau has developed plans for installing the new system for bonds issued after the requirement becomes effective.

The program to have large-volume bond issuing agents report series E savings bond sales on magnetic tape in lieu of registration stubs was further expanded to include one Defense Department installation and four private companies. Additionally, the number of payrolls serviced was expanded at one Defense Department installation and three Federal Reserve banks. There are now 29 issuing agents participating in the issues-on-tape program.

The move to consolidate all savings bond functions of the Chicago and Parkersburg offices into one office in Parkersburg is continuing in an orderly manner. Ground was broken in Parkersburg on June 9, 1973, for a new building expected to be completed in fiscal 1975.

Bureau operations

During the year, 36,301 individual accounts covering publicly held registered securities other than savings bonds, savings notes, and retirement plan bonds were opened and 48,937 were closed. This decreased the number of open accounts to 257,315 covering registered securities in the principal amount of \$9,396 million. There were 434,020 interest checks with a value of \$365 million issued during the year.

Redeemed and canceled securities other than savings bonds, savings notes, and retirement plan bonds received for audit included 4,709,976 bearer securities and 327,911 registered securities. Coupons totaling 14,477,717 were received.

During the year, 31,842 registration stubs of retirement plan bonds and 11,110 retirement plan bonds were received for audit.

A summary of public debt operations handled by the Bureau appears on pages 17-24 of this report and in the Statistical Appendix.

U.S. savings bonds.—The issuance and retirement of savings bonds result in a heavy administrative burden for the Bureau of the Public Debt, including auditing and classifying all sales and redemptions; establishing and maintaining registration and status records for all bonds; servicing requests from bond owners and others for information; and adjudicating claims for lost, stolen, and destroyed bonds.

Detailed information on sales, accrued discount, and redemptions of savings bonds will be found in the Statistical Appendix.

There were 143 million stubs or records on magnetic tape and microfilm representing the issuance of series E savings bonds received for registration, making a grand total of 3,646 million, including reissues, received through June 30, 1973. All registration stubs of series E bonds and all retired series E bonds are microfilmed, audited, and destroyed, after required permanent record data are prepared by an EDP system in the Parkersburg office.

Of the 109.6 million series A-E savings bonds and savings notes redeemed and charged to the Bureau during the year, 106.8 million (97 percent) were redeemed by authorized paying agents. For these redemptions the 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 \$13,907,450 and an average of 13.02 cents per bond and note.

Interest checks issued on current income-type savings bonds (series H) during the year totaled 4,208,504 with a value of \$398 million. New accounts established for series H bonds totaled 138,112 while accounts closed totaled 115,106, an increase of 23,006 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 51,386. In 31,050 of such cases the issuance of duplicate bonds was authorized. In addition, 11,482 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 Gov-

ernment'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 1973, almost 651 million checks were issued from 1,838 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. Tax and customs 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 payment by 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 financial reports.

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 in the Washington, D.C., area 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 1973, work performed for other agencies by the Treasurer's Office required the services of ADP personnel valued at \$318,248. A total of \$4,418 was deposited in the general fund of the Treasury on account of reimbursements for computer usage.

Automation.—The major management improvement project is in the area of automating check claims operations on third-generation computers. This involves improving certain clerical processes as well as accelerating the production of reports, such as check payment and reconciliation reports, directly related to claims operations. Definitive progress in this area is expected to be reported next year.

Survey in mutilated check area.—An extensive review of checks classified as mutilated and forwarded to the Office of the Treasurer, U.S., by the Federal Reserve banks was conducted. The survey proved that a large percentage of checks are not in that classification but are actually fit for processing. The banks were asked to make a more care-

ful analysis of checks to determine those to be processed as mutilated. The result has been a significant decrease in the number of such checks being forwarded to the Treasurer's Office to be reconstructed.

Review of check reconciliation operations.—During fiscal 1973, Government check reconciliation operations were reviewed at all levels to find and eliminate reasons for the increasing backlog of unbalanced blocks of checks. Several methods of improvement were suggested to disbursing officers, principally by providing them with a list of deficiencies in their check issue reports. These actions have resulted in improving the quality of the work received from the disbursing officers and reducing the reconciliation backlog in the bureau.

Destruction of unfit paper currency.—During fiscal 1973, the Treasurer's Office conducted five more tests of different kinds of pulverizing equipment to see whether they would satisfactorily destroy currency unfit for circulation. The objectives are to reduce the use of incineration, the predominant method now used to destroy unfit currency, and to recycle the high-quality currency paper. As of June 30, 1973, seven Federal Reserve banks and branches had been authorized to obtain pulverizing equipment previously approved by the Fiscal Assistant Secretary, and four of them have installed and are using the 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. Visits were made to 33 Federal Reserve banks and branches to review operations pertaining to canceling, verifying, and destroying unfit paper currency.

As a result of fiscal 1973 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, effective, and economical operating methods.

The audit staff was strengthened by the addition of four auditors to help meet expanding audit requirements. Professional development of the staff included attendance by various members at 15 daytime seminars ranging in length from 2 to 5 days, and completion of 16 semester-length evening courses at local universities. The subject matter ranged from operational auditing, financial management, labor relations, management and organization, CPA coaching, and fiscal policy.

Training.—During fiscal 1973 the Treasurer's Office Training Branch set a record for the bureau. It not only participated in a far wider range of programs than ever before, but spent over \$34,000 in the process, resulting in marked improvement in both efficiency and production.

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 1972 and 1973 appears in the Statistical Appendix. Balances shown in that statement, which is on a final ac-

counting 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.—There were only minor changes in the Treasurer's gold stock during fiscal 1973. The beginning balance of \$10,410.1 million was increased by purchases of \$0.4 million and reduced by sales of \$0.3 million, leaving a balance of \$10,410.2 million at yearend. These values are stated at \$38 per fine troy ounce in accordance with the Par Value Modification Act approved March 31, 1972. Following the further devaluation of the dollar in February 1973 the Treasury proposed legislation which would revalue the gold stock at \$42.22 + per ounce, but this had not been enacted as the year ended.¹

Coinage metal.—Stocks of coinage metal stood at \$216.8 million at the beginning of fiscal 1973 and at \$320.9 million as the year ended. 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.—The number of depositaries of each type and the balances on June 30, 1973, 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, 1973
Federal Reserve banks and branches.....	36	\$4,281,154,438
Other depositaries reporting directly to the Treasurer:		
Special demand accounts.....	8	105,515,000
Other:		
Domestic.....	20	16,925,077
Foreign ²	48	24,245,424
Depositaries reporting through Federal Reserve banks:		
General depositaries, etc.....	1,989	74,464,006
Special depositaries, Treasury tax and loan accounts.....	13,283	8,432,667,281
Total.....	15,384	12,934,971,226

¹ Includes only depositaries having balances with the Treasurer of the United States on June 30, 1973. Excludes depositaries designated to furnish official checking account facilities or other services to Government officers, 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 \$243,385,713 in process of collection.

³ Principally branches of U.S. banks and of the American Express International Banking Corp.

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 at designated Government depositaries, domestic or 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 1972 and

¹ See exhibit 52.

1973, exclusive of certain intragovernmental transactions, are shown in the following table on the daily Treasury statement basis:

Deposits, withdrawals, and balances in the Treasurer's account	1972	1973
Balance at beginning of fiscal year	\$9,910,720,039	\$11,309,647,071
Cash deposits:		
Internal revenue, customs, trust fund, and other collections	228,285,455,364	253,206,887,142
Public debt receipts ¹	466,356,112,806	497,556,268,758
Less:		
Accruals on savings bonds and notes, retirement plan bonds and Treasury bills	6,660,949,840	8,236,440,346
Purchases by Government agencies ²	117,118,702,447	137,503,631,324
Sales of securities of Government agencies in market ²	25,964,803,130	28,057,892,802
Total deposits	596,826,719,012	633,080,977,032
Cash withdrawals:		
Budget and trust accounts, etc.	244,879,617,807	276,735,923,600
Public debt redemptions ¹	437,225,396,321	466,675,124,386
Less:		
Redemptions included in budget and trust accounts	5,462,501,032	5,693,504,307
Redemptions by Government agencies ²	108,133,198,963	125,044,047,256
Redemptions of securities of Government agencies in market ²	21,286,237,625	20,341,007,521
Total withdrawals	589,795,551,759	633,014,503,944
Change in clearing accounts (checks outstanding, deposits in transit, unclassified transactions, etc.), net deposits, or withdrawals (-)	-5,632,240,221	2,365,186,714
Balance at close of fiscal year	11,309,647,071	13,741,306,873

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, U.S. notes are issued only in the \$100 denomination in the Washington, D.C., area. In the course of trade, they also appear in other areas of the country. U.S. notes represent only a very small percentage of the paper currency in circulation.

Federal Reserve notes constitute nearly 99 percent of the total amount of currency. The Bureau of Engraving and Printing prints these notes, holds them in a reserve vault for the account of the Comptroller of the Currency, and ships them to Federal Reserve banks as needed. To obtain notes for issuance to the commercial banking system, the Federal Reserve banks must first deposit equivalent amounts of collateral with their respective Federal Reserve agents.

As the notes become unfit for further circulation, they are retired under procedures prescribed by the Fiscal Assistant 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 in Washington, D.C.

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 the Government officers abroad,

and handles all claims involving burned or mutilated currency. During fiscal 1973, payments totaling \$5.7 million were made to 51,273 such claimants.

A comparison of the amounts of paper currency of all classes, issued, redeemed, and outstanding during fiscal years 1972 and 1973 follows:

	Fiscal year 1972		Fiscal year 1973	
	Pieces	Amount	Pieces	Amount
Outstanding July 1.....	5,613,768,498	\$55,114,602,017	5,998,247,159	\$58,901,971,440
Issues during year.....	2,715,007,699	16,841,876,620	2,868,515,604	19,307,752,400
Redemptions during year.....	2,330,523,038	13,054,507,197	2,608,389,304	13,942,985,697
Outstanding June 30.....	5,998,247,159	58,901,971,440	6,258,373,459	64,266,738,143

Details of the issues and redemptions for fiscal year 1973 and of the amounts outstanding at the end of the year 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 1973 totaled \$184,041 million and required the processing of 38.6 million cards, compared with \$159,889 million collected and 32.4 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 1973, 84 Government agency accounting stations were making disbursements through letters of credit. During the year the Treasurer's Office processed 83,953 withdrawal transactions, aggregating \$35,802 million, compared with 76,569 transactions, totaling \$34,658.2 million, in fiscal 1972.

Checking accounts of disbursing officers and agencies.—As of June 30, 1973, the Treasurer maintained 1,838 checking accounts, com-

pared with 1,808 the year before. The number of checks paid by categories of disbursing officers during fiscal 1972 and 1973 follow:

Disbursing officers	Number of checks paid	
	1972	1973
Treasury.....	517, 684, 629	520, 053, 169
Air Force.....	30, 403, 130	28, 404, 826
Army.....	36, 516, 872	36, 665, 847
Navy.....	36, 332, 907	35, 767, 193
Other.....	33, 587, 763	29, 887, 097
Total.....	654, 525, 301	650, 778, 132

Settling check claims.—During fiscal 1973, the Treasurer processed 781,000 requests to stop payment on Government checks and 50,000 requests for removal of stoppage of payments. This resulted in 511,000 paid check claims acted upon during the year, including 48,000 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 75,000 claims with a value of \$12.9 million. During the year 51,000 paid check claims totaling \$20.7 million were settled. In addition, claims by payees and others involving 182,000 outstanding checks were acted upon. Of these, 170,000 were certified for issuance of substitute checks valued at \$91.3 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 \$15.9 million.

Collecting checks deposited.—Government offices during the year deposited 7.8 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, 1972, and June 30, 1973, is shown below.

Purpose for which held	June 30	
	1972	1973
As collateral:		
To secure deposits of public moneys in depository banks.....	\$33, 626, 100	\$25, 119, 000
In lieu of sureties.....	6, 855, 950	5, 422, 750
In custody for government officers and others:		
For the Secretary of the Treasury ¹	38, 896, 504, 840	45, 530, 896, 365
For the Comptroller of the Currency.....	11, 493, 000	11, 741, 000
For the Federal Deposit Insurance Corporation.....	245, 000, 000	245, 000, 000
For the Rural Electrification Administration.....	183, 314, 400	207, 081, 400
For the District of Columbia.....	500, 800, 202	592, 037, 596
For the Commissioner of Indian Affairs.....	1, 746, 125	952, 325
Foreign obligations ²	12, 024, 056, 451	12, 019, 828, 451
Other ³	117, 852, 334	140, 617, 334
For government security transactions:		
Unissued bearer securities.....	1, 611, 914, 150	1, 634, 618, 500
Total.....	53, 633, 163, 552	60, 413, 314, 721

¹ Includes those securities listed in table 107 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 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 1972 and 1973, on the daily Treasury statement basis, is as follows:

Payment made for	1972		1973	
	Principal redeemed	Interest paid	Principal redeemed	Interest paid
Banks for cooperatives.....	\$3,452,060,000	\$93,423,813	\$3,708,695,000	\$95,898,133
District of Columbia Armory Board.....		1,112,622		770,259
Export-Import Bank of the United States.....	(1)	(1)	402,158,721	77,875,366
Federal home loan banks.....	2,355,760,000	566,423,590	2,111,331,000	493,303,838
Federal Home Loan Mortgage Corp.....	(1)	(1)	175,825,000	66,052,353
Federal Housing Administration.....	54,127,500	20,084,087	86,426,000	20,752,285
Federal intermediate credit banks.....	6,486,720,000	313,430,614	6,520,995,000	311,597,393
Federal land banks.....	1,989,039,700	455,650,761	2,373,510,500	504,705,990
Federal National Mortgage Association ²	3,653,214,000	1,038,847,492	2,945,583,000	1,086,926,620
Government National Mortgage Association.....	(1)	(1)	374,865,000	112,932,962
Tennessee Valley Authority.....	(1)		940,000,000	
U.S. Postal Service.....		(1)		8,522,601
Washington Metropolitan Area Transit Authority.....				4,098,950
Others.....	128,425	18,189	143,300	12,351
Total.....	17,991,049,625	2,488,991,166	19,639,532,521	2,783,449,100

¹ Prior to Nov. 17, 1972, payments of principal and interest on these securities were accomplished through special arrangements with certain Federal Reserve banks.

² Until Nov. 17, 1972, payments include only the Association's secondary market debentures; thereafter they also include its capital debentures and mortgage-backed bonds.

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, 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 merchandise, unless licensed under the Transaction Control Regulations (see below), and with the exceptions of transactions 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. A general license permits sales of these commodities to countries other than North Korea and North Vietnam, providing shipment is made from and licensed by a COCOM member country. (COCOM is a NATO entity.)

The Cuban Assets Control Regulations were administered without change.

The administration of assets remaining blocked under the World War II Foreign Funds Control Regulations was continued. The regulations were amended on March 27, 1973, to remove the remaining controls on Hungarian property. This action was taken in connection with the Settlement of Claims Agreement between the United States and Hungary signed March 6, 1973. These regulations continue to apply to assets blocked under Executive Order 8389, as amended, of Czechoslovakia, Estonia, Latvia, Lithuania, East Germany, and nationals thereof who were, on December 7, 1945, in Czechoslovakia, Latvia, Lithuania, or Estonia, or on December 31, 1946, in East Germany.

The Office continued administration of the Rhodesian Sanctions Regulations. By means of these regulations, the Department of the Treasury performs its functions and responsibilities under the Executive orders which implement the United Nations Resolutions calling upon member countries to impose mandatory sanctions on Southern Rhodesia. An exception to the prohibition against imports of merchandise of Southern Rhodesian origin is authorized by general license for certain strategic and critical materials, pursuant to section 503 of the Military Procurement Act of 1971.¹

Under the Foreign Assets Control Regulations and the Transaction Control Regulations the number of specific license applications received during fiscal 1973 (including applications reopened) was 144. During that period 144 applications were acted on.

Applications for licenses and requests for reconsideration under the Cuban Assets Control Regulations totaled 361 during fiscal 1973; 367 applications were acted on.

During the same period, 278 applications (including applications reopened) were received under the Rhodesian Sanctions Regulations. A total of 275 applications were acted on.

Comparable figures under the Foreign Funds Control Regulations were 146 applications (including reopened) received, and 149 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 1973, criminal case actions by the Department of Justice involving violations of the regulations administered by this Office resulted in convictions in two cases and (a) criminal court fines total-

¹ See exhibit 24.

ing \$700, (b) forfeiture of merchandise valued at \$537,568, and (c) civil penalties of \$146, 191. The total of criminal fines, civil penalties and merchandise forfeited amounted to \$684,459. The total value of merchandise under seizures at the end of the fiscal year amounted to \$2,265,100.

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 Economic Stabilization Act of 1970, as amended (Public Law 92-210, 85 Stat. 743).

Receipts, refunds, and returns filed

In 1973, gross collections expanded at a rapid pace, rising to a record \$238.1 billion. The increase over last year of \$28.3 billion was the second largest in history. A strong upward trend in personal income and corporate profits, and excess withholding, were factors influencing this year's revenue picture.

Individual income tax receipts of \$125.1 billion showed a \$16.2 billion (14.9 percent) increase over last year.

Corporate income tax collections of \$39.1 billion, up \$14.1 billion (11.8 percent), reflected higher corporate profits generated by economic expansion which began in calendar year 1971.

Employment tax collections amounted to \$52.5 billion, an increase of more than 20 percent over 1972. The growth of salaries and wages, higher rates, and increases in the taxable wage base were major factors in increased collections. Effective January 1, 1973, the combined employer-employee social security (FICA) rate increased from 10.4 to 11.7 percent, the self-employment (SECA) rate from 7.5 to 8.0 percent, and the railroad retirement rate from 19.9 to 21.2 percent. The taxable earnings base went up from \$9,000 to \$10,800 on January 1, 1973.

More than 63 million Americans received refunds in 1973. The 25.8 billion refunded was a record high.

More than 116 million returns of all types were filed in 1973. Individuals filed 79 million returns with 22 million (28 percent) using the simplified form 1040-A.

Informing and assisting taxpayers

The Service recognizes its obligation to help taxpayers in reporting and computing their tax liabilities. Taxpayer assistance teams in each district office answered questions and provided tax materials to taxpayers. Service personnel issued regulations, rulings, simplified tax

¹ Additional information will be found in the separate Annual Report of the Commissioner of Internal Revenue.

guides, and forms to increase public knowledge and understanding of tax laws and procedural requirements.

Last year, millions of Americans found answers to many of their tax questions through weekly question-and-answer columns prepared by the IRS and published in thousands of daily and weekly newspapers across the Nation. IRS spot announcements were carried by more than 4,800 radio stations, and over 800 television stations broadcast film spots for taxpayers. Broadcasters aired the spot announcements free of charge, as a public service. They also assisted area IRS offices by presenting tax information programs tailored to local interests and needs. Residents of rural areas learned about farmers' tax problems, while urban area dwellers saw tax presentations for wage earners and small businesses.

Field offices issued nearly 8,000 information releases to the media. They also answered more than 2,400 inquiries from local newspapers and broadcasters.

The Service responded to more than 54 million inquiries for assistance with tax matters in 1973, some 12 million more than in 1972. Over 36 million persons telephoned; about 18 million visited Service offices where approximately 3.8 million returns were prepared; and more than 250,000 wrote.

Throughout the filing season, the Service extended office hours, prepared individual returns on request, offered toll-free telephone service in 30 districts, established satellite offices; used "taxmobiles" and information centers to reach senior citizens and low-income groups, expended cooperative efforts with military installations, and arranged visits in some areas to nursing homes, hospitals, and other institutions.

Over 9,000 returns were prepared by minicomputers at four test sites during the 1973 filing period. While the taxpayer waited, Service employees put basic data into computers which then calculated the tax liability and printed out a completed 1040-A ready for signature. Taxpayer reaction was very favorable.

The Service continued the program of providing tax information in Spanish. Districts with a high concentration of Spanish-speaking taxpayers employed Spanish-speaking taxpayer service representatives at 77 posts of duty. News releases and information publications printed in Spanish received wide distribution.

Again this year the Service offered various taxpayer education programs.

Seven hundred thousand taxpayers received free assistance through the volunteer income tax assistance (VITA) program. The program is designed to train volunteers from civic, community, church, senior citizens', and students' groups to help lower income and disadvantaged citizens by providing better understanding of the income tax laws, enabling them to prepare their own returns, or providing assistance in the actual preparation of returns. With the increased involvement of various retirement organizations, particularly the Institute of Lifetime Learning, over 175,000 elderly and retired taxpayers were assisted, more than triple that of last year. Junior chambers of commerce cooperated to sponsor VITA nationwide.

Service personnel conducted 850 VITA classes, training 22,500 vol-

unteer assistants. Many colleges placed the program in their curricula, offering students academic credit for their volunteer work.

The Service provided tax material to over 23,000 high schools, teaching approximately 4,300,000 students to prepare their own returns. In addition, over 50,000 taxpayers in adult education classes benefited from a program on how to prepare their own returns.

More than 67,000 tax practitioners attended training programs on filing requirements and changes in the law.

An estimated 3,300,000 taxpayers viewed or listened to educational TV and radio programs mostly emphasizing the new short form 1040-A.

Several new programs were added, including a volunteer assistance program for Spanish-speaking taxpayers, and a fundamentals of tax preparation course for colleges and universities. More than 600 schools offered this course to about 41,000 enrollees.

Training personnel developed a new curriculum for newly hired taxpayer service representatives featuring 6 weeks of classroom training. The Service also developed new courses for all temporary taxpayer service representatives as well as for employees detailed from other IRS functions during the filing period. A 2-week advanced tax law course was offered to all incumbent taxpayer service representatives.

The Service provides many booklets and pamphlets explaining the tax laws in nontechnical language.

Special publications help taxpayers faced with uncommon problems. For example, when Congress enacted new tax relief provisions in the wake of Hurricane Agnes, the Service produced a special edition of Publication 547, "Tax Information on Disasters and Casualty Losses and Thefts." On announcement of the Vietnam cease-fire, the Service issued Publication 815, "Tax Information for Returning POW's" and Publication 816, "Tax Information for Families and Executors of Missing Servicemen."

Other new tax guides released in 1973 were Publication 581, "Questions and Answers Regarding Original Issue Discount on Savings Deposit Arrangements," and Publication 583, "Federal Use Tax on Civil Aircraft."

Enforcement activities

The Service carries out enforcement activities to encourage and achieve maximum compliance, the heart of the American system of self-assessment. Through the examination program, the Service seeks to assure correctness in reporting income and claiming deductions. This, in turn, builds public confidence that taxpayers are treated alike, which generates voluntary compliance.

Investigation of return preparers.—Disclosure of a high percentage of incorrect and fraudulent returns prepared by incompetent and unscrupulous commercial return preparers resulted in a nationwide coordinated return preparer compliance program in 1972. This program continued in 1973. Following development of more sophisticated methods of identifying suspect preparer returns, the number of audit examinations and intelligence investigations of fraudulent return preparers increased.

During the 1973 filing period, the Service issued press releases cautioning taxpayers to choose their tax return preparer carefully. In addition, it announced that agents would anonymously visit hundreds of return preparers with income and deduction data and withholding forms to have returns prepared. A total of 4,977 tax returns were prepared for Service employees posing as clients, and 1,112, or 22 percent, of these returns appear fraudulent. From January 1972 through June 1973, the Intelligence Division arrested or obtained indictments against 420 tax return preparers. So far, 209 have been convicted or have pleaded guilty.

As of June 30, 1973, the Audit Division had examined 234,938 returns under the program resulting in additional tax and penalties of more than \$43.8 million for an average of \$187 per return examined. Approximately 4,200 preparers of these returns were identified during the 1973 program.

Courts are dealing more severely with convicted return preparers. More than 53 percent have received prison terms. During March 1973, five of six return preparers sentenced received prison terms varying from 3 months to 3 years.

The following are examples of 1973 convictions:

A self-proclaimed tax expert was sentenced to 3 years in prison after being convicted of preparing fraudulent tax returns. His fraudulent claims included a gasoline tax deduction for a person unable to drive, and business telephone expenses for a person who did not have a phone.

A man was indicted on 22 counts of aiding and assisting in preparing false income tax returns. His clients testified at the trial that he had, without their knowledge or consent, falsely claimed itemized deductions, personal exemptions, and employee business expenses on their returns. Many of his clients could neither read nor write English, and he frequently diverted to his own use money intended to pay his clients' tax liabilities. He was convicted on all counts and sentenced to 9 years in prison, with 6 years' probation to follow imprisonment.

Another was found guilty of 18 counts of preparing false returns and sentenced to 3 years in prison. A total of 271 clients had been misled.

Computer selection of returns and assistance in audits.—The Service uses computers programmed with mathematical formulas to identify returns having the highest probability of tax error. Through the system, the Service has reduced the number of taxpayers contacted whose audit would result in no tax change, and identified returns most in need of examination. This year corporation returns with assets under \$1 million were added to the computerized system for selecting returns for audit.

Machine-sensible records are becoming available in more audits where accounting records are processed through automatic data processing systems. The Service has evaluated several thousand ADP installations and advised taxpayers concerning the records they should retain for audit purposes. These machine-sensible records permit rapid retrieval, analysis, and calculation of data. Another advantage is that the computer checks great masses of data that would be impractical to do manually and prints only data of audit interest. The technique

results in substantial savings in manpower and money for the Service and the taxpayer.

Results of audit activity.—The Service examined 1,770,971 returns in 1973. Additional tax and penalties recommended amounted to \$5.1 billion—an alltime high, and an increase of \$1.7 billion over 1972.

Three of every four examinations involved individual income tax returns. These returns accounted for \$1.1 billion in tax deficiency recommendations. Corporate returns, representing 6.9 percent of total examinations produced recommendations for assessment of an additional \$3.1 billion.

Not all examinations resulted in an increase in tax liability. In 1973, Service examinations disclosed overassessments on many returns, resulting in refunds of \$275.7 million.

Administrative appeals system.—Historically, the Service has encouraged resolving tax disputes through the administrative appeals system rather than through litigation. The Service provides the taxpayer who disagrees with a proposed adjustment to his tax liability with an opportunity for an early, independent review of his case at one of the 58 district offices or 40 regional appellate offices throughout the country. As need arises, the Service also provides conferences at other locations where it is not feasible to maintain a full-time conference staff. At both district and regional appellate offices, a conference is offered soon after the case is received, to the extent possible at a date, time, and place convenient to the taxpayer.

Informal proceedings prevail. Taxpayers may represent themselves or be represented by counsel. In either case, they are given every opportunity to present their views. If the case is not settled, the taxpayer is informed of his further appeal rights and options available to him. In a large majority of cases, taxpayers and Revenue Service conferees at district or regional level reach a mutually acceptable basis for resolving disputes. The result is that relatively few cases actually go to trial.

In 1973, the appeals function disposed of 54,351 cases by agreement; the Tax Court decided 1,293 cases and the U.S. district courts and Court of Claims decided 445 cases.

Tax fraud investigations.—The Intelligence Division enforces the criminal tax statutes by investigating instances of tax fraud including suspected income and excise tax evasion, failure to file returns, false withholding exemption statements (W-4), false claims for refunds, false estimated tax credits, perjury, failure to remit trust funds collected, and evasion of wagering taxes.

Improved techniques helped produce a record number of prosecution recommendations this year. The Intelligence Division completed 8,601 investigations and recommended prosecution in 2,555 cases. Grand juries indicted 1,186 taxpayers. Prosecution was successfully completed in 1,104 cases. Of these, 914 taxpayers entered guilty pleas and 190 were convicted after trial. Acquittals and dismissals totaled 55 and 112, respectively.

Tax fraud is not confined to any occupational or social group. This year, the Service recommended prosecution of taxpayers engaged in 250 different industries and occupations. The following cases illustrate the Service's efforts to maintain balanced coverage.

A nationally known businessman and financier was indicted for failing to report more than \$6 million in income from stock transactions. An investigation disclosed that he evaded \$1,443,231 in taxes. This is one of the largest individual tax cases in IRS history.

The owner of a large court-reporting service in the Midwest was found guilty of failing to file income tax returns for 1965, 1966, and 1967. He was sentenced to serve 1 year in prison and fined \$10,000, in addition to taxes and penalties assessed. The judge, upon learning that he had failed to file returns for the years 1955 through 1967, declared that his was "the most flagrant case of willful failure to file that I have been able to find in the lawbooks."

A world-renowned surgeon was indicted on five counts of willfully attempting to evade his income tax. Investigation of his tax returns disclosed that he failed to report a substantial part of his fees and income from other sources, and that he claimed personal expenditures as professional expenditures. He was convicted on all counts and received a 6-month suspended sentence (upon the condition that he work free of charge in an Army hospital), 5 years' probation, and fined the maximum amount of \$50,000. The remaining civil settlement involves approximately \$500,000 in taxes and penalties.

A gambler was convicted on each count of a 15-count indictment charging him with willfully attempting to evade payment of Federal excise tax on wagers. He received a 5-year prison term on each count, to be served concurrently. Betting records seized by the local fire department during a fire at his handbook premises led to his conviction.

A tile setter pleaded guilty to three counts of preparing and presenting fraudulent claims against the Government for the years 1967, 1968, and 1969. He used various schemes including filing a joint return when he was not married, claiming credit for income taxes withheld when none were, and failure to report income received. He was sentenced to 1 year in prison and placed on 2½ years' probation.

Delinquency investigations.—Although most taxpayers comply with filing requirements, the Service has a continuing program to ensure that those taxpayers who do not fulfill their obligation are identified and appropriately assessed. Stepped-up enforcement efforts in 1973 produced 873,000 delinquent returns, an increase of 116,000 over the preceding year. Assessed tax penalties and interest on these delinquent returns totaled \$453,000, some \$72 million more than last year. Service enforcement personnel also collected \$2.4 billion in delinquent accounts, \$115 million above last year.

Organized crime and strike forces.—The Internal Revenue Service joined the Federal coordinated drive on organized crime in 1966 and has since expanded its efforts to 18 key locations throughout the United States. Each strike force is organized by the Department of Justice with Federal investigative agencies participating under the leadership of a strike force attorney-in-charge. The Service has been the major contributor of investigative manpower.

Since inception of the strike force concept, 238 organized crime members and their associates have been convicted or have pleaded guilty to various tax charges. More than \$500 million in additional taxes and penalties have been proposed for assessment.

The following are examples of strike force activities.

Approximately 100 Service agents swept the Boston area in a drive to collect an estimated \$3.5 million in unpaid excise taxes from 62 bookies. Revenue officers seized bank accounts, autos, and other personal effects.

The Service filed tax liens totaling \$1.8 million on the personal property of five Hartford, Conn., men who allegedly ran an \$18 million-a-year bookmaking operation.

A Miami strike force investigation resulted in a conviction with a 15-year prison sentence and \$60,000 fine. The investigation disclosed extortion and interference with interstate commerce. An associate was sentenced to 10 years' imprisonment and fined \$5,000.

A New York crime figure was sentenced to 5 years in prison and fined \$15,000 for income tax evasion. He is reputed to be the heir-apparent to organized crime's "boss of bosses." While the trial was in progress, there were attempts to intimidate witnesses, and one key witness was relocated because of possible retaliation.

In Las Vegas, two pleaded guilty to charges of conspiring to evade the income taxes of the Flamingo Hotel and for conspiring to violate the interstate gambling statutes. Both were sentenced to 1 year in prison and fined \$20,000.

International IRS activity

The Service has a broad overseas program consisting of three functions: Administration of tax laws as they apply to U.S. citizens living abroad, nonresident aliens, and foreign corporations; assistance to developing countries in improving their systems of tax administration; and participation in the negotiation of tax conventions or treaties with foreign countries to prevent double taxation.

Tax administration abroad.—The Service operates 10 foreign posts to provide a link between U.S. citizens and businesses abroad and the domestic tax program. The posts are located in Bonn, London, Manila, Mexico City, Ottawa, Paris, Rome, Saigon, Sao Paulo, and Tokyo. Heading each post is a Revenue Service representative responsible for carrying out Service compliance activities within a designated geographical area. In addition, he handles requests for information from foreign tax authorities in resolving double taxation cases or other inequities originating under tax treaties and furnishes information and assistance to U.S. citizens having tax problems.

This year, the Service again expanded its overseas enforcement efforts by detailing teams of revenue agents and tax auditors to foreign posts. Each agent-auditor team is stationed abroad for 6 months and is replaced by another team to ensure year-round compliance coverage. The agents and auditors travel throughout the post territory examining returns and performing related work at the post headquarters. Also, 20 specially trained Service personnel, including three taxpayer service representatives, visited 102 cities in 60 countries where they assisted 36,371 persons in filing their U.S. tax returns.

Tax seminars held in 57 foreign cities broadened the base of the overseas tax assistance program. The seminars are group oriented and structured to allow time for a discussion of tax rules, questions and answers, and preparation of returns.

Approximately 900 military personnel received classroom income tax instruction at 31 military bases overseas, after which they assisted numerous other members of the military community. For the first time women made up part of the IRS instructor team.

Technical assistance in tax administration.—The Tax Administration Advisory Staff provides technical assistance in tax administration to foreign governments, State governments, and international organizations. Assistance is provided in the following ways: (1) Assigning full-time resident advisors for long terms; (2) assigning short-term advisors for specific purposes; (3) developing and presenting training programs in specific areas of tax administration; (4) arranging discussions and visits to IRS facilities; and (5) coordinating and supporting other international tax administration organizations.

The IRS international advisory program began in 1963 under an agreement with the Agency for International Development, with five advisors assigned to three countries. By 1967, the number of advisors had increased to 82 men in 21 countries. At the close of 1972, 24 advisors remained on assignment in Bolivia, Colombia, El Salvador, Guatemala, Guyana, Jamaica, Paraguay, Trinidad-Tobago, Uruguay, and Vietnam.

In fiscal 1973, advisory services included audit, collection, data processing, and public information. Internal support areas, such as, organization and methods studies, training, long-range planning, and budgeting also received attention.

Furnishing technical aid and locating retired IRS employees to serve as consultants are among the ways the advisory staff assists a number of international organizations that provide assistance in tax administration. Retirees serve in Botswana, Africa, under an Agency for International Development contract; in Panama, with the Inter-American Center for Tax Administration; in Malaysia, with the International Executive Service Corps; in Lebanon, with the Ford Foundation; and in Ethiopia, with the International Monetary Fund.

Under the Intergovernmental Personnel Act, IRS advisors now provide technical assistance to State administration agencies. These assignments range from a few weeks to several months, and contribute to increased cooperation between IRS and the State tax authority. The IRS also furnished technical assistance to Guam and Puerto Rico.

Tax treaties.—Tax treaty programs include exchange of information to eliminate tax avoidance and periodic meetings between competent authorities to develop new avenues of cooperation, to eliminate double taxation, and to clarify application and interpretation of treaties. During the past year Treasury renegotiated tax treaties with Belgium, Japan, and Norway. In addition, an income tax treaty with the Soviet Union was signed and awaits Senate ratification.

Planning activities

Recent legislation on revenue sharing and Federal collection of State income tax played a key role in the Service's planning activities in 1973. Service planners also assisted the Office of the Secretary in several legislative proposals, the most important relating to measures to curb abuses among tax return preparers, and to reforms in estate and gift taxes, employment taxes, and employee benefits (pension plans).

The Service also submitted recommendations to alleviate administrative problems encountered in enforcement of existing laws.

In the second session, Congress enacted nine bills with varying degrees of impact on the Internal Revenue Code. Among these were Public Law 92-512, which included the State and Local Fiscal Assistance Act of 1972 establishing the general revenue-sharing program; and the Federal-State Tax Collection Act of 1972, which authorized Federal collection of State individual income taxes.

The State and Local Fiscal Assistance Act of 1972 authorizes the inclusion of information about place of residence on individual returns. The Service has provided certain tax return information, coded by taxpayer place of residence, to the Bureau of the Census for estimating population and per capita income for all governmental units eligible for revenue sharing.

The Federal-State Tax Collection Act of 1972 authorizes the Service to enter into agreements with States to collect State individual income taxes. Under the law, a State would have to conform its individual income tax law closely to Federal tax law. The procedures would also require redesign of some IRS systems, modification of tax returns and instructions, and changes in regulations and master file systems. Federal collection of State individual income taxes can go into effect only after two or more States (representing 5 percent or more of the Federal individual income tax returns) request the Federal Government to collect their income taxes. No requests had been made by the end of the fiscal year.

Taxpayer compliance measurement program.—The taxpayer compliance measurement program (TCMP) uses statistical techniques to determine how well taxpayers comply with tax laws. TCMP provides data that enables the Service to allocate audit resources most efficiently among classes of taxpayers and to develop the most effective delinquent accounts and returns program. TCMP information is also used to develop formulas for computer selection of returns with the highest probability of tax change for audit. The Service updates formulas based on the most recent TCMP survey results. During 1973, new formulas, based on a TCMP survey of corporations with assets of less than \$1 million, were used in screening small corporate income tax returns for audit.

Tax forms activity

During fiscal 1973, the Service took a number of steps to simplify its forms and form letters. Most notable was the reintroduction of the short form individual return, form 1040-A, after an absence of 3 years. Several recent changes in law, such as the increase in the standard deduction and an increase in the ceiling of the optional tax tables to \$10,000, made it feasible to bring back the short form. Over 22 million of the country's 78 million filers used this abbreviated return.

The Service also developed form 4875, used by more than 2,420,000 individual tax filers to designate \$1 to the Presidential election campaign fund. This form was designed as a separate attachment to protect the taxpayer's privacy with respect to his designation of political affiliation.

Other significant forms developed during the year to comply with

the Revenue Act of 1971 were form 1120-DISC, a return for Domestic International Sales Corporations, and form 4874, which taxpayers use to compute the tax credits available to employers who hire under the work incentive (WIN) program.

Inspection programs

Through internal audit and internal security programs, Service managers are assisted in maintaining high standards of integrity and operational effectiveness.

The Internal Audit Division reviews Service operations to be sure they are carried out properly and efficiently.

The Internal Security Division conducts background investigations on applicants and investigates complaints of misconduct or irregularities concerning Service employees. The Division also investigates persons outside the Service who attempt to corrupt Service employees through bribery or other means.

The Internal Security Division assumed jurisdiction over assaults and threats against IRS employees in March 1972. During the fiscal year employees reported 488 assaults or threat complaints, resulting in 53 prosecution actions and 17 convictions.

Actions by management on problem areas detected during internal audits result in increased operating efficiency, strengthened internal controls, and improved taxpayer service, and generally foster a climate of integrity and responsibility within the Service. Many improvements and long-term benefits cannot be measured monetarily. In areas that can be measured, savings and additional revenue, averaging over \$30 million per year in recent years, exceeded \$40 million in fiscal 1973.

Participation in the economic stabilization program

The Internal Revenue Service has played a key role in administering the economic stabilization program since its inception in August 1971. During the 90-day freeze (August 15 through November 13, 1971) the Service operated local information and compliance centers under the direction of the Office of Emergency Preparedness.

On November 14, 1971, Phase II began, featuring a set of controls on prices, wages, and rents designed to hold the yearly rise in prices to 2.5 percent, and wage increases to 5.5 percent. The Service also took over responsibility for directing administrative activities. Policy direction was received from three bodies—the Cost of Living Council, the Price Commission, and the Pay Board.

While Phase III, which began January 11, 1973, placed mandatory controls on about 850 of the Nation's largest firms and on certain problem industries, its primary emphasis was on voluntary adherence to price and wage guidelines. The Cost of Living Council became the sole policymaking body, and the Pay Board and Price Commission were abolished.

The Service's role in the economic stabilization program has varied with the changes in emphasis. During Phase I, IRS used most of its 3,000-man stabilization work force to answer questions posed by the public and to investigate complaints. During Phase II, IRS was the principal contact point with the public on stabilization matters and was charged with three major functions: (1) Providing the public

with information needed to comply with regulations, (2) serving as the initial contact on citizens' requests for exceptions or exemptions and handling appeals from judgments or interpretations, and (3) investigating complaints of alleged violations.

In Phase III, IRS responsibilities were: (1) Providing investigative support to the Cost of Living Council, (2) monitoring the economic activity of selected industries, (3) answering inquiries and providing information to the public, and (4) acting on exception requests, and hearing appeals from health and food processing industries.

With Phase III wage and price guidelines operating mainly on a voluntary basis, compliance and enforcement assumed a different perspective. The Cost of Living Council was responsible for determining if violations had occurred and ordering rollbacks and refunds. The Service's function became mainly that of a factfinder for the Cost of Living Council.

The Service established a nationwide industry monitoring system to provide information about pricing trends in selected industries, to identify apparent violations of Phase III guidelines, and to create a nationwide compliance presence.

The Service's primary mission in the price area has been to investigate the pricing practices of the approximately 850 firms with sales of \$50 million to \$250 million.

A special 3-month survey was conducted of 450 of the Nation's larger firms designed to remind the business community of its obligation to maintain certain records and to voluntarily support Phase III.

Service personnel contacted 27,000 retailers, wholesalers, and packers to assure compliance with pricing and posting requirements.

On June 13, 1973, President Nixon ordered a 60-day freeze on most prices. The Cost of Living Council and Internal Revenue Service were given the responsibility for enforcing the freeze regulations, answering inquiries, and processing requests for exceptions. IRS field offices were fully prepared for freeze operations by June 15. In some areas office hours were extended to better serve the public.

Major management improvements

The Service has given renewed emphasis to Government-wide efforts to reduce costs. In the first year of a 2-year program, average GS grade was reduced from 7.8 to 7.5 for a savings of approximately \$11 million in payroll costs.

The grade deescalation program has encouraged IRS managers to seek new methods to accomplish savings in their personnel resources. For example, IRS executives have taken advantage of the favorable labor market by recruiting college graduates at lower grades where possible; have increased use of paraprofessionals; have established firmer controls over the filling of vacancies; and have revised work methods and assignments to assure concentration of work at existing grade levels.

Management careers programs.—A new servicewide management careers program covers National Office, regional, and district managerial positions within Accounts, Collection and Taxpayer Service (ACTS), Compliance, and Administration. The major aspects of this program include: (1) Required training for first-line supervisors se-

lected under the program, before they take over their supervisory positions; and (2) district, regional, and National Office boards to oversee the development and advancement of employees. In conjunction with this program, the Service set up an ongoing supervisory assessment center which appraised approximately 800 applicants for first-line supervisory jobs.

The Service is launching a new career program to fill lower level management positions in service centers and the Detroit Data Center. Major features include: Establishment of a career board, thereby placing reliance on collective judgment; a comprehensive selection and development process; national guidelines with provision for local flexibility; option to select in advance of vacancies, with opportunity for training before assuming new duties; and continued emphasis on career development and training of those new in management jobs.

The Service continued its executive selection and development program and selected 31 persons for the 1974 class.

Multiunit agreement with NAIRE.—A second multiunit agreement with the National Association of Internal Revenue Employees (NAIRE) was signed on April 13, 1973. This agreement covers about 26,000 employees of nine service centers, the National Computer Center, and the IRS Data Center. Important provisions of the agreement deal with promotions, performance evaluations, grievances and disciplinary proceedings, layoff and recall of seasonal employees, and written agreement that the union will take action to prevent strikes.

Because of the expansion in union activity, the Service has increased contract administration and labor relations training for managers, supervisors, and personnel officers.

Recruitment efforts.—In July 1972, the Civil Service Commission took away the special salary rates for internal revenue agents and special agents which had been in effect for several years. In spite of this, the Service was successful in meeting its fiscal 1973 recruitment goals. Service offices hired some 1,200 internal revenue agents, 890 revenue officers, 500 tax auditors, 350 special agents, and 160 estate tax attorneys. Late in the fiscal year, after review of labor market and economic conditions affecting the supply of accountants, the Civil Service Commission reestablished special higher salary rates for entrance-level accountants and internal revenue agents. The rate changes came in time to aid spring recruiting for fiscal 1974 advance attrition hiring.

Realistic performance evaluation.—The NAIRE/IRS Multi-District Contract requires a series of task forces to develop new job-related performance evaluation criteria for five major occupational areas: Revenue agent, revenue officer, estate tax attorney, clerk, and secretary.

The Service established new performance evaluation procedures providing for better communication between an employee and his supervisor.

Equal employment opportunity (EEO) activities.—The Equal Employment Opportunity Act of 1972 reinforced the Federal Government's responsibility to assure equal employment opportunity for all Federal employees and applicants for employment. The law requires Federal agencies to prepare EEO affirmative action plans on a national and local basis for Civil Service Commission approval. Regional of-

offices, districts, and service centers prepared plans under the new regulations for the first time this fiscal year. The scope and format required for the plans were so radically different from those of the past that many initial difficulties occurred in trying to meet the requirements of the new law and gain approval by the Commission. However, at the end of the fiscal year, virtually all affirmative action plans were approved and in operation across the country.

Protection of facilities.—The Service continued to strengthen the physical security of its data processing activities to ensure uninterrupted operation of the revenue collection function. Intimidations against Service operations were handled without major incident. While the number of bomb warnings did not change from the previous year, the number of man-hours lost by building evacuation did increase significantly due largely to a mass evacuation at one facility.

Data Center moved to new location.—The IRS Data Center moved to a new building in downtown Detroit. The building was especially constructed to meet the Center's needs and provides about 200,000 square feet of space. This move gives the Data Center excellent office space for a 20-year lease period and a degree of permanence the employees had not previously enjoyed.

The George S. Boutwell Auditorium dedicated.—With the assistance of the General Services Administration, the Service completed a much-needed auditorium on the seventh floor of the National Office Building. Named after the first Commissioner, the facility seats 204 people and affords improved conference and hearing accommodations for large groups of employees and officials from Government and private industry.

BUREAU OF THE MINT¹

The Mint became an operating bureau of the Department of the Treasury in 1873, pursuant to 31 U.S.C. 251. All U.S. coins are manufactured at U.S. Mint institutions. The Bureau of the Mint distributes coins to 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 intermint 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 1973 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.

¹ Additional information is contained in the separate Annual Report of the Director of the Mint.

The Bureau of the Mint headquarters is located in Washington, D.C. Operations 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.

The Mint reorganization implemented during the previous fiscal year was further refined by the appointment of an Assistant Director for West Coast Operations early in fiscal 1973. During the year that office assumed supervision of the Data Center Division and the West Coast Special Coinage and Medals Division, while actively participating in restoration of the Old San Francisco Mint, where the Office of West Coast Operations is physically situated.

The Mint's Internal Audit Staff conducted audits of selected financial, operational, and protection areas where potential for improvement seemed to exist. Late in the fiscal year it was determined that the audit function would be more effective if the staff were decentralized. Accordingly, plans were initiated to place resident auditors in the field to permit more onsite audit time at Mint institutions outside of Washington. This will result in a reduction in travel costs as well as a reduction in the personnel strength of the headquarter's audit staff.

The Bureau of the Mint deposited \$446,613,699 into the general fund of the Treasury during fiscal 1973. Seigniorage on U.S. coins accounted for \$395,132,528 of the deposit.

Bureau of the Mint operations, fiscal years 1972 and 1973

Selected items	Fiscal year	
	1972	1973
Newly minted U.S. coins issued: ¹		
1 dollar.....	206, 144, 905	60, 050, 027
50 cents.....	320, 858, 262	228, 029, 973
25 cents.....	356, 575, 753	498, 060, 832
10 cents.....	460, 775, 885	814, 244, 006
5 cents.....	464, 548, 068	582, 808, 890
1 cent.....	5, 028, 757, 362	6, 523, 487, 520
Total.....	7, 737, 660, 235	8, 706, 681, 248
Inventories of coins in Mints, June 30.....	740, 343, 393	588, 151, 751
Electrolytic refinery production:		
Gold—fine ounces.....		
Silver—fine ounces.....	4, 576, 251, 270	5, 029, 331, 790
Balances in Mint, June 30:		
Gold bullion—fine ounces.....	267, 007, 869	267, 011, 102
Silver bullion—fine ounces.....	47, 416, 220	45, 791, 428
Visitors touring mint exhibit areas.....	796, 682	801, 901

¹ For general circulation only.

Domestic coinage

During fiscal 1973, 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 for general circulation. The Philadelphia Mint manufactured 4,409,751,056 coins with a face value of \$251,536,356; the Denver Mint produced

² The San Francisco facility also operates as a mint.

3,865,662,294 coins with a face value of \$215,821,958; and the San Francisco Assay Office made 277,795,008 1-cent pieces with a face value of \$2,777,950.08. Thus, a total of 8,553,208,358 coins were manufactured for general circulation, an increase of approximately 306 million coins from fiscal 1972.

The Bureau of the Mint delivered 8,706,681,248 coins to the Federal Reserve banks and branches and the Office of the Treasurer of the United States during the fiscal year. Total shipments exceeded total production, reducing Mint inventories to approximately 588 million coins at the fiscal year's end.

U.S. coins manufactured, fiscal year 1973

Denomination	General circulation		Numismatic ¹		Total coinage	
	Number of pieces	Face value	Number of pieces	Face value	Number of pieces	Face value
1 dollar:						
Cupronickel.....	55,551,342	\$55,551,342.00	814,677	\$814,677.00	56,366,019	\$56,366,019.00
Silver-clad.....			² 4,004,151	4,004,151.00	4,004,151	4,004,151.00
50 cents.....	215,687,700	107,843,850.00	3,018,002	1,509,001.00	218,705,702	109,352,851.00
25 cents.....	556,264,608	139,066,152.00	3,018,002	754,500.50	559,282,610	139,820,652.50
10 cents.....	740,993,700	74,099,370.00	3,018,002	301,800.20	744,011,702	74,401,170.20
5 cents.....	593,211,000	29,660,550.00	3,018,002	150,900.10	596,229,002	29,811,450.10
1 cent.....	6,391,500,008	63,915,000.08	3,018,002	30,180.02	6,394,518,010	63,945,180.10
Total.....	8,553,208,358	470,136,264.08	19,908,838	7,565,200.82	8,573,117,196	477,701,473.90

¹ All numismatic coins were manufactured in the U.S. Assay Office at San Francisco and include 2,203,325 proof sets dated 1972 and 814,677 sets dated 1973. The 1973 sets contain six coins (a cupronickel dollar was added).

² Consists of 2,193,056 silver-clad Eisenhower dollars of the uncirculated variety (bearing the date 1972) and 1,811,095 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 silver-clad numismatic Eisenhower dollars, are of the same metallic composition as those for general issue. The numismatic silver-clad 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 authorized to produce coinage for foreign countries on a reimbursable basis provided it does not interfere with production of U.S. coinage. During fiscal 1973, the Denver Mint manufactured 297,218,500 coins for the Philippines and 5,000,000 pieces for Honduras. The Mint facility at San Francisco made 90 million coins for the Philippines, 37 million for El Salvador, and 2,100,000 for Haiti, all for general circulation. San Francisco also produced proof and uncirculated coinage for Panama (170,073 pieces), Liberia (29,196 pieces), and Nepal (27,601 pieces). A total of 431,545,370 foreign coins were struck during the period.

Technology

The scope and effectiveness of quality control operations were increased at all Mint manufacturing facilities. Die inspection standards and procedures were greatly improved. The first automated coin inspector was placed in operation at the Philadelphia Mint.

To upgrade the Mint's production capabilities and coinage quality, several new four-strike presses and proof coin presses were installed.

Treasury, through the Bureau of the Mint's Laboratory in Washington, D.C., acts as technical authority on the authenticity of U.S. coins.

The Laboratory examined 8,092 questioned coins relative to 129 cases submitted by the U.S. Secret Service. A member of the Mint Technical Staff testified in six court cases pertaining to the authenticity of U.S. coinage. In addition, the Laboratory continued to verify coins for the Office of Domestic Gold and Silver Operations, U.S. Customs Service, and the Federal Bureau of Investigation. The Laboratory also performed quality assurance studies on foreign coins produced by U.S. Mints, subjecting them, for the first time in recent years, to the same rigorous tests that are applied to U.S. coinage.

Production

During fiscal 1973, coinage strip was produced at the Philadelphia Mint for 49 percent of the institution's coin production, the highest amount of coinage strip produced in-house in the history of the Mint. The metal yielded 1.7 billion cents, 169 million nickels, and 295 million dimes and quarters.

The Denver Mint fabricated bronze strip in-house for the production of 503 million 1-cent coins. In addition, strip was produced at Denver for coins struck there for the Philippines.

On a Mint-wide basis, 31 percent of the domestic coins produced during the fiscal year were derived from in-house strip.

Old San Francisco Mint

Restoration work on the famous granite structure of the Old San Francisco Mint, begun just as fiscal 1972 ended, continued throughout fiscal 1973.

The first-floor rooms in the front of the Old Mint have been authentically restored to their original appearance. Other historical and educational exhibits have been installed in the museum area, which is being expanded to include exhibits relating to the settlement and growth of California and the West and the Mint's role in the development of the region.

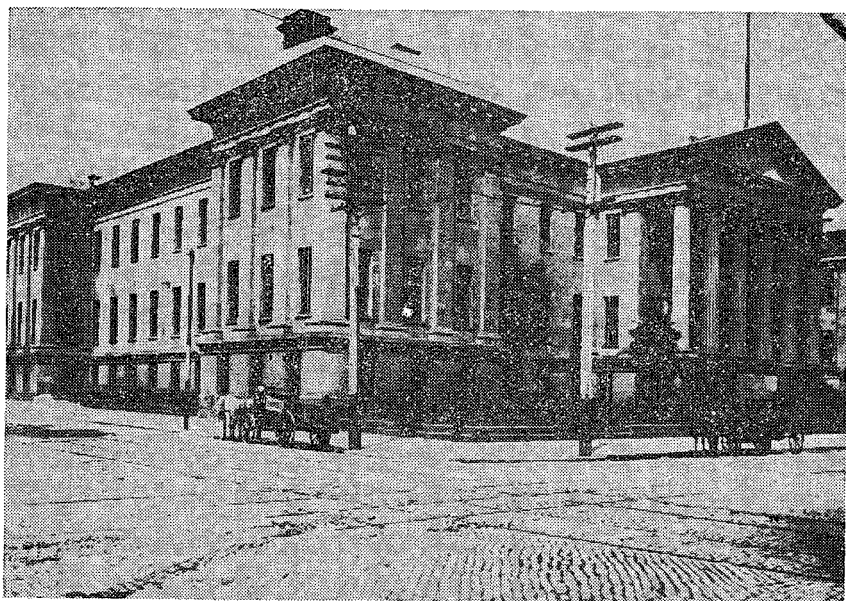
The Mint data center began active operation of the new IBM 370-155 computer system in April. The 3-million-data-base numismatic coin operations system (NUCOS) for mail order special coins and sets was transferred to the Mint data center. GAO auditors reviewed operations of the system in June.

The Old Mint was reopened to the public by the Director of the Mint, Mrs. Mary Brooks, on June 16, 1973. The reopening makes this the first building in the country to comply with Public Law 92-362, enacted August 4, 1972, providing for the adaptive use of surplus historic structures.

Public services

Liaison with Federal Reserve.—Treasury, through the Mint, continued to work closely with the Federal Reserve in determining coin requirements. The demand for coins increased to approximately 8.7 billion pieces during the fiscal year. More than 75 percent of the demand was for pennies.

Special coins and medals.—The Eisenhower dollar program, the manufacture and sale of silver-clad proof and uncirculated dollar coins to the public at premium prices, was continued during fiscal 1973. A



Old San Francisco Mint at the turn of the century.

total of 4,004,151 of these special coins were manufactured—2,193,056 of the uncirculated variety and 1,811,095 of the proofs.

The Mint again offered sets of proof coins for sale to the public during fiscal 1973. These sets, through calendar 1972, consisted of one each of the five denominations of fractional coins; 2,203,325 of these proof sets bearing the date 1972 were made during the fiscal year. The proof sets for 1973 were enlarged to include one proof cupronickel Eisenhower dollar coin, with the cost increased to \$7 to cover that coin and the attractive, newly designed self-standing package. Approximately 815,000 were manufactured before the fiscal yearend. All proof coins and the uncirculated silver-clad Eisenhower dollars were manufactured at the San Francisco Assay Office.

The first of the medals commemorating the American Revolutionary Bicentennial, as authorized by Public Law 92-228, February 15, 1972, was released on July 4, 1972. These medals were part of a Philatelic Numismatic Combination (PNC) package (consisting of the ARBC medal and a commemorative postage stamp, postmarked on July 4, 1972, at Williamsburg, Va.). Approximately 790,700 were sold to the public. In addition, 666,897 of the "unique" packages (a similar medal dated 1972, in an individual, attractive, self-standing case) were sold to the public during the fiscal year. Both of these medals were struck, packaged, and mailed by the Philadelphia Mint.

Public Law 92-384, enacted August 14, 1972, authorized the Secretary of the Treasury to strike and deliver not more than 100,000 medals commemorating the 175th anniversary of the launching of the U.S. frigate *Constellation*. These medals were sold by the *Constellation* Committee of the Star Spangled Banner Flag House Association, Inc., at premium prices, to raise funds for the restoration of the *Constella-*

tion. Approximately 12,000 medals had been manufactured by fiscal year's end.

Public Law 93-33, enacted on May 14, 1973, authorized the manufacture of one gold and not more than 200,000 duplicate medals in commemoration of Roberto Walker Clemente. The Engraving Department of the Philadelphia Mint and the Office of Technology were developing the design of the medal at the end of the fiscal year.

Eight new national medals were produced and offered for sale to the public. Small medals were made of: the Treasury Building; the New York Assay Office; the U.S. Bullion Depository, West Point, N.Y.; the U.S. Bullion Depository, Fort Knox, Ky.; the Old San Francisco Mint; the New Orleans Mint; and President Nixon's second term. A regular 3-inch bronze medal was also struck to commemorate the President's second term as well as one of the same size honoring Secretary Shultz.

The Mint continued to manufacture national "List" medals, in both the traditional 3-inch size and the "mini" medals of $1\frac{1}{16}$ -inch diameter. These were available to the public at the Exhibit Room in the Main Treasury Building in Washington and in the sales areas of the Denver and Philadelphia Mints and in San Francisco.

OFFICE OF REVENUE SHARING

Title I of the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) establishes general revenue sharing. Signed by President Nixon in Philadelphia on October 20, 1972, the act authorizes the Secretary of the Treasury to administer the return of \$30.2 billion to State and local jurisdictions over a 5-year period.

As of June 30, 1973, more than \$6.6 billion had been returned to States, cities, counties, towns, townships, Indian tribes, and Alaskan native villages.

The Office of Revenue Sharing was created within the Office of the Secretary to administer the revenue-sharing program. Staff, now numbering 41, has been assembled; and the Office is located at 1900 Pennsylvania Avenue, Washington, D.C.

In closest cooperation with the Bureau of the Census, more than 250,000 elements of data on population, income, and tax effort have been compiled and recorded on computer tapes for use in allocating entitlement payments to the more than 38,000 units of general purpose government qualified to receive general revenue-sharing funds. The Office of Revenue Sharing and the Bureau of the Census are working continually to verify and update these data.

Staff have participated in hundreds of meetings and workshops held all over the country to familiarize State and local officials with the details of the general revenue-sharing program. Literally thousands of mail and telephone inquiries have been processed, and the workload in this area continues to be high.

Interim regulations, final regulations, and amendments to the final regulations have been published after consultation with representatives of associations of State, county, and municipal officials, civil rights groups, the Advisory Commission on Intergovernmental Relations, the Office of Management and Budget, and the General Accounting Office. Copies of these regulations have been sent to all of the recipients of shared revenues.

All jurisdictions have been advised individually of the data elements used by the Office of Revenue Sharing to compute their entitlements. Approximately 3,500 requests for changes were made in response to a request for comments. About 1,300 of these resulted in data changes, 2,050 were advised by the Office of Revenue Sharing that no change was warranted, and 130 are still under review. Of 600 appeals for further review, 250 have been rejected and 350 referred to the Bureau of the Census.

Each recipient has provided Treasury with assurance, in writing, that it will comply with the requirements of the State and Local Fiscal Assistance Act. These requirements include, for example, the provision that no general revenue-sharing funds be used in any discriminatory manner or project; a prohibition against using shared revenues to match other Federal funds; and a provision requiring payment of federally established minimum wage rates on construction projects funded largely with revenue-sharing money.

The Office is developing the compliance system needed to carry out the audit and evaluation responsibilities established by the Congress. An Audit Guide has been prepared to be distributed to all recipients. One hundred and three of the jurisdictions receiving the largest amounts of revenue-sharing funds have been visited, personally, by members of the staff to review audit and compliance procedures.

Management information systems to produce data needed to assess the quality of the program are being initiated.

The effort to improve information flow to and from the recipient governments is continuous. Efforts to broaden general knowledge of the general revenue-sharing program's purposes and philosophy are made as well.

In the first 8 months of the program's existence, an inordinate amount of work was accomplished by a very small staff. The work has been characterized by a very high quality. The establishment of the program has been accomplished and its administration is proceeding efficiently and effectively.

UNITED STATES CUSTOMS SERVICE ¹

The U.S. Customs Service, established by the First Congress on July 31, 1789, is one of the oldest agencies of the Federal Government,

¹ The Bureau of Customs was designated "United States Customs Service" by Treasury Department Order No. 165-23, April 4, 1973. See exhibit 82.

antedating the Department of the Treasury of which it is a part. During its first century, revenue collected by Customs was virtually the only source of funds for the operation of the Government. Down through the years the functions and responsibilities assigned to Customs have steadily increased.

The mission of the Customs Service is to collect the revenue from imports and enforce customs and related laws. Customs administers the Tariff Act of 1930, as amended, and other laws. Among the responsibilities with which Customs is specifically charged are: Properly assessing and collecting customs duties, excise taxes, fees, and penalties due on imported merchandise; interdicting and seizing contraband, including narcotics and illegal drugs; processing persons, baggage, cargo, and mail; administering certain navigation laws; detecting and apprehending persons engaged in fraudulent practices designed to circumvent customs and related laws; protecting American business and labor by enforcing statutes and regulations such as the Antidumping Act, countervailing duty law, copyright, patent, and trademark provisions, quotas, marking requirements for imported merchandise, etc.; protecting the general welfare and security of the United States by enforcing import and export restrictions and prohibitions; cooperating with, and enforcing regulations of, numerous other Government agencies relating to international trade; and collecting import and export data for compilation of international trade statistics.

The U.S. Customs Service achieved record levels of activity during fiscal 1973. Nearly 252 million persons were cleared by Customs; almost \$4.1 billion in revenue was collected on \$61 billion of imported merchandise; and illicit drugs valued at over \$432 million were confiscated in more than 21,000 seizures by customs officers.

There was a rise of 6.3 percent in the number of people crossing U.S. borders during the year. This total exceeded the population of the United States by 42 million.

The total value of all goods processed by Customs rose by nearly 22 percent, from \$50 billion to \$61 billion. This involved the processing of over 19 million transactions during the year, up 6 percent.

More than 73 million carriers—ships, aircraft, autos, trucks—used in bringing people and goods to the United States were cleared by Customs, an increase of 4.3 percent over last year's total.

Total revenue collected was slightly below fiscal 1972. However, last year's total reflected the 10-percent import surcharge imposed by President Nixon from August 15 to December 20, 1971. (The surcharge accounted for more than two-thirds of the increased revenues reported in fiscal 1972.) Additionally, tariff negotiations provided for declining rates of duty on most imports in fiscal 1973. Excluding the surcharge from the year-to-year comparison, fiscal 1973 collections actually rose more than 10 percent over the previous year.

Drug seizures climbed by more than 8,500 to a total of 21,964 for the year, a jump of 64 percent over 1972. The estimated street value of the seized drugs was up \$25 million over last year to a total of \$432.3 million. Arrests for narcotic violations climbed from 7,860 to 9,555, up 22 percent, while convictions for Federal narcotic offenses went from 2,202 to 3,846, a rise of 75 percent.

In still another area of Customs antinarcotic interdiction activity, the Service's 60 specially trained drug detector dogs participated in 1,450 productive "hits," or drug seizures, up from a total of 1,198 last year.

The Customs cargo security program, which aims at curbing the theft and pilferage of international cargo from the Nation's 300 ports of entry, resulted in 496 arrests and apprehensions, approximately the same number as in 1972.

In the area of commercial fraud investigations, 3,752 cases were closed during the year, an increase of 26 percent over the 1972 total of 2,964. At the same time, another 2,769 cases were carried over into the new fiscal year, up from 1,951 cases last year at the same point.

Customs security officers, more familiarly known as "sky marshals," seized or detained 68,946 weapons and other dangerous articles from commercial airline passengers during the period from January 1971 to the end of fiscal 1973.

Merchandise and passenger processing

Antidumping and countervailing duty.—Amendments to the regulations relating to antidumping which became effective January 8, 1973, impose time limits on the conduct of an antidumping investigation. Generally, antidumping proceeding notices must now be published in the Federal Register 30 days after receipt of a complaint in proper form. A tentative determination (withholding of appraisement notice, notice of tentative negative determination, or notice of tentative discontinuance of antidumping investigation) must generally be published in the Federal Register within 6 months or, in more complicated investigations, within 9 months. New procedures instituted by the Customs Service are accomplishing initiation and completion of most cases within the prescribed limits.

Three countervailing duty cases were closed, two proceeding notices were published, and three countervailing duty orders were published during fiscal 1973.

Twenty-seven dumping cases were initiated in fiscal 1973 and 42 cases were closed. Twenty-four cases were referred to the Tariff Commission. Nine findings of dumping were issued during the year. At year-end, 23 cases remained on hand.

Automated merchandise processing system (AMPS).—As the result of a progress evaluation study, emphasis in the AMPS program to automate merchandise processing was shifted from an extended planning stage with long-range implementation to earlier implementation of priority modules of the full-scale system. This promises to produce the benefits of automation in critical areas of paperwork processing without delaying implementation of the overall system.

Carriers and persons entering.—A total of 251,653,170 persons entered the United States in fiscal 1973—an increase of 6.3 percent over the previous year. Customs processed 73,838,532 aircraft, ground vehicles, and vessels, an increase of 4.3 percent over fiscal 1972. A detailed breakout of arrivals is found in the Statistical Appendix.

Collections.—Revenue collected by Customs during fiscal 1973 totaled almost \$4.1 billion, as compared with \$4.2 billion last year. However, fiscal 1972's collections included almost a half billion dollars

collected under the now-discontinued 10-percent import surcharge program. Excluding the surcharge collections, fiscal 1973 collections actually increased about 10 percent over fiscal 1972. 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 \$5.32.

Drawback.—Two major improvements in the drawback system were implemented during fiscal 1973. The first of these, announced in Treasury Decision 72-310, changed the method of establishing proof of export for drawback by allowing the claimant to furnish documentary evidence such as the bill of lading or airway bill. The second, announced in the Federal Register on December 22, 1972, as Treasury Decision 73-3, provided for accelerated payment of drawback claims.

The total drawback allowance paid during fiscal 1973 was \$48,176,168. 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 1972 and 1973.

Vessel movements ¹	1972	1973	Percentage increase
Entrances:			
Direct from foreign ports.....	46,421	50,926	9.7
Via other domestic ports.....	31,616	36,955	16.9
Total.....	78,037	87,881	12.6
Clearances:			
Direct to foreign ports.....	45,679	53,076	16.2
Via other domestic ports.....	30,676	36,872	20.2
Total.....	76,355	89,948	17.8

¹ Excluding Puerto Rico and Virgin Islands.

Entries of merchandise.—There were 3,239,813 formal entries of merchandise in fiscal 1973—an increase of 13.1 percent over fiscal 1972. A breakout of entries by type appears in the Statistical Appendix.

Foreign trade zones.—Customs duties and internal revenue taxes collected during fiscal 1973 from the eight zones in operation amounted to \$7,368,517. The following table summarizes foreign trade zone operations during fiscal 1973.

Trade zone	Number of entries	Received in zone		Delivered from zone		Duties and internal revenue taxes collected
		Long tons	Value	Long tons	Value	
New Orleans.....	3,777	31,347	\$44,475,231	33,048	\$47,173,979	\$2,087,755
San Francisco.....	902	4,826	5,493,903	3,202	4,246,547	358,329
San Francisco (sub-zone).....	106	11	103,257	14	121,693	23,937
Seattle.....	200	567	2,814,363	1,353	4,264,880	461,671
Mayaguez.....	1,658	3,093	6,732,703	3,283	11,001,082	429,829
Toledo.....	84	40,434	28,395,976	42,233	26,987,636	1,605,825
Honolulu.....	8,671	5,070	11,712,801	4,314	9,775,118	2,323,877
Honolulu (subzone)....	256	1,392	30,462,289	1,509	45,445,150	77,294
Total.....	15,654	86,740	130,190,523	88,956	149,015,984	7,368,517

Laboratory operations.—Samples tested in Customs laboratories during fiscal 1973 totaled 169,792.

Advances in technology have resulted in the development of more sophisticated merchandise entering the United States. The entry of complex merchandise requires an ever greater degree of sophistication for the analysis of samples submitted. During the past year, major purchases of laboratory equipment included an automatic sampling system for gas chromatography, a disc mill, and an atomic absorption spectrophotometer.

Although the laboratory system must devote a major part of its time to the solution of problems that arise in actual tariff classification or enforcement cases, these solutions are frequently of value to scientists outside Customs as they advance the state of the art in analytical methodology. Customs has encouraged the publication of scientific communications whenever feasible to enhance both the professional standing of Customs laboratory personnel and the Customs image. During the past year seven scientific papers were published or accepted for publication in scientific journals.

Mail operations.—Approximately 100 million pieces of foreign mail were diverted from postal channels for customs examination, principally at the Port of New York, N.Y. Approximately 30,000 pieces contained lottery materials redelivered to postal authorities for disposition, approximately 20,000 pieces contained obscene matter, and approximately 5,000 pieces contained narcotics.

Revenue collected from mail operations during fiscal 1973 was \$22,487,857, an increase of 2.5 percent over fiscal 1972, with a gross revenue of \$21,928,483. With the new dual-processing program and mechanization of entry production scheduled for fiscal 1974, a substantial increase in revenue collections from the mail operations can be expected.

All surface mail operations at New York will be consolidated in the huge, new, highly automated postal facility at Secaucus, N.J., scheduled to open in September 1973. New York Customs will then be able to process all incoming foreign surface mail, destined for delivery to the 50 States, at the point of its initial arrival in the United States. This will eliminate duplicate handling of mail by Customs and the Postal Service, reduce transportation costs, conserve critically needed manpower, and accelerate delivery of mail to its final destination.

During the last half of fiscal 1973, two additional X-ray machines were installed in the mail units at New York and Los Angeles. Accelerated development of a profile for suspect parcels led to more than 5,500 seizures of narcotics and other contraband during fiscal 1973. Three additional X-ray machines are scheduled for fiscal 1974.

Quota operations.—During fiscal 1973, Customs administered 153 tariff-rate and absolute quotas imposed under proclamations, legislation, and agreements.

In addition, 115 directives from the Committee for the Implementation of Textiles Agreements resulted in the administration of 471 quotas on cotton, wool, and manmade fiber textile products and 8 prohibitions involving 27 foreign countries.

Visa requirements for textile products from Hong Kong were canceled while those on wool and manmade fiber textile products were

extended to Taiwan. Visa requirements are now being enforced on textiles produced in 10 foreign countries.

Regulations.—As part of the general revision of Customs Regulations, an additional 16 parts were adopted during fiscal 1973, and 19 parts are in various stages of preparation.

In addition, 17 Treasury Decisions were prepared during fiscal 1973. These amendments dealt with ports of entry, pollution of coastal and navigable waters, duty-free fuel for aircraft, revocation of international airport status, restrictions on the domestic use of foreign railroad cars, customhouse brokers signing petitions for relief, and import quotas. Two amendments were incorporated in the Customs Manual. Twenty-three other amendments are in preparation.

Tariff classification.—Classification guidelines were established on nontextile ornamentation of textile fabrics and articles. These were published as Treasury Decision 73-71 and will help to eliminate problems in the interpretation of the definition of "ornamentation" in the Tariff Schedules of the United States.

Trademarks, copyrights, and patents.—A total of 249 trademarks, service marks, renewals, assignments and name changes, and 110 copyrights were recorded. Ten patent surveys or renewals were approved. A grand total of \$54,400 in recordation and related fees was collected for these services.

Enforcement

Seizures of narcotics.—Customs continued to place emphasis on the interdiction of illicit narcotics and dangerous drugs entering the United States. The following table shows in detail the amount of narcotics and dangerous drugs seized in fiscal 1973, as compared with those seized in fiscal 1972.

Narcotics and dangerous drugs	Fiscal years		Percentage increase, or decrease (—)
	1972	1973	
Heroin:			
Pounds.....	634.81	253.09	—60.1
Number of seizures.....	611	579	—5.2
Opium:			
Pounds.....	50.59	135.65	168.1
Number of seizures.....	121	119	—1.7
Cocaine:			
Pounds.....	378.58	733.84	93.8
Number of seizures.....	405	929	129.4
Other narcotics:			
Pounds.....	240.80	45.31	—81.2
Number of seizures.....	264	281	6.4
Hashish:			
Pounds.....	9,456.29	9,072.65	—4.2
Number of seizures.....	2,519	3,700	46.9
Marijuana:			
Pounds.....	291,887.40	508,062.30	74.1
Number of seizures.....	7,889	14,137	79.2
Dangerous drugs:			
5-grain units.....	16,240,449	15,802,258	—2.7
Number of seizures.....	1,615	2,219	37.4

Arrests.—There were 9,555 narcotics arrests during fiscal 1973, as compared with 7,860 in fiscal 1972. These arrests resulted in 3,846 convictions under U.S. statutes compared with 2,202 in the previous year, an increase of 74.7 percent.

Activity	Fiscal years		Percentage increase, or decrease (—)
	1972	1973	
Arrests (narcotics).....	7,860	9,555	21.6
Nolle prosequi ¹	2,961	3,046	2.9
Convictions under U.S. statutes.....	2,202	3,846	74.7
Dismissals and acquittals.....	711	1,171	64.7
Cases closed.....	39,392	40,276	2.2

¹ Includes declinations and not indicted.

Detector dog program.—Detector dogs continue to be an effective enforcement tool at international mailrooms, cargo docks and terminals, and ports of entry along the Mexican and Canadian borders. At year-end, there were 38 handlers and 60 dogs permanently assigned to field operations. Thirty-eight of these dogs are trained in detection of heroin and cocaine as well as marijuana. In fiscal 1973, dogs accounted for 1,450 seizures. Fiscal 1974 plans call for a significant expansion of the program.

Military predeparture inspection program.—The military overseas predeparture inspection program was expanded to include the entire Pacific Command, where three customs advisors provide training and advisory assistance to military enforcement officials in seven commands. A fourth advisor worked with the European Command to establish an improved program there. As a result, seizures of narcotics from military transportation and postal channels remained at a low level.

Treasury enforcement communication system (TECS).—TECS was established to provide the U.S. Customs Service, the Bureau of Alcohol, Tobacco and Firearms, and the Internal Revenue Service with the following capabilities: (1) A central index for records of common interest to the participating Treasury enforcement agencies, (2) an administrative message-switching capability between the participating agencies, and (3) access to the FBI's National Crime Information Center (NCIC).

TECS provides customs enforcement officers with the most effective arsenal of enforcement tools available through modern computer/communications technology. It replaced the customs automated data processing intelligence network (CADPIN).

The Customs Service has approximately 450 terminals located at ports of entry in the United States. Customs inspectors are the primary users of the system, with 350 terminals assigned to the Inspection and Control Division. For fiscal 1973, this equipment provided the information which resulted in 722 seizures and/or arrests.

Through TECS, the Customs Service now has access to five million NCIC records. NCIC is a computerized index of criminal information on wanted felons, firearms, and stolen vehicles, license plates, boats, securities, etc. Based on the results obtained from a test conducted at four major ports of entry during a 60-day period, mid-January to mid-March 1973, a decision was made to expand this equipment to other major ports of entry. Customs officers at 48 ports of entry have now been trained and are using NCIC. During the first 6 months of 1973, including the test period when only four ports had NCIC

capability, 133 "hits" were made, resulting in 117 arrests for such crimes as murder, armed robbery, and auto theft.

TECS terminals to assist in passenger processing at airports were first placed in operation on January 15, 1973, at Miami Airport and were then expanded to six additional major airports. The recording of queries also develops statistics on peak passenger traffic periods for more effective manpower utilization.

Air security.—Following the changes in Federal Aviation Administration regulations at mid-year, Customs provided law enforcement support at selected airports while airline personnel engaged in physically searching hand-carried baggage and screening passengers.

Of major concern to Customs was the outplacement of customs security officers (CSO's) into other positions within the Customs Service or elsewhere within the Federal Government. At the end of the fiscal year, 624 CSO's had been transferred to other Customs positions and 107 to other Federal agencies. CSO's at phased-out airports were used to bring air security personnel at operational airports up to necessary strength through temporary duty assignments. When not employed on air security work, CSO's augmented the Customs patrol officer force to increase vessel searches, 24-hour patrols, vessel and aircraft surveillances, and cargo security.

During fiscal 1973, the Customs air security program was responsible for 1,325 weapon seizures, 113 hard narcotic seizures, and 1,075 marijuana and dangerous drug seizures. Some 17,815 weapons and/or dangerous articles were temporarily detained from boarding passengers; arrests totaled 2,180.

Customs can again be proud that, as of the end of fiscal 1973, there were no incidents of aircraft hijacking where passengers had received predeparture checks by CSO's.

Cargo security and quantity control programs.—A comprehensive training seminar for Customs personnel on the cargo security and quantity control programs was conducted in eight of the nine regions. These gave field personnel increased technical knowledge in the field of cargo security and enabled them to prepare more meaningful surveys for Customs and industry.

Fraud.—During fiscal 1973, 699 cases of fraud were investigated and processed, 26 of which resulted in criminal prosecutions. Merchandise valued at \$489,415.273 was seized or forfeited, with a potential loss of revenue of \$7.4 million.

Neutrality violations.—In fiscal 1973, 202 cases were investigated, resulting in 8 arrests and 5 convictions.

One such case involving a conspiracy to export 13,500 pounds of C-4 plastic explosives resulted in the arrest of seven persons in Louisiana and Texas. The explosives, along with 2,600 electric blasting caps and 25 electric detonators, valued at \$430,000, were seized aboard an aircraft prior to its scheduled departure for Mexico. The individuals involved were indicted for conspiracy and violation of the Munitions Control Act.

Penalties.—During fiscal 1973, headquarters received, reviewed, and prepared legal decisions concerning violations of customs and related laws, and claims for liquidated damages assessed under customs bonds. Although there was a slight decrease from fiscal 1972 in the number

of penalty cases and the full statutory liability of violators in these cases, the net liability imposed by penalty decisions in fiscal 1973 increased by more than 40 percent from that of fiscal 1972.

Penalty cases, fiscal 1973

Type of case	Number	Full statutory liability of violators
Penalty and forfeiture.....	976	\$204, 163, 640
Liquidated damages.....	217	4, 759, 913
Total.....	1, 193	208, 923, 553

Net liability imposed by penalty decisions, 1972 and 1973

Type of case	1972	1973
Penalty and forfeiture.....	\$4, 291, 098	\$6, 337, 024
Liquidated damages.....	358, 186	310, 184
Total.....	4, 649, 284	6, 647, 208

Restricted merchandise.—Headquarters, with Department of Justice participation, reviewed under the obscenity provisions of section 1305, title 19, U.S.C., seven seized commercial feature-length films, three of which were referred to the U.S. attorney for judicial forfeiture proceedings.

On November 7, 1972, the U.S. Supreme Court heard rearguments in the Customs obscenity litigation, *United States v. 12 200-Foot Reels of Super-Eight Millimeter Film*, involving a Customs seizure at the Port of Los Angeles from baggage claimed to be solely for the private personal use of the declarant. This litigation was originally docketed in the Court in the October term 1971. Conclusion of this litigation will have direct bearing on the continuation or noncontinuation of the Customs obscenity program under 19 U.S.C. 1305 with respect to importation of obscene matter for or to individuals for strictly noncommercial private use. The Court decided this case on June 21, 1973, upholding the position of the Government.

Administration and organization

Accounting.—The General Accounting Office approved the Customs accounting system in November 1972, culminating several years of close collaboration between Customs and representatives of the GAO.

Delinquent accounts receivable were reduced to an acceptable level by increasing the control by each financial management office, primarily through (1) centralizing the payment of Customs bills at regional financial management offices, and (2) placing delinquent debtors on a cash basis for reimbursable services.

Equal opportunity.—In special-emphasis areas under the equal opportunity program, coordinators were appointed for the Federal women's program and the 16-point program for Spanish-surnamed persons.

During fiscal 1973, 30 cases involving complaints of discrimination were closed. Several of these required corrective action.

A full-time equal opportunity officer was appointed for Customs headquarters. Full-time equal opportunity officers are planned for all regions.

Employment.—The following table shows man-years employment data in fiscal years 1972 and 1973.

Operation	Man-years		Percentage increase, or decrease (—)
	1972	1973	
Regular customs operations:			
Nonreimbursable.....	11,116	11,756	5.8
Reimbursable ¹	427	494	15.7
Total regular customs employment.....	11,543	12,250	6.1
Export control.....	132	52	-60.6
Additional inspection for Department of Agriculture.....	241	242	0.1
Air security program.....	1,310	1,083	-17.3
Total employment.....	13,226	13,627	3.0

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

Facilities management.—The first automobile exhaust pollution control system at a U.S. Customs border station was installed at Laredo, Tex., and operated satisfactorily. Design was completed for a similar system in El Paso, with the contract awarded to a minority-owned firm.

Collocation of Customs regional offices to promote improved communications and greater adherence to the management team concept was accomplished in Chicago and in Houston. Collocation of Region II, New York offices, into the World Trade Center is planned for early fiscal 1974.

Labor-management relations.—In compliance with the President's instructions to make labor relations programs more effective, Customs increased utilization of the bilateral relationship with unions to facilitate management policy and program implementation.

During fiscal 1973, two customs regions granted exclusive recognition to a union for the first time. Employees in all nine customs regions are now represented by a Federal union.

Management analysis.—A servicewide files and records management system was established to give better control over the daily use, storage, and destruction of files and records.

During fiscal 1973, Customs emphasized management reviews of problem areas and concentrated improvement efforts on priority issues. Central coordination and reference for all management reviews was established.

The Office of Planning and Research was abolished, with responsibility for the development of new and expanded systems and for special studies being transferred to each principal headquarters office.

The Office of the Assistant to the Commissioner (Equal Employment Opportunity) and Assistant to the Commissioner (Public Information) were transferred to the Office of Administration and estab-

lished as divisions. The Office of the Assistant to the Commissioner (International Affairs) was established as a division in the Office of Operations. The Office of the Assistant to the Commissioner (Priority Correspondence) was abolished, its functions being assumed by the Office of the Commissioner.

The field structure of the Office of Investigations was realigned so that the boundaries of the Investigations district offices conform to the boundaries of customs regions. This realignment reduced the number of field managers in each customs region who must coordinate with one another.

Personnel management.—Selection authority for positions through grade GS-14 was delegated to Regional Commissioners and Assistant Regional Commissioners, with efforts continuing to redelegate selection authority to lower supervisory levels.

Regional personnel management evaluations were conducted in the Baltimore region in February, the Boston region in May, and the Houston region in June.

A customs supervisory inspector course, aimed at first-line supervisors, updated supervisors on the present programs offered at the National Training Center, presented refresher material in technical areas, analyzed management principles and techniques through use of pertinent case studies, and established a forum for discussion and resolution of topical issues.

Public information.—Major information programs covered Customs efforts against the smuggling of illicit narcotics; Bicentennial activities; advice to international travelers and commercial importers of changing rules and regulations; production of films for training purposes and for distribution to news media; cargo security; and a series of field operations along the Mexican border to foster better relations between Customs employees, travelers, and residents and to improve employee morale.

Public service announcements were recorded and distributed to approximately 5,500 radio and 800 television stations to inform the traveling public of Customs drive to combat drug smuggling and of regulations that affect international travelers. Twelve celebrities joined with Commissioner Acree to record the spot announcements.

A total of 294 news releases, speech texts, factsheets, testimonies, etc., were distributed during the year; major articles appeared in 55 publications. Customs officials made some 20 speeches and presentations and were involved in 14 interviews, briefing sessions, and press conferences.

Security and audit.—Offices of security and audit were established in four additional regions during fiscal 1973—at Boston, Baltimore, New Orleans, and Los Angeles.

The program to computerize all security clearances was fully implemented in fiscal 1973 and has resulted in substantial savings. This is the only such system in use in the Department and has been examined with interest by other agencies.

Customs processed 869 full field investigations, substantially less than during the preceding year. The reduced number in 1973 more clearly reflects the normal workload.

Significant progress was made in the long-range program to expand audit activities from compliance verification to a management or operational-type audit.

International operations

Customs participation in international conferences increased during fiscal 1973, the greater percentage of meetings being those sponsored by the Customs Cooperation Council. Included among them were the sessions of the Permanent Technical Committee, the study group to develop a harmonized commodity description and coding system, the 29th session of the Nomenclature Committee, and the Working Party on the Origin of Goods.

Customs representatives were among the delegates to the Facilitation Committee of the Intergovernmental Maritime Consultative Organization (IMCO) which held its seventh session in London during the second week of April 1973. In March, Customs participated in the eighth session of the Facilitation Division of the International Civil Aviation Organization (ICAO), held in Dubrovnik, Yugoslavia.

At the May sessions of the Customs Cooperation Council held in Kyoto, the Council gave formal approval to development of a harmonized commodity description and coding system for use in international trade. Customs is expected to play a key role in the projects as the agency responsible for coordinating U.S. interests at the Federal level through the Interagency Advisory Committee on Customs Cooperation Council matters.

In June, U.S. Customs Service representatives met in Bonn with German officials and concluded a draft agreement on mutual administrative assistance with the Federal Republic of Germany. The final signing of the agreement is expected to take part in Washington in the near future.

Under the auspices of the Cabinet Committee on International Narcotics Control (CCINC), the U.S. Customs Service conducted training both overseas and in the United States for a number of officers of foreign customs and related agencies. The overseas classes of 2 weeks' duration were given to groups of approximately 25 students per class. The training, designed to improve basic customs enforcement operations with the goal of narcotics smuggling interdiction, was conducted in: Panama (two classes), Argentina (two), Venezuela, Brazil (four), Chile (two), Barbados, Bulgaria (two), Greece (two), Iran (two), and Pakistan (two).

Two classes were conducted in the United States for midmanagement personnel of foreign customs. The course consisted of 3 weeks of classroom training in Washington, and 2 weeks of observational training at selected ports of entry. The first class was composed of 25 officers from 5 Latin American countries, and the second of a similar number from the Southeast Asia area.

In addition to the CCINC-sponsored courses, a general customs course of 8 weeks' duration was given to 20 participants from 6 of the developing countries. The course covered all substantive areas of customs operations and administration.

The U.S. Customs Advisory Team completed its seventh year in the Republic of Vietnam under AID auspices. During the year, the team

organized a training course for customs operations officers, a new concept for Vietnam; developed a management improvement system for customs supervisors; organized a program for Customs control of newly created postwar export processing zones; assisted in the revision of the Vietnam Customs Code; and helped to test and verify large quantities of seized opium and heroin designated for public burning.

In Laos, a six-man team completed its first year of operation, having assisted the Royal Laotian Customs Service in seizing more than 500 pounds of opium and heroin, increasing penalties from seizures by more than 70 percent, and almost doubling the customs revenue collections.

A survey was made of the enforcement capabilities of the Customs Service of Thailand, and an advisory project is underway for that country beginning in fiscal 1974.

Elsewhere, a two-man advisory effort continued in Ethiopia to improve customs management practices, institute a uniform entry processing system, and improve document controls over imported merchandise.

The senior customs advisor in Afghanistan assisted in the preparation of a new customs code and regulations, the adaptation of the Afghan tariff to the Brussels Tariff Nomenclature, the development of an enforcement unit to audit customs operations, and the adoption of a decree to place all customhouses under the direct control of the Customs Director.

Surveys were made of the customs enforcement capabilities of Uruguay, Bolivia, Ecuador, Turkey, Hungary, Yugoslavia, and Bulgaria. An advisory project is planned for Ecuador during fiscal 1974. Customs also participated with AID and the BNDD in narcotics enforcement surveys in various other Latin American and Middle Eastern countries.

Top-level customs and border patrol officials from Afghanistan, Italy, Hong Kong, Turkey, Hungary, Jamaica, and the Republic of China were given observation training in U.S. customs ports, ranging from 1 week to 1 month. A cross-training program was initiated with Mexico, beginning with the exchange for a period of 45 days of two middle-level customs supervisors.

UNITED STATES 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 \$6,512 million in fiscal 1973. Participants in the payroll savings plan as of June 30, 1973, totaled about 9½ million. There were \$59.9 billion savings bonds and savings notes held at the close of fiscal 1973, 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 1973, holders of these savings vehicles received over \$3 billion in interest.

Promotional activities

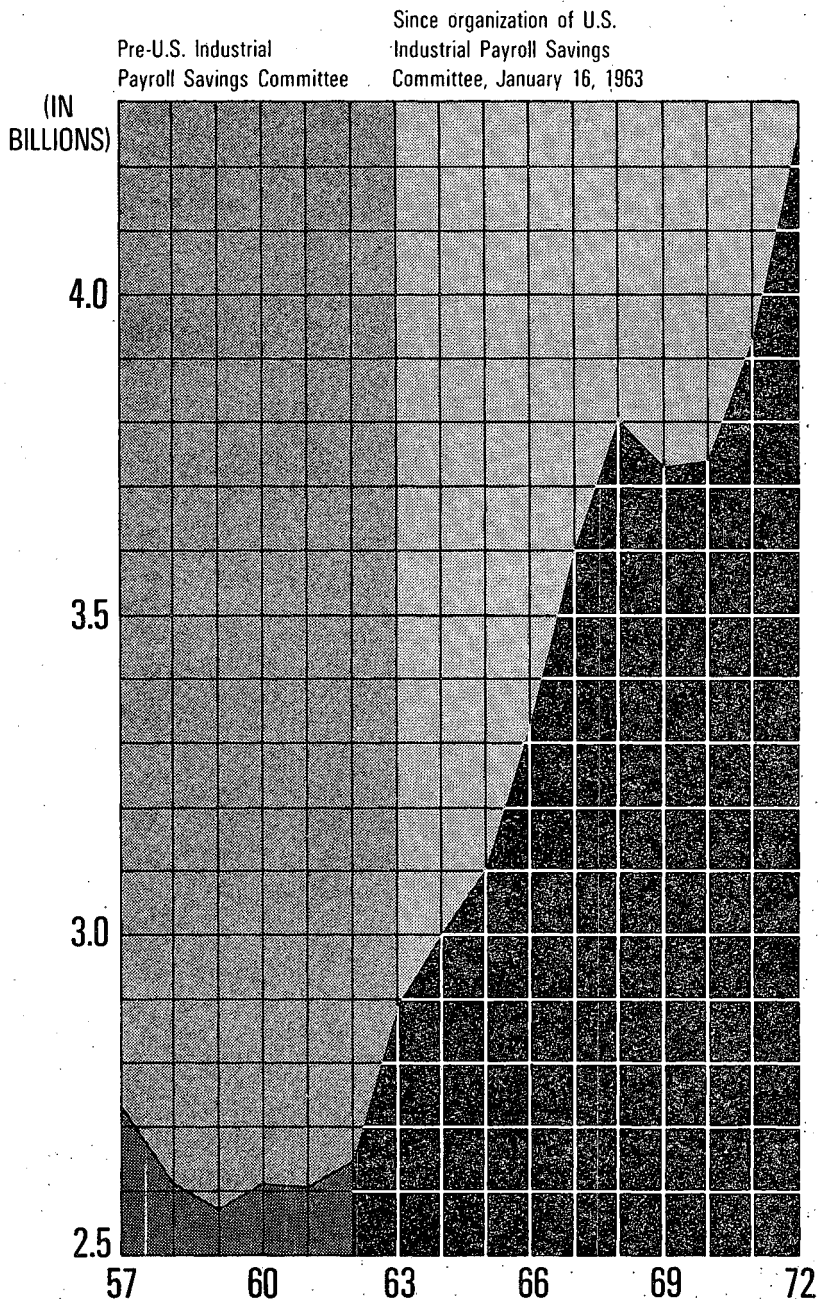
During fiscal 1973, the payroll savings plan again received major program emphasis and was promoted among employees in private industry; Federal, State, and local governments; as well as the military services.

The leader of the 1973 nationwide payroll savings campaign in industry is William M. Batten, chairman of the board, J. C. Penny Co., Inc., and chairman of the U.S. Industrial Payroll Savings Committee. The 1973 campaign was launched in Washington, D.C., on January 11, 1973, with the annual meeting of the Committee. Serving on the Committee with Mr. Batten are 10 former chairmen and 49 top executives of the Nation's major corporations. Mr. Batten's immediate predecessors as chairmen were Donald S. MacNaughton, chairman and chief executive officer, The Prudential Insurance Co. of America, the 1972 chairman, and B. R. Dorsey, chairman of the board, Gulf Oil Corp., the 1971 chairman. Mr. Batten has traveled around the entire country to spur on the campaign and addressed 18 meetings of business leaders to help Committee members get campaigns underway in their areas and industries. Mr. Batten won the support of the members of the Business Council when he addressed that group of prominent business leaders in Washington on February 15, 1973, to urge them to conduct campaigns in their respective companies. On April 2, 1973, Mr. Batten appeared on NBC's national television network "Today" show. Eighty-three NBC stations also presented their local volunteer campaign leaders to further publicize the campaign. Mr. Batten provided a number of sales tools for the volunteer and staff workers in the campaign, among them a brochure for top executives and a sound motion picture in color entitled "Take Stock in America."

The Committee has been the principal force in raising the sale of E bonds in the \$25 to \$200 denominations to more than \$1.5 billion a year higher than they were before the Committee was organized in early 1963. This is dramatically portrayed by the accompanying chart showing the series E bond sales of \$25 to \$200 denominations (those sales influenced principally by payroll savings) since 1957.

SERIES E BOND SALES \$25 TO \$200 DENOMINATIONS

(Sales influenced principally by Payroll Savings)



On January 2, 1973, the U.S. Industrial Payroll Savings Committee was given a charter in recognition of its service to the Nation and the Treasury in providing "the most effective continuing framework for involving industrial top management in the U.S. savings bonds payroll savings program." The charter calls upon the Committee to continue to implement "suitable approaches toward expanding the payroll savings plan with their industrial peers." This the Committee members are doing by conducting top management meetings, urging the chief executives in their areas and industries to conduct payroll savings drives, and setting strong examples by the campaigns they conduct in their own companies. At the end of June, with half of the 1973 campaign over, 14 Committee members had completed their company campaigns and had enrolled nearly 330,000 employees either as new savers or for increased allotments.

Agriculture Secretary Earl L. Butz again served as chairman of the Inter-departmental Savings Bonds Committee. The Federal kickoff rally took place at the Departmental Auditorium in Washington, D.C., on April 12, 1973, with Elmer B. Staats, Comptroller General of the United States, as the principal speaker. The Federal savings bonds program represents over 25 percent of the total payroll savings sales. As in previous years, Federal agencies conducted an intensive campaign during May and June to sign up new payroll savers among Federal personnel worldwide. The total civilian and military participation in the program amounted to 2.5 million for fiscal 1973.

Chairmen of State savings bonds committees and members of the American Bankers Association savings bonds committee met with Treasury officials during their annual conference in Washington, D.C., on March 8 and 9. Sessions were presided over by North Carolina chairman Bland Worley and ABA chairman Douglas R. Smith of Washington, D.C. Featured topics on the agenda included the findings of a recent survey by the University of Michigan Survey Research Center on "Attitudes Towards U.S. Savings Bonds," results achieved and promotional methods used in Take-Stock-in-America campaigns in some 80 cities, and exchange of ideas on the leadership role of National, State, and local volunteers. Banking discussions centered on the enthusiastic response of bank personnel to the bond teller training seminars inaugurated in 1972; ways of implementing a future requirement for including social security numbers in the registration of savings bonds; and the broad topic "What more banks can do to assist the Treasury in the promotion of savings bonds."

A highlight of the annual conference was a ceremony at which Vice President Agnew presented special 30-year citations to eight distinguished volunteers on behalf of Secretary Shultz.

During the fiscal year, eight new State chairmen were appointed for 2-year terms, six were reappointed, and one was named Chairman Emeritus.

All newly elected State Governors accepted appointment as honorary chairmen of the State savings bonds committees, and incumbents continued to serve in that capacity.

The national organizations program was revamped with the development of a five-point program for the executive offices of national organizations and a seven-point program for their local units. The

program at both levels was tailored to give greater flexibility in terms of the extent and thrust of the effort on behalf of the bond program.

More than 27,336 individual pieces of promotional material were requested from local units, a strong indication of interest in the program. National and State publications of the organizations published advertisements, articles, cartoons, and testimonials. Special presentations were made by the Division to the American Hospital Association, Optimist International, the General Federation of Women's Clubs, and the American Legion Auxiliary for their promotion of the bond program. The National Organizations Committee continued under the chairmanship of Hugh Cranford, executive secretary of Optimist International.

Once again, the Savings Bonds Division hosted a representative from Girls Nation (sponsored by the American Legion Auxiliary) as counterpart to the National Director. She was Cynthia Hawkins from Kentucky, who was named "Miss Savings Bonds" for that State.

Organized labor continued its strong sanction of the program under the direction of George Meany, President of the AFL-CIO, acting in the volunteer capacity of National Labor Chairman. Active labor backing also included resolutions of support adopted by conventions of statewide labor bodies, and statements of support by National and State labor officials. Much of this was communicated to the membership by the labor press through its use of literally hundreds of savings bonds ads and editorials.

The advertising industry, under the leadership of the Advertising Council and with the cooperation of media, advertisers, and agencies, continued to give outstanding support to the bond campaign. The value of its contribution is estimated at \$60 million annually. McCann-Erickson, Inc., the volunteer task force for radio and television, retired from the campaign in June 1973 after 20 years of outstanding service. Its assignment has been assumed by the Leo Burnett Co., which has handled all other phases of the consumer advertising campaign since 1958. A new weekly radio series, "The Grammy Treasure Chest," produced in cooperation with the National Academy of Recording Arts and Sciences and the American Federation of Musicians, was introduced in January and has thus far built a request list of nearly 1,200 stations.

A new training film for payroll savings canvassers, titled "The All-Star Spangled Mission," was produced by Paramount Pictures and has been widely shown in industry and government during the 1973 campaign. It features Sandy Duncan and includes the stars of five leading TV series.

The stars of the "Bridget Loves Bernie" TV series, Meredith Baxter and David Birney, were featured at the kickoff rally for the 1973 payroll savings campaign in the Federal Government, and were named honorary cochairmen of the drive. They also appeared in a film trailer sponsored by the motion picture industry and widely shown in theaters during the campaign period.

The Office of Public Affairs developed and distributed a series of packages for use by various segments of the media. They included copy starters for news media, distributed in March; speech sampler for suggested use by volunteers; speech sampler for government

speaker use; editorial extracts, a weekly press copy pack; copy themes for associations and societies; press association pack for suggested relay by heads of State press associations to their member-newspapers, distributed in April; copy briefs for business and financial writers, distributed in May. The Office of Public Affairs updated and revised two publications, "Legal Aspects" and "U.S. Savings Bonds—A Quick-Reference Guide."

Continued collaboration with the staffs of U.S. News & World Report, Changing Times, and other special-interest publications, and with syndicated financial columnists—including Sylvia Porter, Martha Patton, Sam Shulsky, Donald G. Campbell, and Merle Dowd—led to significant coverage in magazines and newspapers. During the last quarter of fiscal 1973, the Office of Public Affairs responded to approximately 4,000 inquiries stimulated by Sam Shulsky articles, published in April.

Management improvement

In fiscal 1973, the Division continued the redeployment of positions to areas needing better manpower coverage and the reduction of coverage in such geographic areas that did not merit it by reason of poor sales potential. A study was undertaken to streamline both field and headquarters operations and results will be implemented in 1974.

The Division made a study of its accounting machine procedures and equipment and purchased replacement machinery for delivery late in the fiscal year. Installation will be completed and the machines will be made fully operative for fiscal 1974. The new equipment will permit budgetary and financial reporting in full accord with all accrual accounting principles which could not have been as readily performed with the old equipment. Furthermore, this equipment makes possible more effective coordination with the financial recording and reporting of the Bureau of the Public Debt than otherwise could have been achieved.

Internal audit program

During fiscal 1973, operational surveys were made in two States, New York and Pennsylvania. Under its arrangement with the Bureau of the Public Debt, the Bureau's audit staff made a comprehensive audit of the administrative accounts for fiscal years 1970, 1971, and 1972.

Program planning

At yearend, the number of reporting units (companies that operate the payroll savings plan) on the EDP tapes was 39,189, which represents 21,165 interstate units (including branches of companies) and 18,024 intrastate companies. Total employment in these companies is shown as 26,063,484. Number of employees signed up to buy savings bonds in these companies is 6,593,444, or 25.3 percent.

In addition to the report on on-plan companies, the Office of Program Planning updated its list of no-plan (prospect) companies (of 250 employees or more). The list comprises 3,410 units (673 interstate companies and branches and 2,737 intrastate companies). This compares with 3,778 units a year ago, a reduction of 368.

The Office of Program Planning continued its program of EDP seminars for both clerical and promotional personnel by conducting comprehensive 1-day seminars in Detroit and Dallas.

Staff development

The Division is in the second year of a 3-year program to recruit and move young persons up through the ranks. Through an American Management Association prepared course, "Principles of Professional Salesmanship," and on-the-job training assignments, young college graduates are trained for key sales promotion, managerial, and administrative positions. An intensive 2-week indoctrination seminar was held for new promotional staff members in June 1973. A line management training program entitled "How to Improve Individual Management Performance," prepared by the American Management Association, was continued in fiscal 1973.

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 order of succession to the office of the President; the Vice President-elect; 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; minor children of a former President until they reach 16 years of age, unless such protection is declined; 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; 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.

Protective responsibilities

In fiscal 1973, in addition to the permanent protective requirements that again increased in terms of man-hours expended, several major special protective efforts were generated.

Extraordinary manpower, logistical, and other problems were encountered in planning and executing protection during the two Presi-

dential nominating conventions in Miami Beach, Fla. Protection was authorized and extended to Presidential and Vice Presidential candidates and nominees of the Democratic, American Independent, and Peoples Parties. A total of 13 candidates/nominees were protected by the Secret Service.

The protection of foreign dignitaries increased dramatically in fiscal 1973, with protection provided for over 40 heads of state or government and 70 other foreign dignitaries, in contrast to over 17 dignitaries in the latter category in fiscal 1972. This increase is largely attributable to terrorism and general worldwide security problems. In addition, 33 official representatives of this country performing special missions abroad were protected by the Secret Service at the direction of the President.

The 1973 Presidential Inauguration demanded extensive protective preparations and required employment of virtually the entire field force of the Secret Service in addition to support by other agencies.

The Executive Protective Service provides protection for the White House, buildings housing Presidential offices, and foreign diplomatic missions located in the metropolitan area of the District of Columbia. In addition, protection is offered at the direction of the President on a case-by-case basis for foreign diplomatic missions located in other areas of the United States, its territories, and possessions.

Protective intelligence

A large new computer was installed in fiscal 1973 to meet expanding protective support requirements for online access to intelligence files. Since it is compatible with a previously installed computer, except for memory capacity, immediate emergency backup capability is achieved, plus allowing one system to be dedicated to protective support operations while the other is utilized for expanding administrative and law enforcement applications.

During fiscal 1973, the Technical Security Division assumed responsibility for installation and maintenance of the new low-light-level television system within the White House complex. The White House alarm system was also updated to operate with a computer storage capability.

Information about bomb incidents and explosive devices was entered into the Secret Service computer, which provides the protective advance agent with a current readout on bomb incidents in any area of the United States.

In the area of communications, a new minicomputer teletype message switcher, interconnecting each field and protective office with headquarters and with the National Crime Information Center, provides automated message switching.

Investigative responsibilities

Total production of counterfeit currency during fiscal 1973 reached \$25.3 million, a decrease of only 9 percent from fiscal 1972. Almost \$22 million, or 87 percent, of this was seized before it could be placed into circulation, with 72 plant sources responsible for producing \$18 million put out of operation. Losses to the public, the real measure of the Service's success or failure, were reduced to \$3.3 million, a significant decrease of 31 percent from the past fiscal year.

Arrests for counterfeiting violations totaled 1,557, a decrease of 33 percent from the past fiscal year. However, since many of the arrests were effected at the plant source or distributor level, the flow of notes was stopped before they reached the level of the passer where the highest volume of arrests usually occurs. In effect, while the quantity of arrests decreased, the quality increased.

During January of 1973, Secret Service agents effected the largest single seizure in the Service's history, over \$6.2 million in counterfeit \$20 Federal Reserve notes. In this case, seven conspirators first formulated their plans in the fall of 1972 and leased printing equipment from several supply houses in Florida. During late November, the equipment was installed at the residence of one of the conspirators outside Kannapolis, N.C., where the first attempt to produce suitable photographic negatives failed. On December 1, one of the conspirators placed an order for 50,000 sheets of high-grade paper with a Charlotte supply house. The local Secret Service office was notified, and one of the principals was identified through the license number of the vehicle used to make the paper pickup. Efforts to locate the suspect in the Kannapolis area were unsuccessful; the conspirators had immediately moved their operation to Soddy, Tenn. On December 18, the Nashville office received a report of a suspicious purchase from a local supply house. The license number on the vehicle involved was registered to the same suspect involved in the paper purchase at Charlotte. Efforts to locate the suspect in the Nashville area were intensified but again proved fruitless.

On December 22, the first specimens of a new issue of counterfeit \$20 Federal Reserve notes were passed in Atlanta. On Christmas Day, the Cincinnati office received a report from local authorities near Crittendon, Ky., that the prime suspect and another conspirator had been questioned and later released following the pass of one of the Atlanta notes at a local truckstop. The vehicle involved was the same one used in the supply house purchases. Finally, on January 3, 1973, the second partner involved in the Crittendon incident was apprehended at Mankato, Minn. A telephone number found in his possession was traced to a residence at Soddy, Tenn., where agents located the vehicle belonging to the prime suspect. Search and arrest warrants were obtained and the premises were raided on the night of January 4. The prime suspect and four other conspirators were arrested at the plant site. The last remaining conspirator was arrested in Florida several days later. The seven defendants have since received sentences ranging from 2 years' probation to 8 years' imprisonment. Of the \$6.2 million in counterfeit currency produced by this group, only \$160 was successfully placed into circulation.

During March of 1973, the owner of a North Little Rock, Ark., printing firm was arrested while in the act of delivering \$200,000 in counterfeit notes. Thirty-four other individuals were arrested for passing counterfeits stemming from this operation. A total of \$1.25 million of counterfeit currency was seized before it could be placed into circulation while only \$30,000 was successfully passed on the public.

During May of 1972, a new counterfeit \$10 Federal Reserve note was passed for the first time at four retail stores in Conway, Ark. None of the victims could provide a description of the passer and no

additional notes of that type were passed during the following 6 months. Then, in mid-November, workers engaged in underwater construction near the Bear Creek Bridge at Dundalk, Md., (approximately 1,100 miles from Conway) recovered several plastic bags containing over \$300,000 in the Conway notes. Two weeks later in Denver, Colo., three persons were arrested for passing the Conway notes at a local nightclub. Within a week an undercover agent was negotiating for a purchase from the individual who had supplied the trio's notes. The suspect was arrested on December 14 as he was delivering over \$430,000 in counterfeits to the undercover agent. He and a fellow conspirator had produced the initial counterfeit plates at two Denver printing shops where they ran off a small quantity of notes. After the passes in Conway, the prime conspirator had journeyed to Baltimore where he had produced over \$800,000 in counterfeits using a stolen press installed at his sister's residence in Dundalk. Dissatisfied with the quality of the notes, he had thrown a quantity into Bear Creek. Both defendants are awaiting judicial action. Total seizures in this case amounted to nearly \$830,000. Only 12 notes were placed into circulation.

Check forgery

During fiscal 1973, 59,004 checks were received by the Secret Service for investigation, a decrease of 16 percent over fiscal 1972. With the Department of the Treasury having issued 650.7 million checks during fiscal 1973, only 1 check required investigation for every 11,076 checks paid.

An increase in the manpower available for this investigative activity reduced the backlog of pending check cases to 30,700 from a high of 43,600 in May 1971, and raised the solved cases rate to 52 percent in fiscal 1973 as compared with 40 percent for fiscal 1972. Check forgery arrests increased to 4,591 in fiscal 1973 from 3,751 in fiscal 1972.

The improvement in forgery statistics can also be attributed to the continuation of the forgery squad system in the major offices and priority emphasis on investigation of those who forge and negotiate two or more checks. Early identification and arrest of multiple forgers is significant regarding volume in view of their potential if not apprehended.

The volume of cases is expected to increase in the upcoming fiscal year as federalization of certain welfare payments begins in January 1974. Approximately 7 million checks per month will be issued in those areas of the program scheduled to begin at that time. The Forgery Division is instituting a revised original check custody and control system to provide more ready availability of the original checks for laboratory examination, judicial proceedings, and general investigative needs. This innovation was arranged through the cooperation of the Office of the Treasurer.

Check cases

The following check forgery investigations are representative:

On February 22, 1972, the Washington field office received an inquiry from the McLachlen National Bank, Washington, D.C., regarding a U.S. Treasury check payable to the Mansimm Co., Washington,

D.C., in the amount of \$202,601.26. Although the company had an open account, bank officials suspected the check might be counterfeit. Investigation initiated on the same date determined that a Federal agency had authorized issuance of the check. Bank records disclosed that the Mansimm Co.'s account had two earlier large deposits in the form of Treasury checks, one in excess of \$18,000 and the other in excess of \$86,000. Further, a check for \$4,500 had been drawn on the account payable to the White Oak Aero Club for the purchase of a private airplane, and the bank had recently learned from an investment company that the depositor was seeking to purchase \$100,000 in Puerto Rican municipal bonds.

Agents soon determined that the Mansimm Co. had never performed any services for the authorizing Government agency but that the depositor of the check was employed at the Government agency as a supervisor and financial accountant. In that position, he was an authorized certifying officer, which enabled him to approve payment schedules resulting in the issuance of Treasury checks by the Department of the Treasury. He was not at work on February 22 and had submitted his resignation, effective in March, after being advised that an audit had been scheduled because of discrepancies in his records.

Investigating agents found the suspect was not residing at his official residence address in Silver Spring, Md., but at the check address in Washington, D.C., where from time to time he placed the Mansimm Co.'s name over his name on the mailbox. On the evening of February 22, the same day the investigation was initiated, he was arrested at his estranged wife's residence in Silver Spring. At his apartment, \$5,400 in cash, check blanks and account books associated with the Mansimm Co., firearms, and a quantity of marijuana were seized.

In his position as a certifying officer, he had caused three Treasury checks to be issued to the spurious Mansimm Co.—one for \$18,417.89, another for \$86,571.28, and a third for \$202,601.26—totaling \$307,590.43. On October 19, 1972, the defendant, who graduated from the University of Maryland with a B.S. degree in accounting and who was a second-year law student at Georgetown University, was sentenced to 1 year and 1 day imprisonment and fined \$5,000.

A trusted deputy comptroller employed by a large corporation obtained possession of the corporation's tax refund check in the amount of \$191,044.60. Through his knowledge of the vulnerability of the corporation's accounting system, he was able to take possession of the check without question arising as to its apparent nonreceipt. He then deposited the check into a fictitious corporation account in a small bank in another State, which he drew down to a balance of \$1,000 before the account became inactive.

Nearly a year later, the corporation submitted a claim to the Treasury Department alleging nonreceipt and forgery of their tax refund check. The complex investigation which identified the forger also disclosed this same defendant had embezzled approximately \$500,000 by his manipulation of the corporation's legitimate bank accounts. Following a plea of guilty, he was sentenced April 6, 1973, in Federal court to 8 years' imprisonment.

In October 1972, a man and a woman with extensive narcotic violation records, who had been operating as a check forgery team

for approximately 2 years, were arrested at Houston, Tex. Approximately 150 Treasury checks, amounting to \$18,000, were identified as forged and cashed by them. The majority of their check violations occurred initially in the Los Angeles area and later in the Houston area. Most of the checks, which they usually stole from post office boxes, were forged and cashed at markets while purchasing groceries. On January 16, 1973, after having entered guilty pleas, both defendants were sentenced in Federal court to serve 5 years for their multiple offenses.

Bond forgery

Bond forgery investigations decreased for the second consecutive year, from 22,991 in fiscal 1971 and 16,559 in fiscal 1972 to 13,849 in the current year.

U.S. savings bonds are stolen through various means, including bank burglary and robbery, house burglary, mail theft, and purse snatching. Many of the stolen bonds pass through the hands of fences and forgers, primarily in New York City, Philadelphia, Boston, Newark, Chicago, Los Angeles, San Francisco, and Detroit.

Factors contributing to the decrease in bond forgery include the identification and arrest of key multiple forgers and known fences of bonds throughout the country; the seizure of a record number of stolen U.S. savings bonds prior to redemption by forgers; an increasing awareness by forgers that bonds are being entered into the National Crime Information Center (NCIC) by the Service when reported stolen; and an increasing utilization of the NCIC system by banks (paying agents) when confronted by questionable redemptions.

During fiscal 1973, the Secret Service entered the records of 540,000 stolen savings bonds into NCIC. At the end of the year there were approximately 550,000 stolen savings bonds in the NCIC, each a potential loss to the Government if presented for redemption. During the year, 11,027 stolen U.S. savings bonds having a face value of \$1,178,950 were recovered through field investigations prior to redemption. This represents an increase of 45 percent in recoveries over fiscal 1972, the previous high year. One hundred eighty-seven persons were arrested for bond forgery.

Bond forgery investigations

A major case prosecuted in fiscal 1973 involved bonds stolen from the office of the Public Administrator of Denver, Colo. The office vault had been opened in a highly professional manner, with the holes that had been drilled to open the vault refilled and painted to delay detection of the burglary. Stolen were 236 savings bonds, with a redemption value in excess of \$63,600, belonging to 10 registered owners. Over a year later a forger redeemed 14 of the stolen bonds—redemption value \$23,530—depositing \$18,000 into a newly opened bank account in Phoenix, Ariz. Within 3 days he attempted to withdraw the \$18,000, causing the bank to become suspicious and contact the Treasury. The suspect, arrested in the bank by an agent from the Phoenix office, was later determined to have redeemed an additional 14 bonds in the Los Angeles and Denver areas.

Meanwhile, an informant advised the Denver office that attempts

were being made by three suspects in the burglary to redeem the rest of the bonds in the Colorado Springs, Denver, and Boulder, Colo., areas by establishing fraudulent accounts at local banks. When the banks in these areas were canvassed, it was determined that numerous bonds had already been redeemed. Descriptions of the forgers, a man and a woman, matched one of the male suspects and the wife of another suspect. Subsequently, a bank in Boulder notified the Denver office when a suspicious account was opened with what appeared to be a counterfeit driver's license by a woman matching the description of the female suspect. The name on the account was one of the registered owners' names on the stolen bonds. Later, the female suspect, accompanied by the three male suspects, returned to the Boulder bank and presented two \$1,000 bonds, with a redemption value of \$2,831.60. Acting as if the transaction were acceptable, the bank paid the money and allowed her to return to the parking lot, where she was arrested with the other suspects. The money paid by the bank was recovered along with six additional \$1,000 savings bonds. On August 28, 1972, the four suspects arrested in Denver were convicted in a jury trial for forgery and conspiracy to forge and were sentenced 2 to 3 years and 2 to 4 years in prison. The suspect arrested in Phoenix was placed on 5 years' probation and ordered to make full restitution to the Government for the bonds he redeemed.

In December 1971, 36 bonds with a face value of \$25,650 were stolen in a house burglary in St. Paul, Minn. Shortly, bonds from this burglary were presented for redemption in Minneapolis, Los Angeles, and Chicago. One forger was identified through a handwriting comparison as the same person that was arrested a month earlier in Pipestone, Minn., and released on bond pending court appearances. Two associates who resided in Florida were arrested within the year. The latter led investigators to two well-known fences in Minneapolis who were placed under arrest for conspiracy to forge and utter U.S. savings bonds. Seventeen bonds with a face value of \$6,650 were recovered. Three of the defendants entered guilty pleas and were placed on probation. Both fences pleaded guilty; one died before sentencing and the other was sentenced to 3 years in prison to be served after serving 740 days for parole violation on a narcotics charge.

In February 1972, three \$1,000 savings bonds were presented for redemption at a bank in Orange, Calif. The teller became suspicious because the driver's license the suspect used appeared counterfeit. The suspect fled before the police arrived, leaving the bonds and the license, which contained his photograph, in the bank. Identified as a well-known forger and securities dealer, the suspect was spotted by an agent in a parking lot and placed under arrest. The bonds recovered were part of a group of 25 \$1,000 bonds stolen in December of 1970 in Omaha, Nebr., during a house burglary. Seven of the bonds had been recovered by the FBI and the Service during a joint investigation resulting in the search of a well-known fence's house in Salt Lake City, Utah, in June of 1971. While released on bail, the defendant attempted to sell the remaining bonds to an undercover agent posing as a dishonest bank employee. The bonds were delivered by a third suspect from Salt Lake City to the Los Angeles area, where a fourth person assisted in the delivery of the bonds to the undercover agent. All were

arrested and charged with conspiracy to forge, interstate transportation of stolen securities, receipt of stolen property transported interstate, aiding and abetting, and false impersonation of a Federal creditor. Sentences ranged from 6 months' to 7 years' imprisonment.

Treasury Security Force

The Treasury Security Force, a specially trained, uniformed division of the U.S. Secret Service responsible for protecting the Main Treasury Building and Treasury Annex, continued an intensive in-service training program of over 3,000 man-hours during fiscal 1973. Training was conducted at the Consolidated Federal Law Enforcement Training Center, U.S. Secret Service Training Division, and the FBI National Academy.

Forty-nine felony arrests were made by Treasury Security Force officers at the Main Treasury Building. Most of these occurred in the main cash room as individuals attempted to cash forged checks valued at nearly \$12,000.

Identification Branch

The Identification Branch of the Special Investigations and Security Division provided increased scientific and technical assistance in criminal investigations to Secret Service field offices. Its Questioned Document and Fingerprint Sections, augmented by a complete Forensic Photography Unit, provided investigative support through examinations of handwriting, handprinting, fingerprints, palmprints, typewriting, striations, photographs, and other forensic analyses. These examinations related to both the protective and investigative responsibilities of the Secret Service. Violations of laws affecting these responsibilities often include the writing, manufacture, or alteration of documents, and solutions to such problems often hinge on examinations conducted by the Identification Branch.

During the 12 months ending May 31, 1973, the Fingerprint and Questioned Document Sections closed 4,699 criminal cases. This was an increase of 1,293 cases over fiscal 1972. A total of 633,246 exhibits were examined, resulting in 1,722 identifications of individuals. Identification Branch personnel appeared in courts throughout the Nation on 227 occasions to furnish testimony in support of their findings.

Organized crime

The Secret Service participates in the organized crime strike force effort of the Department of Justice. Eighteen special agents are assigned to operating strike forces throughout the country and one intelligence analyst coordinates and disseminates intelligence from Washington, D.C. In conjunction with the Department of Justice, this intelligence analyst controls the "racketeer profile" submitted by Secret Service agents.

These agents are currently involved in 76 separate organized crime cases. During fiscal 1973, Secret Service personnel expended more than 106,000 man-hours, or approximately 51 man-years in this category.

Training

There were 119,033 man-hours of training conducted by the Secret Service Office of Training for personnel engaged in investigative,

protective, and administrative functions. In addition, 56,972 man-hours of interbureau training, 9,980 man-hours of interagency training, and 6,730 man-hours of nongovernmental training were completed. A total of 192,715 man-hours were completed by Service personnel during fiscal 1973.

The Office of Training provided firearms training to students of the Consolidated Federal Law Enforcement Training Center (788 from the Criminal Investigator School and 341 from the Police School). In addition, firearms training was provided to 134 special agents of the Bureau of Alcohol, Tobacco and Firearms; 92 Customs patrol officers; 40 U.S. Park rangers; 3 special agents from the Department of Commerce; 3 special agents from the U.S. Information Agency; 391 U.S. Park Police officers; and enforcement personnel of the Secret Service.

There were 177 participants from State, local, and other Federal agencies who attended Secret Service briefings on protection operations. Fifty-two participants from State and local police agencies attended the questioned document course.

Inservice courses were established for agents assigned to protective details as well as agents assigned to field offices. Supervisory seminars were also conducted for all field offices and protective detail supervisors.

Keeping abreast with technological advancements, the Office of Training installed a group student response system and is developing a student learning center. The former allows for more individual student participation than do traditional training methods. The student learning center will contain carrels, which will enable students to work independently at their own pace. It will be used for employee self-development and will support formal classroom instruction conducted at the Office of Training.

Administration

In fiscal 1973, special attention was given to position description management. A study of the special officer position, unique to the Secret Service, clearly identified positions, distinct functions, and appropriate grade structures and career ladder assignments.

A comprehensive, automated financial accounting system was completed and readied for implementation in fiscal 1973. Capacity for improved financial analysis and more timely and effective accounting reports are features of the new system. This improvement will greatly facilitate budget formulation and execution processes. The need for manually kept records and files in support of the budget will be significantly reduced. Special studies and analyses, previously requiring tedious work and the diversion of manpower resources, will be possible through rapid review and sampling of computer-based data. Accurate measurement of the consumption of financial resources by major programs will allow a better correlation of costs to the consumption of manpower resources and to performance areas.

An extensive on-the-job training program and selective recruiting of new personnel upgraded technical capabilities within the financial management and reporting system.

In the area of administrative operations, substantial dollar savings were achieved by establishing more sources for procurement. This increase in competition was made possible through the addition of procurement personnel and acceleration of formal training for the employees.

During fiscal 1973, major steps were taken to automate the non-expendable property system, saving many man-hours and ensuring more effective and efficient management of Secret Service property.

Also during fiscal 1973, the concept of "office excellence," a system of eliminating costly ceiling-high partitions and substituting movable panels, was introduced in the Louisville field office. This concept will be extended to other offices.

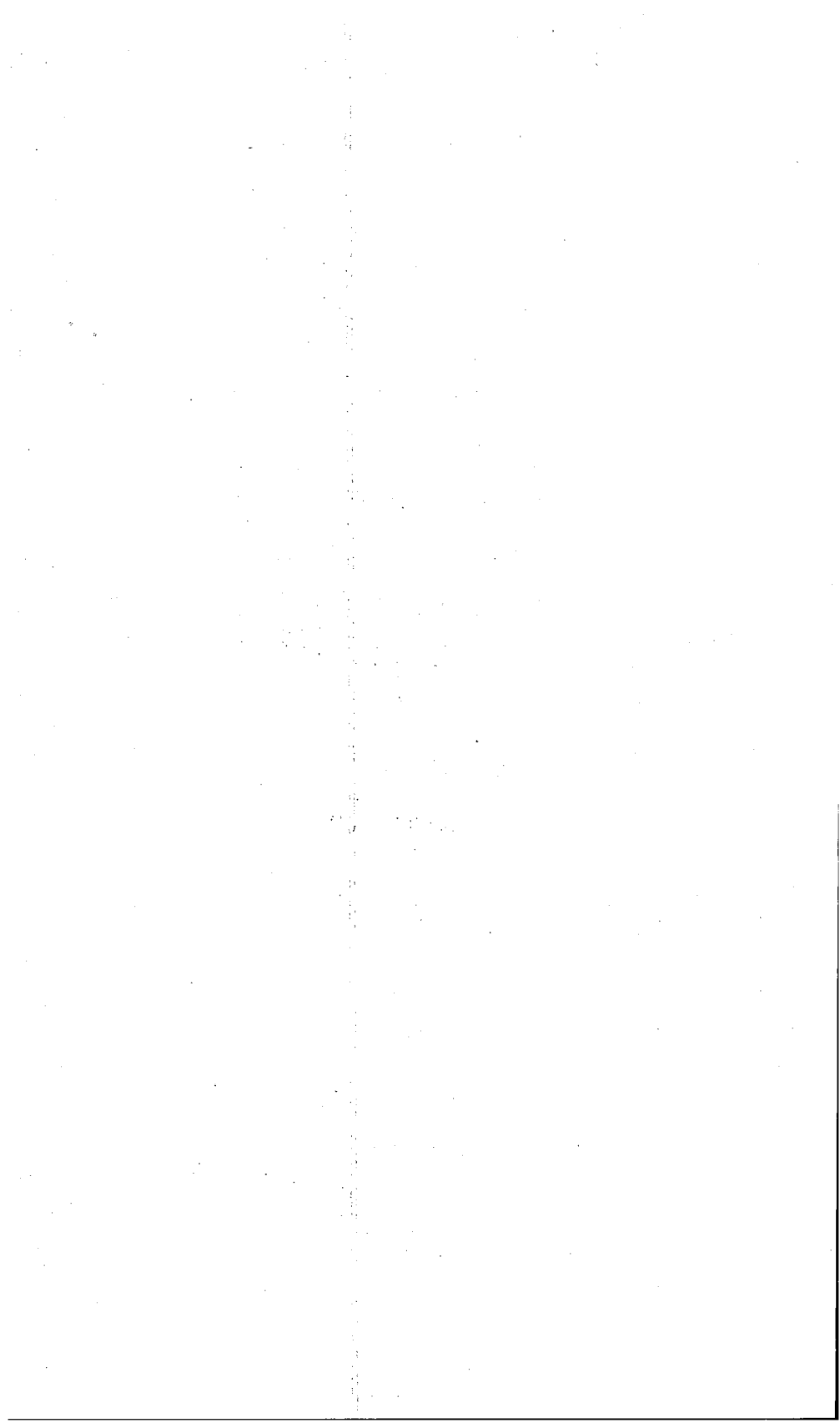
Directives management and records disposition planning were also improved. A more formal system of directives management is ready for adoption at the beginning of calendar 1974. In addition, a major updating of the records disposal program and refinements to forms and reports management will be completed by the end of calendar 1974.

Inspection and internal audit

Developmental supervisory training for the position of assistant inspector, created during the year, significantly expedited inspections. Also, the internal audit staff was enlarged to increase the frequency of audits.

During fiscal 1973, inspectors represented the Director in many high-level policy projects and surveys.

EXHIBITS



Public Debt Operations, Regulations, and Legislation

During fiscal year 1973 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 1973 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 notes will be shown in table 37 in the Statistical Appendix.

DEPARTMENT CIRCULAR NO. 8-72. PUBLIC DEBT

DEPARTMENT OF THE TREASURY,
Washington, July 27, 1972.

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 6½ percent Treasury Notes of Series A-1979, at par, in exchange for the following securities, singly or in combinations aggregating \$1,000 or multiples thereof:

- (1) 5 percent Treasury Notes of Series E-1972, dated May 15, 1971, due August 15, 1972;
- (2) 4 percent Treasury Bonds of 1972, dated September 15, 1962, due August 15, 1972;
- (3) 2½ percent Treasury Bonds of 1967-72, dated October 20, 1941, due September 15, 1972, with a cash payment of \$1.12220 per \$1,000 to the United States;
- (4) 6 percent Treasury Notes of Series F-1972, dated June 29, 1971, due November 15, 1972, with a cash payment of \$4.20838 per \$1,000 to subscribers;
- (5) 2½ percent Treasury Bonds of 1967-72, dated November 15, 1945, due December 15, 1972, with a cash payment of \$6.00915 per \$1,000 to the United States;
- (6) 5¾ percent Treasury Notes of Series A-1974, dated November 15, 1967, due November 15, 1974, with a cash payment of \$6.10880 per \$1,000 to subscribers;
- (7) 3¾ percent Treasury Bonds of 1974, dated December 2, 1957, due November 15, 1974, with a cash payment of \$30.23856 per \$1,000 to the United States;
- (8) 5¾ percent Treasury Notes of Series A-1975, dated February 15, 1968, due February 15, 1975, with a cash payment of \$3.06136 per \$1,000 to subscribers; or
- (9) 5¾ percent Treasury Notes of Series E-1975, dated October 22, 1971, due February 15, 1975, with a cash payment of \$5.81659 per \$1,000 to subscribers.

Interest will be adjusted as of August 15, 1972, on the securities due subsequent to that date. 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 5:00 p.m., local time, August 2, 1972, for the receipt of subscriptions, except that individuals exchanging registered securities will be permitted to submit subscriptions until 5:00 p.m., local time, August 4, 1972.

2. In addition,

- (a) holders of all 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 1984, which offering is set forth in Department Circular, Public Debt Series—No. 9-72, and
- (b) holders of the securities maturing in 1972, are offered the privilege of exchanging all or any part of them for 5½ percent Treasury Notes of Series F-1976, which offering is set forth in Department Circular, Public Debt Series—No. 7-72.

These two circulars are being issued simultaneously with this circular.

3. *Optional recognition of gain or loss for Federal income tax purposes on securities due in 1974 and 1975.*—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 and 1975 enumerated in Paragraph 1 of this section solely for the 6¼ percent Treasury Notes of Series A-1979 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 NOTES

1. The notes will be dated August 15, 1972, and will bear interest from that date at the rate of 6¼ percent per annum, payable semiannually on February 15 and August 15 in each year until the principal amount becomes payable. They will mature August 15, 1979, 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. 20222. 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 August 15, 1972, 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 (paragraphs 3, 4, 6, 8 and 9 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 5 and 7 below) should accompany the subscription.

2. *5 percent notes of Series E-1972 and 4 percent bonds of 1972.*—When payment is made with securities in bearer form, coupons dated August 15, 1972, should be detached and cashed when due.¹

3. *2½ percent bonds of September 15, 1967-72.*—When payment is made with bonds in bearer form, coupons dated September 15, 1972, must be attached to the bonds when surrendered. Accrued interest from March 15 to August 15, 1972 (\$10.39402 per \$1,000) will be credited, the payment due the United States (\$1.12220 per \$1,000) will be charged, and the difference (\$9.27182 per \$1,000) will be paid to subscribers.

4. *6 percent notes of Series F-1972.*—When payment is made with notes in bearer form, coupons dated November 15, 1972, must be attached to the notes when surrendered. Accrued interest from May 15 to August 15, 1972 (\$15.00000 per \$1,000) plus the cash payment (\$4.20838 per \$1,000), a total of \$19.20838 per \$1,000, will be paid to subscribers.

5. *2½ percent bonds of December 15, 1967-72.*—When payment is made with bonds in bearer form, coupons dated December 15, 1972, must be attached to the bonds when surrendered. Accrued interest from June 15 to August 15, 1972 (\$4.16667 per \$1,000) will be credited, the payment due the United States (\$6.00915 per \$1,000) will be charged, and the difference (\$1.84248 per \$1,000) must be paid to the United States.

6. *5¾ percent notes of Series A-1974.*—When payment is made with notes in bearer form, coupons dated November 15, 1972, and all subsequent coupons, must be attached to the notes when surrendered. Accrued interest from May 15 to August 15, 1972 (\$14.37500 per \$1,000) plus the cash payment (\$6.10880 per \$1,000), a total of \$20.48380 per \$1,000, will be paid to subscribers.

7. *3¾ percent bonds of 1974.*—When payment is made with bonds in bearer form, coupons dated November 15, 1972, and all subsequent coupons, must be attached to the bonds when surrendered. Accrued interest from May 15 to August 15, 1972 (\$9.68750 per \$1,000) will be credited, the payment due the United States (\$30.23856 per \$1,000) will be charged, and the difference (\$20.55106 per \$1,000) must be paid to the United States.

8. *5¾ percent notes of Series A-1975.*—When payment is made with notes in bearer form, coupons dated February 15, 1973, and all subsequent coupons, must be attached (August 15, 1972, coupons should be detached¹) to the notes when surrendered. A cash payment of \$3.06136 per \$1,000 will be paid to subscribers.

9. *5½ percent notes of Series E-1975.*—When payment is made with notes in bearer form, coupons dated February 15, 1973, and all subsequent coupons, must be attached (August 15, 1972, coupons should be detached¹) to the notes when surrendered. A cash payment of \$5.81659 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

¹ Interest due on August 15, 1972, on registered securities will be paid by issue of interest checks in regular course to holders of record on July 14, 1972, the date the transfer books closed.

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 6½ percent Treasury Notes of Series A-1979"; if the notes are desired registered in another name, the assignment should be to "The Secretary of the Treasury for exchange for 6½ percent Treasury Notes of Series A-1979 in the name of _____"; if notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for exchange for 6½ percent Treasury Notes of Series A-1979 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.

GEORGE P. SHULTZ,
Secretary of the Treasury.

DEPARTMENT CIRCULAR NO. 2-73. PUBLIC DEBT

DEPARTMENT OF THE TREASURY,
Washington, February 1, 1973.

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 98.51 percent of their face value for \$1,000,000,000, or thereabouts, of notes of the United States, designated 6½ percent Treasury Notes of Series B-1979. An additional amount of the notes will 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 February 15, 1973. Tenders will be received up to 1:30 p.m., Eastern Standard time, Wednesday, February 7, 1973, under competitive and noncompetitive bidding, as set forth in Section III hereof. The 6½ percent Treasury Notes of Series C-1973 and 4½ percent Treasury Notes of Series D-1973, maturing February 15, 1973, will be accepted at par in payment, in whole or in part, to the extent tenders are allotted by the Treasury.

II. DESCRIPTION OF NOTES

1. The notes will be dated February 15, 1973, and will bear interest from that date at the rate of 6½ percent per annum, payable on a semiannual basis on May 15 and November 15, 1973, and thereafter on May 15 and November 15 in each year until the principal amount becomes payable. They will mature November 15, 1979, 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, Wednesday, February 7, 1973. 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 98.51 will not be accepted. Fractions may not be used. Noncompetitive tenders from any one bidder may not exceed \$400,000.

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 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 \$400,000 or less without stated price from any one bidder will be accepted in full at the average price* (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, Wednesday, February 7, 1973.

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 must be made or completed on or before February 15, 1973, at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States, Washington, D.C. 20222, in cash, securities referred to in Section I (interest coupons dated February 15, 1973, should be detached) 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

*Average price may be at, or more or less than 100.00.

the Secretary of the Treasury in his discretion, be forfeited to the United States. When payment is made with securities, a cash adjustment will be made to or required of the bidder for any difference between the face amount of securities submitted and the amount payable on the notes allotted.

V. ASSIGNMENT OF REGISTERED SECURITIES

1. Registered securities tendered as deposits and in payment for notes 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. 20222. 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 6½ percent Treasury Notes of Series B-1979"; if the notes are desired registered in another name, the assignment should be to "The Secretary of the Treasury for 6½ percent Treasury Notes of Series B-1979 in the name of -----"; if notes in coupon form are desired, the assignment should be to "The Secretary of the Treasury for 6½ percent Treasury Notes of Series B-1979 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 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.

GEORGE P. SHULTZ,
Secretary of the Treasury.

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						
1972	1972				1972		1972	1972
July 26	7-72	July 27	8-72, 9-72	5½ percent Series F-1976 at 99.75 in exchange for..... 5 percent Series E-1972 notes maturing August 15, 1972 4 percent bonds maturing August 15, 1972 2½ percent bonds maturing September 15, 1972 ² 6 percent Series F-1972 notes maturing November 15, 1972 ³ 2½ percent bonds maturing December 15, 1972 ⁴	Aug. 15	Feb. 15, 1976	Aug. 2 ¹	Aug. 15
July 26	8-72	July 27	7-72, 9-72	6½ percent Series A-1979 at par in exchange for..... 6 percent Series E-1972 notes maturing August 15, 1972 4 percent bonds maturing August 15, 1972 2½ percent bonds maturing September 15, 1972 6 percent Series F-1972 notes maturing November 15, 1972 2½ percent bonds maturing December 15, 1972 5½ percent Series A-1974 notes maturing November 15, 1974 3½ percent bonds maturing November 15, 1974 5½ percent Series A-1975 notes maturing February 15, 1975 5½ percent Series E-1975 notes maturing February 15, 1975	Aug. 15	Aug. 15, 1979	Aug. 2 ¹	Aug. 15
Oct. 5	10-72	Oct. 6	.....	6 percent Series E-1974 at 100.25 (average) for cash ^{6, 7}	Oct. 19	Sept. 30, 1974	Oct. 11	Oct. 19
Oct. 25	11-72	Oct. 26	.....	6½ percent Series D-1976 at 100.18 (average) for cash ⁸	1971 Sept. 8 ¹⁰	Nov. 15, 1976	Nov. 1	Nov. 15
Dec. 14	12-72	Dec. 15	.....	5½ percent Series F-1974 at 100.09 (average) for cash ^{8, 11}	1972 Dec. 28	Dec. 31, 1974	Dec. 20	Dec. 28
1973	1973				1973		1973	1973
Jan. 31	1-73	Feb. 1	2-73	6½ percent Series G-1976 at 99.70 in exchange for..... 6½ percent Series C-1973 notes maturing February 15, 1973 4½ percent Series D-1973 notes maturing February 15, 1973	Feb. 15	Aug. 15, 1976	Feb. 7	Feb. 15
Jan. 31	2-73	Feb. 1	1-73	6½ percent Series B-1979 at 99.40 (average) for cash ^{12, 13}	Feb. 15	Nov. 15, 1979	Feb. 7	Feb. 15
Apr. 25	3-73	Apr. 26	4-73	6½ percent Series A-1980 at 99.29 (average) for cash ^{12, 14}	May 15	May 15, 1980	May 1	May 15

¹ Individuals exchanging registered securities were permitted to submit subscriptions until Aug. 4.

² Subscribers exchanging these bonds were credited with accrued interest on the bonds from Mar. 15 to Aug. 15, 1972 (\$10.39402 per \$1,000) plus the discount (\$2.50 per \$1,000) on the notes, and charged \$1.2220 per \$1,000 to adjust for the market value of the bonds.

³ Subscribers exchanging these notes were paid accrued interest on the notes from May 15 to Aug. 15, 1972 (\$15.00 per \$1,000), the discount of \$2.50 per \$1,000, and \$21.70838 per \$1,000 to adjust for the market value of the 6 percent notes.

⁴ Subscribers exchanging these bonds were credited with accrued interest on the bonds from June 15 to Aug. 15, 1972 (\$4.16667 per \$1,000) plus the discount (\$2.50 per \$1,000) on the notes, and charged \$6.00915 per \$1,000 to adjust for the market value of the bonds.

⁵ See Department Circular No. 8-72 in this exhibit for provisions regarding payment and optional recognition of gain or loss for Federal income tax purposes.

⁶ 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.

⁷ These notes were sold at auction at prices ranging from 100.41 to 100.20.

⁸ Noncompetitive tenders for \$400,000 or less were accepted in full at the average price of accepted competitive tenders. Qualified depositaries were permitted to make settlement for 75 percent of the notes allotted by credit in their Treasury tax and loan account.

⁹ These notes were sold at auction at prices ranging from 100.31 to 100.14.

¹⁰ Interest was payable from Nov. 15, 1972.

¹¹ These notes were sold at auction at prices ranging from 100.29 to 100.05.

¹² Noncompetitive tenders for \$400,000 or less were accepted in full at the average price of accepted tenders. Payment could not be made through Treasury tax and loan accounts.

¹³ These notes were sold at auction at prices ranging from 99.88 to 99.21.

¹⁴ These notes were sold at auction at prices ranging from 100.10 to 99.05.

Exhibit 2.—Treasury bonds

Two Treasury circulars—one containing an exchange offering and one covering an auction for cash with the price established through competitive bidding—are reproduced in this exhibit. Another circular pertaining to an auction is similar in form and therefore is not reproduced in this report. However, essential details for each offering are summarized in the table in this exhibit, and allotment data for the bonds will be shown in table 38 in the Statistical Appendix.

DEPARTMENT CIRCULAR NO. 9-72. PUBLIC DEBT

DEPARTMENT OF THE TREASURY,

Washington, July 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 1984, at 99.40 percent of their face value, in exchange for the following securities, singly or in combinations aggregating \$1,000 or multiples thereof:

- (1) 5 percent Treasury Notes of Series E-1972, dated May 15, 1971, due August 15, 1972;
- (2) 4 percent Treasury Bonds of 1972, dated September 15, 1962, due August 15, 1972;
- (3) 2½ percent Treasury Bonds of 1967-72, dated October 20, 1941, due September 15, 1972, with a cash payment of \$1.12220 per \$1,000 to the United States;
- (4) 6 percent Treasury Notes of Series F-1972, dated June 29, 1971, due November 15, 1972, with a cash payment of \$4.20838 per \$1,000 to subscribers;
- (5) 2½ percent Treasury Bonds of 1967-72, dated November 15, 1945, due December 15, 1972, with a cash payment of \$6.00915 per \$1,000 to the United States;
- (6) 5½ percent Treasury Notes of Series A-1974, dated November 15, 1967, due November 15, 1974, with a cash payment of \$6.10880 per \$1,000 to subscribers;
- (7) 3½ percent Treasury Bonds of 1974, dated December 2, 1957, due November 15, 1974, with a cash payment of \$30.23856 per \$1,000 to the United States;
- (8) 5¼ percent Treasury Notes of Series A-1975, dated February 15, 1968, due February 15, 1975, with a cash payment of \$3.06136 per \$1,000 to subscribers; or
- (9) 5½ percent Treasury Notes of Series E-1975, dated October 22, 1971, due February 15, 1975, with a cash payment of \$5.81659 per \$1,000 to subscribers.

Interest will be adjusted as of August 15, 1972, on the securities due subsequent to that date. 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, August 2, 1972, for the receipt of subscriptions, except that individuals subscribing for cash, or exchanging registered securities, will be permitted to submit subscriptions until 5:00 p.m., local time, August 4, 1972.

In addition,

- (a) holders of all of the securities enumerated in Paragraph 1 of this section are offered the privilege of exchanging all or any part of them for 6¼ percent Treasury Notes of Series A-1979, which offering is set forth in Department Circular, Public Debt Series—No. 8-72, and
- (b) holders of the securities maturing in 1972, are offered the privilege of exchanging all or any part of them for 5½ percent Treasury Notes of Series F-1976, which offering is set forth in Department Circular, Public Debt Series—No. 7-72.

These circulars are being issued simultaneously with this circular.

3. *Optional recognition of gain or loss for Federal income tax purposes on securities due in 1974 and 1975.*—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 and 1975 enumerated in Paragraph 1 of this section solely for the 6% percent Treasury Bonds of 1984 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 August 15, 1972, and will bear interest from that date at the rate of 6% percent per annum, payable semiannually on February 15 and August 15 in each year until the principal amount becomes payable. They will mature August 15, 1984, 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. 20222. 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 August 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 99.40 percent of their face value and accrued interest, if any, for bonds allotted hereunder, must be completed on or before August 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 2, 3, 4, 5, 6, 8 and 9 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 (paragraph 7 below) should accompany the subscription.

2. *5 percent notes of Series E-1972 and 4 percent bonds of 1972.*—When payment is made with securities in bearer form, coupons dated August 15, 1972, should be detached and cashed when due.¹ A cash payment of \$6.00 per \$1,000 on account of the issue price of the new bonds will be made to subscribers.

3. *2½ percent bonds of September 15, 1967-72.*—When payment is made with bonds in bearer form, coupons dated September 15, 1972, must be attached to the bonds when surrendered. Accrued interest from March 15 to August 15, 1972 (\$10.39402 per \$1,000) plus the payment on account of the issue price of the new bonds (\$6.00 per \$1,000) will be credited, the payment (\$1.12220 per \$1,000) due the United States will be charged, and the difference (\$15.27182 per \$1,000) will be paid to subscribers.

4. *6 percent notes of Series F-1972.*—When payment is made with notes in bearer form, coupons dated November 15, 1972, must be attached to the notes when surrendered. Accrued interest from May 15 to August 15, 1972 (\$15.00000 per \$1,000), the payment on account of the issue price of the new bonds (\$6.00 per \$1,000) and the cash payment (\$4.20838 per \$1,000), a total of \$25.20838 per \$1,000, will be paid to subscribers.

5. *2½ percent bonds of December 15, 1967-72.*—When payment is made with bonds in bearer form, coupons dated December 15, 1972, must be attached to the bonds when surrendered. Accrued interest from June 15 to August 15, 1972 (\$4.16667 per \$1,000) plus the payment on account of the issue price of the new bonds (\$6.00 per \$1,000) will be credited, the payment due the United States (\$6.00915 per \$1,000) will be charged, and the difference (\$4.15752 per \$1,000) will be paid to subscribers.

6. *5¾ percent notes of Series A-1974.*—When payment is made with notes in bearer form, coupons dated November 15, 1972, and all subsequent coupons, must be attached to the notes when surrendered. Accrued interest from May 15 to August 15, 1972 (\$14.37500 per \$1,000), the payment on account of the issue price of the new bonds (\$6.00 per \$1,000) and the cash payment (\$6.10880 per \$1,000), a total of \$26.48380 per \$1,000, will be paid to subscribers.

7. *3¾ percent bonds of 1974.*—When payment is made with bonds in bearer form, coupons dated November 15, 1972, and all subsequent coupons, must be attached to the bonds when surrendered. Accrued interest from May 15, to August 15, 1972 (\$9.68750 per \$1,000) plus the payment on account of the issue price of the new bonds (\$6.00 per \$1,000) will be credited, the payment (\$30.23856 per \$1,000) due the United States will be charged, and the difference (\$14.55106 per \$1,000) must be paid by subscribers.

8. *5¾ percent notes of Series A-1975.*—When payment is made with notes in bearer form, coupons dated February 15, 1973, and all subsequent coupons, must be attached (August 15, 1972, coupons should be detached¹) to the notes when surrendered. The payment on account of the issue price of the new bonds (\$6.00 per \$1,000) plus the cash payment (\$3.06136 per \$1,000), a total of \$9.06136 per \$1,000, will be paid to subscribers.

9. *5½ percent notes of Series E-1975.*—When payment is made with notes in bearer form, coupons dated February 15, 1973, and all subsequent coupons, must be attached (August 15, 1972, coupons should be detached¹) to the notes when surrendered. The payment on account of the issue price of the new bonds (\$6.00

¹ Interest due on August 15, 1972, on registered securities will be paid by issue of interest checks in regular course to holders of record on July 14, 1972, the date the transfer books closed.

per \$1,000) plus the cash payment (\$5.81659 per \$1,000), a total of \$11.81659 per \$1,000, will be paid to 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. 20222. 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 1984"; 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 1984 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 1984 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.

GEORGE P. SHULTZ,
Secretary of the Treasury.

DEPARTMENT CIRCULAR NO. 4-73. PUBLIC DEBT

DEPARTMENT OF THE TREASURY,
Washington, April 26, 1973.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, as amended, invites tenders for \$650,000,000, or thereabouts, of bonds of the United States, designated 7 percent Treasury Bonds of 1993-98. An additional amount of the bonds may be allotted by the Secretary of the Treasury to Government accounts and Federal Reserve Banks in exchange for Treasury notes maturing May 15, 1973. Tenders on a competitive or noncompetitive basis will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 2, 1973. The price for the bonds will be established as set forth in Section III hereof. The 7½ percent Treasury Notes of Series A-1973 and 4¾ percent Treasury Notes of Series E-1973, maturing May 15, 1973, 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 will be dated May 15, 1973, and will bear interest from that date at the rate of 7 percent per annum, payable semiannually on November 15, 1973, and thereafter on May 15 and November 15 in each year until the principal amount becomes payable. They will mature May 15, 1998, but may be redeemed at the option of the United States on and after May 15, 1993, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption, the bonds to be redeemed will be determined

by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

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. 20222, up to the closing hour, 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 2, 1973. 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 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 in a multiple of .05, e.g., 100.10, 100.05, 100.00, 99.95, etc. Fractions may not be used. 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. In considering the acceptance of tenders, those at the highest prices will be accepted in full to the extent required to attain the amount offered; provided, however, that tenders at the lowest of such accepted prices will be prorated if necessary. All tenders so accepted will be allotted at the price of the lowest accepted tender. Those submitting tenders will be advised of the acceptance, and awarded price, or the rejection of their bids. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, including the right to accept less than \$650 million of tenders, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for \$250,000 or less will be accepted in full at the same price as accepted competitive tenders. The price may be 100.00, or more or less than 100.00.

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, Wednesday, May 2, 1973.

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. Payment for accepted tenders must be made or completed on or before May 15, 1973, at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States, Washington, D.C. 20222, in cash, securities referred to in Section I (interest coupons dated May 15, 1973, 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. When payment is made with securities, a cash adjustment will be made to or required of the bidder for any difference between the face amount of securities submitted and the amount payable on the bonds allotted.

V. ASSIGNMENT OF REGISTERED SECURITIES

1. Registered securities tendered as deposits and in payment for bonds allotted hereunder are not required to be assigned if the bonds are to be registered in the same names and forms as appear in the registrations or assignments of the securities surrendered. Specific instructions for the issuance and delivery of the bonds, signed by the owner or his authorized representative, must accompany the securities presented. Otherwise, the securities should be assigned by the registered payees or assignees thereof in accordance with the general regulations governing United States securities, as hereinafter set forth. Bonds to be registered in names and forms different from those in the inscriptions or assignments of the securities presented should be assigned to "The Secretary of the Treasury for 7 percent Treasury Bonds of 1993-98 in the name of (name and taxpayer identifying number)." If bonds in coupon form are desired, the assignment should be to "The Secretary of the Treasury for 7 percent coupon Treasury Bonds of 1993-98 to be delivered to _____." Securities tendered in payment should be surrendered to the Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Securities Division, Washington, D.C. 20222. The securities must be delivered at the expense and risk of the holder.

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.

GEORGE P. SHULTZ,
Secretary of the Treasury.

Summary of information pertaining to Treasury bonds issued during fiscal year 1973

Date of preliminary announcement	Department circular		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)
	No.	Date						
1972		1972			1972		1972	1972
July 26	9-72	July 27	7-72, 8-72	6½ percent of 1984 at 99.40 for cash ¹ and in exchange for ² 5 percent Series E-1972 notes maturing Aug. 15, 1972 4 percent bonds maturing Aug. 15, 1972 2½ percent bonds maturing Sept. 15, 1972 6 percent Series F-1972 notes maturing Nov. 15, 1972 2½ percent bonds maturing Dec. 15, 1972 5¼ percent Series A-1974 notes maturing Nov. 15, 1974 3½ percent bonds maturing Nov. 15, 1974 5¼ percent Series A-1975 notes maturing Feb. 15, 1975 5½ percent Series E-1975 notes maturing Feb. 15, 1975	Aug. 15	Aug. 15, 1984	Aug. 23	Aug. 15
Dec. 28	13-72	Dec. 29	.....	6¼ percent of 1993 at 99.50 for cash ⁴	1973 Jan. 10	Feb. 15, 1993	1973 Jan. 4	1973 Jan. 10
1973		1973						
Apr. 25	4-73	Apr. 26	3-73	7 percent of 1993-98 at 98.75 for cash ⁵	May 15	May 15, 1998 ⁶	May 2	May 15

¹ Cash subscriptions for \$10,000 or less were accepted only from natural persons in their own right.

² See Department Circular No. 9-72 in this exhibit for provisions regarding payment and optional recognition of gain or loss for Federal income tax purposes.

³ Individuals exchanging registered securities were permitted to submit subscriptions until Aug. 4.

⁴ Provisions for tenders, allotments, pricing and payment were similar to Department Circular No. 4-73 reproduced in this exhibit.

⁵ See Department Circular No. 4-73 in this exhibit for provisions regarding tenders, allotments, pricing and payment.

⁶ Callable on and after May 15, 1993.

Exhibit 3.—Treasury bills

During the fiscal year there were 52 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), 11 monthly issues with maturities from 341 to 365 days, and four 9-month issues (the 9-month bills represent additional amounts of bills with an original maturity of 1 year), and two issues of tax anticipation series. A press release inviting tenders is reproduced in this exhibit and is representative of all such releases. Also reproduced is a press release which is representative of releases announcing the results of offerings. Following the press releases is a table of data for each issue during the fiscal year.

PRESS RELEASE OF JUNE 5, 1973

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of \$4,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing June 14, 1973, in the amount of \$4,302,365,000 as follows:

91-day bills (to maturity date) to be issued June 14, 1973, in the amount of \$2,500,000,000, or thereabouts, representing an additional amount of bills dated March 15, 1973, and to mature September 13, 1973 (CUSIP No. 912793 RU2) originally issued in the amount of \$1,801,040,000, the additional and original bills to be freely interchangeable.

182-day bills, for \$1,700,000,000, or thereabouts, to be dated June 14, 1973 and to mature December 13, 1973 (CUSIP No. 912793 SHO).

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, June 11, 1973. 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 June 14, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 14, 1973. 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 Reserve Bank or Branch.

PRESS RELEASE OF JUNE 11, 1973

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated March 15, 1973, and the other series to be dated June 14, 1973, which were invited on June 5, 1973, were opened at the Federal Reserve Banks today. Tenders were invited for \$2,500,000,000, or thereabouts, of 91-day bills and for \$1,700,000,000, 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 Sept. 13, 1973		182-day Treasury bills maturing Dec. 13, 1973	
	Price	Approximate equivalent annual rate	Price	Approximate equivalent annual rate
		<i>Percent</i>		<i>Percent</i>
High.....	¹ 98.213	7.069	² 96.392	7.137
Low.....	98.186	7.176	96.368	7.184
Average.....	³ 98.198	⁴ 7.129	⁵ 96.374	⁶ 7.172

¹ Except one tender of \$1,320,000.

² Except one tender of \$200,000.

³ 37 percent of the amount of 91-day bills bid for at the low price was accepted.

⁴ These rates are on a bank discount basis. The equivalent coupon yields are 7.36 percent for the 91-day bills, and 7.55 percent for the 182-day bills.

⁵ 67 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.....	\$32,460,000	\$22,460,000	\$15,050,000	\$5,045,000
New York.....	2,927,170,000	2,038,740,000	2,618,860,000	1,484,840,000
Philadelphia.....	42,260,000	27,260,000	26,315,000	6,315,000
Cleveland.....	31,320,000	31,320,000	49,110,000	29,110,000
Richmond.....	28,715,000	15,455,000	16,795,000	8,395,000
Atlanta.....	24,655,000	24,655,000	15,515,000	14,715,000
Chicago.....	213,370,000	156,905,000	205,325,000	59,565,000
St. Louis.....	39,065,000	31,565,000	67,015,000	21,515,000
Minneapolis.....	13,465,000	11,465,000	13,810,000	8,950,000
Kansas City.....	55,925,000	43,925,000	32,100,000	19,525,000
Dallas.....	38,805,000	18,730,000	31,155,000	12,830,000
San Francisco.....	130,890,000	78,390,000	122,890,000	28,550,000
Total.....	3,578,100,000	¹ 2,500,870,000	3,213,940,000	² 1,700,355,000

¹ Includes \$281,150,000 noncompetitive tenders accepted at the average price of 98.198.

² Includes \$150,315,000 noncompetitive tenders accepted at the average price of 96.374.

Summary of information pertaining to Treasury bills issued during the fiscal year 1973

[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															
July	6 Oct.	5,1972	91	\$3,774,430	\$2,297,430	\$2,140,645	\$156,785	98.954	4.139	² 98.971	4.071	98.943	4.182	³ \$2,301,380	
	6 Jan.	4,1973	182	3,316,355	1,799,115	1,716,440	82,675	97.630	4.689	97.716	4.518	97.612	4.724	1,601,305	
	13 Oct.	12,1972	91	3,523,685	2,300,875	2,120,615	180,260	98.963	4.103	98.974	4.059	98.954	4.138	2,301,305	
	13 Jan.	11,1973	182	3,040,265	1,801,425	1,703,715	97,710	97.672	4.605	97.699	4.551	97.654	4.640	1,600,200	
	20 Oct.	19,1972	91	3,844,525	2,300,550	2,116,620	183,930	99.002	3.949	² 99.015	3.897	98.996	3.972	2,301,100	
	20 Jan.	18,1973	182	3,049,705	1,799,955	1,718,120	81,835	97.748	4.455	² 97.774	4.403	97.730	4.490	1,600,815	
	27 Oct.	26,1972	91	3,722,880	2,301,210	2,132,720	168,490	98.977	4.046	98.990	3.996	98.973	4.063	2,300,102	
	27 Jan.	25,1973	182	3,707,480	1,800,400	1,710,005	90,395	97.682	4.585	97.688	4.573	97.673	4.603	1,603,210	
	Aug.	3 Nov.	2,1972	91	3,617,995	2,301,125	2,141,280	159,845	99.041	3.795	99.053	3.746	99.032	3.829	2,301,260
		3 Feb.	1,1973	182	3,159,860	1,800,035	1,716,095	83,940	97.827	4.298	97.848	4.257	97.810	4.332	1,600,025
10 Nov.		9,1972	91	3,741,855	2,299,060	2,136,320	162,740	99.007	3.928	99.026	3.853	99.001	3.952	2,300,750	
10 Feb.		8,1973	182	3,070,810	1,800,830	1,726,440	74,390	97.760	4.431	² 97.782	4.387	97.748	4.455	1,600,175	
17 Nov.		16,1972	91	3,891,280	2,301,145	2,129,060	172,085	99.000	3.955	99.010	3.916	98.994	3.980	2,300,595	
17 Feb.		15,1973	182	3,201,605	1,800,285	1,728,660	71,625	97.743	4.465	² 97.754	4.443	97.725	4.500	1,800,540	
24 Nov.		24,1972	92	3,660,975	2,301,775	2,137,780	163,995	98.963	4.056	98.983	3.980	98.953	4.097	2,299,670	
24 Feb.		22,1973	182	3,337,740	1,800,540	1,735,655	64,875	97.663	4.624	² 97.693	4.563	97.646	4.656	1,802,700	
31 Nov.		30,1972	91	3,751,615	2,301,295	2,136,890	164,405	98.905	4.331	² 89.918	4.280	98.894	4.375	2,301,555	
Sept.		31 Mar.	1,1973	182	3,484,300	1,801,810	1,728,860	72,950	97.564	4.819	97.584	4.779	97.546	4.854	1,796,105
	7 Dec.	7,1972	91	3,657,770	2,422,520	2,270,355	152,165	98.845	4.567	² 98.856	4.526	98.832	4.621	2,301,440	
	7 Mar.	8,1973	182	3,682,865	1,801,200	1,732,945	68,255	97.504	4.937	97.513	4.919	97.486	4.973	1,800,315	
	14 Dec.	14,1972	91	4,391,480	2,302,200	2,097,860	204,340	98.797	4.759	² 98.806	4.724	98.794	4.771	2,300,540	
	14 Mar.	15,1973	182	3,391,875	1,800,810	1,714,725	86,085	97.435	5.074	97.449	5.046	97.421	5.101	1,800,670	
	21 Dec.	21,1972	91	4,113,940	2,300,850	2,098,210	202,640	98.829	4.632	98.847	4.561	98.824	4.652	2,300,725	
	21 Mar.	22,1973	182	3,659,415	1,801,825	1,701,220	100,605	97.423	5.098	97.460	5.024	97.415	5.113	1,800,975	
	28 Dec.	28,1972	91	4,246,980	2,300,570	2,112,405	188,165	98.826	4.644	98.831	4.625	98.820	4.668	2,300,415	
	28 Mar.	29,1973	182	3,551,750	1,800,615	1,711,720	88,895	97.353	5.236	97.370	5.202	97.345	5.252	1,804,905	

See footnotes at end of table.

Summary of information pertaining to Treasury bills issued during the fiscal year 1973—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														
1973														
Oct. 5	Jan. 4	91	\$3,638,330	\$2,300,265	\$2,122,250	\$178,015	98.837	4.599	98.852	4.542	98.831	4.625	\$2,297,430	
5	Apr. 5	182	3,682,200	1,800,475	1,699,230	101,245	97.431	5.081	97.434	5.076	97.420	5.103	1,800,340	
12	Jan. 11	91	3,804,250	2,301,905	2,139,015	162,890	98.801	4.743	² 98.819	4.672	98.797	4.759	2,300,875	
12	Apr. 12	182	4,070,175	1,802,170	1,712,955	89,215	97.392	5.159	97.406	5.131	97.388	5.167	1,800,825	
19	Jan. 18	91	4,111,070	2,280,635	2,087,230	193,385	98.782	4.817	98.790	4.787	98.777	4.838	2,300,550	
19	Apr. 19	182	3,762,905	1,800,300	1,687,675	112,625	97.408	5.128	97.418	5.107	97.397	5.149	1,800,855	
26	Jan. 25	91	3,741,595	2,300,800	2,131,015	169,785	98.809	4.712	98.819	4.672	98.803	4.735	2,301,210	
26	Apr. 26	182	3,653,055	1,800,705	1,712,645	88,060	97.419	5.105	² 97.428	5.087	97.412	5.119	1,800,500	
Nov. 2	Feb. 1	91	4,036,260	2,400,740	2,223,345	177,335	98.795	4.766	98.802	4.739	98.789	4.791	2,301,125	
2	May 3	182	3,863,605	1,901,175	1,810,215	90,980	97.401	5.141	² 97.410	5.123	97.393	5.157	1,800,630	
9	Feb. 8	91	3,885,615	2,400,715	2,232,490	168,225	98.820	4.670	98.832	4.621	98.814	4.692	2,299,060	
9	May 10	182	3,875,695	1,901,370	1,814,325	87,045	97.494	4.958	² 97.509	4.927	97.482	4.981	1,800,365	
16	Feb. 15	91	3,926,025	2,402,290	2,232,200	170,090	98.793	4.774	98.802	4.739	98.789	4.791	2,301,145	
16	May 17	182	3,906,720	1,901,200	1,808,700	92,500	97.437	5.070	97.450	5.044	97.431	5.082	1,800,580	
24	Feb. 22	90	3,671,610	2,401,550	2,241,020	160,530	98.803	4.775	98.817	4.732	98.801	4.795	2,301,775	
24	May 24	181	3,806,620	1,900,550	1,811,595	88,955	97.461	5.050	97.482	5.008	97.453	5.065	1,800,905	
30	Mar. 1	91	4,261,230	2,399,875	2,243,790	156,085	98.765	4.883	98.776	4.842	98.760	4.905	2,301,295	
30	May 31	182	3,510,850	1,902,735	1,802,400	100,335	97.382	5.179	² 97.390	5.163	97.372	5.198	1,801,495	
Dec. 7	Mar. 8	91	3,686,365	2,404,315	2,226,670	177,645	98.750	4.944	98.762	4.898	98.743	4.973	2,422,520	
7	June 7	182	3,362,960	1,896,515	1,798,585	97,930	97.356	5.229	97.378	5.186	97.349	5.244	1,800,205	
14	Mar. 15	91	4,470,185	2,402,045	2,211,630	190,415	98.711	5.100	98.713	5.091	98.707	5.115	2,302,200	
14	June 15	182	3,251,900	1,901,630	1,782,410	118,220	97.316	5.309	² 97.326	5.289	97.304	5.333	1,801,595	
21	Mar. 22	91	3,700,560	2,405,410	2,239,690	165,720	98.714	5.089	98.723	5.052	98.709	5.107	2,300,855	
21	June 21	182	3,623,830	1,905,870	1,797,985	107,885	97.322	5.298	97.346	5.250	97.316	5.309	1,802,075	
28	Mar. 29	91	3,702,175	2,404,505	2,222,785	181,720	98.705	5.111	98.712	5.095	98.701	5.139	2,300,570	
28	June 28	182	3,546,130	1,903,160	1,798,560	104,600	97.314	5.312	² 97.332	5.277	97.309	5.323	1,799,460	

Jan.	4	Apr.	5	91	3,639,375	2,402,315	2,234,620	167,695	98.695	5.164	98.706	5.119	98.687	5.194	2,300,265
	4	July	5	182	3,248,515	1,901,105	1,819,190	81,915	97.272	5.397	97.294	5.353	97.260	5.420	1,799,115
	11	Apr.	12	91	3,752,440	2,402,790	2,217,935	184,855	98.697	5.154	98.705	5.123	98.693	5.171	2,301,905
	11	July	12	182	3,581,855	1,901,780	1,799,880	101,900	97.264	5.413	97.274	5.392	97.253	5.434	1,801,425
	18	Apr.	19	91	3,512,325	2,401,150	2,209,180	191,970	98.666	5.277	98.678	5.230	98.655	5.321	2,280,635
	18	July	19	182	3,674,820	1,902,100	1,795,700	106,400	97.199	5.541	97.206	5.527	97.182	5.574	1,799,955
	25	Apr.	26	91	3,961,550	2,400,125	2,204,970	195,155	98.576	5.634	98.589	5.582	98.572	5.649	2,300,800
	25	July	26	182	3,953,255	1,901,115	1,796,205	104,910	97.088	5.759	2 97.094	5.748	97.081	5.774	1,800,400
Feb.	1	May	3	91	3,778,090	2,401,975	2,206,335	195,640	98.562	5.688	2 98.568	5.665	98.558	5.705	2,400,740
	1	Aug.	2	182	4,645,525	1,800,885	1,702,205	98,680	97.032	5.870	97.038	5.859	97.030	5.875	1,800,035
	8	May	10	91	3,822,895	2,401,900	2,202,950	198,950	98.568	5.665	98.578	5.625	98.561	5.693	2,400,715
	8	Aug.	9	182	3,516,790	1,800,965	1,712,980	87,985	97.043	5.849	97.058	5.819	97.030	5.875	1,800,830
	15	May	17	91	3,513,695	2,403,135	2,236,080	167,055	98.629	5.423	98.647	5.353	98.617	5.471	2,402,290
	15	Aug.	16	182	3,167,170	1,802,910	1,729,620	73,290	97.157	5.623	2 97.182	5.574	97.140	5.657	1,800,285
	22	May	24	91	3,268,770	2,400,690	2,228,520	172,170	98.621	5.457	98.640	5.380	98.597	5.550	2,401,550
	22	Aug.	23	182	2,799,225	1,801,175	1,733,715	67,460	97.142	5.654	97.170	5.598	97.098	5.740	1,800,540
Mar.	1	May	31	91	3,471,725	2,401,115	2,217,570	183,545	98.531	5.812	2 98.545	5.756	98.522	5.847	2,399,875
	1	Aug.	30	182	3,086,985	1,800,425	1,707,780	92,645	96.944	6.044	2 96.970	5.993	96.927	6.078	1,801,810
	8	June	7	91	3,610,375	2,390,855	2,191,770	199,085	98.514	5.879	98.534	5.800	98.495	5.954	2,404,315
	8	Sept.	6	182	3,255,295	1,800,490	1,707,975	92,515	96.829	6.272	2 96.872	6.187	96.807	6.316	1,801,200
	15	June	14	91	3,416,575	2,400,735	2,184,005	216,730	98.484	5.998	98.509	5.893	98.463	6.061	2,402,045
	15	Sept.	13	182	2,802,560	1,801,040	1,688,430	112,610	96.744	6.441	2 96.778	6.373	96.715	6.498	1,800,810
	22	June	21	91	3,467,400	2,400,445	2,184,230	216,215	98.399	6.333	2 98.414	6.274	98.388	6.377	2,405,410
	22	Sept.	20	182	4,686,605	1,801,355	1,684,885	116,470	96.583	6.760	96.590	6.745	96.579	6.767	1,801,825
	29	June	28	91	3,657,530	2,401,830	2,179,120	222,710	98.420	6.252	93.430	6.211	98.410	6.290	2,404,505
	29	Sept.	27	182	4,624,340	1,806,600	1,683,265	123,335	96.647	6.633	96.657	6.613	96.644	6.638	1,800,615
Apr.	5	July	5	91	3,891,420	2,401,420	2,171,320	230,100	98.349	6.530	98.367	6.460	98.341	6.563	2,402,315
	5	Oct.	4	182	4,239,430	1,800,975	1,654,015	146,960	96.555	6.815	96.585	6.755	96.548	6.828	1,800,475
	12	July	12	91	4,099,440	2,400,800	2,168,455	232,345	98.436	6.187	98.452	6.124	98.430	6.211	2,402,790
	12	Oct.	11	182	3,431,385	1,800,695	1,639,180	161,515	96.831	6.269	96.854	6.223	96.816	6.298	1,802,170
	19	July	19	91	4,172,125	2,402,215	2,178,125	224,090	98.436	6.187	98.443	6.160	98.432	6.203	2,401,150
	19	Oct.	18	182	3,760,020	1,800,340	1,678,840	121,500	96.770	6.388	2 96.778	6.373	96.765	6.399	1,800,300
	26	July	26	91	3,471,570	2,398,610	2,188,140	210,470	98.420	6.250	98.435	6.191	98.408	6.298	2,400,125
	26	Oct.	25	182	3,839,075	1,799,345	1,691,700	107,645	96.648	6.631	2 96.664	6.599	96.639	6.648	1,800,705
May	3	Aug.	2	91	3,862,100	2,501,000	2,276,930	224,070	98.413	6.277	98.433	6.199	98.406	6.306	2,401,975
	3	Nov.	1	182	3,615,790	1,800,645	1,687,720	112,925	96.676	6.574	96.700	6.527	96.670	6.587	1,901,175
	10	Aug.	9	91	4,375,950	2,504,460	2,280,235	224,225	98.449	6.136	98.455	6.112	98.448	6.140	2,401,900
	10	Nov.	8	182	3,619,070	1,801,695	1,696,120	105,575	96.749	6.431	96.758	6.413	96.741	6.446	1,901,370
	17	Aug.	16	91	3,788,720	2,500,660	2,300,680	199,980	98.438	6.180	98.452	6.124	98.433	6.199	2,403,135
	17	Nov.	15	182	3,552,260	1,692,665	1,585,835	106,830	96.736	6.457	2 96.761	6.407	96.730	6.468	1,901,200
	24	Aug.	23	91	3,454,085	2,501,105	2,279,855	221,250	98.360	6.453	2 98.395	6.349	98.358	6.496	2,400,690
	24	Nov.	23	182	3,262,990	1,700,955	1,603,035	97,920	96.570	6.747	2 96.602	6.685	96.558	6.771	1,900,550
	31	Aug.	30	91	3,452,155	2,501,980	2,294,985	207,045	98.308	6.603	98.332	6.599	98.289	6.769	2,401,115
	31	Nov.	29	182	3,564,460	1,702,030	1,590,625	111,405	96.530	6.864	2 96.554	6.816	96.518	6.887	1,902,735

See footnotes at end of table.

Summary of information pertaining to Treasury bills issued during the fiscal year 1973—Continued

[Dollar amounts in thousands]

Date of issue	Date of maturity	Days to maturity	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														
1973														
June	7	Sept. 6	91	\$3,423,545	\$2,501,005	\$2,250,805	\$250,200	98.197	7.132	² 98.229	7.006	98.185	7.180	\$2,390,855
	7	Dec. 6	182	3,398,700	1,707,440	1,580,090	127,350	96.355	7.211	² 96.386	7.149	96.350	7.220	1,896,515
	14	Sept. 13	91	3,579,595	2,502,365	2,219,720	282,645	98.198	7.127	² 98.213	7.069	98.186	7.176	2,400,735
	14	Dec. 13	182	3,214,425	1,700,840	1,550,040	150,800	96.374	7.172	² 96.392	7.137	96.368	7.184	1,901,630
	21	Sept. 20	91	4,165,340	2,501,065	2,227,185	273,880	98.164	7.265	² 98.177	7.212	98.160	7.279	2,400,445
	21	Dec. 20	182	3,773,900	1,700,870	1,567,795	133,075	96.332	7.255	² 96.352	7.216	96.328	7.263	1,905,870
	28	Sept. 27	91	4,022,145	2,503,195	2,230,615	272,580	98.173	7.229	² 98.182	7.192	98.167	7.251	2,401,830
	28	Dec. 27	182	3,776,320	1,701,130	1,556,690	144,440	96.310	7.299	² 96.320	7.279	96.304	7.311	1,903,160
REGULAR MONTHLY														
1972 1973														
July	31	Apr. 30	273	\$1,525,670	\$500,180	\$484,115	\$16,065	96.412	4.731	96.428	4.710	96.392	4.758	\$500,190
	31	July 31	365	2,849,760	1,200,980	1,169,830	31,150	95.014	4.918	95.043	4.889	95.003	4.929	1,202,455
Aug.	31	May 31	273	1,888,895	500,950	484,275	16,675	96.178	5.040	96.210	4.998	96.174	5.045	500,275
	31	Aug. 28	362	4,913,625	1,803,370	1,770,540	32,830	94.793	5.178	² 94.831	5.140	94.771	5.200	1,199,890

Oct. 2	June 30	271	1,547,445	499,895	486,020	13,875	95.976	5.346	95.997	5.318	95.964	5.361	501,300
2	Sept. 25	360	4,144,670	1,800,510	1,748,430	52,080	94.471	5.529	94.523	5.477	94.450	5.550	1,200,730
31	July 31	273	1,811,040	500,540	487,785	12,755	96.039	5.223	96.068	5.185	96.023	5.244	499,905
31	Oct. 23	357	3,342,525	1,802,480	1,773,295	29,185	94.726	5.318	94.744	5.300	94.695	5.350	1,200,265
Nov. 30	Nov. 20	355	3,801,035	1,802,050	1,772,625	29,425	94.847	5.225	94.872	5.200	94.824	5.249	1,700,735
1973													
Jan. 2	Dec. 18	352	3,176,750	1,800,470	1,770,005	30,465	94.782	5.337	2 94.794	5.324	94.735	5.385	1,701,030
2	Jan. 15	349	3,072,225	1,803,975	1,760,075	43,900	94.197	5.986	2 94.261	5.920	94.144	6.041	1,700,320
Feb. 28	Feb. 12	349	3,254,740	1,801,085	1,773,000	28,085	94.134	6.050	94.203	5.980	94.107	6.079	1,700,665
Apr. 2	Mar. 12	346	3,011,350	1,790,265	1,745,710	44,555	93.642	6.616	93.741	6.512	93.606	6.653	1,701,930
30	Apr. 9	344	3,353,400	1,801,775	1,760,010	41,765	93.695	6.598	2 93.755	6.535	93.674	6.620	1,700,030
May 31	May 7	341	3,936,560	1,800,435	1,764,000	36,435	93.542	6.818	93.587	6.770	93.512	6.850	1,701,130

TAX ANTICIPATION

1972		1973											
Nov. 24	Apr. 20	147	\$6,366,695	\$2,012,465	\$1,659,540	\$352,925	98.072	4.721	2 98.085	4.690	98.062	4.746	-----
Dec. 5	June 22	199	5,079,135	2,509,835	2,124,250	385,585	97.187	5.089	97.236	5.000	97.167	5.125	-----

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 \$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 and monthly 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 \$300,000 for the issue of Nov. 24 and \$400,000 for the issue of Dec. 5.

All equivalent rates of discount are on a bank discount basis.

Qualified depositaries were permitted to make payment by credit in Treasury tax and loan accounts for both issues of tax anticipation bills. Payment by such credit was not permitted for regular weekly and regular monthly issues.

Regulations

**Exhibit 4.—Department Circular No. 653, December 12, 1969, Eighth Revision,
Supplement No. 3, offering of United States savings bonds, Series E**

DEPARTMENT OF THE TREASURY,
Washington, July 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 7-A, 30-A, 31-A, 75-A and 77-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 7—A
BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1942, THROUGH MAY 1, 1943¹

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 (12/1/72)	\$52.86	\$105.72	\$211.44	\$1,057.20	\$2,114.40	0.00			
½ to 1 year..... (6/1/73)	54.31	108.62	217.24	1,086.20	2,172.40	5.49	5.49	5.50	
1 to 1½ years..... (12/1/73)	55.81	111.62	223.24	1,116.20	2,232.40	5.51	5.52	5.50	
1½ to 2 years..... (6/1/74)	57.34	114.68	229.36	1,146.80	2,293.60	5.50	5.48	5.50	
2 to 2½ years..... (12/1/74)	58.92	117.84	235.68	1,178.40	2,356.80	5.50	5.51	5.50	
2½ to 3 years..... (6/1/75)	60.54	121.08	242.16	1,210.80	2,421.60	5.50	5.50	5.50	
3 to 3½ years..... (12/1/75)	62.20	124.40	248.80	1,244.00	2,488.00	5.50	5.48	5.50	
3½ to 4 years..... (6/1/76)	63.91	127.82	255.64	1,278.20	2,556.40	5.50	5.51	5.50	
4 to 4½ years..... (12/1/76)	65.67	131.34	262.68	1,313.40	2,626.80	5.50	5.51	5.50	
4½ to 5 years..... (6/1/77)	67.48	134.96	269.92	1,349.60	2,699.20	5.50	5.48	5.50	
5 to 5½ years..... (12/1/77)	69.33	138.66	277.32	1,386.60	2,773.20	5.50	5.51	5.50	
5½ to 6 years..... (6/1/78)	71.24	142.48	284.96	1,424.80	2,849.60	5.50	5.50	5.50	
6 to 6½ years..... (12/1/78)	73.20	146.40	292.80	1,464.00	2,928.00	5.50	5.49	5.50	
6½ to 7 years..... (6/1/79)	75.21	150.42	300.84	1,504.20	3,008.40	5.50	5.50	5.50	
7 to 7½ years..... (12/1/79)	77.28	154.56	309.12	1,545.60	3,091.20	5.50	5.51	5.50	
7½ to 8 years..... (6/1/80)	79.41	158.82	317.64	1,588.20	3,176.40	5.50	5.49	5.50	
8 to 8½ years..... (12/1/80)	81.59	163.18	326.36	1,631.80	3,263.60	5.50	5.49	5.50	
8½ to 9 years..... (6/1/81)	83.83	167.66	335.32	1,676.60	3,353.20	5.50	5.51	5.50	
9 to 9½ years..... (12/1/81)	86.14	172.28	344.56	1,722.80	3,445.60	5.50	5.50	5.50	
9½ to 10 years..... (6/1/82)	88.51	177.02	354.04	1,770.20	3,540.40	5.50	5.49	5.49	
THIRD EXTENDED MATURITY VALUE (40 years from issue date)..... (12/1/82)	90.94	181.88	363.76	1,818.80	3,637.60	35.50			

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 Dec. 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 3.99 percent.

TABLE 30—A

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1952, THROUGH MARCH 1, 1953¹

Issue price.....	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield (annual percentage rate)		
Denomination.....	25.00	50.00	100.00	200.00	500.00	1,000.00	10,000			
Period after first extended maturity (begin- ning 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 (8/1/72)	\$38.67	\$77.34	\$154.68	\$309.36	\$773.40	\$1,546.80	\$15,468	0.00	5.50
½ to 1 year.....	(2/1/73)	39.73	79.46	158.92	317.84	794.60	1,589.20	15,892	5.48	5.50
1 to 1½ years.....	(8/1/73)	40.83	81.66	163.32	326.64	816.60	1,633.20	16,332	5.51	5.50
1½ to 2 years.....	(2/1/74)	41.95	83.90	167.80	335.60	839.00	1,678.00	16,780	5.50	5.50
2 to 2½ years.....	(8/1/74)	43.10	86.20	172.40	344.80	862.00	1,724.00	17,240	5.50	5.50
2½ to 3 years.....	(2/1/75)	44.29	88.58	177.16	354.32	885.80	1,771.60	17,716	5.50	5.50
3 to 3½ years.....	(8/1/75)	45.51	91.02	182.04	364.08	910.20	1,820.40	18,204	5.50	5.50
3½ to 4 years.....	(2/1/76)	46.76	93.52	187.04	374.08	935.20	1,870.40	18,704	5.50	5.50
4 to 4½ years.....	(8/1/76)	48.04	96.08	192.16	384.32	960.80	1,921.60	19,216	5.50	5.50
4½ to 5 years.....	(2/1/77)	49.36	98.72	197.44	394.88	987.20	1,974.40	19,744	5.50	5.50
5 to 5½ years.....	(8/1/77)	50.72	101.44	202.88	405.76	1,014.40	2,028.80	20,288	5.50	5.50
5½ to 6 years.....	(2/1/78)	52.12	104.24	208.48	416.96	1,042.40	2,084.80	20,848	5.50	5.50
6 to 6½ years.....	(8/1/78)	53.55	107.10	214.20	428.40	1,071.00	2,142.00	21,420	5.50	5.50
6½ to 7 years.....	(2/1/79)	55.02	110.04	220.08	440.16	1,100.40	2,200.80	22,008	5.50	5.50
7 to 7½ years.....	(8/1/79)	56.54	113.08	226.16	452.32	1,130.80	2,261.60	22,616	5.50	5.50
7½ to 8 years.....	(2/1/80)	58.09	116.18	232.36	464.72	1,161.80	2,323.60	23,236	5.50	5.50
8 to 8½ years.....	(8/1/80)	59.69	119.38	238.76	477.52	1,193.80	2,387.60	23,876	5.50	5.50
8½ to 9 years.....	(2/1/81)	61.33	122.66	245.32	490.64	1,226.60	2,453.20	24,532	5.50	5.50
9 to 9½ years.....	(8/1/81)	63.02	126.04	252.08	504.16	1,260.40	2,520.80	25,208	5.50	5.49
9½ to 10 years.....	(2/1/82)	64.75	129.50	259.00	518.00	1,295.00	2,590.00	25,900	5.50	5.50
SECOND EXTENDED MATURITY VALUE (29 years and 8 months from issue date).....	(8/1/82)	66.53	133.06	266.12	532.24	1,330.60	2,661.20	26,612	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 Dec. 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 31—A

BONDS BEARING ISSUE DATES FROM APRIL 1, THROUGH MAY 1, 1953¹

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 beginning of each half-year period to beginning of next half-year period	(4) From beginning of each half-year period to second extended maturity					
	SECOND EXTENDED MATURITY PERIOD														
								Percent	Percent	Percent					
First ½ year.....	² (12/1/72)	\$38.96	\$77.92	\$155.84	\$311.68	\$779.20	\$1,558.40	\$15,584	0.00	5.49	5.50				
½ to 1 year.....	(6/1/73)	40.03	80.06	160.12	320.24	800.60	1,601.20	16,012	5.49	5.50	5.50				
1 to 1½ years.....	(12/1/73)	41.13	82.26	164.52	329.04	822.60	1,645.20	16,452	5.49	5.49	5.50				
1½ to 2 years.....	(6/1/74)	42.26	84.52	169.04	338.08	845.20	1,690.40	16,904	5.49	5.54	5.50				
2 to 2½ years.....	(12/1/74)	43.43	86.86	173.72	347.44	868.60	1,737.20	17,372	5.51	5.48	5.50				
2½ to 3 years.....	(6/1/75)	44.62	89.24	178.48	356.96	892.40	1,784.80	17,848	5.50	5.51	5.50				
3 to 3½ years.....	(12/1/75)	45.85	91.70	183.40	366.80	917.00	1,834.00	18,340	5.50	5.50	5.50				
3½ to 4 years.....	(6/1/76)	47.11	94.22	188.44	376.88	942.20	1,884.40	18,844	5.50	5.48	5.50				
4 to 4½ years.....	(12/1/76)	48.40	96.80	193.60	387.20	968.00	1,936.00	19,360	5.50	5.50	5.50				
4½ to 5 years.....	(6/1/77)	49.73	99.46	198.92	397.84	994.60	1,989.20	19,892	5.50	5.51	5.50				
5 to 5½ years.....	(12/1/77)	51.10	102.20	204.40	408.80	1,022.00	2,044.00	20,440	5.50	5.52	5.50				
5½ to 6 years.....	(6/1/78)	52.51	105.02	210.04	420.08	1,050.20	2,100.40	21,004	5.50	5.48	5.50				
6 to 6½ years.....	(12/1/78)	53.95	107.90	215.80	431.60	1,079.00	2,158.00	21,580	5.50	5.49	5.50				
6½ to 7 years.....	(6/1/79)	55.43	110.86	221.72	443.44	1,108.60	2,217.20	22,172	5.50	5.52	5.50				
7 to 7½ years.....	(12/1/79)	56.96	113.92	227.84	455.68	1,139.20	2,278.40	22,784	5.50	5.51	5.50				
7½ to 8 years.....	(6/1/80)	58.53	117.06	234.12	468.24	1,170.60	2,341.20	23,412	5.50	5.50	5.50				
8 to 8½ years.....	(12/1/80)	60.14	120.28	240.56	481.12	1,202.80	2,405.60	24,056	5.50	5.49	5.50				
8½ to 9 years.....	(6/1/81)	61.79	123.58	247.16	494.32	1,235.80	2,471.60	24,716	5.50	5.50	5.50				
9 to 9½ years.....	(12/1/81)	63.49	126.98	253.96	507.92	1,269.80	2,539.60	25,396	5.50	5.48	5.50				
9½ to 10 years.....	(6/1/82)	65.23	130.46	260.92	521.84	1,304.60	2,609.20	26,092	5.50	5.52	5.52				
SECOND EXTENDED MATURITY VALUE (29 years and 8 months from issue date).....(12/1/82)								67.03	134.06	268.12	536.24	1,340.60	2,681.20	26,812	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 Apr. 1, 1953, 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 4.34 percent.

TABLE 75—A

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1964, THROUGH MAY 1, 1965¹

Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield			
Denomination.....	25.50	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000	(annual percentage rate)			
Period after original maturity (beginning 7 years 9 months after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) From begin- ning of 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 extended maturity	
	EXTENDED MATURITY PERIOD											
									Percent	Percent	Percent	
First ½ year.....	² (9/1/72)	\$26.25	\$52.50	\$78.75	\$105.00	\$210.00	\$525.00	\$1,050.00	\$10,500	0.00	5.49	5.50
½ to 1 year.....	(3/1/73)	26.97	53.94	80.91	107.88	215.76	539.40	1,078.80	10,788	5.49	5.49	5.50
1 to 1½ years.....	(9/1/73)	27.71	55.42	83.13	110.84	221.68	554.20	1,108.40	11,084	5.49	5.56	5.50
1½ to 2 years.....	(3/1/74)	28.48	56.96	85.44	113.92	227.84	569.60	1,139.20	11,392	5.51	5.48	5.50
2 to 2½ years.....	(9/1/74)	29.26	58.52	87.78	117.04	234.08	585.20	1,170.40	11,704	5.50	5.47	5.50
2½ to 3 years.....	(3/1/75)	30.06	60.12	90.18	120.24	240.48	601.20	1,202.40	12,024	5.50	5.52	5.50
3 to 3½ years.....	(9/1/75)	30.89	61.78	92.67	123.56	247.12	617.80	1,235.60	12,356	5.50	5.50	5.50
3½ to 4 years.....	(3/1/76)	31.74	63.48	95.22	126.96	253.92	634.80	1,269.60	12,696	5.50	5.48	5.50
4 to 4½ years.....	(9/1/76)	32.61	65.22	97.83	130.44	260.88	652.20	1,304.40	13,044	5.50	5.52	5.50
4½ to 5 years.....	(3/1/77)	33.51	67.02	100.53	134.44	268.08	670.20	1,340.40	13,404	5.50	5.49	5.50
5 to 5½ years.....	(9/1/77)	34.43	68.86	103.29	137.72	275.44	688.60	1,377.20	13,772	5.50	5.52	5.50
5½ to 6 years.....	(3/1/78)	35.38	70.76	106.14	141.52	283.04	707.60	1,415.20	14,152	5.50	5.48	5.50
6 to 6½ years.....	(9/1/78)	36.35	72.70	109.05	145.40	290.80	727.00	1,454.00	14,540	5.50	5.50	5.50
6½ to 7 years.....	(3/1/79)	37.35	74.70	112.05	149.40	298.80	747.00	1,494.00	14,940	5.50	5.52	5.50
7 to 7½ years.....	(9/1/79)	38.38	76.76	115.14	153.52	307.04	767.60	1,535.20	15,352	5.50	5.47	5.50
7½ to 8 years.....	(3/1/80)	39.43	78.86	118.29	157.72	315.44	788.60	1,577.20	15,772	5.50	5.53	5.50
8 to 8½ years.....	(9/1/80)	40.52	81.04	121.56	162.08	324.16	810.40	1,620.80	16,208	5.50	5.48	5.49
8½ to 9 years.....	(3/1/81)	41.63	83.26	124.89	166.52	332.04	832.60	1,665.20	16,652	5.50	5.52	5.50
9 to 9½ years.....	(9/1/81)	42.78	85.56	128.34	171.12	342.24	855.60	1,711.20	17,112	5.50	5.47	5.49
9½ to 10 years.....	(3/1/82)	43.95	87.90	131.85	175.80	351.60	879.00	1,758.00	17,580	5.50	5.51	5.51
EXTENDED MATURITY												
VALUE (17 years and 9 months												
from issue date).....	(9/1/82)	45.16	90.32	135.48	180.64	361.28	903.20	1,806.40	18,064	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 Dec. 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 5.01 percent.

TABLE 77—A

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1965 THROUGH MAY 1, 1966¹

Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield			
Denomination.....	25.00	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000	(annual percentage rate)			
Period after original maturity (beginning 7 years after issue date)	(1) Redemption values during each half-year period (values increase on first day of period shown)								(2) From begin- ning of 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 extended maturity	
EXTENDED MATURITY PERIOD												
									Percent	Percent	Percent	
First ½ year..... ² (12/1/72)	\$25.78	\$51.56	\$77.34	\$103.12	\$206.24	\$515.60	\$1,031.20	\$10,312	0.00	5.51	5.50	
½ to 1 year..... (6/1/73)	26.49	52.98	79.47	105.96	211.92	529.80	1,059.60	10,596	5.51	5.51	5.50	
1 to 1½ years..... (12/1/73)	27.22	54.44	81.66	108.88	217.76	544.40	1,088.80	10,888	5.51	5.51	5.50	
1½ to 2 years..... (6/1/74)	27.97	55.94	83.91	111.88	223.76	559.40	1,118.80	11,188	5.51	5.43	5.50	
2 to 2½ years..... (12/1/74)	28.73	57.46	86.19	114.92	229.84	574.60	1,149.20	11,492	5.49	5.57	5.50	
2½ to 3 years..... (6/1/75)	29.53	59.06	88.59	118.12	236.24	590.60	1,181.20	11,812	5.51	5.49	5.50	
3 to 3½ years..... (12/1/75)	30.34	60.68	91.02	121.36	242.72	606.80	1,213.60	12,136	5.50	5.47	5.50	
3½ to 4 years..... (6/1/76)	31.17	62.34	93.51	124.68	249.36	623.40	1,246.80	12,468	5.50	5.52	5.50	
4 to 4½ years..... (12/1/76)	32.03	64.06	96.09	128.12	256.24	640.60	1,281.20	12,812	5.50	5.49	5.50	
4½ to 5 years..... (6/1/77)	32.91	65.82	98.73	131.64	263.28	658.20	1,316.40	13,164	5.50	5.47	5.50	
5 to 5½ years..... (12/1/77)	33.81	67.62	101.43	135.24	270.48	676.20	1,352.40	13,524	5.50	5.50	5.50	
5½ to 6 years..... (6/1/78)	34.74	69.48	104.22	138.96	277.92	694.80	1,389.60	13,896	5.50	5.53	5.50	
6 to 6½ years..... (12/1/78)	35.70	71.40	107.10	142.80	285.60	714.00	1,428.00	14,280	5.50	5.49	5.50	
6½ to 7 years..... (6/1/79)	36.68	73.36	110.04	146.72	293.44	733.60	1,467.20	14,672	5.50	5.51	5.50	
7 to 7½ years..... (12/1/79)	37.69	75.38	113.07	150.76	301.52	753.80	1,507.60	15,076	5.50	5.52	5.50	
7½ to 8 years..... (6/1/80)	38.73	77.46	116.19	154.92	309.84	774.60	1,549.20	15,492	5.50	5.47	5.49	
8 to 8½ years..... (12/1/80)	39.79	79.58	119.37	159.16	318.32	795.80	1,591.60	15,916	5.50	5.53	5.50	
8½ to 9 years..... (6/1/81)	40.89	81.78	122.67	163.56	327.12	817.80	1,635.60	16,356	5.50	5.48	5.49	
9 to 9½ years..... (12/1/81)	42.01	84.02	126.03	168.04	336.08	840.20	1,680.40	16,804	5.50	5.52	5.49	
9½ to 10 years..... (6/1/82)	43.17	86.34	129.51	172.68	345.36	863.40	1,726.80	17,268	5.50	5.47	5.47	
EXTENDED MATURITY												
VALUE (17 years from issue date)..... (12/1/82)	44.35	88.70	133.05	177.40	354.80	887.00	1,774.00	17,740	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 Dec. 1, 1965, 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 5.13 percent.

Exhibit 5.—Department Circular No. 905, December 12, 1969, Fifth Revision, Supplement No. 2, offering of United States savings bonds, Series H

DEPARTMENT OF THE TREASURY,
Washington, July 19, 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 4-A and 25-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 4-A

BONDS BEARING ISSUE DATES FROM APRIL 1 THROUGH SEPTEMBER 1, 1953¹

Face value	Issue price Redemption and maturity value.	\$500	\$1,000	\$5,000	\$10,000	Approximate investment yield (annual percentage rate)		
		500	1,000	5,000	10,000			
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 inter- est pay- ment date	(3) For half-year period preceding interest payment date	(4) From each inter- est pay- ment date to second extended maturity
		SECOND EXTENDED MATURITY PERIOD						
½ year.....	² (6/1/73)	\$13.75	\$27.50	\$137.50	\$275.00	Percent 5.50	Percent 5.50	Percent 5.50
1 year.....	(12/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
1½ years.....	(6/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
2 years.....	(12/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
2½ years.....	(6/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
3 years.....	(12/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
3½ years.....	(6/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
4 years.....	(12/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
4½ years.....	(6/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
5 years.....	(12/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
5½ years.....	(6/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
6 years.....	(12/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
6½ years.....	(6/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
7 years.....	(12/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
7½ years.....	(6/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
8 years.....	(12/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
8½ years.....	(6/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
9 years.....	(12/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
9½ years.....	(6/1/82)	13.75	27.50	137.50	275.00	5.50	5.50	5.50
10 years (second extended maturity) ³	(12/1/82)	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 second extension begins is different from 5.50 percent.

² Month, day, and year on which interest check is payable on issues of Apr. 1, 1953. 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 date on bonds dated: Apr May 1, 1953 is 4.02 percent; June 1 through Sept. 1, 1953 is 4.03 percent.

TABLE 25-A

BONDS BEARING ISSUE DATES FROM DECEMBER 1, 1962 THROUGH MAY 1, 1963¹

Face value	Issue price ----- Redemption and ma- turity value.	\$500	\$1,000	\$5,000	\$10,000	Approximate investment yield			
		500	1,000	5,000	10,000	(annual percentage rate)			
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 inter- est pay- ment date to extended maturity	
		EXTENDED MATURITY PERIOD				Percent		Percent	
1/2 year.....	² (6/1/73)	\$13.75	\$27.50	\$137.50	\$275.00	5.50	5.50	5.50	5.50
1 year.....	(12/1/73)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
1 1/2 years.....	(6/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
2 years.....	(12/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
2 1/2 years.....	(6/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
3 years.....	(12/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
3 1/2 years.....	(6/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
4 years.....	(12/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
4 1/2 years.....	(6/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
5 years.....	(12/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
5 1/2 years.....	(6/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
6 years.....	(12/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
6 1/2 years.....	(6/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
7 years.....	(12/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
7 1/2 years.....	(6/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
8 years.....	(12/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
8 1/2 years.....	(6/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
9 years.....	(12/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
9 1/2 years.....	(6/1/82)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	5.50
10 years (extended maturity) ³	(12/1/82)	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 Dec. 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 4.71 percent.

Exhibit 6.—Department Circular, Public Debt Series No. 3-67, June 19, 1968, Revised, Supplement No. 2, offering of United States savings notes

DEPARTMENT OF THE TREASURY,
Washington, July 19, 1972.

Table 1, of Department Circular No. 3-67, Revised, dated June 19, 1968, as amended (31 CFR Part 342), is hereby supplemented by the addition of Table 1-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 1-A

NOTES BEARING ISSUE DATES FROM JUNE 1, 1968 THROUGH JUNE 1, 1970¹

Denomination.....	\$25.00	\$50.00	\$75.00	\$100.00	Approximate investment yield		
Issue price.....	20.25	40.50	60.75	81.00	(annual percentage rate)		
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
EXTENDED MATURITY PERIOD							
					Percent	Percent	Percent
First ½ year..... ² (12/1/72)	\$25.29	\$50.58	\$75.87	\$101.16	.00	5.54	5.50
½ to 1 year..... (6/1/73)	25.99	51.98	77.97	103.96	5.54	5.46	5.50
1 to 1½ years..... (12/1/73)	26.70	53.40	80.10	106.80	5.50	5.47	5.50
1½ to 2 years..... (6/1/74)	27.43	54.86	82.29	109.72	5.49	5.54	5.50
2 to 2½ years..... (12/1/74)	28.19	56.38	84.57	112.76	5.50	5.46	5.50
2½ to 3 years..... (6/1/75)	28.96	57.92	86.88	115.84	5.49	5.52	5.50
3 to 3½ years..... (12/1/75)	29.76	59.52	89.28	119.04	5.50	5.51	5.50
3½ to 4 years..... (6/1/76)	30.58	61.16	91.74	122.32	5.50	5.49	5.50
4 to 4½ years..... (12/1/76)	31.42	62.84	94.26	125.68	5.50	5.47	5.50
4½ to 5 years..... (6/1/77)	32.28	64.56	96.84	129.12	5.50	5.51	5.50
5 to 5½ years..... (12/1/77)	33.17	66.34	99.51	132.68	5.50	5.49	5.50
5½ to 6 years..... (6/1/78)	34.08	68.16	102.24	136.32	5.50	5.52	5.50
6 to 6½ years..... (12/1/78)	35.02	70.04	105.06	140.08	5.50	5.48	5.50
6½ to 7 years..... (6/1/79)	35.98	71.96	107.94	143.92	5.50	5.50	5.50
7 to 7½ years..... (12/1/79)	36.97	73.94	110.91	147.88	5.50	5.52	5.50
7½ to 8 years..... (6/1/80)	37.99	75.98	113.97	151.96	5.50	5.53	5.50
8 to 8½ years..... (12/1/80)	39.04	78.08	117.12	156.16	5.50	5.48	5.49
8½ to 9 years..... (6/1/81)	40.11	80.22	120.33	160.44	5.50	5.48	5.50
9 to 9½ years..... (12/1/81)	41.21	82.42	123.63	164.84	5.50	5.53	5.51
9½ to 10 years..... (6/1/82)	42.35	84.70	127.05	169.40	5.50	5.48	5.48
EXTENDED MATURITY VALUE (14 years and 6 months from issue date)..... (12/1/82)	43.51	87.02	130.53	174.04	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, 1968, 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 5.34 percent.

Exhibit 7.—Department Circular, Public Debt Series No. 3-72, November 21, 1972, Revised, regulations governing United States Treasury certificates of indebtedness—State and local government series, United States Treasury notes—State and local government series, and United States Treasury bonds—State and local government series

DEPARTMENT OF THE TREASURY,
Washington, November 21, 1972.

The regulations in Department of the Treasury Circular, Public Debt Series No. 3-72, as amended (31 CFR Part 344), have been retitled and further amended, as set forth below. The changes were effected 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. Notice and public procedures thereon are unnecessary as they relate to the fiscal policy of the United States.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Department of the Treasury Circular, Public Debt Series No. 3-72, dated May 22, 1972, as amended (31 CFR Part 344), is hereby further amended and issued as Department of the Treasury Circular, Public Debt Series No. 3-72, Revised.

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.

SEC. 344.0 *Offering of securities.*—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) United States Treasury Certificates of Indebtedness—State and Local Government Series,

(2) United States Treasury Notes—State and Local Government Series, and

(3) United States Treasury Bonds—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, notes, and bonds. This offering will continue until terminated by the Secretary of the Treasury.

SEC. 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, on the date the subscription is submitted. 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, on the date the subscription is submitted. 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.

(3) *Bonds.*—The bonds will be issued in multiples of \$5,000 with periods of maturity fixed, at the option of the government body, from 7 years 6 months up to and including 10 years, or for any intervening half-yearly period. Each bond 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, on the date the subscription is

submitted. 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 bonds 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.

SEC. 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. The subscription, dated and signed by an official authorized to make the purchase, must state the amount, issue date, maturity and interest rate of the security desired, and must give the title of the designated official authorized to redeem it. Separate subscriptions must be submitted for certificates, notes, and bonds, and for securities of each maturity and each interest rate. A commercial bank may act on behalf of a government body in submitting subscriptions.

SEC. 344.3 *Issue date and payment.*—The issue date of a security will be the date requested by the subscriber, provided that date is not more than three weeks after the date of the subscription, and provided funds in full payment are available on that date at the Federal Reserve Bank or Branch to which the subscription was submitted.

SEC. 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.* Securities may be redeemed at the owner's option on two days' notice after one month from the issue date in the case of certificates, and after one year from the issue date in the case of notes and bonds. 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, note, or bond 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 and bonds), reduced in either case by a penalty which shall be the lesser of (i) 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 (ii) 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.

SEC. 344.5 *General provisions.*

(a) *Regulations.* United States Treasury Certificates of Indebtedness—State and Local Government Series, and United States Treasury Notes—State and Local Government Series, and United States Treasury Bonds—State and Local Government Series, shall be subject to the general regulations with respect to United States securities, which are set forth in the Department of the Treasury Circular No. 300, current revision (31 CFR Part 306), to the extent applicable. Copies of the circular 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 8.—Department Circular, Public Debt Series No. 3-72, November 21, 1972, Revised, Amendment No. 1, regulations governing United States Treasury certificates of indebtedness—State and local government series, United States Treasury notes—State and local government series, and United States Treasury bonds—State and local government series

DEPARTMENT OF THE TREASURY,
Washington, January 12, 1973.

DESCRIPTION AND SUBSCRIPTION

Sections 344.1(b) (2) and (3) and 344.2 of Department of the Treasury Circular, Public Debt Series No. 3-72, Revised, dated November 21, 1972 (31 CFR Part 344), have been amended and revised to read as follows:

§ 344.1 Description of securities.

* * * * *

(b) *Terms and rates of interest.* * * *

(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 on the date the subscription is submitted. 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 during the term to maturity will be payable on a semiannual basis on interest payment dates requested in the subscription form. Final interest will be paid with the principal.

(3) *Bonds.* The bonds will be issued in multiples of \$5,000 with periods of maturity fixed, at the option of the government body, from 7 years 6 months up to and including 10 years, or for any intervening half-yearly period. Each bond 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, on the date the subscription is submitted. 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 bonds will be paid beginning on any interest payment date requested in the subscription form, and on a semiannual basis thereafter to maturity. 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. The subscription, dated and signed by an official authorized to make the purchase, must state the amount, issue date, maturity and interest rate of the security desired, the semiannual interest payment dates (in the case of notes and bonds), and the title of the designated official authorized to redeem it. Separate subscriptions must be submitted for certificates, notes, and bonds, and for securities of each maturity and each interest rate. A commercial bank may act on behalf of a government body in submitting subscriptions.

The foregoing amendments were effected under authority of 26 U.S.C. 103(d) 83 Stat. 656; 31 U.S.C. 752, 753, 754, 754b, and 5 U.S.C. 301. Notice and public procedures thereon are unnecessary as they relate to the fiscal policy of the United States.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Exhibit 9.—Department Circular No. 653, December 12, 1969, Eighth Revision, Supplement No. 4, offering of United States savings bonds, Series E

DEPARTMENT OF THE TREASURY,
Washington, January 18, 1973.

The purpose of this supplement is to show the redemption values and investment yields for the next extended maturity period for U.S. Savings Bonds of Series E bearing issue dates of June 1 through November 1, 1943, June 1 through September 1, 1953, October 1 through November 1, 1953, June 1 through November 1, 1965, and June 1 through November 1, 1966. Accordingly, 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 8-A, 32-A, 33-A, 76-A, and 78-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 8 A

BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1943¹

Issue price.....	\$18.75	\$37.50	\$75.00	\$375.00	\$750.00	Approximate investment yield (annual percentage rate)			
Denomination.....	25.00	50.00	100.00	500.00	1,000.00				
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 beginning of each half-year period to beginning of next half-year period	(4) From beginning of each half-year period to third extended maturity	
	THIRD EXTENDED MATURITY PERIOD								
						Percent	Percent	Percent	
First ½ year.....	(6/1/73)	\$53.42	\$106.84	\$213.68	\$1068.40	\$2136.80	0.00	5.50	5.50
½ to 1 year.....	(12/1/73)	54.89	109.78	219.56	1097.80	2195.60	5.50	5.50	5.50
1 to 1½ years.....	(6/1/74)	56.40	112.80	225.60	1128.00	2256.00	5.50	5.50	5.50
1½ to 2 years.....	(12/1/74)	57.95	115.90	231.80	1159.00	2318.00	5.50	5.49	5.50
2 to 2½ years.....	(6/1/75)	59.54	119.08	238.16	1190.80	2381.60	5.50	5.51	5.50
2½ to 3 years.....	(12/1/75)	61.18	122.36	244.72	1223.60	2447.20	5.50	5.49	5.50
3 to 3½ years.....	(6/1/76)	62.86	125.72	251.44	1257.20	2514.40	5.50	5.50	5.50
3½ to 4 years.....	(12/1/76)	64.59	129.18	258.36	1291.80	2583.60	5.50	5.51	5.50
4 to 4½ years.....	(6/1/77)	66.37	132.74	265.48	1327.40	2654.80	5.50	5.48	5.50
4½ to 5 years.....	(12/1/77)	68.19	136.38	272.76	1363.80	2727.60	5.50	5.51	5.50
5 to 5½ years.....	(6/1/78)	70.07	140.14	280.28	1401.40	2802.80	5.50	5.51	5.50
5½ to 6 years.....	(12/1/78)	72.00	144.00	288.00	1440.00	2880.00	5.50	5.50	5.50
6 to 6½ years.....	(6/1/79)	73.98	147.96	295.92	1479.60	2959.20	5.50	5.49	5.50
6½ to 7 years.....	(12/1/79)	76.01	152.02	304.04	1520.20	3040.40	5.50	5.50	5.50
7 to 7½ years.....	(6/1/80)	78.10	156.20	312.40	1562.00	3124.00	5.50	5.51	5.50
7½ to 8 years.....	(12/1/80)	80.25	160.50	321.00	1605.00	3210.00	5.50	5.48	5.50
8 to 8½ years.....	(6/1/81)	82.45	164.90	329.80	1649.00	3298.00	5.50	5.51	5.51
8½ to 9 years.....	(12/1/81)	84.72	169.44	338.88	1694.40	3388.80	5.50	5.50	5.50
9 to 9½ years.....	(6/1/82)	87.05	174.10	348.20	1741.00	3482.00	5.50	5.51	5.51
9½ to 10 years.....	(12/1/82)	89.45	178.90	357.80	1789.00	3578.00	5.50	5.50	5.50
THIRD EXTENDED MATURITY VALUE (40 years from issue date).....	(6/1/83)	91.91	183.82	367.64	1838.20	3676.40	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, 1943, 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 4.01 percent.

TABLE 32 A
BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH SEPTEMBER 1, 1953¹

Issue price.....	\$18.75	\$37.50	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield (annual percentage rate)		
Denomination.....	25.00	50.00	100.00	200.00	500.00	1,000.00	10,000			
Period after 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 beginning of each half- year period to beginning of next half-year period	(4) From beginning of each half- year period to second extended maturity
	SECOND EXTENDED MATURITY PERIOD									
								Percent	Percent	Percent
First ½ year..... ² (2/1/73)	\$39.05	\$78.10	\$156.20	\$312.40	\$781.00	\$1562.00	\$15620	0.00	5.48	5.50
½ to 1 year..... (8/1/73)	40.12	80.24	160.48	320.96	802.40	1604.80	16048	5.48	5.53	5.50
1 to 1½ years..... (2/1/74)	41.23	82.46	164.92	329.84	824.60	1649.20	16492	5.51	5.48	5.50
1½ to 2 years..... (8/1/74)	42.36	84.72	169.44	338.88	847.20	1694.40	16944	5.50	5.52	5.50
2 to 2½ years..... (2/1/75)	43.53	87.06	174.12	348.24	870.60	1741.20	17412	5.50	5.47	5.50
2½ to 3 years..... (8/1/75)	44.72	89.44	178.88	357.76	894.40	1788.80	17888	5.50	5.50	5.50
3 to 3½ years..... (2/1/76)	45.95	91.90	183.80	367.60	919.00	1838.00	18380	5.50	5.53	5.50
3½ to 4 years..... (8/1/76)	47.22	94.44	188.88	377.76	944.40	1888.80	18888	5.50	5.46	5.50
4 to 4½ years..... (2/1/77)	48.51	97.02	194.04	388.08	970.20	1940.40	19404	5.50	5.52	5.50
4½ to 5 years..... (8/1/77)	49.85	99.70	199.40	398.80	997.00	1994.00	19940	5.50	5.50	5.50
5 to 5½ years..... (2/1/78)	51.22	102.44	204.88	409.76	1024.40	2048.80	20488	5.50	5.51	5.50
5½ to 6 years..... (8/1/78)	52.63	105.26	210.52	421.04	1052.60	2105.20	21052	5.50	5.51	5.50
6 to 6½ years..... (2/1/79)	54.08	108.16	216.32	432.64	1081.60	2163.20	21632	5.50	5.47	5.50
6½ to 7 years..... (8/1/79)	55.56	111.12	222.24	444.48	1111.20	2222.40	22224	5.50	5.51	5.50
7 to 7½ years..... (2/1/80)	57.09	114.18	228.36	456.72	1141.80	2283.60	22836	5.50	5.50	5.50
7½ to 8 years..... (8/1/80)	58.66	117.32	234.64	469.28	1173.20	2346.40	23464	5.50	5.49	5.50
8 to 8½ years..... (2/1/81)	60.27	120.54	241.08	482.16	1205.40	2410.80	24108	5.50	5.51	5.50
8½ to 9 years..... (8/1/81)	61.93	123.86	247.72	495.44	1238.60	2477.20	24772	5.50	5.49	5.50
9 to 9½ years..... (2/1/82)	63.63	127.26	254.52	509.04	1272.60	2545.20	25452	5.50	5.50	5.50
9½ to 10 years..... (8/1/82)	65.38	130.76	261.52	523.04	1307.60	2615.20	26152	5.50	5.51	5.51
SECOND EXTENDED MATURITY VALUE (29 years and 8 months from issue date)..... (2/1/83)	67.18	134.36	268.72	537.44	1343.60	2687.20	26872	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, 1953, enter each period. For

subsequent issue month add the appropriate number of months.

³ Yield on purchase price from issue date to second extended maturity date is 4.35 percent.

TABLE 33 A
BONDS BEARING ISSUE DATES FROM OCTOBER 1 THROUGH NOVEMBER 1, 1953¹

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)		
		(1) Redemption values during each half-year period (values increase on first day of period shown)						(2) From begin- ning 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	
Period after extended maturity (beginning 19 years 8 months after issue date)		SECOND EXTENDED MATURITY PERIOD									
									Percent	Percent	Percent
First ½ year.....	² (6/1/73)	\$39.35	\$78.70	\$157.40	\$314.80	\$787.00	\$1574.00	\$15740	0.00	5.49	5.50
½ to 1 year.....	(12/1/73)	40.43	80.86	161.72	323.44	808.60	1617.20	16172	5.49	5.49	5.50
1 to 1½ years.....	(6/1/74)	41.54	83.08	166.16	332.32	830.80	1661.60	16616	5.49	5.54	5.50
1½ to 2 years.....	(12/1/74)	42.69	85.38	170.76	341.52	853.80	1707.60	17076	5.51	5.48	5.50
2 to 2½ years.....	(6/1/75)	43.86	87.72	175.44	350.88	877.20	1754.40	17544	5.50	5.52	5.50
2½ to 3 years.....	(12/1/75)	45.07	90.14	180.28	360.56	901.40	1802.80	18028	5.50	5.50	5.50
3 to 3½ years.....	(6/1/76)	46.31	92.62	185.24	370.48	926.20	1852.40	18524	5.50	5.48	5.50
3½ to 4 years.....	(12/1/76)	47.58	95.16	190.32	380.64	951.60	1903.20	19032	5.50	5.51	5.50
4 to 4½ years.....	(6/1/77)	48.89	97.78	195.56	391.12	977.80	1955.60	19556	5.50	5.48	5.50
4½ to 5 years.....	(12/1/77)	50.23	100.46	200.92	401.84	1004.60	2009.20	20092	5.50	5.49	5.50
5 to 5½ years.....	(6/1/78)	51.61	103.22	206.44	412.88	1032.20	2064.40	20644	5.50	5.50	5.50
5½ to 6 years.....	(12/1/78)	53.03	106.06	212.12	424.24	1060.60	2121.20	21212	5.50	5.51	5.50
6 to 6½ years.....	(6/1/79)	54.49	108.98	217.96	435.92	1089.80	2179.60	21796	5.50	5.51	5.50
6½ to 7 years.....	(12/1/79)	55.99	111.98	223.96	447.92	1119.80	2239.60	22396	5.50	5.50	5.50
7 to 7½ years.....	(6/1/80)	57.53	115.06	230.12	460.24	1150.60	2301.20	23012	5.50	5.49	5.50
7½ to 8 years.....	(12/1/80)	59.11	118.22	236.44	472.88	1182.20	2364.40	23644	5.50	5.52	5.50
8 to 8½ years.....	(6/1/81)	60.74	121.48	242.96	485.92	1214.80	2429.60	24296	5.50	5.50	5.50
8½ to 9 years.....	(12/1/81)	62.41	124.82	249.64	499.28	1248.20	2496.40	24964	5.50	5.48	5.50
9 to 9½ years.....	(6/1/82)	64.12	128.24	256.48	512.96	1282.40	2564.80	25648	5.50	5.52	5.51
9½ to 10 years.....	(12/1/82)	65.89	131.78	263.56	527.12	1317.80	2635.60	26356	5.50	5.49	5.49
SECOND EXTENDED MATURITY VALUE (29 years and 8 months from issue date).....		(6/1/83)	67.70	135.40	270.80	541.60	1354.00	2708.00	27080	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, 1953, 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 4.37 percent.

TABLE 76 A
BONDS BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1965¹

Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield			
Denomination.....	25.00	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000	(annual percentage rate)			
(1) Redemption values during each half-year period (values increase on first day of period shown)									(2) From be- ginning of extended ma- turity period to beginning 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 extended maturity	
Period after original maturity (beginning 7 years 9 months after issue date)												
EXTENDED MATURITY PERIOD												
									Percent	Percent	Percent	
First ½ year.....	(3/1/73)	\$26.40	\$52.80	\$79.20	\$105.60	\$211.20	\$528.00	\$1056.00	\$10560	0.00	5.53	5.50
½ to 1 year.....	(9/1/73)	27.13	54.26	81.39	108.52	217.04	542.60	1085.20	10852	5.53	5.46	5.50
1 to 1½ years.....	(3/1/74)	27.87	55.74	83.61	111.48	222.96	557.40	1114.80	11148	5.49	5.53	5.50
1½ to 2 years.....	(9/1/74)	28.64	57.28	85.92	114.56	229.12	572.80	1145.60	11456	5.50	5.52	5.50
2 to 2½ years.....	(3/1/75)	29.43	58.86	88.29	117.72	235.44	588.60	1177.20	11772	5.51	5.50	5.50
2½ to 3 years.....	(9/1/75)	30.24	60.48	90.72	120.96	241.92	604.80	1209.60	12096	5.51	5.49	5.50
3 to 3½ years.....	(3/1/76)	31.07	62.14	93.21	124.28	248.56	621.40	1242.80	12428	5.50	5.47	5.50
3½ to 4 years.....	(9/1/76)	31.92	63.84	95.76	127.68	255.36	638.40	1276.80	12768	5.50	5.51	5.50
4 to 4½ years.....	(3/1/77)	32.80	65.60	98.40	131.20	262.40	656.00	1312.00	13120	5.50	5.49	5.50
4½ to 5 years.....	(9/1/77)	33.70	67.40	101.10	134.80	269.60	674.00	1348.00	13480	5.50	5.52	5.50
5 to 5½ years.....	(3/1/78)	34.63	69.26	103.89	138.52	277.04	692.60	1385.20	13852	5.50	5.49	5.50
5½ to 6 years.....	(9/1/78)	35.58	71.16	106.74	142.32	284.64	711.60	1423.20	14232	5.50	5.51	5.50
6 to 6½ years.....	(3/1/79)	36.56	73.12	109.68	146.24	292.48	731.20	1462.40	14624	5.50	5.47	5.50
6½ to 7 years.....	(9/1/79)	37.56	75.12	112.68	150.24	300.48	751.20	1502.40	15024	5.50	5.54	5.50
7 to 7½ years.....	(3/1/80)	38.60	77.20	115.80	154.40	308.80	772.00	1544.00	15440	5.50	5.49	5.50
7½ to 8 years.....	(9/1/80)	39.66	79.32	118.98	158.64	317.28	793.20	1586.40	15864	5.50	5.50	5.50
8 to 8½ years.....	(3/1/81)	40.75	81.50	122.25	163.00	326.00	815.00	1630.00	16300	5.50	5.50	5.50
8½ to 9 years.....	(9/1/81)	41.87	83.74	125.61	167.48	334.96	837.40	1674.80	16748	5.50	5.49	5.50
9 to 9½ years.....	(3/1/82)	43.02	86.04	129.06	172.08	344.16	860.40	1720.80	17208	5.50	5.49	5.50
9½ to 10 years.....	(9/1/82)	44.20	88.40	132.60	176.80	353.60	884.00	1768.00	17680	5.50	5.52	5.52
EXTENDED MATURITY VALUE (17 years and 9 months from issue date)												
	(3/1/83)	45.42	90.84	136.26	181.68	363.36	908.40	1816.80	18168	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, 1965, enter each period. For sub-

sequent issue months add the appropriate number of months.

³ Yield on purchase price from issue date to extended maturity date is 5.05 percent.

TABLE 78 A
BOND BEARING ISSUE DATES FROM JUNE 1 THROUGH NOVEMBER 1, 1966¹

Issue price.....	\$18.75	\$37.50	\$56.25	\$75.00	\$150.00	\$375.00	\$750.00	\$7,500	Approximate investment yield			
Denomination.....	25.00	50.00	75.00	100.00	200.00	500.00	1,000.00	10,000	(annual percentage rate)			
									(1) Redemption values during each half-year period			
									(values increase on first day of period shown)			
Period after original maturity (beginning 7 years after issue date)									EXTENDED MATURITY PERIOD			
									(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	
									Percent	Percent	Percent	
First ½ year.....	² (6/1/73)	\$25.92	\$51.84	\$77.76	\$103.68	\$207.36	\$518.40	\$1036.80	\$10368	0.00	5.48	5.50
½ to 1 year.....	(12/1/73)	26.63	53.26	79.89	106.52	213.04	532.60	1065.20	10652	5.48	5.56	5.50
1 to 1½ years.....	(6/1/74)	27.37	54.74	82.11	109.48	218.96	547.40	1094.80	10948	5.52	5.48	5.50
1½ to 2 years.....	(12/1/74)	28.12	56.24	84.36	112.48	224.96	562.40	1124.80	11248	5.51	5.48	5.50
2 to 2½ years.....	(6/1/75)	28.89	57.78	86.67	115.56	231.12	577.80	1155.60	11556	5.50	5.54	5.50
2½ to 3 years.....	(12/1/75)	29.69	59.38	89.07	118.76	237.52	593.80	1187.60	11876	5.51	5.46	5.50
3 to 3½ years.....	(6/1/76)	30.50	61.00	91.50	122.00	244.00	610.00	1220.00	12200	5.50	5.51	5.50
3½ to 4 years.....	(12/1/76)	31.34	62.68	94.02	125.36	250.72	626.80	1253.60	12536	5.50	5.49	5.50
4 to 4½ years.....	(6/1/77)	32.20	64.40	96.60	128.80	257.60	644.00	1288.00	12880	5.50	5.53	5.50
4½ to 5 years.....	(12/1/77)	33.09	66.18	99.27	132.36	264.72	661.80	1323.60	13236	5.50	5.50	5.50
5 to 5½ years.....	(6/1/78)	34.00	68.00	102.00	136.00	272.00	680.00	1360.00	13600	5.50	5.47	5.50
5½ to 6 years.....	(12/1/78)	34.93	69.86	104.79	139.72	279.44	698.60	1397.20	13972	5.50	5.50	5.50
6 to 6½ years.....	(6/1/79)	35.89	71.78	107.67	143.56	287.12	717.80	1435.60	14356	5.50	5.52	5.50
6½ to 7 years.....	(12/1/79)	36.88	73.76	110.64	147.52	295.04	737.60	1475.20	14752	5.50	5.48	5.50
7 to 7½ years.....	(6/1/80)	37.89	75.78	113.67	151.56	303.12	757.80	1515.60	15156	5.50	5.54	5.50
7½ to 8 years.....	(12/1/80)	38.94	77.88	116.82	155.76	311.52	778.80	1557.60	15576	5.50	5.50	5.49
8 to 8½ years.....	(6/1/81)	40.01	80.02	120.03	160.04	320.08	800.20	1600.40	16004	5.50	5.50	5.49
8½ to 9 years.....	(12/1/81)	41.11	82.22	123.33	164.44	328.88	822.20	1644.40	16444	5.50	5.50	5.49
9 to 9½ years.....	(6/1/82)	42.24	84.48	126.72	168.96	337.92	844.80	1689.60	16896	5.50	5.49	5.49
9½ to 10 years.....	(12/1/82)	43.40	86.80	130.20	173.60	347.20	868.00	1736.00	17360	5.50	5.48	5.48
EXTENDED MATURITY VALUE (17 years from issue date).....	(6/1/83)	44.59	89.18	133.77	178.36	356.72	891.80	1783.60	17836	5.53		

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, 1966, 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 5.16 percent.

Exhibit 10.—Department Circular No. 300, March 9, 1973, Fourth Revision, general regulations with respect to United States securities

DEPARTMENT OF THE TREASURY,
Washington, March 9, 1973.

Department of the Treasury Circular No. 300, Third Revision, dated December 23, 1964 (31 CFR Part 306), as amended, is hereby further amended and issued as the Fourth Revision.

AUTHORITY: R.S. 3706; 40 Stat. 288, 502, 844, 1309; 42 Stat. 321; 46 Stat. 20; 48 Stat. 343; 49 Stat. 20; 50 Stat. 481; 52 Stat. 477; 53 Stat. 1359; 56 Stat. 189; 73 Stat. 622; and 85 Stat. 5, 74 (31 U.S.C. 738a, 739, 752, 752a, 753, 754, 754a, and 754b); 5 U.S.C. 301.

SUBPART A—GENERAL INFORMATION**§ 306.0 Applicability of regulations.**

These regulations apply to all U.S. transferable and nontransferable securities,¹ other than U.S. Savings Bonds and U.S. Savings Notes, to the extent specified in these regulations, the offering circulars or special regulations governing such securities.

§ 306.1 Official agencies.

(a) *Subscriptions—tenders—bids.* Securities subject to these regulations are issued from time to time pursuant to public offerings by the Secretary of the Treasury, through the Federal Reserve banks, fiscal agents of the United States, and the Treasurer of the United States. Only the Federal Reserve banks and branches and the Department of the Treasury are authorized to act as official agencies, and subscriptions or tenders for Treasury securities, and bids, to the extent provided in the regulations governing the sale of Treasury securities through competitive bidding, may be made direct to them. However, tenders for Treasury bills are not received at the Department.

(b) *Transactions after issue.* The Bureau of the Public Debt of the Department of the Treasury is charged with matters relating to transactions in securities. Correspondence concerning transactions in securities and requests for appropriate forms may be addressed to (1) the Federal Reserve bank or branch of the district in which the correspondent is located, or (2) the Bureau of the Public Debt, Division of Securities Operations, Washington, D.C. 20226, or (3) the Office of the Treasurer of the United States, Securities Division, Washington, D.C. 20222, except where specific instructions are otherwise given in these regulations. The addresses of the Federal Reserve banks and branches are:

Federal Reserve Bank of Boston, Boston, Mass. 02106.	Birmingham Branch, Birmingham, Ala. 25202.
Federal Reserve Bank of New York, New York, N.Y. 10045.	Jacksonville Branch, Jacksonville, Fla. 32203.
Buffalo Branch, Buffalo, N.Y. 14240.	Nashville Branch, Nashville, Tenn. 37203.
Federal Reserve Bank of Philadelphia, Philadelphia, Pa. 19101.	New Orleans Branch, New Orleans, La. 70160.
Federal Reserve Bank of Cleveland, Cleveland, Ohio 44101.	Miami Office, Miami, Fla. 33152.
Cincinnati Branch, Cincinnati, Ohio 45201.	Federal Reserve Bank of Chicago, Chicago, Ill. 60609.
Pittsburgh Branch, Pittsburgh, Pa. 15230.	Detroit Branch, Detroit, Mich. 48231.
Federal Reserve Bank of Richmond, Richmond, Va. 23261.	Federal Reserve Bank of St. Louis, St. Louis, Mo. 63166.
Baltimore Branch, Baltimore, Md. 21203.	Little Rock Branch, Little Rock, Ark. 72203.
Charlotte Branch, Charlotte, N.C. 28201.	Louisville Branch, Louisville, Ky. 40201.
Federal Reserve Bank of Atlanta, Atlanta, Ga. 30303.	Memphis Branch, Memphis, Tenn. 38101.

¹ These regulations may also be applied to securities issued by certain agencies of the United States and certain Government and Government-sponsored corporations.

Federal Reserve Bank of Minneapolis,
Minneapolis, Minn. 55480.

Helena Branch, Helena, Mont.
59601.

Federal Reserve Bank of Kansas City,
Kansas City, Mo. 64198.

Denver Branch, Denver, Colo.
80217.

Oklahoma City Branch, Oklahoma
City, Okla. 73125.

Omaha Branch, Omaha, Nebr.
68102.

Federal Reserve Bank of Dallas, Dal-
las, Tex. 75222.

El Paso Branch, El Paso, Tex.
79999.

Houston Branch, Houston, Tex.
77001.

San Antonio Branch, San Antonio,
Tex. 78295.

Federal Reserve Bank of San Fran-
cisco, San Francisco, Calif. 94120.

Los Angeles Branch, Los Angeles,
Calif. 90051.

Portland Branch, Portland, Oreg.
97208.

Salt Lake City Branch, Salt Lake
City, Utah 84110.

Seattle Branch, Seattle, Wash.
98124.

§ 306.2 Definitions of words and terms as used in these regulations.

(a) "Advance refunding offer" is an offer to a holder of a security, usually a year or more in advance of its call or maturity date, to exchange it for another security.

(b) A "bearer" security is payable on its face at maturity or call for redemption before maturity in accordance with its terms to "bearer." The ownership is not recorded. Title to such a security may pass by delivery without endorsement and without notice. A "coupon" security is a bearer security with interest coupons attached.

(c) "Bureau" refers to the Bureau of the Public Debt, Division of Securities Operations, Washington, D.C. 20226.

(d) "Call date" or "date of call" is the date fixed in the official notice of call published in the Federal Register as the date on which the obligor will make payment of the security before maturity in accordance with its terms.

(e) "Court" means one which has jurisdiction over the parties and the subject matter.

(f) "Department" refers to the Department of the Treasury.

(g) "Face maturity date" is the payment date specified in the text of a security.

(h) "Incompetent" refers to a person under any legal disability except minority.

(i) "Joint owner" and "joint ownership" refer to any permitted form of ownership by two or more persons.

(j) "Nontransferable securities" are those issued only in registered form which according to their terms are payable only to the registered owners or recognized successors in title to the extent and in the manner provided in the offering circulars or special applicable regulations.

(k) "Payment" and "redemption," unless otherwise indicated by the context, are used interchangeably for payment at maturity or payment before maturity pursuant to a call for redemption in accordance with the terms of the securities.

(l) "Prerefunding offer" is an offer to a holder of a security, usually within the year preceding its call or maturity date, to exchange it for another security.

(m) "Redemption-exchange" is any authorized redemption of securities for the purpose of applying the proceeds in payment for other securities offered in exchange.

(n) A "registered" security refers to a security the ownership of which is registered on the books of the Department. It is payable at maturity or call for redemption before maturity in accordance with its terms to the person in whose name it is inscribed, or his assignee.

(o) "Securities assigned in blank" or "securities so assigned as to become in effect payable to bearer" refers to registered securities which are assigned by the owner or his authorized representative without designating the assignee. Registered securities assigned simply to "The Secretary of the Treasury" or in the case of Treasury Bonds, Investment Series B-1975-80, to "The Secretary of the Treasury for exchange for the current Series EA or EO Treasury notes" are considered to be so assigned as to become in effect payable to bearer.

(p) "Taxpayer identifying number" means the appropriate identifying number as required on tax returns and other documents submitted to the Internal

Revenue Service, i.e., an individual's social security account number or an employer identification number. A social security account number is composed of nine digits separated by two hyphens, for example, 123-45-6789; an employer identification number is composed of nine digits separated by one hyphen, for example, 12-3456789. The hyphens are an essential part of the numbers and must be included.

(q) "Transferable securities," which may be in either registered or bearer form, refers to securities which may be sold on the market and transfer of title accomplished by assignment and delivery if in registered form, or by delivery only if in bearer form.

(r) "Treasurer's Office" refers to the Office of the Treasurer of the United States, Securities Division, Washington, D.C. 20222.

(s) "Treasury securities," "Treasury bonds," "Treasury notes," "Treasury certificates of indebtedness," and "Treasury bills," or simply "securities," "bonds," "notes," "certificates," and "bills," unless otherwise indicated by the context, refer only to transferable securities.

§ 306.3 Transportation charges and risks in the shipment of securities.

The following rules will govern transportation to, from, and between the Department and the Federal Reserve banks and branches of securities issued on or presented for authorized transactions:

(a) The securities may be presented or received by the owners or their agents in person.

(b) Securities issued on original issue, unless delivered in person, will be delivered by registered mail or by other means at the risk and expense of the United States.

(c) The United States will assume the risk and expense of any transportation of securities which may be necessary between the Federal Reserve banks and branches and the Treasury.

(d) Securities submitted for any transaction after original issue, if not presented in person, must be forwarded at the owner's risk and expense.

(e) Bearer securities issued on transactions other than original issue will be delivered by registered mail, covered by insurance, at the owner's risk and expense, unless called for in person by the owner or his agent. Registered securities issued on such transactions will be delivered by registered mail at the risk of, but without expense to, the registered owner. Should delivery by other means be desired, advance arrangements should be made with the official agency to which the original securities were presented.

SUBPART B—REGISTRATION

§ 306.10 General.

The registration used must express the actual ownership of a security and may not include any restriction on the authority of the owner to dispose of it in any manner, except as otherwise specifically provided in these regulations. The Treasury Department reserves the right to treat the registration as conclusive of ownership. Requests for registration should be clear, accurate, and complete, conform with one of the forms set forth in this subpart, and include appropriate taxpayer identifying numbers.² The registration of all bonds owned by the same person, organization, or fiduciary should be uniform with respect to the name of the owner and, in the case of a fiduciary, the description of the fiduciary capacity. Individual owners should be designated by the names by which they are ordinarily known or under which they do business, preferably including at least one full given name. The name of an individual may be preceded by any applicable title, as, for example, "Mrs.," "Miss," "Ms.," "Dr.," "Rev.," or followed by a designation such as "M.D.," "D.D.," "Sr." or "Jr." Any other similar suffix should be included when ordinarily used or when necessary to distinguish the owner from a member of his family. A married woman's own given name, not that of her husband, must be used, for example, "Mrs. Mary A. Jones," not "Mrs. Frank B. Jones." The address should include, where appropriate, the number and street, route, or any other local feature and the Zip Code.

² Taxpayer identifying numbers are not required for foreign governments, nonresident aliens not engaged in trade or business within the United States, international organizations and foreign corporations not engaged in trade or business and not having an office or place of business or a financial or paying agent within the United States, and other persons or organizations as may be exempted from furnishing such numbers under regulations of the Internal Revenue Service.

§ 306.11 Forms of registration for transferable securities.

The forms of registration described below are authorized for transferable securities:

(a) *Natural persons in their own right.* In the names of natural persons who are not under any legal disability, in their own right, substantially as follows:

(1) *One person.* In the name of one individual. Examples:

John A. Doe (123-45-6789).

Mrs. Mary C. Doe (123-45-6789).

Miss Elizabeth Jane Doe (123-45-6789).

An individual who is sole proprietor of a business conducted under a trade name may include a reference to the trade name. Examples:

John A. Doe, doing business as Doe's Home Appliance Store (12-3456789).

or

John A. Doe (123-45-6789), doing business as Doe's Home Appliance Store.

(2) *Two or more persons—general.* Securities will not be registered in the name of one person payable on death to another, or in any form which purports to authorize transfer by less than all the persons named in the registration (or all the survivors).³ Securities will not be registered in the forms "John A. Doe and Mrs. Mary C. Doe, or either of them" or "William C. Doe or Henry J. Doe, or either of them" and securities so assigned will be treated as though the words "or either of them" do not appear in the assignments. The taxpayer identifying number of any of the joint owners may be shown on securities registered in joint ownership form.

(i) *With right of survivorship.* In the names of two or more individuals with right of survivorship. Examples:

John A. Doe (123-45-6789) or Mrs. Mary C. Doe or the survivor.

John A. Doe (123-45-6789) or Mrs. Mary C. Doe or Miss Mary Ann Doe or the survivors or survivor.

John A. Doe (123-45-6789) or Mrs. Mary C. Doe.

John A. Doe (123-45-6789) and Mrs. Mary C. Doe.

John A. Doe (123-45-6789) and Mrs. Mary C. Doe as joint tenants with right of survivorship and not as tenants in common.

Limited to husband and wife:

John A. Doe (123-45-6789) and Mrs. Mary C. Doe, as tenants by the entireties.

(ii) *Without right of survivorship.* In the names of two or more individuals in such manner as to preclude the right of survivorship. Examples:

John A. Doe (123-45-6789) and William B. Doe as tenants in common.

John A. Jones as natural guardian of Henry B. Jones, a minor, and Robert C. Jones (123-45-6789), without right of survivorship.

Limited to husband and wife:

Charles H. Brown (123-45-6789) and Ann R. Brown, as partners in community.

(b) *Minors and incompetents—*(1) *Natural guardians of minors.* A security may be registered in the name of a natural guardian of a minor for whose estate no legal guardian or similar representative has legally qualified. Example:

John R. Jones as natural guardian of Henry M. Jones, a minor (123-45-6789).

Either parent with whom the minor resides, or if he does not reside with either parent, the person who furnishes his chief support, will be recognized as his natural guardian and will be considered a fiduciary. Registration in the name of a minor in his own right as owner or as joint owner is not authorized. Securities so registered, upon qualification of the natural guardian, will be treated as though registered in the name of the natural guardian in that capacity.

(2) *Custodian under statute authorizing gifts to minors.* A security may be purchased as a gift to a minor under a gifts to minors statute in effect in the State in which either the donor or the minor resides. The security should be

³ *Warning.* Difference Between Transferable Treasury Securities Registered in the Names of Two or More Persons and United States Savings Bonds in Coownership Form. The effect of registering Treasury securities to which these regulations apply in the names of two or more persons differs decidedly from registration of savings bonds in coownership form. Savings bonds are virtually redeemable on demand at the option of either coowner on his signature alone. Transferable Treasury securities are redeemable only at maturity or upon prior call by the Secretary of the Treasury.

registered as provided in the statute, with an identifying reference to the statute if the registration does not clearly identify it. Examples:

William C. Jones, as custodian for John A. Smith, a minor (123-45-6789), under the California Uniform Gifts to Minors Act.

Robert C. Smith, as custodian for Henry L. Brown, a minor (123-45-6789), under the laws of Georgia; Ch. 48-3, Code of Ga. Anno.

(3) *Incompetents not under guardianship.* Registration in the form "John A. Brown, an incompetent (123-45-6789), under voluntary guardianship," is permitted only on reissue after a voluntary guardian has qualified for the purpose of collecting interest. (See §§ 306.37(c)(2) and 306.57(c)(2).) Otherwise, registration in the name of an incompetent not under legal guardianship is not authorized.

(c) *Executors, administrators, guardians, and similar representatives or fiduciaries.* A security may be registered in the names of legally qualified executors, administrators, guardians, conservators, or similar representatives or fiduciaries of a single estate. The names and capacities of all the representatives or fiduciaries, as shown in their letters of appointment, must be included in the registration and must be followed by an adequate identifying reference to the estate. Example:

John Smith, executor of will (or administrator of estate) of Henry J. Jones, deceased (12-3456789).

William C. Jones, guardian (or conservator, etc.) of estate of James D. Brown, a minor (or an incompetent) (123-45-6789).

(d) *Life tenant under will.* A security may be registered in the name of a life tenant followed by an adequate identifying reference to the will. Example:

Anne B. Smith, life tenant under the will of Adam A. Smith, deceased (12-3456789).

The life tenant will be considered a fiduciary.

(e) *Private trust estates.* A security may be registered in the name and title of the trustee or trustees of a single duly constituted private trust, followed by an adequate identifying reference to the authority governing the trust. Examples:

John Jones and Blank Trust Co., Albany, N.Y., trustees under will of Sarah Jones, deceased (12-3456789).

John Doe and Richard Roe, trustees under agreement with Henry Jones dated February 9, 1970 (12-3456789).

The names of all trustees, in the form used in the trust instrument, must be included in the registration, except as follows:

(1) If there are several trustees designated as a board or authorized to act as a unit, their names should be omitted and the words "Board of Trustees" substituted for the word "trustees." Example:

Board of Trustees of Blank Co. Retirement Fund, under collective bargaining agreement dated June 30, 1970 (12-3456789).

(2) If the trustees do not constitute a board or otherwise act as a unit, and are either too numerous to be designated in the inscription by names and title, or serve for limited terms, some or all of the names may be omitted. Examples:

John Smith, Henry Jones, et al., trustees under will of Henry J. Smith, deceased (12-3456789).

Trustees under will of Henry J. Smith, deceased (12-3456789).

Trustees of Retirement Fund of Industrial Manufacturing Co., under directors' resolution of June 30, 1950 (12-3456789).

(f) *Private organizations (corporations, unincorporated associations and partnerships).* A security may be registered in the name of any private corporation, unincorporated association, or partnership, including a nominee, which for purposes of these regulations is treated as the owner. The full legal name of the organization, as set forth in its charter, articles of incorporation, constitution, partnership agreement, or other authority from which its powers are derived, must be included in the registration and may be followed, if desired, by a reference to a particular account or fund, other than a trust fund, in accordance with the rules and examples given below:

(1) *A corporation.* The name of a business, fraternal, religious, or other private corporation must be followed by descriptive words indicating the corporate status unless the term "corporation" or the abbreviation "Inc." is part of the name or the name is that of a corporation or association organized under

Federal law, such as a national bank or Federal savings and loan association. Examples:

Smith Manufacturing Co., a corporation (12-3456789).

The Standard Manufacturing Corp. (12-3456789).

Jones & Brown, Inc.—Depreciation Acct. (12-3456789).

First National Bank of Albemarle (12-3456789).

Abco & Co., Inc., a nominee corporation (12-3456789).

(2) *An unincorporated association.* The name of a lodge, club, labor union, veterans' organization, religious society, or similar self-governing organization which is not incorporated (whether or not it is chartered by or affiliated with a parent organization which is incorporated) must be followed by the words "an unincorporated association." Examples:

American Legion Post No. —, Department of the D.C., an unincorporated association (12-3456789).

Local Union No. 100, Brotherhood of Locomotive Engineers, an unincorporated association (12-3456789).

Securities should not be registered in the name of an unincorporated association if the legal title to its property in general, or the legal title to the funds with which the securities are to be purchased, is held by trustees. In such a case the securities should be registered in the title of the trustees in accordance with paragraph (e) of this section. The term "unincorporated association" should not be used to describe a trust fund, a partnership or a business conducted under a trade name.

(3) *A partnership.* The name of a partnership must be followed by the words "a partnership." Examples:

Smith & Brown, a partnership (12-3456789).

Acme Novelty Co., a limited partnership (12-3456789).

Abco & Co., a nominee partnership (12-3456789).

(g) *States, public bodies, and corporations and public officers.* A security may be registered in the name of a State or county, city, town, village, school district, or other political entity, public body or corporation established by law (including a board, commission, administration, authority or agency) which is the owner or official custodian of public funds, other than trust funds, or in the full legal title of the public officer having custody. Examples:

State of Maine.

Town of Rye, N.Y.

Maryland State Highway Administration.

Treasurer, City of Springfield, Ill.

Treasurer of Rhode Island—State Forestry Fund.

(h) *States, public officers, corporations or bodies as trustees.* A security may be registered in the title of a public officer or in the name of a State or county or a public corporation or public body acting as trustee under express authority of law. An appropriate reference to the statute creating the trust may be included in the registration. Examples:

Insurance Commissioner of Pennsylvania, trustee for benefit of policyholders of Blank Insurance Co. (12-3456789), under Sec. —, Pa. Stats.

Rhode Island Investment Commission, trustee of General Sinking Fund under Ch. 35, Gen. Laws of R.I.

State of Colorado in trust for Colorado Surplus Property Agency.

§ 306.12 Errors in registration.

If an erroneously inscribed security is received, it should not be altered in any respect, but the Bureau, a Federal Reserve bank or branch, or the Treasurer's Office should be furnished full particulars concerning the error and asked to furnish instructions.

§ 306.13 Nontransferable securities.

Upon authorized reissue, Treasury Bonds, Investment Series B—1975-80, may be registered in the forms set forth in § 306.11.

SUBPART C—TRANSFERS, EXCHANGES AND REISSUES

§ 306.15 Transfers and exchanges of securities—closed periods.

(a) *General.* The transfer of registered securities should be made by assignment in accordance with Subpart F of this part. Transferable registered secu-

rities are eligible for denominational exchange and exchange for bearer securities. Bearer securities are eligible for denominational exchange, and when so provided in the offering circular, are eligible for exchange for registered securities. Specific instructions for issuance and delivery of the new securities, signed by the owner or his authorized representative, must accompany the securities presented. (Form PD 3905 or PD 1827, as appropriate, may be used.) Denominational exchanges, exchanges of Treasury Bonds, Investment Series B—1975-80, for the current series of EA or EO 1½ percent 5-year Treasury notes, and optional redemption of bonds at par as provided in § 306.28 may be made at any time. Securities presented for transfer or for exchange for bearer securities of the same issue must be received by the Bureau not less than 1 full month before the date on which the securities mature or become redeemable pursuant to a call for redemption before maturity. Any security so presented which is received too late to comply with this provision will be accepted for payment only.

(b) *Closing of transfer books.* The transfer books are closed for 1 full month preceding interest payment dates and call or maturity dates. If the date set for closing of the transfer books falls on Saturday, Sunday, or a legal holiday, the books will be closed as of the close of business on the last business day preceding that date. The books are reopened on the first business day following the date on which interest falls due. Registered securities which have not matured or been called, submitted for transfer, reissue, or exchange for coupon securities, and coupon securities which have not matured or been called, submitted for exchange for registered securities, which are received during the period the books for that loan are closed, will be processed on or after the date such books are reopened. If registered securities are received for transfer or exchange for bearer securities, or coupon securities are received for exchange for registered securities, during the time the books are closed for payment of final interest at maturity or call, unless otherwise provided in the offering circular or notice of call, the following action will be taken:

(1) Payment of final interest will be made to the registered owner of record on the date the books were closed.

(2) Payment of principal will be made to (i) the assignee under a proper assignment of the securities, or (ii) if the securities have been assigned for exchange for bearer securities, to the registered owner of record on the date the books were closed.

§ 306.16 Exchanges of registered securities.

No assignments will be required for (a) authorized denominational exchanges of registered securities for like securities in the same names and forms of registration and (b) redemption-exchanges, or prerefundings, or advance refundings in the same names and forms as appear in the registration or assignments of the securities surrendered.

§ 306.17 Exchanges of registered securities for coupon securities.

Registered securities submitted for exchange for coupon securities should be assigned to "The Secretary of the Treasury for exchange for coupon securities to be delivered to (inserting the name and address of the person to whom delivery of the coupon securities is to be made)." Assignments to "The Secretary of the Treasury for exchange for coupon securities," or assignments in blank will also be accepted. The coupon securities issued upon exchange will have all unmatured coupons attached.

§ 306.18 Exchanges of coupon securities for registered securities.

Coupon securities presented for exchange for registered securities should have all matured interest coupons detached. All unmatured coupons should be attached, except that if presented when the transfer books are closed (in which case the exchange will be effected on or after the date on which the books are reopened), the next maturing coupons should be detached and held for collection in ordinary course when due. If any coupons which should be attached are missing, the securities must be accompanied by a remittance in an amount equal to the face amount of the missing coupons. The new registered securities will bear interest from the interest payment date next preceding the date on which the exchange is made.

§ 306.19 Denominational exchanges of coupon securities.

All matured interest coupons and all unmatured coupons likely to mature before an exchange can be completed should be detached from securities presented for denominational exchange. All unmatured coupons should be attached. If any are missing, the securities must be accompanied by a remittance in an amount equal to the face amount of the missing coupons. The new coupon securities will have all unmatured coupons attached.

§ 306.20 Reissue of registered transferable securities.

Assignments are not required for reissue of registered transferable securities in the name(s) of (a) the surviving joint owner(s) of securities registered in the names of or assigned to two or more persons, unless the registration or assignment includes words which preclude the right of survivorship, (b) a succeeding fiduciary or other lawful successor, (c) a remainderman, upon termination of a life estate, (d) an individual, corporation or unincorporated association whose name has been legally changed, (e) a corporation or unincorporated association which is the lawful successor to another corporation or unincorporated association, and (f) a successor in title to a public officer or body. Evidence of survivorship, succession, or change of name, as appropriate, must be furnished. The appropriate taxpayer identifying number also must be furnished if the registration of the securities submitted does not include such number for the person or organization to be named on the reissued securities.

§ 306.21 Reissue of nontransferable securities.

Treasury Bonds, Investment Series B-1975-80, may be reissued only in the names of (a) lawful successors in title, (b) the legal representatives or distributees of a deceased owner's estate, or the distributees of a trust estate, and (c) State supervisory authorities in pursuance of any pledge required of the owner under State law, or upon termination of the pledge in the names of the pledgors or their successors. Bonds presented for reissue must be accompanied by evidence of entitlement.

§ 306.22 Exchange of Treasury Bonds, Investment Series B-1975-80.

Bonds of this series presented for exchange for 1½ percent 5-year Treasury notes must bear duly executed assignments to "The Secretary of the Treasury for exchange for the current series of EA or EO Treasury notes to be delivered to (inserting the name and address of the person to whom the notes are to be delivered)." The notes will bear the April 1 or October 1 date next preceding the date the bonds, duly assigned with supporting evidence, if necessary, are received by the Bureau or a Federal Reserve Bank or Branch. Interest accrued at the rate of 2¾ percent on the bonds surrendered from the next preceding interest payment date to the date of exchange will be credited, and interest at the rate of 1½ percent on the notes for the same period will be charged and the difference will be paid to the owner.

SUBPART D—REDEMPTION OR PAYMENT

§ 306.25 Presentation and surrender.

(a) *General.* Securities, whether in registered or bearer form, are payable in regular course of business at maturity unless called for redemption before maturity in accordance with their terms, in which case they will be payable in regular course of business on the date of call. The Secretary of the Treasury may provide for the exchange of maturing or called securities, or in advance of call or maturity, may afford owners the opportunity of exchanging a security for another security pursuant to a prerefunding or an advance refunding offer. Registered securities should be presented and surrendered for redemption to the Bureau, a Federal Reserve bank or branch, or the Treasurer's Office, and bearer securities to a Federal Reserve bank or branch or the Treasurer's Office.⁴ No assignments or evidence in support of assignments will be required by or on behalf of the registered owner or assignee for redemption for his or its account, or for redemption-exchange, or exchange pursuant to a prerefunding or an advance refunding offer, if the new securities are to be registered in exactly the same names and forms as appear in the registrations or assignments of the securities

⁴ See § 306.28 for presentation and surrender of bonds eligible for use in payment of Federal estate taxes.

surrendered. To the extent appropriate, these rules also apply to securities registered in the titles of public officers who are official custodians of public funds.

(b) "*Overdue*" securities. If a bearer security or a registered security assigned in blank, or to bearer, or so assigned as to become in effect payable to bearer, is presented and surrendered for redemption after it has become overdue, the Secretary of the Treasury will ordinarily require satisfactory proof of ownership. (Form PD 1071 may be used.) A security shall be considered to be overdue after the lapse of the following periods of time from its face maturity:

- (1) One month for securities issued for a term of 1 year or less.
- (2) Three months for securities issued for a term of more than 1 year but not in excess of 7 years.
- (3) Six months for securities issued for a term of more than 7 years.

§ 306.26 Redemption of registered securities at maturity, upon prior call, or for prerefunding or advance refunding.

Registered securities presented and surrendered for redemption at maturity or pursuant to a call for redemption before maturity need not be assigned, unless the owner desires that payment be made to some other person, in which case assignments should be made to "The Secretary of the Treasury for redemption for the account of (inserting name and address of person to whom payment is to be made)." Specific instructions for the issuance and delivery of the redemption check, signed by the owner or his authorized representative, must accompany the securities, unless included in the assignment. (Form PD 3905 may be used.) Payment of the principal will be made either (a) by check drawn on the Treasurer of the United States to the order of the person entitled and mailed in accordance with the instructions received, or (b) upon appropriate request, by crediting the amount in a member bank's account with the Federal Reserve Bank of its District. Securities presented for prerefunding or advance refunding should be assigned as provided in the prerefunding or advance refunding offer.

§ 306.27 Redemption of bearer securities at maturity, upon prior call, or for advance refunding or prerefunding.

All interest coupons due and payable on or before the date of maturity or date fixed in the call for redemption before maturity should be detached from coupon securities presented for redemption and should be collected separately in regular course. All coupons bearing dates subsequent to the date fixed in a call for redemption, or offer of prefunding or advance refunding, should be left attached to the securities. If any such coupons are missing, the full face amount thereof will be deducted from the payment to be made upon redemption or the prerefunding or advance refunding adjustment unless satisfactory evidence of their destruction is submitted. Any amounts so deducted will be held in the Department to provide for adjustments or refunds in the event it should be determined that the missing coupons were subsequently presented or their destruction is later satisfactorily established. In the absence of other instructions, payment of bearer securities will be made by check drawn to the order of the person presenting and surrendering the securities and mailed to him at his address, as given in the advice accompanying the securities. (Form PD 3905 may be used.) A Federal Reserve bank, upon appropriate request, may make payment to a member bank from which bearer securities are received by crediting the amount of the proceeds of redemption to the member bank's account.

§ 306.28 Optional redemption of Treasury bonds at par (before maturity or call redemption date) and application of the proceeds in payment of Federal estate taxes.

(a) *General.* Treasury bonds to be redeemed at par for the purpose of applying the entire amount of principal and accrued interest to payment of the Federal estate tax on a decedent's estate⁵ must be presented and surrendered to a Federal Reserve bank or branch or to the Bureau. They should be accompanied by Form PD 1782, fully completed and duly executed in accordance with the instructions on the form, and evidence as described therein. Redemption will be made at par plus accrued interest from the last preceding interest payment date to the

⁵ Certain issues of Treasury bonds are redeemable at par and accrued interest upon the death of the owner, at the option of the representative of, or if none, the persons entitled to, his estate, for the purpose of having the entire proceeds applied in payment of the Federal estate tax on the decedent's estate, in accordance with the terms of the offering circulars cited on the face of the bonds. A current list of eligible issues may be obtained from any Federal Reserve bank or branch, the Bureau of the Public Debt, or the Treasurer's Office.

date of redemption, except that if registered bonds are received by a Federal Reserve bank or branch or the Bureau within 1 month preceding an interest payment date for redemption before that date, a deduction will be made for interest from the date of redemption to the interest payment date, and a check for the full 6 months' interest will be paid in due course. The proceeds of redemption will be deposited to the credit of the Internal Revenue Service Center designated in form PD 1782, and the representative of the estate will be notified of the deposit. A formal receipt may be obtained upon request addressed to the Center.

(b) *Conditions.* The bonds presented for redemption under this section must have (1) been owned by the decedent at the time of his death and (2) thereupon constituted part of his estate, as determined by the following rules in the case of joint ownership, partnership, and trust holdings:

(i) *Joint ownerships.* Bonds held by the decedent at the time of his death in joint ownership with another person or persons will be deemed to have met the above conditions either (a) to the extent to which the bonds actually became the property of the decedent's estate, or (b) in an amount not to exceed the amount of the Federal estate tax which the surviving joint owner or owners is required to pay on account of such bonds and other jointly held property.⁶

(ii) *Partnerships.* Bonds held at the time of the decedent's death by a partnership in which he had an interest will be deemed to have met the above conditions to the extent of his fractional share of the bonds so held proportionate to his interest in the assets of the partnership.

(iii) *Trusts.* Bonds held in trust at the time of the decedent's death will be deemed to have met the above conditions in an amount not to exceed the amount of the Federal estate tax (a) if the trust actually terminated in favor of the decedent's estate, or (b) if the trustee is required to pay the decedent's Federal estate tax under the terms of the trust instrument or otherwise, or (c) to the extent the debts of the decedent's estate, including costs of administration, State inheritance and Federal estate taxes, exceed the assets of his estate without regard to the trust estate.

(c) *Transactions after owner's death.* No transactions involving changes of ownership may be conducted after an owner's death without affecting the eligibility of the bonds for redemption at par for application of the proceeds to payment of the Federal estate tax. Transactions involving no changes of ownership which may be conducted without affecting eligibility are (1) exchange of bonds for those of lower denominations where the bonds exceed the amount of the tax and are not in the lowest authorized denominations, (2) exchange of registered bonds for coupon bonds, (3) exchange of coupon bonds for bonds registered in the names of the representatives of the estate, (4) transfer of bonds from the owner or his nominee to the names of the representatives of the owner's estate, and (5) purchases by or for the account of an owner prior to his death, held in book-entry form, and thereafter converted to definitive bonds. However, any such transaction must be explained on Form PD 1782 or in a supplemental statement.

SUBPART E—INTEREST

§ 306.35 Computation of interest.

The interest on Treasury securities accrues and is payable on a semiannual basis unless otherwise provided in the circular offering them for sale or exchange. If the period of accrual is an exact 6 months, the interest accrual is an exact one-half year's interest without regard to the number of days in the period. If the period of accrual is less than an exact 6 months, the accrued interest is computed by determining the daily rate of accrual on the basis of the exact number of days in the full interest period and multiplying the daily rate by the exact number of days in the fractional period for which interest has actually accrued. A full interest period does not include the day as of which the securities were issued or the day on which the last preceding interest became due, but does include the day on which the next succeeding interest payment is due. A fractional part of an interest period does not include the day as of which the securities were issued or the day on which the last preceding interest payment became due, but does include the day as of which the transaction termi-

⁶ Substantially the same rule applies to community property except that upon the death of either spouse bonds which constitute part of the community estate are deemed to meet the required conditions to the extent of one-half of each loan and issue of bonds.

nating the accrual of interest is effected. The 29th of February in a leap year is included whenever it falls within either a full interest period or a fractional part thereof.⁷

§ 306.36 Termination of interest.

Securities will cease to bear interest on the date of their maturity unless they have been called for redemption before maturity in accordance with their terms, or are presented and surrendered for redemption-exchange or exchange pursuant to an advance refunding or prerefunding offer, in which case they will cease to bear interest on the date of call, or the exchange date, as the case may be.

§ 306.37 Interest on registered securities.

(a) *Method of payment.* The interest on registered securities is payable by checks drawn on the Treasurer of the United States to the order of the registered owners, except as otherwise provided herein. Interest checks are prepared by the Department in advance of the interest payment date and are ordinarily mailed in time to reach the addressees on that date. Interest on a registered security which has not matured or been called and which is presented for any transaction during the period the books for that loan are closed will be paid by check drawn to the order of the registered owner of record. Upon receipt of notice of the death or incompetency of an individual named as registered owner, a change in the name or in the status of a partnership, corporation, or unincorporated association, the removal, resignation, succession, or death of a fiduciary or trustee, delivery of interest checks will be withheld pending receipt and approval of evidence showing who is entitled to receive the interest checks. If the inscriptions on securities do not clearly identify the owners, delivery of interest checks will be withheld pending reissue of the securities in the correct registration. The final installment of interest, unless otherwise provided in the offering circular or notice of call, will be paid by check drawn to the order of the registered owner of record and mailed in advance of the interest payment date in time to reach the addressee on or about that date. Interest on securities presented for prerefunding or advance refunding will be adjusted as provided in the prerefunding or advance refunding offer.

(b) *Change of address.* To assure timely delivery of interest checks, owners should promptly notify the Bureau of any change of address. (Form PD 345 may be used.) The notification must be signed by the registered owner or a joint owner or an authorized representative, and should show the owner's taxpayer identifying number, the old and new addresses, the serial number and denomination of each security, the titles of the securities (for example: 4¼ percent Treasury Bonds of 1987-92, dated August 15, 1962), and the registration of each security. Notifications by attorneys in fact, trustees, or by the legal representatives of the estates of deceased, incompetent, or minor owners should be supported by proof of their authority, unless, in the case of trustees or legal representatives, they are named in the registration.

(c) *Collection of interest checks—(1) General.* Interest checks may be collected in accordance with the regulations governing the endorsement and payment of Government warrants and checks, which are contained in the current revision of Department Circular No. 21 (Part 360 of this chapter).

(2) *By voluntary guardians of incompetents.* Interest checks drawn to the order of a person who has become incompetent and for whose estate no legal guardian or similar representative has been appointed should be returned to the Bureau with a full explanation of the circumstances. For collection of interest, the Department will recognize the relative responsible for the incompetent's care and support or some other person as voluntary guardian for the incompetent. (Application may be made on Form PD 1461.)

(d) *Nonreceipt, loss, theft, or destruction of interest checks.* If an interest check is not received within a reasonable period after an interest payment date, the Bureau should be notified. Should a check be lost, stolen, or destroyed after receipt, the Office of the Treasurer of the United States, Check Claims Division, Washington, D.C. 20227, should be notified. Notification should include the name and address of the owner, his taxpayer identifying number, and the serial num-

⁷ The appendix to this subpart contains a complete explanation of the method of computing interest on a semiannual basis on Treasury bonds, notes, and certificates of indebtedness, and an outline of the method of computing the discount rates on Treasury bills. Also included are tables of computation of interest on semiannual and annual bases.

ber, denomination, and title of the security upon which the interest was payable. If the check is subsequently received or recovered, the latter office should also be advised.

§ 306.38 Interest on bearer securities.

Unless the offering circular and notice of call provide otherwise, interest on coupon securities is payable in regular course of business upon presentation and surrender of the interest coupons as they mature. Such coupons are payable at any Federal Reserve bank or branch, or the Treasurer's Office.⁸ Interest on Treasury bills, and any other bearer securities which may be sold and issued on a discount basis and which are payable at par at maturity, is represented by the difference between the purchase price and the par value, and no coupons are attached.

SUBPART F—ASSIGNMENTS OF REGISTERED SECURITIES—GENERAL

§ 306.40 Execution of assignments or special endorsements.

(a) *Execution of assignments.* The assignment of a registered security should be executed by the owner or his authorized representative in the presence of an officer authorized to certify assignments. All assignments must be made on the backs of the securities, unless otherwise authorized by the Bureau, a Federal Reserve bank or branch, or the Treasurer of the United States. An assignment by mark (X) must be witnessed not only by a certifying officer but also by at least one other person, who should add an endorsement substantially as follows: "Witness to signature by mark," followed by his signature and address.

(b) *Special endorsement in lieu of assignments.* A security may be presented without assignment for any authorized transaction by a financial institution which is (1) a member of the Federal Reserve System, (2) a member of the Federal Home Loan Bank System, or (3) insured by the Federal Deposit Insurance Corporation, provided full instructions are furnished as to the transaction desired and the security bears the endorsement, under the official seal of the institution, as follows:

Presented in accordance with instructions of the owner (s).
Absence of assignment guaranteed.

(Name of financial institution)

By -----
(Signature and title of officer)

(Date)

This form of endorsement of a security will be an unconditional guarantee to the Department of the Treasury that the institution is acting as attorney in fact for the registered owner, or his assignee, under proper authorization and that the officer is duly authorized to act.

§ 306.41 Form of assignment.

Registered securities may be assigned in blank, to bearer, to a specified transferee, to the Secretary of the Treasury for exchange for coupon securities, or to the Secretary of the Treasury for redemption or for exchange for other securities offered at maturity, upon call or pursuant to an advance refunding or prerefunding offer. Assignments to "The Secretary of the Treasury," "The Secretary of the Treasury for transfer," or "The Secretary of the Treasury for exchange" will not be accepted unless supplemented by specific instructions by or in behalf of the owner.

§ 306.42 Alterations and erasures.

If an alteration or erasure has been made in an assignment, the assignor should appear before an authorized certifying officer and execute a new assignment to the same assignee. If the new assignment is to other than the assignee whose name has been altered or erased, a disclaimer from the first-named as-

⁸ Banking institutions will usually cash the coupons without charge as an accommodation to their customers.

signee should be obtained. Otherwise, an affidavit of explanation by the person responsible for the alteration or erasure should be submitted for consideration.

§ 306.43 Voidance of assignments.

An assignment of a security to or for the account of another person, not completed by delivery, may be voided by a disclaimer of interest from that person. This disclaimer should be executed in the presence of an officer authorized to certify assignments of securities. Unless otherwise authorized by the Bureau, a Federal Reserve bank or branch, or the Treasurer of the United States, the disclaimer must be written, typed, or stamped on the back of the security in substantially the following form:

The undersigned as assignee of this security hereby disclaims any interest herein.

(Signature)

I certify that the above-named person as described, whose identity is well known or proved to me, personally appeared before me the ----- day of

----- at -----
(Month and year)

(Place)

----- and signed the above disclaimer of interest.

(SEAL)

(Signature and official designation of
certifying officer)

In the absence of a disclaimer, an affidavit or affidavits should be submitted for consideration explaining why a disclaimer cannot be obtained, reciting all other material facts and circumstances relating to the transaction, including whether or not the security was delivered to the person named as assignee and whether or not the affiants know of any basis for the assignee claiming any right, title, or interest in the security. After an assignment has been voided, in order to dispose of the security, an assignment by or on behalf of the owner will be required.

§ 306.44 Discrepancies in names.

The Department will ordinarily require an explanation of discrepancies in the names which appear in inscriptions, assignments, supporting evidence or in the signatures to any assignments. (Forms PD 385 may be used for this purpose.) However, where the variations in the name of the registered owner, as inscribed on securities of the same or different issues, are such that both may properly represent the same person, for example, "J. T. Smith," and "John T. Smith," no proof of identity will be required if the assignments are signed exactly as the securities are inscribed and are duly certified by the same certifying officer.

§ 306.45 Officers authorized to certify assignments.

(a) *Officers authorized generally.* The following persons are authorized to act as certifying officers for the purpose of certifying assignments of, or forms with respect to, securities:

(1) Officers and employees of banks and trust companies incorporated in the United States, its territories or possessions, or the Commonwealth of Puerto Rico, Federal Savings and Loan Associations, or other organizations which are members of the Federal Home Loan Bank System, who have been authorized to:

(i) Generally bind their respective institutions by their acts, (ii) unqualifiedly guarantee signatures to assignments of securities, or (iii) expressly certify assignments of securities.

(2) Officers of Federal Reserve banks and branches.

(3) Officers of Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives, the Central Bank for Cooperatives, and Federal Home Loan Banks.

(4) U.S. Attorneys, Collectors of Customs, and Regional Commissioners, District Directors, and Service Center Directors, Internal Revenue Service.

(5) Judges and Clerks of U.S. Courts.

(b) *Authorized officers in foreign countries.* The following are authorized to certify assignments in foreign countries:

(1) U.S. diplomatic or consular representatives.

(2) Managers, assistant managers and other officers of foreign branches of banks or trust companies incorporated in the United States, its territories or possessions, or the Commonwealth of Puerto Rico.

(3) Notaries public and other officers authorized to administer oaths. The official position and authority of any such officer must be certified by a U.S. diplomatic or consular representative under seal of his office.

(c) *Officers having limited authority.* The following are authorized to certify assignments to the extent set forth in connection with each class of officers:

(1) Postmasters, acting postmasters, assistant postmasters, inspectors in charge, chief and assistant chief accountants, and superintendents of stations of any post office, notaries public and justices of the peace in the United States, its territories and possessions, the Commonwealth of Puerto Rico and the Canal Zone, but only for assignment of securities for redemption for the account of the assignor, or for redemption exchange, or pursuant to an advance refunding or prerefunding offer for other securities to be registered in his name, or in his name with a joint owner. The signature of any post office official, other than a postmaster, must be in the following form: "John A. Doe, Postmaster, by Richard B. Roe, Superintendent of Station."

(2) Commissioned officers and warrant officers of the Armed Forces of the United States for assignment of securities of any class for any authorized transaction, but only with respect to assignments executed by: (i) Armed Forces personnel and civilian field employees, and (ii) members of the families of such personnel or civilian employees.

(d) *Special provisions for certifying assignments.* The Commissioner of the Public Debt, the Chief of the Division of Securities Operations, any Federal Reserve bank or branch, or the Treasurer of the United States, is authorized to make special provisions for any case or class of cases.

§ 306.46 Duties and responsibilities of certifying officer.

A certifying officer must require execution of an assignment, or a form with respect to securities, in his presence after he has established the identity of the assignor and before he certifies the signature. He must then complete the certification. An employee who is not an officer should insert "Authorized signature" in the space provided for the title. However, an assignment of a security need not be executed in the presence of the certifying officer if he unqualifiedly guarantees the signature thereto, in which case he must place his endorsement on the security, following the signature, in the form "Signature guaranteed, First National Bank of Jonesville, Jonesville, N.H., by A. B. Doe, President," and add the date. The certifying officer and, if he is an officer or employe of an organization, the organization will be held responsible for any loss the United States may suffer as the result of his fault or negligence.

§ 306.47 Evidence of certifying officer's authority.

The authority of an individual to act as a certifying officer is established by affixing to a certification of an assignment, or a form with respect to securities, or an unqualified guarantee of a signature to an assignment, either: (a) The official seal of the organization, or (b) a legible imprint of the issuing agent's dating stamp, if the organization is an authorized issuing agent for U.S. Savings Bonds of Series E. Use of such stamp shall result in the same responsibility on the part of the organization as if its official seal were used. A certification which does not bear a seal or issuing agent's dating stamp will not be accepted. Any post office official must use the official stamp of his office. A commissioned or warrant officer of any of the Armed Forces of the United States should indicate his rank and state that the person executing the assignment is one of the class whose signature he is authorized to certify. A judge or clerk of court must use the seal of the court. Any other certifying officer must use his official seal or stamp, if any, but, if he has neither, his official position and a specimen of his signature must be certified by some other authorized officer under official seal or stamp or otherwise proved to the satisfaction of the Department.

§ 306.48 Interested persons not to act as certifying officer or witness.

Neither the assignor, the assignee, nor any person having an interest in a security may act as a certifying officer, or as a witness to an assignment by mark. However, a bank officer may certify an assignment to the bank, or an assignment executed by another officer in its behalf.

§ 306.49 Nontransferable securities.

The provisions of this subpart, so far as applicable, govern transactions in Treasury Bonds, Investment Series B-1975-80.

SUBPART G—ASSIGNMENTS BY OR IN BEHALF OF INDIVIDUALS

§ 306.55 Signatures, minor errors and change of name.

The owner's signature to an assignment should be in the form in which the security is inscribed or assigned, unless such inscription or assignment is incorrect or the name has since been changed. In case of a change of name, the signature to the assignment should show both names and the manner in which the change was made, for example, "John Young, changed by order of court from Hans Jung." Evidence of the change will be required. However, no evidence is required to support an assignment if the change resulted from marriage and the signature, which must be duly certified by an authorized officer, is written to show that fact, for example, "Mrs. Mary J. Brown, changed by marriage from Miss Mary Jones."

§ 306.56 Assignment of securities registered in the names of or assigned to two or more persons.

(a) *Transfer or exchange.* Securities registered in the names of or assigned to two or more persons may be transferred or exchanged for coupon bonds during the lives of all the joint owners only upon assignments by all or on their behalf by authorized representatives. Upon proof of the death of one, the Department will accept an assignment by or in behalf of the survivor or survivors, unless the form of registration or assignment includes words which precludes the right of survivorship.⁹ In the latter case, in addition to assignment by or in behalf of the survivor or survivors, an assignment in behalf of the decedent's estate will be required.

(b) *Advance refunding or prerefunding offers.* No assignments are required for exchange of securities registered in the names of or assigned to two or more persons if the securities to be received in the exchange are to be registered in the same names and form. If bearer securities or securities in a different form are to be issued, all persons named must assign, except that in case of death paragraph (a) of this section shall apply.

(c) *Redemption or redemption-exchange.* (1) *Alternative registration or assignment.* Securities registered in the names of or assigned to two or more persons in the alternative, for example, "John B. Smith or Mrs. Mary J. Smith" or "John B. Smith or Mrs. Mary J. Smith or the survivor," may be assigned by one of them at maturity or upon call, for redemption or redemption-exchange, for his own account or otherwise, whether or not the other joint owner or owners are deceased.

(2) *Joint registration or assignment.* Securities registered in the names of or assigned to two or more persons jointly, for example, "John B. Smith and Mrs. Mary J. Smith," or "John B. Smith and Mrs. Mary J. Smith as tenants in common," or "John B. Smith and Mary J. Smith as partners in community," may be assigned by one of them during the lives of all only for redemption at maturity or upon call, and then only for redemption for the account of all. No assignments are required for redemption-exchange for securities to be registered in the same names and forms as appear in the registration or assignment of the securities surrendered. Upon proof of the death of a joint owner, the survivor or survivors may assign securities so registered or assigned for redemption or redemption-exchange for any account, except that, if words which preclude the right of survivorship⁹ appear in the registration or assignment, assignment in behalf of the decedent's estate also will be required.

§ 306.57 Minors and incompetents.

(a) *Assignments by natural guardian of securities registered in name of minor.* Securities registered in the name of a minor for whose estate no legal guardian or similar representative has qualified may be assigned by the natural guardian upon qualification. (Form PD 2481 may be used for this purpose.)

⁹ See § 306.11(a)(2) for forms of registration expressing or precluding survivorship.

(b) *Assignments of securities registered in name of natural guardian of minor.* Securities registered in the name of a natural guardian of a minor may be assigned by the natural guardian for any authorized transaction except one for the apparent benefit of the natural guardian. If the natural guardian in whose name the securities are registered is deceased or is no longer qualified to act as natural guardian, the securities may be assigned by the person then acting as natural guardian. The assignment by the new natural guardian should be supported by proof of the death or disqualification of the former natural guardian and by evidence of his own status as natural guardian. (Form PD 2481 may be used for this purpose.) No assignment by a natural guardian will be accepted after receipt of notice of the minor's attainment of majority, removal of his disability of minority, disqualification of the natural guardian to act as such, qualification of a legal guardian or similar representative, or the death of the minor.

(c) *Assignments by voluntary guardians of incompetents.* Registered securities belonging to an incompetent for whose estate no legal guardian or similar representative is legally qualified may be assigned by the relative responsible for his care and support or some other person as voluntary guardian:

(1) For redemption or exchange for bearer securities, if the proceeds of the securities are needed to pay expenses already incurred, or to be incurred during any 90-day period, for the care and support of the incompetent or his legal dependents.

(2) For redemption-exchange, if the securities are matured or have been called, or pursuant to an advance refunding or prerefunding offer, for reinvestment in other securities to be registered in the form "A, an incompetent (123-45-6789) under voluntary guardianship."

An application on Form PD 1461 by the person seeking authority to act as voluntary guardian will be required.

d) *Assignments by legal guardians of minors or incompetents.* Securities registered in the name and title of the legal guardian or similar representative of the estate of a minor or incompetent may be assigned by the representative for any authorized transaction without proof of his qualification. Assignments by a representative of any other securities belonging to a minor or incompetent must be supported by properly certified evidence of qualification. The evidence must be dated not more than 1 year before the date of the assignments and must contain a statement showing the appointment is in full force unless (1) it shows the appointment was made not more than 1 year before the date of the assignment, or (2) the representative or a corepresentative is a corporation. An assignment by the representative will not be accepted after receipt of notice of termination of the guardianship, except for transfer to the former ward.

§ 306.58 Nontransferable securities.

The provisions of this subpart, so far as applicable, govern transactions in Treasury Bonds, Investment Series B-1975-80.

SUBPART H—ASSIGNMENTS IN BEHALF OF ESTATES OF DECEASED OWNERS

§ 306.65 Special provisions applicable to small amounts of securities, interest checks or redemption checks.

Entitlement to, or the authority to dispose of, a small amount of securities and checks issued in payment thereof or in payment of interest thereon, belonging to the estate of a decedent, may be established through the use of certain short forms, according to the aggregate amount of securities and checks involved (excluding checks representing interest on the securities), as indicated by the following table:

Amount	Circumstances	Form	To be executed by—
\$100	No administration.....	PD 2216.....	Person who paid burial expenses.
500	Estate being administered.....	PD 2483.....	Executor or administrator.
500	Estate settled.....	PD 2458-1.....	Former executor or administrator, attorneys or other qualified person.

§ 306.66 Estates—administration.

(a) *Temporary or special administrators.* Temporary or special administrators may assign securities for any authorized transaction within the scope of their authority. The assignments must be supported by:

(1) *Temporary administrators.* A certificate, under court seal, showing the appointment in full force within thirty days preceding the date of receipt of the securities.

(2) *Special administrators.* A certificate, under court seal, showing the appointment in full force within 6 months preceding the date of receipt of the securities.

Authority for assignments for transactions not within the scope of appointment must be established by a duly certified copy of a special order of court.

(b) *In course of administration.* A security belonging to the estate of a decedent which is being administered by a duly qualified executor or general administrator will be accepted for any authorized transaction upon assignment by such representative. (See § 306.77.) Unless the security is registered in the name of and shows the capacity of the representative, the assignment must be supported by a certificate or a copy of the letters of appointment, certified under court seal. The certificate or certification, if required, must be dated not more than 6 months before the date of the assignment and must contain a statement that the appointment is in full force, unless (1) it shows the appointment was made not more than 1 year before the date of the assignment, or (2) the representative or a corepresentative is a corporation, or (3) redemption is being made for application of the proceeds in payment of Federal estate taxes as provided by § 306.28.

(c) *After settlement through court proceedings.* Securities belonging to the estate of a decedent which has been settled in court will be accepted for any authorized transaction upon assignments by the person or persons entitled, as determined by the court. The assignments should be supported by a copy, certified under court seal, of the decree of distribution, the representative's final account as approved by the court, or other pertinent court records.

§ 306.67 Estates not administered.

(a) *Special provisions under State laws.* If, under State law, a person has been recognized or appointed to receive or distribute the assets of a decedent's estate without regular administration, his assignment of securities belonging to the estate will be accepted provided he submits appropriate evidence of his authority.

(b) *Agreement of persons entitled.* When it appears that no legal representative of a decedent's estate has been or is to be appointed, securities belonging to the estate may be duly disposed of pursuant to an agreement and assignment by all persons entitled to share in the decedent's personal estate. (Form PD 1646 may be used.) However, all debts of the decedent and his estate must be paid or provided for and the interests of any minors or incompetents must be protected.

§ 306.68 Nontransferable securities.

The provisions of this subpart, so far as applicable, govern transactions in Treasury Bonds, Investment Series B-1975-80.

SUBPART I—ASSIGNMENTS BY OR IN BEHALF OF TRUSTEES AND SIMILAR FIDUCIARIES

§ 306.75 Individual fiduciaries.

(a) *General.* Securities registered in, or assigned to, the names and titles of individual fiduciaries will be accepted for any authorized transaction upon assignment by the designated fiduciaries without proof of their qualifications. If the fiduciaries in whose names the securities are registered, or to whom they have been assigned, have been succeeded by other fiduciaries, evidence of succession must be furnished. If the appointment of a successor is not required under the terms of the trust instrument or otherwise and is not contemplated, assignments by the surviving remaining fiduciary or fiduciaries must be supported by appropriate proof. This requires (1) proof of the death, resignation, removal or disqualification of the former fiduciary and (2) evidence that the surviving or remaining fiduciary or fiduciaries are fully qualified to administer the fiduciary estate, which may be in the form of a certificate by them showing

the appointment of a successor has not been applied for, is not contemplated and is not necessary under the terms of the trust instrument or otherwise. Assignments of securities, registered in the titles, without the names of the fiduciaries, for example, "Trustees of the George E. White Memorial Scholarship Fund under deed of trust dated 11/10/40, executed by John W. White," must be supported by proof that the assignors are the qualified and acting trustees of the designated trust estate, unless they are empowered to act as a unit in which case the provisions of § 306.76 shall apply. (Form PD 2446 may be used to furnish proof of incumbency of fiduciaries.) Assignments by fiduciaries of securities not registered or assigned in such manner as to show that they belong to the estate for which the assignors are acting must also be supported by evidence that the estate is entitled to the securities.

(b) *Life tenants.* Upon termination of a life estate by reason of the death of the life tenant in whose name a security is registered, or to whom it has been assigned, the security will be accepted for any authorized transaction upon assignment by the remainderman, supported by evidence of entitlement.

§ 306.76 Fiduciaries acting as a unit.

Securities registered in the name of or assigned to a board, committee or other body authorized to act as a unit for any public or private trust estate may be assigned for any authorized transaction by anyone authorized to act in behalf of such body. Except as otherwise provided in this section, the assignments must be supported by a copy of a resolution adopted by the body, properly certified under its seal, or, if none, sworn to by a member of the body having access to its records. (Form PD 2495 may be used.) If the person assigning is designated in the resolution by title only, his incumbency must be duly certified by another member of the body. (Form PD 2446 may be used.) If the fiduciaries of any trust estate are empowered to act as a unit, although not designated as a board, committee or other body, securities registered in their names or assigned to them as such, or in their titles without their names, may be assigned by anyone authorized by the group to act in its behalf. Such assignments may be supported by a sworn copy of a resolution adopted by the group in accordance with the terms of the trust instrument, and proof of their authority to act as a unit may be required. As an alternative, assignments by all the fiduciaries, supported by proof of their incumbency, if not named on the securities, will be accepted.

§ 306.77 Corepresentatives and fiduciaries.

If there are two or more executors, administrators, guardians or similar representatives, or trustees of an estate, all must unite in the assignment of any securities belonging to the estate. However, when a statute, a decree of court, or the instrument under which the representatives or fiduciaries are acting provides otherwise, assignments in accordance with their authority will be accepted. If the securities have matured or been called and are submitted for redemption for the account of all, or for redemption-exchange or pursuant to an advance refunding or prerefunding offer, and the securities offered in exchange are to be registered in the names of all, no assignment is required.

§ 306.78 Nontransferable securities.

The provisions of this subpart, so far as applicable, govern assignments of Treasury Bonds, Investment Series B-1975-80.

SUBPART J—ASSIGNMENTS IN BEHALF OF PRIVATE OR PUBLIC ORGANIZATIONS

§ 306.85 Private corporations and unincorporated associations (including nominees.)

Securities registered in the name of, or assigned to, an unincorporated association, or a private corporation in its own right or in a representative or fiduciary capacity, or as nominee, may be assigned in its behalf for any authorized transaction by any duly authorized officer or officers. Evidence, in the form of a resolution of the governing body, authorizing the assigning officer to assign, or to sell, or to otherwise dispose of the securities will ordinarily be required. Resolutions may relate to any or all registered securities owned by the organization or held by it in a representative or fiduciary capacity. (Form PD 1010, or any substantially similar form, may be used when the authority relates to specific securities; Form PD 1011, or any substantially similar form, may be used for securities generally.) If the officer derives his authority from a charter, constitu-

tion or bylaws, a copy, or a pertinent extract therefrom, properly certified, will be required in lieu of a resolution. If the resolution or other supporting document shows the title of an authorized officer, without his name, it must be supplemented by a certificate of incumbency. (Form PD 1014 may be used.)

§ 306.86 Change of name and succession of private organizations.

If a private corporation or unincorporated association changes its name or is lawfully succeeded by another corporation or unincorporated association, its securities may be assigned in behalf of the organization in its new name or that of its successor by an authorized officer in accordance with § 306.85. The assignment must be supported by evidence of the change of name or successorship.

§ 306.87 Partnerships (including nominee partnerships).

An assignment of a security registered in the name of or assigned to a partnership must be executed by a general partner. Upon dissolution of a partnership, assignment by all living partners and by the persons entitled to assign in behalf of any deceased partner's estate will be required unless the laws of the jurisdiction authorize a general partner to bind the partnership by any act appropriate for winding up partnership affairs. In those cases where assignments by or in behalf of all partners are required this fact must be sworn in the assignment; otherwise, an affidavit by a former general partner must be furnished identifying all the persons who had been partners immediately prior to dissolution. Upon voluntary dissolution, for any jurisdiction where a general partner may not act in winding up partnership affairs, an assignment by a liquidating partner, as such, must be supported by a duly executed agreement among the partners appointing the liquidating partner.

§ 306.88 Political entities and public corporations.

Securities registered in the name of, or assigned to, a State, county, city, town, village, school district or other political entity, public body or corporation, may be assigned by a duly authorized officer, supported by evidence of his authority.

§ 306.89 Public officers.

Securities registered in the name of, or assigned to, a public officer designated by title may be assigned by such officer, supported by evidence of incumbency. Assignments for the officer's own apparent individual benefit will not be recognized.

§ 306.90 Nontransferable securities.

The provisions of this subpart apply to Treasury Bonds, Investment Series B-1975-80.

SUBPART K—ATTORNEYS IN FACT

§ 306.95 Attorneys in fact.

(a) *General.* Assignments by an attorney in fact will be recognized if supported by an adequate power of attorney. Every power must be executed in the presence of an authorized certifying officer under the conditions set out in § 306.45 for certification of assignments. Powers need not be submitted to support redemption-exchanges or exchanges pursuant to advance refunding or prerefunding offers where the securities to be issued are to be registered in the same names and forms as appear in the inscriptions or assignments of the securities surrendered. In all other cases, the original power, or a photocopy showing the grantor's autograph signature, properly certified, must be submitted, together with the security assigned on the owner's behalf by the attorney in fact. An assignment by a substitute attorney in fact must be supported by an authorizing power of attorney and power of substitution. An assignment by an attorney in fact or a substitute attorney in fact for the apparent benefit of either will not be accepted unless expressly authorized. (Form PD 1001 or 1003, as appropriate, may be used to appoint an attorney in fact. An attorney in fact may use Form PD 1006 or 1008 to appoint a substitute. However, any form sufficient in substance may be used.) If there are two or more joint attorneys in fact or substitutes, all must unite in an assignment, unless the power authorizes less than all to act. A power of attorney or of substitution not coupled with an interest will be recognized until the Bureau receives proof of revocation or proof of the grantor's death or incompetency.

(b) *For legal representatives and fiduciaries.* Assignments by an attorney in fact or substitute attorney in fact for a legal representative or fiduciary, in addition to the power of attorney and of substitution, must be supported by evidence, if any, as required by §§ 306.57(d), 306.66(b), 306.75, and 306.76. Powers must specifically designate the securities to be assigned.

(c) *For corporations or unincorporated associations.* Assignments by an attorney in fact or a substitute attorney in fact in behalf of a corporation or unincorporated association, in addition to the power of attorney and power of substitution, must be supported by one of the following documents certified under seal of the organization, or, if it has no seal, sworn to by an officer who has access to the records:

(1) A copy of the resolution of the governing body authorizing an officer to appoint an attorney in fact, with power of substitution, if pertinent, to assign, or to sell, or to otherwise dispose of, the securities, or

(2) A copy of the charter, constitution, or bylaws, or a pertinent extract therefrom, showing the authority of an officer to appoint an attorney in fact, or

(3) A copy of the resolution of the governing body directly appointing an attorney in fact.

If the resolution or other supporting document shows only the title of the authorized officer, without his name, a certificate of incumbency must also be furnished. (Form PD 1014 may be used.) The power may not be broader than the resolution or other authority.

(d) *For public corporations.* A general power of attorney in behalf of a public corporation will be recognized only if it is authorized by statute.

§ 306.96 Nontransferable securities.

The provisions of this subpart shall apply to nontransferable securities, subject only to the limitations imposed by the terms of the particular issues.

SUBPART L—TRANSFER THROUGH JUDICIAL PROCEEDINGS

§ 306.100 Transferable securities.

The Department will recognize valid judicial proceedings affecting the ownership of or interest in transferable securities, upon presentation of the securities together with evidence of the proceedings. In the case of securities registered in the names of two or more persons, the extent of their respective interests in the securities must be determined by the court in proceedings to which they are parties or must otherwise be validly established.¹⁰

§ 306.101 Evidence required.

Copies of a final judgment, decree, or order of court and of any necessary supplementary proceedings must be submitted. Assignments by a trustee in bankruptcy or a receiver of an insolvent's estate must be supported by evidence of his qualification. Assignments by a receiver in equity or a similar court officer must be supported by a copy of an order authorizing him to assign, or to sell, or to otherwise dispose of, the securities. Where the documents are dated more than 6 months prior to presentation of the securities, there must also be submitted a certificate dated within 6 months of presentation of the securities, showing the judgment, decree, or order, or evidence of qualification, is in full force. Any such evidence must be certified under court seal.

§ 306.102 Nontransferable securities.

The provisions of this subpart shall apply to Treasury Bonds, Investment Series B-1975-80, except that prior to maturity any reference to assignments shall be deemed to refer to assignments of the bonds for exchange for the current series of 1½ percent 5-year EA or EO Treasury notes.

SUBPART M—REQUESTS FOR SUSPENSION OF TRANSACTIONS

§ 306.105 Requests for suspension of transactions in registered securities.

(a) *Timely notice.* If prior to the time a registered security bearing an apparently valid assignment has been functioned, a claim is received from the owner

¹⁰ Title in a finder claiming ownership of a registered security will not be recognized. A finder claiming ownership of a bearer security or a registered security assigned in blank or so assigned as to become in effect payable to bearer must perfect his title in accordance with the provisions of State law. If there are no such provisions, the Department will not recognize his title to the security.

or his authorized representative showing that (1) the security was lost, stolen, or destroyed and that it was unassigned, or not so assigned as to have become in effect payable to bearer, or (2) the assignment was affected by fraud, the transaction for which the security was received will be suspended. The interested parties will be given a reasonable period of time in which to effect settlement of their interests by agreement, or to institute judicial proceedings.

(b) *Late notice.* If, after a registered security has been transferred, exchanged, or redeemed in reliance on an apparently valid assignment, an owner notifies the Bureau that the assignment was affected by fraud or that the security had been lost or stolen, the Department will undertake only to furnish available information.

(c) *Forged assignments.* A claim that an assignment of a registered security is a forgery will be investigated. If it is established that the assignment was in fact forged and that the owner did not authorize or ratify it, or receive any benefit therefrom, the Department will recognize his ownership and grant appropriate relief.

§ 306.106 Requests for suspension of transactions in bearer securities.

(a) *Securities not overdue.* Neither the Department nor any of its agents will accept notice of any claim or of pending judicial proceedings by any person for the purpose of suspending transactions in bearer securities, or registered securities so assigned as to become in effect payable to bearer which are not overdue as defined in § 306.25.¹¹ However, if the securities are received and retired, the Department will undertake to notify persons who appear to be entitled to any available information concerning the source from which the securities were received.

(b) *Overdue securities.* Reports that bearer securities, or registered securities so assigned as to become in effect payable to bearer, were lost, stolen, or possibly destroyed after they became overdue as defined in § 306.25 will be accepted by the Bureau for the purpose of suspending redemption of the securities if the claimant establishes his interest. If the securities are presented, their redemption will be suspended and the presenter and the claimant will each be given an opportunity to establish ownership.

SUBPART N—RELIEF FOR LOSS, THEFT, DESTRUCTION, MUTILATION, OR DEFACEMENT OF SECURITIES

§ 306.110 Statutory authority and requirements.

Relief is authorized, 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.

§ 306.111 Procedure for applying for relief.

Prompt report of the loss, theft, destruction, mutilation or defacement of a security should be made to the Bureau. 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

¹¹ It has been the longstanding policy of the Department to assume no responsibility for the protection of bearer securities not in the possession of persons claiming rights therein and to give no effect to any notice of such claims. This policy was formalized on April 27, 1887, when the Secretary of the Treasury issued the following statement:

"In consequence of the increasing trouble, wholly without practical benefit, arising from notices which are constantly received at the Department respecting the loss of coupon bonds, which are payable to bearer, and of Treasury notes issued and remaining in blank at the time of loss, it becomes necessary to give this public notice, that the Government cannot protect and will not undertake to protect the owners of such bonds and notes against the consequences of their own fault or misfortune.

"Hereafter all bonds, notes, and coupons, payable to bearer, and Treasury notes issued and remaining in blank, will be paid to the party presenting them in pursuance of the regulations of the Department, in the course of regular business; and no attention will be paid to caveats which may be filed for the purpose of preventing such payment."

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.

§ 306.112 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 like description 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.

§ 306.113 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.

(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.

SUBPART O—BOOK-ENTRY PROCEDURE

§ 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 § 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.

§ 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.

§ 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:¹²

(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.

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 current revisions of Department of the Treasury Circulars Nos. 92 and 176 (Parts 203 and 202 of this chapter), 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.

§ 306.118 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

¹² The appendix to this subpart contains rules of identification of book-entry securities for Federal income tax purposes.

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 paragraph (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 § 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. Where transferable Treasury securities are recorded on the books of a depository (a bank, banking institution, financial firm, or similar party, which regularly accepts in the course of its business Treasury securities as a custodial service for customers, and maintains accounts in the names of such customers reflecting ownership of or interest in such securities) for account of the pledgor or transferor thereof and such securities are on deposit with a Reserve bank in a book-entry account hereunder, such depository shall, for purposes of perfecting a pledge of such securities or effecting delivery of such securities to a purchaser under applicable provisions of law, be the bailee to which notification of the pledge of the securities may be given or the third person in possession from which acknowledgment of the holding of the securities for the purchaser may be obtained. 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.

§ 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.

§ 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.

§ 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 § 306.117(a). Registered Treasury securities deposited thereafter with a Reserve bank for any purpose specified in § 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 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."

§ 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 or call, and the redemption proceeds, principal and interest, shall be disposed of in accordance with the depositor's instructions.

SUBPART P—MISCELLANEOUS PROVISIONS

§ 306.125 Additional requirements.

In any case or any class of cases arising under these regulations the Secretary of the Treasury may require such additional evidence and a bond of indemnity, with or without surety, as may in his judgment be necessary for the protection of the interests of the United States.

§ 306.126 Waiver of regulations.

The Secretary of the Treasury reserves the right, in his discretion, to waive or modify any provision or provisions of these regulations in any particular case or class of cases for the convenience of the United States or in order to relieve any person or persons of unnecessary hardship, if such action is not inconsistent with law, does not impair any existing rights, and he is satisfied that such action would not subject the United States to any substantial expense or liability.

§ 306.127 Preservation of existing rights.

Nothing contained in these regulations shall limit or restrict existing rights which holders of securities heretofore issued may have acquired under the circulars offering such securities for sale or under the regulations in force at the time of acquisition.

§ 306.128 Supplements, amendments or revisions.

The Secretary of the Treasury may at any time, or from time to time, prescribe additional supplemental, amendatory or revised regulations with respect to U.S. securities.

APPENDIX TO SUBPART E—INTEREST—COMPUTATION OF INTEREST ON TREASURY BONDS, TREASURY NOTES, AND TREASURY CERTIFICATES OF INDEBTEDNESS, AND COMPUTATION OF DISCOUNT ON TREASURY BILLS—INTEREST TABLES

COMPUTATION OF INTEREST ON ANNUAL BASIS

One Day's Interest Is $1/365$ or $1/366$ of 1-Year's Interest

Computation of interest on Treasury bonds, notes, and certificates of indebtedness will be made on an annual basis in all cases where interest is payable in

one amount for the full term of the security, unless such term is an exact half-year (6 months), and it is provided that interest shall be computed on a semi-annual basis.

If the term of the securities is exactly 1 year, the interest is computed for the full period at the specified rate regardless of the number of days in such period.

If the term of the securities is less than 1 full year, the annual interest period for purposes of computation is considered to be the full year from but not including the date of issue to and including the anniversary of such date.

If the term of the securities is more than 1 full year, computation is made on the basis of one full annual interest period, ending with the maturity date, and a fractional part of the preceding full annual interest period.

The computation of interest for any fractional part of an annual interest period is made on the basis of 365 actual days in such period, or 366 days if February 29 falls within such annual period.

COMPUTATION OF INTEREST ON SEMIANNUAL BASIS

One Day's Interest Is 1/181, 1/182, 1/183 or 1/184 of ½ Year's Interest

Computation of interest on Treasury bonds, notes, and certificates of indebtedness will be made on a semiannual basis in all cases where interest is payable for one or more full half-year (6 months) periods, or for one or more full-year periods and a fractional part of a half-year period. A semiannual interest period is an exact half-year or 6 months, for computation purposes, and may comprise 181, 182, 183 or 184 actual days.

An exact half-year's interest at the specified rate is computed for each full period of exactly 6 months, irrespective of the actual number of days in the half-year.

If the initial interest covers a fractional part of a half-year, computation is made on the basis of the actual number of days in the half-year (exactly 6 months) ending on the day such initial interest becomes due. If the initial interest covers a period in excess of 6 months, computation is made on the basis of one full half-year period, ending with the interest due date, and a fractional part of the preceding full half-year period.

Interest for any fractional part of a full half-year period is computed on the basis of the exact number of days in the full period, including February 29 whenever it falls within such a period.

The number of days in any half-year period is shown in the following table:

For the half-year

Interest period	Beginning and ending days are 1st or 15th of months listed under interest period (number of days)		Beginning and ending days are last days of months listed under interest period (number of days)	
	Regular year	Leap year	Regular year	Leap year
January to July	181	182	181	182
February to August	181	182	184	184
March to September	184	184	183	183
April to October	183	183	184	184
May to November	184	184	183	183
June to December	183	183	184	184
July to January	184	184	184	184
August to February	184	184	181	182
September to March	181	182	182	183
October to April	182	183	181	182
November to May	181	182	182	183
December to June	182	183	181	182
1 year (any 2 consecutive half- years)	365	366	365	366

The following are dates for end-of-the-month interest computations.

<i>When interest period ends on—</i>	<i>Interest-computation period will be from but will not include—</i>
Jan. 31.....	July 31.
Feb. 28 in 365-day year.....	Aug. 31.
Feb. 29.....	Do.
Mar. 30, 31.....	Sept. 30.
Apr. 30.....	Oct. 31.
May 30, 31.....	Nov. 30.
June 30.....	Dec. 31.
July 31.....	Jan. 31.
Aug. 29, 30 or 31.....	Feb. 28 in 365-day year.
	Feb. 29 in leap year.
Sept. 30.....	Mar. 31.
Oct. 30, 31.....	Apr. 30.
Nov. 30.....	May 31.
Dec. 30, 31.....	June 30.

USE OF INTEREST TABLES

In the appended tables decimals are set forth for use in computing interest for fractional parts of interest periods. The decimals cover interest on \$1,000 for 1 day in each possible semiannual (Table I), and annual (Table II) interest period, at all rates of interest in steps of $\frac{1}{8}$ percent, from $\frac{1}{8}$ to 9 percent. The amount of interest accruing on any date (for a fractional part of an interest period) on \$1,000 face amount of any issue of Treasury bonds, Treasury notes, or Treasury certificates of indebtedness may be ascertained in the following way:

(1) The date of issue, the dates for the payment of interest, the basis (semi-annual or annual) upon which interest is computed, and the rate of interest (percent per annum) may be determined from the text of the security or from the official circular governing the issue.

(2) Determine the interest period of which the fraction is a part, and calculate the number of days in the full period to determine the proper column to be used in selecting the decimal for 1 day's interest.

(3) Calculate the actual number of days in the fractional period from but not including the date of issue or the day on which the last preceding interest payment was made, to and including the day on which the next succeeding interest payment is due or the day as of which the transaction which terminates the accrual of additional interest is effected.

(4) Multiply the appropriate decimal (1 day's interest on \$1,000) by the number of days in the fractional part of the interest period. The appropriate decimal will be found in the appended table for interest payable semiannually or annually, as the case may be, opposite the rate borne by the security, and in the column showing the full interest period of which the fractional period is a part. (For interest on any other amount, multiply the amount of interest on \$1,000 by the other amount expressed as a decimal of \$1,000.)

TREASURY BILLS

The methods of computing discount rates on U.S. Treasury bills are given below:

Computation will be made on an annual basis in all cases. The annual period for bank discount is a year of 360 days, and all computations of such discount will be made on that basis. The annual period for true discount is 1 full year from but not including the date of issue to and including the anniversary of such date. Computation of true discount for a fractional part of a year will be made on the basis of 365 days in the year, or 366 days if February 29 falls within the year.

BANK DISCOUNT

The bank discount rate on a Treasury bill may be ascertained by (1) subtracting the sale price of the bill from its face value to obtain the amount of discount; (2) dividing the amount of discount by the number of days the bill is to run to obtain the amount of discount per day; (3) multiplying the amount of discount per day by 360 (the number of days in a commercial year of 12 months of 30 days each) to obtain the amount of discount per year; and (4) dividing the amount of discount per year by the face value of the bill to obtain the bank discount rate.

For example:

91-day bill:

Principal amount—maturity value.....	\$100.00
Price at issue—amount received.....	99.50
Amount of discount.....	.50

$$\$0.50 \div 91 \times 360 \div \$100 = .01978 \text{ or } 1.978 \text{ percent}$$

TRUE DISCOUNT

The true discount rate on a Treasury bill of not more than one-half year in length may be ascertained by (1 and 2) obtaining the amount of discount per day by following the first two steps described under "Bank Discount"; (3) multiplying the amount of discount per day by the actual number of days in the year from date of issue (365 ordinarily, but 366 if February 29 falls within the year from date of issue) to obtain the amount of discount per year; and (4) dividing the amount of discount per year by the sale price of the bill to obtain the true discount rate.

For example:

91-day bill:

Principal amount—maturity value.....	\$100.00
Price at issue—amount received.....	99.50
Amount of discount.....	.50

$$\$0.50 \div 91 \times 365 \div \$99.50 = .02016 \text{ or } 2.016 \text{ percent}$$

TABLE I.—*Decimal for 1 day's interest on \$1,000 at various rates* of interest, payable semiannually or on a semiannual basis, in regular years of 365 days and in leap years of 366 days (to determine applicable number of days, see "computation of interest on semiannual basis")*

Rate per annum (percent)	Half-year of 184 days	Half-year of 183 days	Half-year of 182 days	Half-year of 181 days
1/8.....	\$0.003 396 739	\$0.003 415 301	\$0.003 434 066	\$0.003 453 039
1/4.....	.006 793 478	.006 830 601	.006 868 132	.006 906 077
3/8.....	.010 190 217	.010 245 902	.010 302 198	.010 359 116
1/2.....	.013 586 957	.013 661 202	.013 736 264	.013 812 155
5/8.....	.016 983 696	.017 076 503	.017 170 330	.017 265 193
3/4.....	.020 380 435	.020 491 803	.020 604 396	.020 718 232
7/8.....	.023 777 174	.023 907 104	.024 038 462	.024 171 271
1.....	.027 173 913	.027 322 404	.027 472 527	.027 624 309
1 1/8.....	.030 570 652	.030 737 705	.030 906 593	.031 077 348
1 1/4.....	.033 967 391	.034 153 005	.034 340 659	.034 530 387
1 1/2.....	.037 364 130	.037 568 306	.037 774 725	.037 983 425
1 3/4.....	.040 760 870	.040 983 607	.041 208 791	.041 436 464
1 7/8.....	.044 157 609	.044 398 907	.044 642 867	.044 889 503
2.....	.047 554 348	.047 814 208	.048 076 923	.048 342 541
2 1/8.....	.050 951 087	.051 229 508	.051 510 959	.051 795 580
2 1/4.....	.054 347 826	.054 644 809	.054 945 055	.055 248 619
2 1/2.....	.057 744 565	.058 060 109	.058 379 121	.058 701 657
2 3/4.....	.061 141 304	.061 475 410	.061 813 187	.062 154 696
2 7/8.....	.064 538 043	.064 890 710	.065 247 253	.065 607 735
3.....	.067 934 783	.068 306 011	.068 681 319	.069 060 773
3 1/8.....	.071 331 522	.071 721 311	.072 115 385	.072 513 812
3 1/4.....	.074 728 261	.075 136 612	.075 549 451	.075 966 851
3 1/2.....	.078 125 000	.078 551 913	.078 983 516	.079 419 890
3 3/4.....	.081 521 739	.081 967 213	.082 417 582	.082 872 928
4.....	.084 918 478	.085 382 514	.085 851 648	.086 325 967
4 1/8.....	.088 315 217	.088 797 814	.089 285 714	.089 779 006
4 1/4.....	.091 711 957	.092 213 115	.092 719 780	.093 232 044
4 1/2.....	.095 108 696	.095 628 415	.096 153 846	.096 685 083
4 3/4.....	.098 505 435	.099 043 716	.099 587 912	.100 138 122
5.....	.101 902 174	.102 459 016	.103 021 978	.103 591 160
5 1/8.....	.105 298 913	.105 874 317	.106 456 044	.107 044 199
5 1/4.....	.108 695 652	.109 289 617	.109 890 110	.110 497 238
5 1/2.....	.112 092 391	.112 704 918	.113 324 176	.113 950 276
5 3/4.....	.115 489 130	.116 120 219	.116 768 242	.117 403 315
6.....	.118 885 870	.119 535 519	.120 192 308	.120 856 354
6 1/8.....	.122 282 609	.122 950 820	.123 626 374	.124 309 392
6 1/4.....	.125 679 348	.126 366 120	.127 060 440	.127 762 431
6 1/2.....	.129 076 087	.129 781 421	.130 494 505	.131 215 470
6 3/4.....	.132 472 826	.133 196 721	.133 928 571	.134 668 508
7.....	.135 869 565	.136 612 022	.137 362 637	.138 121 547
7 1/8.....	.139 266 304	.140 027 322	.140 796 703	.141 574 586
7 1/4.....	.142 663 043	.143 442 623	.144 230 769	.145 027 624
7 1/2.....	.146 059 783	.146 857 923	.147 664 835	.148 480 663
7 3/4.....	.149 456 522	.150 273 224	.151 098 901	.151 933 702
8.....	.152 853 261	.153 688 525	.154 532 967	.155 386 740
8 1/8.....	.156 250 000	.157 103 825	.157 967 033	.158 839 779
8 1/4.....	.159 646 739	.160 519 126	.161 401 099	.162 292 818
8 1/2.....	.163 043 478	.163 934 426	.164 835 165	.165 745 856

TABLE II.—*Decimal for 1 day's interest on \$1,000 at various rates of interest, payable annually or on an annual basis, in regular years of 365 days and in leap years of 366 days*

Rate per annum (percent)	Regular year, 365 days	Leap year, 366 days
1/8	\$0.003 424 658	\$0.003 415 301
1/4	.006 849 315	.006 830 601
3/8	.010 273 973	.010 245 902
1/2	.013 698 630	.013 661 202
5/8	.017 123 288	.017 076 503
3/4	.020 547 945	.020 491 803
7/8	.023 972 603	.023 907 104
1	.027 397 260	.027 322 404
1 1/8	.030 821 918	.030 737 705
1 1/4	.034 246 575	.034 153 005
1 3/8	.037 671 233	.037 568 306
1 1/2	.041 095 890	.040 983 607
1 5/8	.044 520 548	.044 398 907
1 3/4	.047 945 205	.047 814 208
1 7/8	.051 369 863	.051 229 508
2	.054 794 521	.054 644 809
2 1/8	.058 219 178	.058 060 109
2 1/4	.061 643 836	.061 475 410
2 3/8	.065 068 493	.064 890 710
2 1/2	.068 493 151	.068 306 011
2 5/8	.071 917 808	.071 721 311
2 3/4	.075 342 466	.075 136 612
2 7/8	.078 767 123	.078 551 913
3	.082 191 781	.081 967 213
3 1/8	.085 616 438	.085 382 514
3 1/4	.089 041 096	.088 797 814
3 3/8	.092 465 753	.092 213 115
3 1/2	.095 890 411	.095 628 415
3 5/8	.099 315 068	.099 043 716
3 3/4	.102 739 726	.102 459 016
3 7/8	.106 164 384	.105 874 317
4	.109 589 041	.109 289 617
4 1/8	.113 013 699	.112 704 918
4 1/4	.116 438 356	.116 120 219
4 3/8	.119 863 014	.119 535 519
4 1/2	.123 287 671	.122 950 820
4 5/8	.126 712 329	.126 366 120
4 3/4	.130 136 986	.129 781 421
4 7/8	.133 561 644	.133 196 721
5	.136 986 301	.136 612 022
5 1/8	.140 410 959	.140 027 322
5 1/4	.143 835 616	.143 442 623
5 3/8	.147 260 274	.146 857 923
5 1/2	.150 684 932	.150 273 224
5 5/8	.154 109 589	.153 688 525
5 3/4	.157 534 247	.157 103 825
5 7/8	.160 958 904	.160 519 126
6	.164 383 562	.163 934 426

APPENDIX TO SUBPART O—BOOK-ENTRY PROCEDURE

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;¹

¹ Filed as part of the original document. See 26 CFR 1.1012-1(c) (7).

(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, or by his bank or any other person through whom the taxpayer makes 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 § 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 § 1.471-5 of the regulations and not § 1.1012-1 of the regulations.

SECTION 1012—BASIS OF PROPERTY—COST

26 CFR 1.1012-1 *Basis of property. Rev. Rul. 71-21.*¹ A taxpayer owns as investments Treasury securities and certain other securities described in the new § 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

¹ Also released as Technical Information Release 1063, dated Dec. 30, 1970.

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 § 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 § 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 § 1.1012-1(c) (7) of the regulations.

SECTION 471—GENERAL RULE FOR INVENTORIES

26 CFR 1.471-5 *Inventories by dealers in Rev. Rul. 71-15¹ securities.* (Also section 1012; 1.1012-1.) 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 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 Bank, the Federal Land 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 § 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 § 1.471-5 of the regulations.

Held, the dealer is not subject to the provisions of § 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 § 1.471-5 of the regulations relating to inventory by dealers in securities.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

¹ Also released as Technical Information Release 1064, dated Jan. 14, 1971.

**Exhibit 11.—Department Circular No. 853, April 11, 1973, Second Revision.
restrictive endorsements of United States bearer securities**

DEPARTMENT OF THE TREASURY,
Washington, April 11, 1973.

The regulations in 31 CFR part 328 have been amended for the purpose of reducing costs of shipping definitive bearer securities submitted for conversion to book-entry securities or for redemptions or exchanges.

Notice and public procedures are unnecessary and are dispensed with as the fiscal policy of the United States is involved. The changes were effected under authority of R.S. 3706; 40 Stat. 288, 502, 1309; 46 Stat. 20; 48 Stat. 343; 49 Stat. 20; 56 Stat. 189; 73 Stat. 622; 85 Stat. 5, 74 (31 U.S.C. 738a, 739, 752, 752a, 753, 754, 754a and 754b); and 5 U.S.C. 301.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

Department of the Treasury Circular No. 853, Revised, dated December 4, 1964, is hereby further amended and revised and issued as Department of the Treasury Circular No. 853, Second Revision, effective April 11, 1973.

§ 328.1 Scope of regulations.

The regulations in this part are applicable only to U.S. bearer securities¹ presented (a) by or through banks for payment at or after their maturity or call date, or in exchange for any securities under any exchange offering, (b) by banks for conversion to book-entry securities, (c) by or through banks at any time prior to their maturity or call date for redemption at par and application of the entire proceeds in payment of Federal estate taxes, provided said securities by the terms of their issue are eligible for such redemption, and (d) by Service Center Directors and District Directors, Internal Revenue Service, for redemption, with the proceeds to be applied in payment of taxes (other than securities presented under paragraph (c) of this section). These regulations do not apply to bearer securities presented for any other transactions, or to registered securities assigned in blank, or to bearer, or so assigned as to become, in effect, payable to bearer.

§ 328.2 Definitions.

Certain words and terms, as used in these regulations, are defined as follows:

(a) "Banks" refer to, and include, incorporated banks (i.e., banks doing a general commercial banking business), incorporated trust companies (i.e., trust companies doing either a general banking business or a general trust business), and savings and loan associations, building and loan associations, and such other financial institutions as may be designated by the Federal Reserve banks. This definition is limited to institutions incorporated within the United States, its territories and possessions, the Commonwealth of Puerto Rico and the Canal Zone.

(b) "Bearer securities" or "securities" are those which are payable on their face to "bearer," the ownership of which is not recorded. They include "Treasury bonds," "Treasury notes," "Treasury certificates of indebtedness," and "Treasury bills."

§ 328.3 Authorization for restrictive endorsements.

(a) *By banks.*—Banks are authorized, under the conditions and in the form hereinafter provided, to place restrictive endorsements upon the face of bearer securities owned by themselves or their customers for the purpose of presentation to Federal Reserve banks or branches, or to the Treasurer of the United States, as follows:

(1) For payment or redemption—at any time within 1 calendar month prior to their maturity date, or the date on which they become payable pursuant to a call for redemption, or at any time after their maturity or call date;

(2) For exchange—during any period for their presentation pursuant to an exchange offering;

(3) For redemption at par in payment of Federal estate taxes (only eligible securities)—at any time prior to their maturity or call redemption date; and

¹ Certain agencies of the United States and certain Government and Government-sponsored corporations also authorize the restrictive endorsement of bearer securities.

(4) For conversion to book-entry securities under subpart O of part 306 of this chapter—at any time prior to their maturity or call redemption date.

(b) *By Service Center Directors and District Directors, Internal Revenue Service.*—Service Center Directors and District Directors, Internal Revenue Service, are authorized, under the conditions and in the form hereinafter provided, to place restrictive endorsements upon the face of bearer securities for the purpose of presentation to Federal Reserve banks or branches, or to the Treasurer of the United States, for redemption and application of the proceeds in payment of taxes (other than securities presented for redemption at par and application of the proceeds in payment of Federal estate taxes).

(c) *Instructions from Federal Reserve banks.*—Federal Reserve banks will inform eligible banks and Service Center Directors and District Directors, Internal Revenue Service, in their respective districts as to the procedure to be followed under the authority granted by these regulations. Restrictive endorsements shall not be placed on securities until such information is received from the Federal Reserve banks.

§ 328.4 Effect of restrictive endorsements.

Bearer securities bearing restrictive endorsements as herein provided will thereafter be nonnegotiable and payment, redemption, or exchange will be made only as provided in such endorsements.

§ 328.5 Forms of endorsement.

(a) *When presented by banks.*—(1) *For payment or exchange.*—The endorsement placed on a bearer security presented for payment or exchange by a bank should be in the following form:

For presentation to the Federal Reserve Bank of _____, Fiscal Agent of the United States, for redemption or in exchange for securities of a new issue, in accordance with written instructions submitted by

(Insert name of presenting bank)

(2) *For redemption at par.*—The endorsement placed on a bearer security presented for redemption at par in payment of Federal estate taxes should be in the following form:

For presentation to the Federal Reserve Bank of _____, Fiscal Agent of the United States, for redemption at par in payment of Federal estate taxes, in accordance with written instructions submitted by

(Insert name of presenting bank)

(b) *For conversion to book-entry securities.*—The endorsement placed on a bearer security presented for conversion to a book-entry security shall be in the following form:

For presentation to the Federal Reserve Bank of _____, Fiscal Agent of the United States for conversion to book-entry securities by

(Insert name of presenting bank)

(c) *When presented by Service Center Directors or District Directors, Internal Revenue Service.*—The endorsement placed on a bearer security by a Service Center Director or a District Director, Internal Revenue Service, should be in the following form:

For presentation to the Federal Reserve Bank of _____, Fiscal Agent of the United States, for redemption, the proceeds to be credited to the account of the Service Center Director, Internal Revenue Service, at _____, for credit on the Federal _____ taxes due from
(Income, gifts, or other)

(Name and address)

§ 328.6 Requirements for endorsement.

(a) *On bearer securities.*—The endorsement must be imprinted in the left-hand portion of the face of each security with the first line thereof parallel to the left edge of the security and in such manner as to be clearly legible and in such position that it will not obscure the serial number, series designation, or other identifying data, and cover the smallest possible portion of the text on the face of the security. The dimensions of the endorsement should be approximately 4 inches in width and 1½ inches in height, and must be imprinted by stamp or

plate of such character as will render the endorsement substantially ineradicable. The name of the Federal Reserve bank of the district must appear on the plate or stamp used for the imprinting of the endorsement, and presentation to the appropriate branch of the Federal Reserve bank named will be considered as presentation to the bank. When securities are to be presented to the Treasurer of the United States, the words "Treasurer of the United States" should be used in lieu of the words "Federal Reserve Bank of _____, Fiscal Agent of the United States." No subsequent endorsement will be recognized. If the form of endorsement on a security is different than that prescribed in § 328.5, the provisions of §§ 328.7 and 328.8 shall not apply to the security.

(b) *On coupons.*—Unmatured coupons attached to restrictively endorsed securities should be canceled by imprinting the prescribed endorsement in such manner that a substantial portion of the endorsement will appear on each such coupon. If any such coupons are missing, deduction of their face amount will be made in cases of redemption, and in cases of exchange, remittance equal to the face amount of the missing coupons must accompany the securities. All matured coupons, including coupons which will mature on or before the date of redemption or exchange (except as otherwise specifically provided in an announcement of an exchange offering), should be detached from securities upon which restrictive endorsements are to be imprinted.

§ 328.7 Shipment of securities.

Securities bearing restrictive endorsements may be shipped, at the risk and expense of the shipper, by registered mail, messenger, armored car service, or express to the Federal Reserve bank of the district in which the presenting bank, the Service Center Director, or the District Director, Internal Revenue Service, is located, or to the appropriate branch of such Federal Reserve bank. Shipments to the Treasurer of the United States, Washington, D.C., should be made by messenger or armored car.

§ 328.8 Loss, theft or destruction of securities bearing restrictive endorsements.

(a) *General.*—Relief will be provided on account of securities bearing restrictive endorsements proved to have been lost, stolen, or destroyed, upon the owner's application, in the same manner as registered securities which have not been assigned. (See subpart N of the current revision of Department Circular No. 300, the general regulations governing United States securities.) Except for bearer securities submitted for redemption at par in payment of Federal estate taxes, a bank will be considered the owner of securities handled on behalf of customers unless it otherwise requests. The application for relief (Form PD 2211) and instructions will be furnished by the Federal Reserve banks.

(b) *Bond of indemnity.*—Where securities bearing restrictive endorsements shipped by a bank have been lost, stolen, or destroyed, a bond of indemnity with surety satisfactory to the Secretary of the Treasury will be required from the owner. If such bond is executed by a bank or other corporation, the execution must be authorized by general or special resolution of the board of directors, or other body exercising similar functions under its bylaws. Ordinarily, no surety will be required on a bond executed by a presenting bank. The Secretary of the Treasury reserves the right, however, to require a surety in any case in which he considers such action necessary for the protection of the United States.

§ 328.9 Miscellaneous.

The provisions of this circular are subject to the current revision of Department Circular No. 300. The Secretary of the Treasury reserves the right at any time to amend, supplement, or withdraw any or all of the provisions of these regulations.

Exhibit 12.—Department Circular No. 905, December 12, 1969, Fifth Revision, Supplement No. 3, offering of United States savings bonds, Series H

DEPARTMENT OF THE TREASURY,
Washington, April 25, 1973.

The purpose of this supplement is to show the amounts of the interest checks and the investment yields for the next extended maturity period for U.S. Savings Bonds of Series H bearing issue dates of October 1, 1953, through March 1, 1954, and June 1 through November 1, 1963. Accordingly, 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 5-A and 26-A, as set forth below.

JOHN K. CARLOCK,
Fiscal Assistant Secretary.

TABLE 5-A.—Bonds bearing issue dates from October 1, 1953, through March 1, 1954¹

Face value	Issue price. Redemption and maturity value.	\$500	\$1,000	\$5,000	\$10,000	Approximate investment yield (annual percentage rate)		
		500	1,000	5,000	10,000			
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 inter- est pay- ment 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	
1/4 year..... ² (12/1/73)	\$13.75	\$27.50	\$137.50	\$275.00	5.50	5.50	5.50	
1 year..... (6/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
1 1/2 years..... (12/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2 years..... (6/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2 1/2 years..... (12/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3 years..... (6/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3 1/2 years..... (12/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4 years..... (6/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4 1/2 years..... (12/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5 years..... (6/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5 1/2 years..... (12/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6 years..... (6/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6 1/2 years..... (12/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7 years..... (6/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7 1/2 years..... (12/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8 years..... (6/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8 1/2 years..... (12/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9 years..... (6/1/82)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9 1/2 years..... (12/1/82)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
10 years (2d extended maturity) ³ (6/1/83)	13.75	27.50	137.50	275.00	45.50	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, 1953. For subsequent issue months add the appropriate number of months.

³ Twenty-nine years and 8 months after issue date.

⁴ Yield from issue date to second extended maturity date on bonds dated: Oct. 1 and Nov. 1, 1953 is 4.05 percent; Dec. 1, 1953 through Mar. 1, 1954 is 4.06 percent.

TABLE 26-A.—Bonds bearing issue dates from June 1 through November 1, 1963¹

Face value	Issue price. Redemption and maturity value.....	\$500	\$1,000	\$5,000	\$10,000	Approximate investment yield (annual percentage rate)			
		500	1,000	5,000	10,000				
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 inter- est pay- ment 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	
½ year	² (12/1/73)	\$13.75	\$27.50	\$137.50	\$275.00	5.50	5.50	5.50	
1 year	(6/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
1½ years	(12/1/74)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2 years	(6/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
2½ years	(12/1/75)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3 years	(6/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
3½ years	(12/1/76)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4 years	(6/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
4½ years	(12/1/77)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5 years	(6/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
5½ years	(12/1/78)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6 years	(6/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
6½ years	(12/1/79)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7 years	(6/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
7½ years	(12/1/80)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8 years	(6/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
8½ years	(12/1/81)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9 years	(6/1/82)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
9½ years	(12/1/82)	13.75	27.50	137.50	275.00	5.50	5.50	5.50	
10 years (extended maturity) ³	(6/1/83)	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, 1963. For subsequent issue months add the appropriate number of months.

³ Twenty years after issue date.

⁴ Yield on purchase price from issue date to extended maturity is 4.75 percent.

Exhibit 13.—An act to provide for a 4-month extension of the present temporary level in the public debt limitation

[Public Law 92-336, 92d Congress, H.R. 15390, July 1, 1972]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Law 92-250 and section 2 (a) of Public Law 92-5 are each amended by striking out "June 30, 1972," and inserting in lieu thereof "October 31, 1972,".

Ante, p. 63;
85 Stat. 5.

Exhibit 14.—An act to provide for a temporary increase in the public debt limit

[Public Law 92-599, 92d Congress, H.R. 16810, October 27, 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 November 1, 1972, and ending on June 30, 1973, the public debt limit set forth in the first sentence of section 21 of the Second Liberty Bond Act (31 U.S.C. 757b) shall be temporarily increased by \$65,000,000,000.

Public debt
limit.
Temporary
increase.
Ante, p. 63.

Economic and Financial Policy

Exhibit 15.—Statement by Secretary Shultz, July 25, 1972, before the Joint Economic Committee

The view is now widespread that the economy is expanding with strength and in a cumulative fashion. This view also holds that the upward movement in the general level of prices is moderating, as increased productivity and smaller increases in average hourly earnings lead to a slower growth in unit costs; and that the average household has over the past 18 months seen the results of this process reflected in a sharp upward movement in real spendable earnings, after 7 years in which this crucial measure of well-being failed to rise. The general view seems also to be that these favorable trends will continue. At the same time, many people are anxious about 1973 and 1974 insofar as the reemergence of inflation is concerned.

I agree with this widespread assessment of the current situation and the outlook. I also agree that the problem of inflation must remain in the forefront of our thinking as we approach issues of economic policy. This is especially so since we must work constantly to see that all those who want a job have an opportunity to have one. Encouraging as are recent indicators of economic expansion, we are nevertheless still short of attaining that important goal!

The Council of Economic Advisers has prepared for you a detailed midyear review of economic developments. Therefore, it is unnecessary for me to provide yet another recitation of what you already know, pleasant as it might be to dwell on recent developments.

Rather, I would like to call attention to certain aspects of policy and analysis, suggesting thereby some lessons from recent experience that we might appropriately apply in our continuing effort for peacetime prosperity with reasonably stable prices.

The need for budget discipline

The unified Federal budget has been kept at roughly full-employment balance for fiscal years 1969, 1970, 1971, and 1972, following the rising and large deficits in 1966, 1967, and 1968. There are many factors other than fiscal policy involved in controlling the economy. They include monetary policy and, in the last 11 months, the system of wage and price controls. This exercise in budget discipline has nevertheless been a powerful force in moving the rate of inflation down from 6.1 percent in 1969 to 5.5 percent in 1970, to 3.8 percent in 1971 prior to the freeze, to 2.7 percent in the 10 succeeding months as measured by the Consumer Price Index.

As we move into fiscal year 1973 and look ahead to the year following, will we be able to maintain this discipline? Recent actions by the Congress certainly leave the issue in doubt. There will be many actions on appropriations and contract authority taken in the next few weeks.

I urge the Congress to act with restraint on spending.

I urge the Congress to act favorably on the President's proposal for a firm ceiling on spending, one that would bind the legislative as well as the executive branch.

Otherwise I fear that we may return to the budget excesses of 1966, 1967, and 1968, with the relentless pressure these excesses put on the price level.

The contribution of industrial peace

The country has benefited greatly this year from a level of strike activity far below that of other recent years. In fact, in May 1972, the number of workers involved in new strikes was the lowest for any May in 30 years.

This remarkable degree of industrial peace is a tribute to labor and management and shows what can be done by the system of free collective bargaining. There have been many noteworthy achievements, including the settlement last week of two most difficult issues affecting the railroads and a record of settlements without strikes of many tough cases in the construction industry. The record in construction, noted and notable on the side of the levels of wage settlements, is as much so on the side of industrial peace.

I know that, in an exacting scholarly sense, it will not be possible to show just what contribution relative industrial peace has made to the strength of the

economy this year. It is my belief, however, that freedom from the disruptions of widespread strikes has contributed significantly to the expansion.

The Secretary of Labor and the Director of the Mediation Service and their coworkers have worked hard to encourage free collective bargaining. The basic achievement, however, is one of labor and management together. They deserve our understanding and encouragement. They also deserve recognition for their contribution to the economy. I salute them for the record of free collective bargaining in 1972.

The impact of tax changes

The tax structure has undergone massive change in the last 2½ years, and a further change, in the form of revenue sharing, is currently under review in the Senate.

The tax burden on individual incomes has been reduced, with the reductions benefiting low-income earners proportionately more. These reductions have undoubtedly helped the expansion and account in some measure for the strong recent increases in personal consumption expenditures.

The highly regressive tax on youth derived from a combination of the draft with low pay in the Armed Forces has been replaced by strong movement toward a volunteer Armed Force.

Greater incentives for new investment, which creates jobs now and low costs for the future, have resulted from clearing the uncertainty surrounding the asset depreciation range system last year and by passage of the job development tax credit. While it is always difficult to disentangle cause and effect, it is worth noting that private spending on new investment has picked up sharply this year, adding pace and quality to the expansion. This shows up not only in the well-known data on plant and equipment spending by businesses but also in farm equipment, where outlays are up by one-fifth over a year ago, and in trucks, buses and trailers, which are up by one-third.

Much has recently been accomplished by way of tax reform. The President is determined to carry these efforts further, to simplify the tax system, to make it more equitable, and to so arrange it that it contributes as much as possible to the solution of our economic problems. It is an immensely complicated subject, and changes must be made with care and with an understanding of the results of changes recently made. As we in the Treasury work on this subject, we welcome the discussion of it stimulated by this committee, as well as by the committees directly concerned.

International economic developments

Last August 15, the United States embarked on a program to restore its external economic strength and to reform the international monetary system in the context of an open and liberal world trading order.

As I pointed out earlier, our economy is now growing vigorously. In contrast, many of our major competitors are in a period of relatively slow expansion. As their economies pick up, as they expect, so should foreign demand for our exports. Meanwhile, the relative price performance of the United States is helping to reinforce the effects of the recent exchange rate realignment. We are not satisfied with our performance—but it is improving, and better than others. We are determined to make additional progress in the future.

Many factors suggest that our balance of payments position should improve in the period ahead. But I believe it is evident we cannot afford to relax in the thought that the changes made so far provide an assured and lasting solution. To take advantage of the opportunity afforded, we must manage our economy properly, we must increase its vigor and competitiveness, we must reduce barriers abroad to our exports. We must obtain structural changes in our international economic relationships to better reflect the present balance of power and responsibility.

In recent months there have been periods of calm and periods of speculation in foreign exchange markets. There was sporadic market uncertainty through early March—during what was an inevitable period of testing of the Smithsonian agreement. Markets then remained calm for 3½ months. During this period, a gradual unwinding of speculative positions and a reflux of short-term funds roughly offset—or more than offset—the continuing deficit in our trade and other accounts.

This calm was disturbed in the latter part of June, when strong speculative concerns reemerged at the time of the U.K. decision to float the pound. We and other parties to the Smithsonian agreement judged—and announced—that the speculation associated with the British move need not affect the basic exchange rate structure established at the Smithsonian. That continues to be our firm view.

Consistent with our view of the validity of the Smithsonian rates, we decided that some intervention from time to time in the exchange markets could provide a helpful deterrent to unwarranted speculation and to demonstrate the firmness of our view. This action does not in any way restore the convertibility of the dollar. Our basic policy approach toward monetary reform and the necessary efforts to achieve sustainable equilibrium in our balance of payments is unchanged.

These market developments emphasize—if emphasis were needed—the urgency of moving ahead with monetary reform. We must get on with this important work, and we must get the job done correctly.

Negotiations on reform of the monetary system have in a real sense been underway for some time. A process of discussion—much of it informal—among national governments has provided an opportunity to exchange views on the objectives of reform, and to clarify some of the major issues. Through this process, we gain understanding and lay the groundwork for developing the necessary consensus on which lasting reform must be based.

To handle the more formal negotiations of monetary reform, nations are now in substantial agreement on the formation of a "Committee of Twenty" under the general auspices of the IMF. The United States has played a major role in establishing the new Committee. We believe that with its representative membership and its breadth of approach enabling it to consider trade, interrelated investment and development, as well as monetary questions, it is well-equipped for the challenging task of monetary reform. We expect the Committee to begin its work at the time of the annual meetings of the IMF in September.

If we are to find workable and lasting solutions to the difficult problems of international monetary reform, we will have to deal with fundamental issues of importance to the national interest of the United States and other countries. Too often the smooth functioning of the monetary system is seen as simply a technical problem, involving nothing more than a search for efficient monetary devices. But discussion of these devices, important as they are, must not distract our focus from the basic issues.

As we come to grips with these important problems in the negotiations ahead, we intend to exercise our leadership to ensure that the monetary system which emerges will be sound and durable and fully meets the needs of a growing and changing world economy.

Exhibit 16.—Excerpts from address by General Counsel Pierce, October 12, 1972, before the 45th annual convention of the National Bankers Association Convention, Houston, Tex., on the minority bank deposit program

I welcome this opportunity to address the National Bankers Association for several very cogent reasons. As a founder and former director of one of your member banks—Freedom National Bank of New York—I believe I have an understanding of and a feeling for many of the problems that face minority-owned or controlled banks. In addition, through the years, I have gotten to know a number of the officers and directors of this association and of its member banks, and this engagement gives me a chance to renew old acquaintances. I also welcome this opportunity because it brings me to the wonderful city of Houston. It is one of my favorite cities, and one of the truly great cities of the United States.

I. Reflections and a progress report on the minority bank deposit program

Essential to the substantial growth of any bank is the growth of its deposits. In the past, a minority-controlled bank located in a black, Spanish-speaking, or Indian community has generally experienced difficulty in securing deposits in sufficiently large amounts to permit it to grow strong enough to have a truly great impact on the economic development of its community. This is understandable because the people in minority communities are often relatively poor and many of the businesses located in these communities are quite small and relatively weak financially—to say nothing of the prejudices a minority bank may face and the competition it may receive from white banking institutions.

Deposits are not the only ingredient necessary for a small bank to grow into a much larger and stronger one. Sufficient capital growth as well as constant improvement in management and staff are also essential to the growth of a bank. However, without a significant growth rate in its deposits—which are the raw material of banking—the expansion of a small bank would be severely limited.

As I previously mentioned, in addition to deposits, adequate capital and skilled personnel are important ingredients in the growth of a bank. Last week I talked with William Camp, the Comptroller of the Currency, about the capital and personnel problems of minority banks. He said that minority banks were improving in both categories; that, on the whole, they were securing the necessary capital to permit them to grow on a sound basis; and that their management and staff personnel had shown definite and constant improvement. He did say, however, that the problem of getting good people was tougher than the problem of securing additional capital, but added that this was true for all banks, not just minority banks.

As deposits in minority banks are growing at a remarkable rate, and as they are acquiring the necessary capital to grow on a sound basis, and their management and staff are constantly improving, it is reasonable to conclude that in general the minority banks of this country should grow and prosper. The extent to which they expand and the degree of their profitability will not only depend upon those factors I have already discussed, but also—in substantial measure—upon the condition of the American economy.

* * * * *

III. Sensitivity to community needs

It seems clear that in general the future for minority banks is quite good. They are accumulating deposits rapidly; securing the necessary capital to maintain a sound growth rate; improving their personnel; and operating in a favorable economic climate. As a result, minority banks can be expected to grow and prosper.

Sometimes when business concerns become large, wealthy, and economically independent, they also become less sensitive and more impersonal. Their objectives become more material than human. The profit motive becomes far more important than the motive for helping one's fellow man.

I hope I live to see the day when some of the banks currently referred to as minority banks grow so large and powerful that their histories can be compared with the Bank of America, the largest bank in the world, which at one time could have appropriately been called a "minority bank." However, I hope none of the members of this association will ever forget the communities that spawned them, nor their obligation to be sensitive to the needs of those communities, and their responsibility to help those communities grow and develop both economically and socially.

Governor Andrew Brimmer of the Federal Reserve Board stated in a report on black banking released on July 31, 1972, that black banks only loaned 41.1 percent of their total deposits, while the loans of all other insured banks represented 64.5 percent of their deposits. Dr. Brimmer concluded that black banks had clearly demonstrated their ability to attract capital, but were experiencing difficulties in finding reasonably secure outlets for their funds in the black communities.

There may be good and substantial reasons—other than difficulty in securing loans in their communities—for black banks having such a low loan ratio. For example, a large percentage of the deposits of black banks may be in tax and loan accounts or other Federal Government accounts which may be drawn upon on short notice, thereby preventing the banks from making long-term loans with those deposits.

Nevertheless, the point made by Dr. Brimmer makes one wonder whether black banks as well as other minority banks are being as creative as they should in their efforts to serve the needs of their communities. I am certainly not being critical, but I do want to urge most strongly that the directors and officers of every minority bank give substantial thought to the question of whether their bank is truly sensitive to community needs and is doing its utmost to be creative and imaginative in serving the needs of its community.

I do not believe minority banks are solely in business to make money. Their commitment is much broader than that. I think that when most minority banks were founded—particularly those founded within the past 10 years, which repre-

sents about two-thirds of the minority banks in existence today—they were founded more in the spirit of dedication than in the spirit of free enterprise.

I know when a group of us founded Freedom National Bank our hopes and aspirations went beyond the profit motive. We had dreams that some day the bank would not only make money for its shareholders, but would be of vital importance in the economic growth and development of the black community in New York City. We realized that, to some degree, bank profits might well have to be sacrificed to fulfill an obligation we believed we had to the community.

I feel certain that the founders of most minority banks had similar thoughts when they started their banks. That is why I believe there is an unwritten, but moral, obligation on the part of minority banks to be highly sensitive to community needs and to respond to those needs through creative, imaginative, and reasonably bold action. To me, this obligation will remain until such time that there is no further need for minority banks because all people will have respect for each other as human beings; prejudice and bigotry will have disappeared; and everyone will have the same opportunity to achieve according to his or her ability. It will be the day—to paraphrase the words of the late and great Dr. Martin Luther King—when minorities are free at last, free at last—Great God Almighty when they are free at last!

It was with these factors in mind that the Nixon administration in October 1970 embarked upon its minority bank deposit program. Agencies of government and businesses in the private sector have been urged by the administration to participate in this program by making deposits in minority-owned or -controlled banks. It was and still is believed that by assisting these banks to secure substantial increases in their deposits, they eventually will grow strong enough to become vital and key instruments in the economic growth and development of minority communities.

This program reflects part of the administration's effort and desire to see to it that progress is made in fulfilling the expectations that blacks and other minorities have to enjoy their just share of the economic fruits of this Nation; to see to it that they get "a piece of the action"—a phrase used by the President in referring to his intention to help minorities realize their economic aspirations.

The program has been and continues to be successful. When Dr. Charles Walker, Deputy Secretary of the Treasury, addressed your association in July of this year, he reported that as of June 30, 1972, the minority banks in this country had deposits totaling \$825,406,000, an increase of \$429 million, or 108 percent, since the Nixon administration launched its minority bank deposit program in October 1970.

In order to have the latest figures on the growth of minority bank deposits by the time of this meeting, I had telephone calls made last week to all of the minority banks to find out what their deposits were as of September 30, 1972. I am happy to announce today that as of September 30, the 43 minority banks in the United States had a total of \$874,225,000 in deposits, an increase of \$477,710,000, or 120 percent, since the minority bank deposit program was initiated 2 years ago.*

During the third quarter of this year, the deposits of minority banks increased by almost \$50 million or approximately 12 percent. With some luck and a great deal of hard work the landmark of \$1 billion in deposits may still be attained by the end of 1972.

*Two tables are attached. Table I shows the growth of total deposits of all banks participating in the program on a quarterly basis since the program was initiated. Table II shows the total deposits of each bank in the program as of September 30, 1972.

TABLE I.—Total deposits of banks participating in the administration's minority bank deposit program

[In rounded thousands of dollars]

Date	31 banks originally on roster	Banks subsequently added to roster		Total
		New banks ¹	Existing banks ²	
Sept. 30, 1970.....	396,515	-----	-----	396,515
Dec. 31, 1970.....	443,324	-----	-----	443,324
Sept. 30, 1971.....	543,509	8,493	-----	552,002
Dec. 31, 1971.....	618,747	16,885	51,930	687,562
June 30, 1972 ³	698,721	32,527	94,158	825,406
Sept. 30, 1972 ³	720,170	44,276	109,779	⁴ 874,225

¹ At Sept. 30, 1971: Pan American National Bank, Union City, N.J., Banco del Pueblo, Santa Ana Calif., North Milwaukee State Bank, Milwaukee, Wis., and Atlantic National Bank, Norfolk, Va. At Dec. 31, 1971: The above and Greensboro National Bank, Greensboro, N.C. At June 30, 1972: The above, Vanguard National Bank, Hempstead, N.Y., and Lumbee Bank, Pembroke, N.C. At Sept. 30, 1972: The above and First Enterprise Bank, Oakland, Calif.

² At Dec. 31, 1971: Republic National Bank, Miami, Fla., Highland Community Bank, Chicago, Ill., and American State Bank, Tulsa, Okla. At June 30, 1972, and Sept. 30, 1972: The above and Fidelity National Bank, Miami, Fla.

³ Figures obtained from banks by phone; may differ slightly from published figures.

⁴ Includes: 27 State banks with total deposits of \$552,533.

16 National banks with total deposits of \$321,692.

31 black and multiracial banks with total deposits of \$494,761.

11 Spanish-American banks with total deposits of \$377,672.

1 American Indian bank with deposits of \$1,792.

TABLE II.—*Total deposits of minority-owned banks at September 30, 1972*

(In thousands of dollars)

<i>Bank</i>	<i>Total deposits¹</i>
Bank of Finance, Los Angeles.....	28,745
Pan American National Bank, Los Angeles.....	17,752
First Enterprise Bank, Oakland.....	3,155
Banco de Pueblo, Santa Ana.....	6,310
Industrial Bank, Washington, D.C.....	35,959
United Community National Bank, Washington, D.C.....	16,774
The Bank of Miami.....	44,325
Fidelity National Bank of South Miami.....	29,565
Republic National Bank of Miami.....	66,579
Citizens Trust Company, Atlanta.....	30,852
Carver State Bank, Savannah.....	5,859
Highland Community Bank, Chicago.....	9,963
Independence Bank, Chicago.....	39,592
Seaway National Bank, Chicago.....	41,071
Douglass State Bank, Kansas City, Kans.....	15,960
Unity Bank & Trust Co., Roxbury, Mass.....	12,800
1st Independence National Bank, Detroit.....	23,942
1st Plymouth National Bank, Minneapolis.....	13,337
Swope Parkway National Bank, Kansas City, Mo.....	9,500
Gateway National Bank, St. Louis.....	15,192
Pan American National Bank, Union City, N.J.....	7,763
Centinel Bank of Taos, N. Mex.....	6,880
Vanguard National Bank, Hempstead, N.Y.....	8,015
Banco Credito y Ahorro Ponceño, New York City ²	19,398
Banco de Ponce, New York City ²	97,525
Banco Popular de Puerto Rico ²	*75,000
Freedom National Bank, New York City.....	45,647
Mechanics & Farmers Bank, Durham, N.C. ³	33,273
Greensboro National Bank, Greensboro, N.C.....	2,696
Lumbree Bank, Pembroke, N.C.....	1,792
Unity State Bank, Dayton.....	5,418
American State Bank, Tulsa.....	3,672
Freedom Bank of Finance, Portland, Ore.....	7,554
Victory Savings Bank, Columbia, S.C.....	4,865
Tri-State Bank, Memphis.....	16,570
Citizens Savings Bank & Trust Co., Nashville.....	8,689
Pan American National Bank, Houston.....	6,575
Riverside National Bank, Houston.....	10,295
First State Bank, Danville, Va.....	7,101
Atlantic National Bank, Norfolk.....	6,989
Consolidated Bank & Trust Co., Richmond.....	17,434
Liberty Bank of Seattle.....	6,286
North Milwaukee State Bank, Milwaukee.....	7,556
Total.....	874,225

¹ Deposits reported via phone; may differ slightly from published figures.² New York City offices only.³ Includes offices in Charlotte and Raleigh.

* Estimated, exact figures not readily available in bank.

Exhibit 17.—Remarks of Assistant Secretary Fiedler, November 15, 1972, before the National Economists Club Seminar, Washington, D.C., on "The Impact of Controls"

The rate of inflation has diminished. My family and my noneconomist friends would seriously question that statement, and understandably so, but among economists and others who watch the statistics closely there is wide agreement that both prices and wages are increasing at a slower rate than before the controls were put in place 15 months ago today.

Inflation scoreboard

Most statistical series on prices and wages reveal the slowdown, as shown in table 1 and charts 1 and 2, attached. The most decisive evidence is found in the broadest price measures we have, those from the GNP data, which show a cut-back in the rate of inflation to about 2½ percent in the first year of the stabilization program, compared to about a 5-percent rate from 1969 through early 1971. The Consumer Price Index also shows a pronounced but more gradual deceleration of inflation over these years. The slowdown is less decisive as measured by the Wholesale Price Index, which is narrower in coverage and historically more volatile than the others.

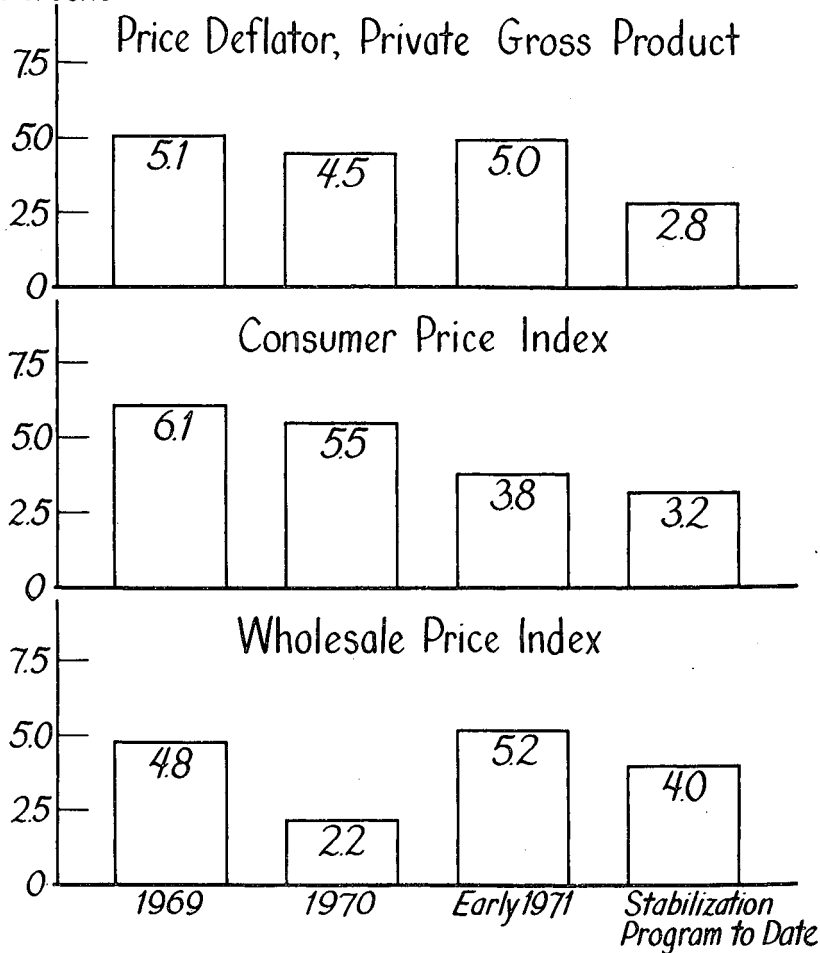
On the wage side, the adjusted hourly earnings index has increased at a rate of 6.1 percent during the stabilization program, compared to about 7 percent previously. Wage increases in major collective bargaining settlements (which data provide very narrow coverage relative to the hourly earnings series) have averaged 6.6 percent in the first three quarters of 1972, compared to over 8 percent in 1971 prior to the controls.

Thus, the evidence shows a clear, but not uniform, deceleration in the rate of inflation. Price inflation has been cut by perhaps 2 percentage points. The growth of wage rates appears to have been slowed by a percentage point or more. On balance, it seems fair to conclude that we have gone from about a 5-percent inflation world to a 3-percent inflation world.

CHART 1

MEASURES OF PRICE INFLATION BEFORE AND DURING THE ECONOMIC STABILIZATION PROGRAM

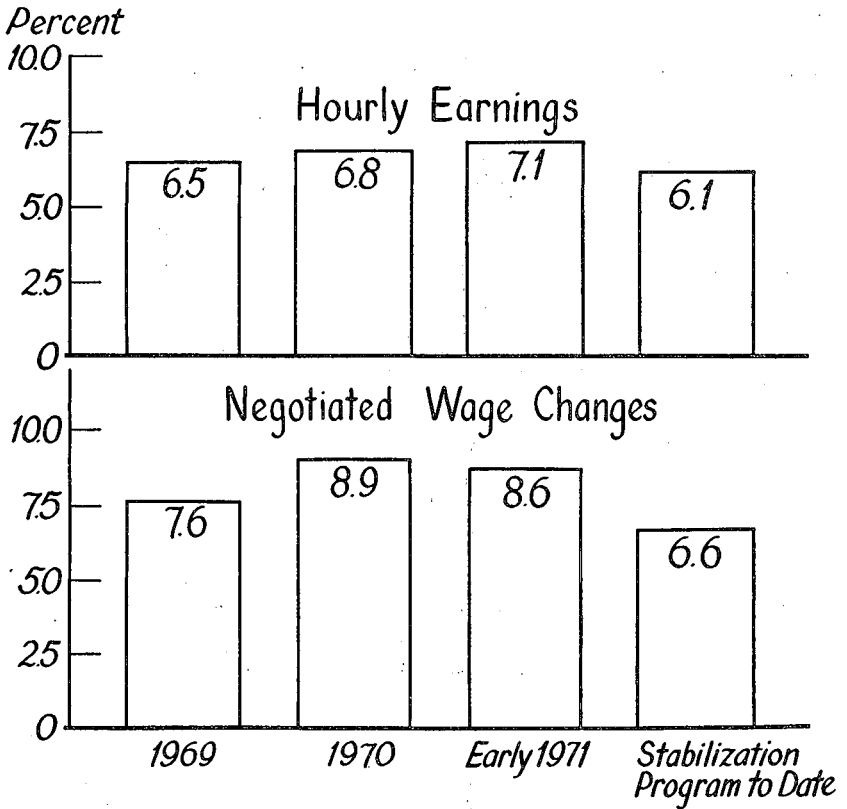
Percent—



SEE NOTES TO TABLE 1.

CHART 2

MEASURES OF WAGE CHANGES



SEE NOTES TO TABLE 1.

TABLE 1.—*Measures of price and wage inflation before and during the economic stabilization program*

[Seasonally adjusted percent changes at annual rates]

	1969 ^a	1970 ^a	Early 1971 ^b	Stabilization program to date ^c
GNP Price Deflators				
Total.....	5.3	5.3	5.1	^d 2.6
Private, fixed weights.....	5.1	4.5	5.0	^d 2.8
Consumer Price Index				
All items.....	6.1	5.5	3.8	3.2
Food.....	7.2	2.2	5.0	4.2
Commodities less food.....	4.5	4.8	2.9	2.3
Services ^d	7.4	8.2	4.6	3.4
Rent ^d	3.8	4.5	4.3	3.3
Wholesale Price Index				
All commodities.....	4.8	2.2	5.2	4.0
Farm products, processed foods, feeds.....	7.5	-1.4	6.5	7.7
Industrial commodities.....	3.9	3.6	4.7	2.6
Consumer commodities, excluding food.....	2.9	4.0	2.2	1.6
Producer finished goods.....	4.6	4.9	3.7	1.5
Intermediate materials, excluding food.....	3.8	3.1	5.9	3.1
Crude materials, excluding food.....	10.3	4.6	2.8	8.1
Wages				
Hourly earnings ^e	6.5	6.8	7.1	6.1
Negotiated wage changes ^f	7.6	8.9	8.6	6.6

^a For monthly series, December to December; for quarterly series, fourth quarter to fourth quarter.^b For monthly series, December 1970 to August 1971; for quarterly series, fourth quarter 1970 to second quarter 1971.^c For consumer prices, August 1971 to September 1972; for wholesale prices and hourly earnings, August 1971 to October 1972; for GNP series, third quarter 1971 to third quarter 1972 (preliminary); for negotiated wage changes, first three quarters of 1972.^d Not seasonally adjusted; data contain almost no seasonal movements.^e Earnings of private nonfarm production workers, adjusted for interindustry shifts and for overtime in manufacturing.^f Average wage change over life of contract in collective bargaining agreements covering 1,000 or more employees—decisions reached during 1969, 1970, first half of 1971 and first three quarters of 1972 (not seasonally adjusted).

The comparisons mentioned thus far have treated the first year or so of the stabilization program as a single period of time. It is possible, of course, to separate out the various phases of the stabilization program—the freeze, the postfreeze bulge, and the subsequent period. However, there does not appear to be any analytical payoff in doing so. The freeze did stop the upward movement of prices and wages almost completely for 90 days. The expected post-freeze bulge occurred on the wage side, though little evidence of it appears in the price series. (Evidently, the postfreeze bulge in prices was diffused through all of Phase II.) Subsequently, the data settled down and, during the 8 months or so since the postfreeze bubble, do not reveal any patterns—within that time period—that would appear to be analytically interesting.

Contribution of the controls

The fact that the pace of price and wage inflation has been cut back since the stabilization program was put in place, coupled with the fact that the deceleration was abrupt and coterminous with the onset of the program, has led many analysts to the conclusion that the controls, by themselves, were primarily responsible for that deceleration. Others have challenged this view, in particular by pointing to the economic slack in the utilization of our manpower and capital resources. Some have even concluded that the economic slack accounts for all of the slowdown in inflation, and that the controls have been a pointless exercise.

My own view is that there have been three important factors that jointly account for the inflation slowdown: The controls, the economic slack, and the improved cost picture that was brought about by accelerated growth.

That the economic slack—underutilized equipment and jobless workers—is exerting some downward pressures on prices and wages is apparent from several sources. There are many reports that price increases approved by the Price Commission have not been put into effect because of competitive pressures.

Moreover, a close look within the Wholesale Price Index reveals that 36 different product classes—13 percent of the total—experienced an actual decline in prices during the first 12 months of the stabilization program. Similarly, many wage settlements are totaling less than the general Pay Board standard of 5.5/6.2 percent. Pay Board data show that one-sixth of their approvals call for a wage increase of 3 percent or less, and more than 40 percent involve an increase that is below 5 percent. These several pieces of evidence suggest that economic slack has played a part in slowing the rate of both price and wage inflation.

The third factor, the impact of economic growth on the cost structure of business, has received little attention to date. The process, a familiar one to business cycle analysts but not otherwise well-known, is: (1) an acceleration of the growth in economic output takes place, (2) with this faster output growth comes an upswing in the rate of productivity growth (in fact, cause and effect run both ways, with each factor reinforcing the other), (3) the better productivity performance produces a slower rise in unit costs, (4) which in turn reduces the upward pressure on prices.

That this process has taken place over the past year is clearly demonstrated in chart 3. That it has played a role in the deceleration of inflation is suggested by the evidence that price inflation has slowed more than wage inflation.

I want to emphasize my view that the inflation slowdown was the *joint* product of the three factors. I doubt very much—based on the past record of incomes policies here and abroad—that the stabilization program could have made significant headway in the absence of economic slack. The slack, however, had not shown much effectiveness in putting the brakes on inflation before August 1971. And the acceleration of output growth, which brought with it the improved cost performance, was strongly helped by the fact that inflation slowed down. Thus, the three factors—controls, slack, and output growth—reinforced one another in bringing about the slowdown in inflation.

Other effects of the controls

Slowing inflation was and is the name of the game, so the stabilization program must be rated a success for having contributed significantly to that achievement. At the same time, we want to know what other effects, if any, the program may have had on the economy.

Clearly the program has had other effects, some undesirable and some beneficial. For example, the inflationary expectations of businessmen and workers have been brought down this past year, along with the rate of inflation itself.

Another beneficial effect is that the economic importance of productivity has become much more widely known. The relationship between the general standard of the Pay Board and the overall inflation goal of the Price Commission has made the role of productivity much more widely understood than before. The explicit requirement by the Price Commission that the industry's trend rate of productivity growth be taken into account on an application for price increases has focused the attention of business managements on the productivity growth achieved by their own firm. This increased attention and understanding of a crucial economic concept is all to the good, not only in the fight against inflation but in other ways as well.

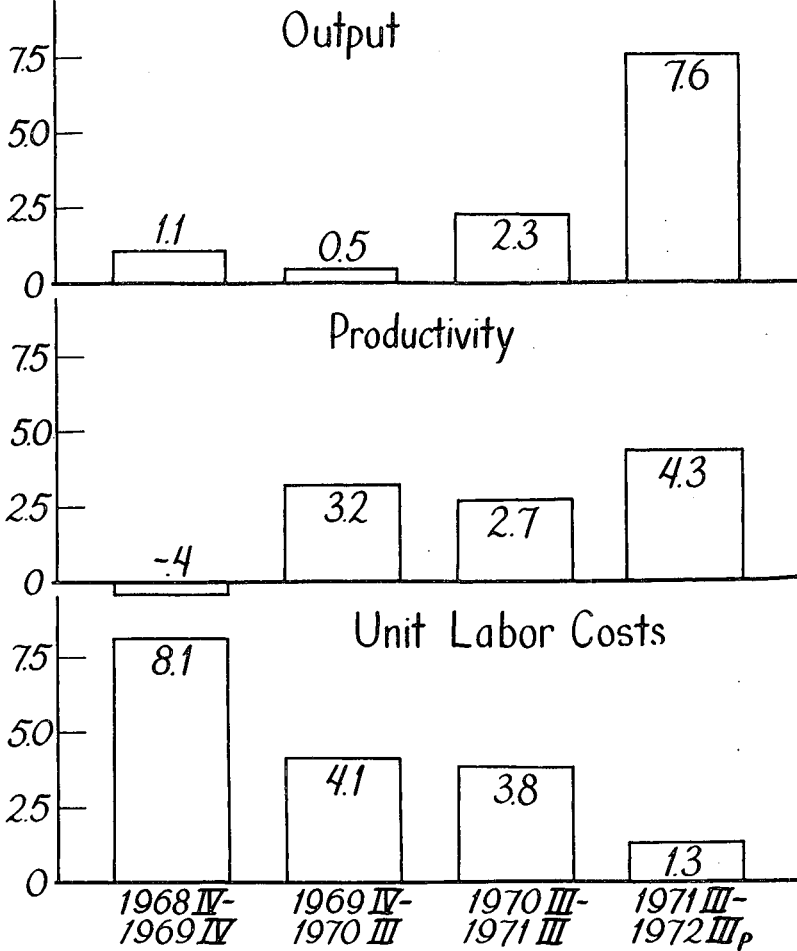
Still another beneficial effect of the program is the improvement that it has brought about in the real earnings of workers. From 1965 to 1970, real earnings increased very slowly as the large increases in nominal wages were substantially chewed away by rising prices. In the past couple of years, however, the average worker has seen the purchasing power of his paycheck make headway again, despite the fact that his nominal wage gains are not as large as before. The better price performance has meant that the real purchasing power of his pay has increased sharply.

This improvement in real earnings is one argument, and the reduction in inflationary expectations is another, against the reemergence of excessively large wage settlements in 1973. It has become conventional wisdom recently that—leaving aside the controls program for the moment—next year's heavy bargaining calendar, which includes some especially prominent unions, and a reduction of the unemployment rate to below 5 percent will bring on a new round of large wage settlements. These large union settlements, it is said, will be emulated throughout the economy and will thereby set off a new inflationary spiral. I

CHART 3

CHANGES IN OUTPUT PRODUCTIVITY AND UNIT LABOR COSTS, PRIVATE ECONOMY

Percent—



believe, however, that the sharp upswing in real earnings will reduce considerably the pressures for particularly large wage gains.

A second factor that should reduce such pressures is the fact that the large unions that will be bargaining next year—e.g., auto workers, electrical workers, teamsters—have achieved a significant catchup in their wages relative to other workers over the past 3 years. Generally speaking, the wage increases under long-term contracts negotiated by these unions in earlier years did not fully anticipate the subsequent rate of inflation and the continuing acceleration of wage settlements. As a result, traditional wage relationships got out of line. In 1970, therefore, these unions, despite the existence of substantial economic slack, won very large catchup settlements.

Since 1970, however, the rate of inflation has been cut sharply and the level of wage settlements has been reduced. This has restored the relative wage position of workers in the 1970-to-73 bargaining cycle vis-a-vis the rest of the economy. Accordingly, there is much less reason now for these unions to demand above-average wage increases than in the last round of bargaining.

In addition, it is arguable how instrumental out-of-line settlements in these industries would be in setting off a renewed wage-price spiral. While the collective bargaining calendar is heavier in 1973 than this year, the number of workers included in next year's major negotiations still represents only about 5 percent of the total work force. Although there is clearly emulation in wage settlements from one union to another and between the union and nonunion sectors, the vast majority of all wage determination in our economy is carried on in informal "negotiations," often just between individuals and their supervisors. In the past, out-of-line settlements achieved by prominent unions, either larger or smaller than average, have not set an unbreakable pattern for the rest of the economy. Some analysts have argued, furthermore, that union settlements trailed rather than led the acceleration of price and wage inflation during the 1965-1970 period. Consequently, there is no reason to believe that the prominent 1973 negotiations will automatically set the pace for all of the work force.

Dislocations

One of the most common worries about any system of price and wage controls is that they will disrupt the normal operations of the economy—that they will create resource misallocations and distort the judgment and decisions of managers to the point of creating serious economic inefficiencies. In an economy as complex as ours, some distortions are inevitable in any system of wage and price controls.

A rigid control system like the wage-price freeze of August to November 1971 is sure to create serious distortions if continued for very long. It was for this reason that the freeze was limited to 3 months duration. In planning Phase II, a conscious effort was made to provide sufficient flexibility to avoid economic misallocations and distortions. The most important result of this effort was the general principle adopted by the Price Commission that price increases were to be based on the passthrough of cost increases. Another example was the term-limit-pricing rule adopted by the Price Commission. On the pay side, the Pay Board provided for a variety of exceptions to its general wage standard.

For the most part, the Phase II controls appear to have generated few important economic distortions. Some undesirable changes in business practices have been reported, but most of these have been of little significance. Where they were significant, the stabilization authorities have made an effort to correct the situation.

One way of testing the proposition that there has been sufficient flexibility built into the control system is to examine the behavior of prices and wages in detail, and to compare the pattern of changes during the controls period against the pattern in previous years. For example, an examination of wage changes in major collective bargaining agreements during the first three quarters of 1972 shows a widely varying pattern with many increases above the general standard and many below—a pattern that is not dissimilar to the patterns of wage settlements recorded for 1970 and 1971.

Similarly, a look at the detail within the Wholesale Price Index by 271 different product classes also shows a wide dispersion of price changes that is not dissimilar to precontrol years. If the price movements of individual product classes during the freeze had been concentrated in a much narrower range than in earlier years, we might have concluded that the stabilization program was

disrupting the normal pricing practices of business firms in a serious way. However, since both prices and wages show a pattern for 1972 that is similar to earlier years, we may conclude, albeit rather tentatively, that widespread, serious economic distortions have thus far not developed.

Signs of demand pull

In the analysis of the various components of the Wholesale Price Index, a second interesting point emerged. When the subgroups of the Wholesale Price Index are listed in order of their price increases during the first year of the controls program, 20 commodity subgroups are seen to have experienced an increase of 6 percent or more—ranging from hides and skins at 112 percent down to live poultry at 6 percent (see table 2, attached). Seventeen of these 20 subgroups are concentrated in just three areas: Raw agricultural commodities and related processed foods; hides and leather; and lumber. The other three subgroups are wastepaper, gas fuels, and railroad equipment.

In almost every case it appears that strong increases in demand or supply shortages are responsible for the sharp runup in prices. Of these 20 groups, only gas fuels and railroad equipment are in industries where "administered pricing" is sometimes alleged (and the price increase for gas fuels can quite possibly be traced to a rise in demand because of environmental considerations). In every other case, I believe, there would be general agreement among economists that highly competitive markets exist.

The nature of this list—i.e., the fact that almost all of these price increases are traceable to supply-demand imbalances, the kind of inflation that the stabilization program was not designed to deal with—suggests two conclusions. First, it suggests again that the stabilization program, by allowing the pass-through of cost increases, and by exempting raw agricultural products and used products such as wastepaper, has provided a flexibility that permits the price system to carry out its traditional functions of rationing and resource allocation. Second, the nature of the list raises a question about the efficacy of the controls program during some future period—e.g., when full employment is approached—when demand-pull inflationary pressures become more widespread.

TABLE 2.—*Largest increases in subgroups of the Wholesale Price Index, August 1971 to August 1972*

Subgroup	Percent increase
Hides and skins.....	112.0
Plant and animal fibers.....	29.1
Wastepaper.....	23.1
Leather.....	22.9
Livestock.....	22.1
Fresh and dried fruits and vegetables.....	19.8
Other farm products.....	18.2
Plywood.....	12.8
Meats, poultry, and fish.....	12.4
Lumber.....	11.9
Other leather and related products.....	9.7
Cotton products.....	9.2
Wool products.....	9.1
Footwear.....	8.0
Grains.....	7.5
Manufactured animal feeds.....	6.7
Gas fuels.....	6.6
Other wood products.....	6.6
Railroad equipment.....	6.3
Live poultry.....	6.0

Problem sectors

Although economic distortions do not currently appear to be numerous, there is one major sector of the economy where significant distortions are reported: Softwood lumber, which is under heavy demand-pull pressure from the extraordinary boom in homebuilding. It is widely reported by industry sources that—

Lumber production is being held 5 to 10 percent below levels that would be achieved in the absence of controls, primarily to avoid violation of the Price Commission's profit margin rule.

Minor operations are being performed on standard cuts of lumber to create "new products" that are exempt from price control.

Railroad cars full of lumber are being shipped around the country from middleman to middleman, accumulating markups (which are individually legal) but not getting the lumber to the final user.

Phony export and reimport transactions are being recorded—the paperwork is there but no lumber ever leaves the country—to circumvent the Price Commission's regulations.

There may be similar problems in the medical field, although in this case the evidence is thin. In the past year, the rate of increase in medical care prices as recorded in the Consumer Price Index has been cut very sharply. Hospital service charges have increased at a 4.8-percent annual rate during the stabilization program, compared to a rate of about 12 percent earlier. Physicians' fees have increased at a 2.3-percent rate during the program, compared to about 7 percent previously. At the same time, however, total hospital expenses per patient day have been increasing at a rate of about 11½ percent over the past year, only slightly lower than in previous years.

This suggests the possibility that the number of medical care services provided to each patient has been increased sharply. It suggests, for example, that patients are having their blood tested more frequently than in previous years, and that other services are being provided more frequently. It raises the question of whether the hospitals are circumventing the price regulations by providing a greater volume of unnecessary services in order to raise the total cost to the patient. The evidence here is only circumstantial, but it is enough to indicate the possibility that the control program is significantly distorting the provision of medical care services.

Summing up

The basic goal of the Cost of Living Council was to reduce the rate of inflation to below 3 percent by the end of 1972. The stabilization program, operating in conjunction with a moderate degree of economic slack and an improved cost picture arising from the acceleration of economic growth, appears to have achieved this goal—or at least come very close to it. It has done so despite the emergence of strong demand-pull inflationary forces in such major industries as food, lumber, and leather.

The stabilization program also produced a number of side effects, some of them beneficial, others detrimental. The program has focused increased attention on and understanding of the economic role of productivity. It has reduced inflationary expectations and increased the purchasing power of workers' paychecks, thus setting the stage for less inflationary price and wage decisions in the future. The program has provided considerable flexibility for the economy, thereby allowing the price system to continue its functions of rationing and resource allocation. By and large, few major inefficiencies and inequities have appeared, except perhaps for lumber and, possibly, medical care.

Taking all the pieces together, the stabilization program has made an important contribution to the achievement of a major goal of economic policy, and it has done so without inflicting much economic injury. If the controls were to be continued indefinitely, however, major inefficiencies and inequities would develop.

Exhibit 18.—Remarks of Assistant Secretary Fiedler, November 30, 1972, before the National Association of Regulatory Utility Commissioners, New Orleans, La., on "Economic Directions for Regulated Industry"

We talk a lot about the "regulated industries" today, but when we do we can't quite think of them as we used to. Regulated industries used to be the "natural monopolies." But today we don't have just a few regulated industries; every industry is regulated—and that is the second thought that kept coming to me. We have wage and price controls. There seems to be quite a strong acceptance of wage and price controls throughout the country—and that bothers me. It implies that there is a demand for permanent wage and price controls and I have some doubts about that, so I want to discuss that a little bit.

Let me start with the costs of regulation. I suppose of all the many types of costs there are, there are basically two types:

First, the fundamental sort of misallocation of resources: the basic waste and inefficiency that results in higher total costs to the economy.

Second, a great variety of inequities in the form of different costs to different people, different costs from what most people would regard as a "fair" distribution of costs or prices. What this really adds up to is discrimination.

The prominent examples of these costs are familiar to everyone, but they are worth repeating. Let me start with the natural gas industry, where there is a very serious shortage presently. You heard about this the other day from the Chairman of the FPC. I saw the headlines this morning in *The New York Times*: "3 Percent Shortage Expected This Year"—which is really quite a serious matter. In this industry we have a situation where the prices of natural gas at the well-head have been regulated in such a way as to keep them so low that exploration and development of new supplies were inhibited. In recent years, this has become quite obvious as the new supplies, the new reserves, have been exceeded by a wide margin by the volume of consumption.

So the basic cost of this kind of regulation, i.e., this negative aspect of regulation, is that this cost (the shortage) is borne by those users of natural gas who were prevented from buying the volume of natural gas that they wanted. They just weren't able to get as much as they wanted, or they weren't able to get a supply at all because of the basic shortage. In effect, the process of regulation had interfered with the freedom of choice that consumers should have as to what type of energy they use. Specifically, the freedom of choice to choose natural gas was interfered with by making it unavailable.

There is also a cost involved here when people who have been using natural gas all along now find themselves cut off when a shortage develops (industrial users, mostly). They must bear the expenses of shifting to another fuel. It seems to me, however, that this is a cost of small magnitude relative to the cost borne by those people who want but just cannot get natural gas.

Another cost of regulation is the inequity that develops between various types of consumers. In the 1960's, there was a shift from residential to industrial users. In effect, the residential consumers who wanted natural gas were unable to get it. More recently it has been the other way, with industrial users being pushed aside. This is purely and simply a form of discrimination, an inequity between types of users.

There is also an inequity between old and new customers. Those who already have natural gas coming into their homes have an assured supply. But people who are building new houses can't get hooked up; they can't buy any natural gas. This is, in effect, a "windfall gain" for the "old" homeowner who has a supply of natural gas, and a "windfall loss" for the guy who is building now and can't get it. I might add that there is another kind of cost here. Along the way, as this shortage developed, the FPC allowed the price to creep up. They did what is known as "vintaging": They allowed the new gas supplies coming onto the market to be sold at a higher price than the old gas, because they had a natural reluctance to permit a "windfall profit" to those companies that had already found gas reserves and brought them to the market at the earlier, lower price. Well, what happens then, of course, is that an inequity exists between those customers receiving old or vintage gas who pay lower prices, as compared to those customers that received the new supplies and paid higher prices—another kind of discrimination.

Next, there is the difference between interstate versus intrastate gas sales. Intrastate gas sales are not regulated. The price is higher, but there is an assured supply. Consumers can get all they want, while the regulated sales—the interstate sales—are regulated at a lower price. There are two kinds of discrimination here. The first is that the interstate customers had the advantage of a lower price, but they couldn't get all the gas they wanted, while the intrastate customers could. If you were a natural gas user in some State outside the gas-producing area, and even if you were willing to outbid the intrastate customer, you just could not get it. You were discriminated against, but the local customers were not.

The second aspect to this kind of discrimination, this differential between intrastate and interstate gas, is that other benefits redound to the gas-producing States. The example I am thinking of is Armco Steel locating a plant in Texas because they could be assured of an uninterrupted supply of gas. They made that decision in spite of the fact that they would pay a higher price for the gas. What that did was to discriminate in favor of Texans against people in other States. That is, workers in Texas had more job opportunities to choose from, and thus received higher wages, than they would have had otherwise. Likewise, the owners of business services, equipment manufacturers, and contractors in Texas had

a benefit accruing to them, whereas the people in Ohio—or wherever else Armco Steel might have located this plant—were at a disadvantage.

Another discrimination is that between gas users on the one hand and oil and coal users on the other. It is sometimes alleged that keeping the price of natural gas low would result in lower prices for competing sources of energy, such as oil or coal. That may be true *if the supply is there*; but if there isn't a full supply, if there is a shortage rather than a full availability of supply, it is going to result in more demand for oil and coal and less for gas, which will drive up the price of oil and coal above what they would otherwise be. Therefore, people who use oil and coal are discriminated against as compared to those users of natural gas that got it at a cheaper price.

Let me mention one more cost in this natural gas area. It is, perhaps, the most pernicious cost of all: The environmental cost. Natural gas is the cleanest fuel we have. In the process of electric power generation, in those plants that do not have air emission controls, natural gas produces 91 percent less air pollution than coal and 85 percent less pollution than residual fuel oil. Even if these electric utility plants are fitted with the air emission controls, natural gas is still 58 percent less polluting than coal and 7 percent less polluting than oil. What you have here is a situation where the most efficient fuel we have, from the standpoint of keeping the environment clean, is being suppressed in terms of its total supply, while the dirtier fuels are taking a bigger share of the total energy market. From the standpoint of the environment, it ought to be the other way around.

There is also a geographic aspect to this. Geographic discrimination exists if you think of the fact that States like Texas, Oklahoma, and Louisiana get a large amount of their electric power from natural gas. This happens in part because of the intrastate versus interstate difference in regulation. The incentives are to use the gas locally, but those States in the South and Southwest are places where it is easier to meet the basic environmental cleanliness standards. There's less need to use natural gas there. Instead, we should have that gas being used for electric power generation in the big metropolitan areas of the Northeast and other areas where air pollution is much more serious. The way it is, you have a kind of perverse geographic discrimination arising from regulation.

That is my list of the costs. It is not a complete list by any means, but it is complete enough for me—complete enough to persuade me that energy costs our economy more than it should through these unnecessary inefficiencies of regulation, and also to convince me that there are serious inequities between different types of customers—some are being discriminated against while others are receiving "windfall gains."

Let me cite a couple more examples from another regulated sector of the economy, from freight transportation. There has been a lot written about this, and I think it is clear that there has been a waste of resources, an inefficiency in the freight transportation industry for many years now because we are regulating a sector of the economy that may not need regulation any longer.

There was probably good reason for regulation a century ago when we started the ICC. That is hardly true now. The railroads had a monopoly then; they don't now. The truckers and the barge lines are now thriving industries and there is really quite a lot of competition. There is not a clear case—in fact I don't think there is a case at all—that economies of scale are important, particularly in the trucking area. The case for regulation now is much less strong than it used to be. At least we don't need as much regulation as we once did in this area.

The cost of this regulation is illustrated by a couple of examples. In trucking, agricultural products have always been exempt from regulation. In the 1950's, fresh dressed and frozen poultry and frozen fruits and vegetables were declared agricultural products. They were added to the list of agricultural commodities that were exempt. They had been controlled and now they are exempt. This resulted in rate decreases in shipping these products. For poultry the tariff went down 30 percent, and the price of shipping frozen fruits and vegetables went down 20 percent. At the same time, the shippers reported an increased quality of service that they received. This strongly suggests that the costs of regulation are not "peanuts" but are measured in the billions of dollars.

Another example is unregulated intrastate air travel in California, specifically between Los Angeles and San Francisco. The fares there are 40 percent lower than they are in comparable situations elsewhere in the United States. This is another indication that the costs of regulation or the cost of having a regulated industry are considerable.

What are these inefficiencies? One is the various restrictions on services, e.g., the fact that motor carriers are limited to certain cities and can't serve other cities. Some truckers are limited to what commodities they can carry. Both of these limitations result in empty backhauls: Trucker A will carry goods from Chicago to Milwaukee, and trucker B will carry them from Milwaukee to Chicago, and they will both come back with empty trucks. One study showed that almost 50 percent of the shippers had less than full loads in both directions. Without such restrictions presumably that figure would be a lot lower. We would then need fewer trucks, fewer drivers; which would mean lower costs and lower prices for the goods that are carried.

Another kind of inefficiency is the result of the fact that the rates aren't always based on cost. The rates don't really correlate well with costs. It is well-established that railroads are the most efficient carriers and have a definite cost advantage for large shipments and bulk shipments on long hauls, and that trucks are the most efficient for short hauls and small loads. In the case of some commodities, the rates don't reflect these differences and, therefore, the trucks end up making a lot of long hauls. A very large percent of the 10-20-ton shipments of 200 miles or more go by truck, and as much as 20 percent of some 40-ton commodity shipments of more than 200 miles go by truck. For these kinds of shipments, there is an obvious advantage to the railroads, but through unenlightened regulation we are losing that advantage.

Another regulatory cost is the inhibitions that regulation puts on the introduction of new technology. Innovation in surface freight transportation is scarce and slow, but part of the reason, I believe, is regulation. The best example I have picked up is the Southern Railway, which developed the "Big John" car for carrying grain. They wanted to induce grain shippers to use those big cars and to achieve that they wanted to give the shippers a much lower tariff. Well, it took 4 years of effort, including litigation, at the ICC, in the courts, and finally in the Supreme Court, before they won the right to offer lower rates on those "Big John" cars. And that delay was a significant cost to the industry and to the consumer.

There are restrictions on entry of new firms into the industry that also have a cost. That these costs can be substantial is suggested by an example from a different part of the transportation market—taxicabs. Compare taxi service in New York City with the District of Columbia and you will see some of the cost. In New York there are 11,700 cabs with medallions. Entry there is restricted. There hasn't been a medallion granted since 1937. That works out to about 1½ cabs per thousand population. In the District of Columbia, where there are no restrictions on entry, there are 11 cabs per thousand population. As a result, per capita ridership in Washington, D.C., is twice what it is in New York, and the cost per trip is less than half. I am not going to tell you that the conditions and costs of everything else involved in the taxi business are the same in New York as they are in Washington. Having lived in both places, I am familiar with it. But I am suggesting that there are significant costs to the public arising from the restrictions that are put on the entry of new firms into business.

Well, neither this example nor any of the other examples I have given are conclusive. There are always many factors that you can't take into account. The figures are always suspect in making comparisons between one situation and another, but I think they add up to very significant costs that have to be assigned to the fact that the transportation industry is regulated.

Now, as an alternative, a free market would not eliminate all these costs. We never get perfect competition—what the economists call pure competition. As I said earlier, I believe in regulation of the so-called natural monopolies; but some regulation obviously goes too far, and it seems to me that the best example of that is surface freight transportation. The Nixon administration has a bill before Congress to reduce this regulation very substantially. I believe enactment of that bill would reduce these costs that I have been talking about and would save all of us consumers a lot of money. Furthermore, we would strengthen the freight transportation industry. The railroads are particularly in need of strengthening at this time, and very quickly, and I think it is important to pass this bill.

Let me go on in the few minutes that I have left and talk about the effects of permanent wage and price controls. This is another kind of regulatory issue: Whether the wage and price controls that we now have on virtually all industries should be continued indefinitely.

I would say that these controls have a pretty good record; that is, they have contributed to reducing both wage and price inflation. That of course does not say

whether we do or do not want them continuously and permanently in the economy. This is a fundamental question of public policy that the administration, the Congress, and the Nation will have to face in 1973.

Most of the Nation seems to have endorsed the controls program and found it valuable. Whether you look at the public opinion surveys or whatever—businessmen certainly—the Nation has endorsed the program, which suggests that maybe it should be given permanent status.

The view of the President and certainly all of the people in the administration that I know of is that direct wage and price controls should not be a permanent part of the economic landscape. Why not? Several reasons. First of all, the fundamental source of inflation is to be found in monetary and fiscal policy. Controls may buy you some time by speeding the reaction of the economy to the situation that originally came about because of monetary and fiscal policy, but they don't buy you anything more. They don't do anything about the fundamental source of inflation.

Second, if controls were extended for a long time, they would break down. They would not do the job. I think this is especially true as we approach full employment. We are in a strong economic upswing now, and we are moving back toward a position of full resource utilization at a rapid rate.

The third point that I would make is the way that our economy works. The way it really operates, there is serious doubt that permanent controls are needed. There are many economists that don't agree with that statement—who say we should look at the concentration ratios in some of the major industries like automobiles, steel, and others. Then they jump from there to the idea that monopoly power exists. They argue that this monopoly power is not subject to restraint from general monetary and fiscal policy, and they assume, therefore, that the classical forces of competition are suppressed and that it is necessary to superimpose direct wage and price controls on a permanent basis to prevent full exploitation of this private market power over prices and wages.

Some of the more extravagant statements of this kind are easy to refute. When Professor Galbraith tells us that large corporations are absolute monarchs who can contrive to make consumers buy what best suits the pursuit of business profit and corporate power, it is easy to demonstrate that such power simply does not exist—even in the most concentrated industries and even where advertising techniques are most highly developed. If such power did exist, could the Edsel have failed? Of course not. What about Swan soap? With all the expertise and effort and ballyhoo that accompanied the entry of Swan soap onto the market, why don't we see it on retailers' shelves anymore? And look about you at the clothes women are wearing. If business has control over the tastes of consumers, why don't we see many maxiskirts?

There are many other examples. If the establishment is as unassailably established as we are told, how is it that foreign-made cars account for 15 percent or so of automobile sales in the United States? Whatever happened to Look and Colliers? Why is it that Duz doesn't do everything for us anymore?

The answer to these questions is, of course, that in our society the consumer is not a subjugated robot. Not by quite a margin. He is, rather, a powerful force—the most important single influence on what is produced in the economy.

But to answer the extravagant claims of the Galbraiths and Naders does not tell us that a workable incomes policy, if one could be found, would not be a useful addition to our anti-inflation efforts. It is clear that market power does exist in the United States. No one would argue that pure or perfect competition is the prevailing *modus operandi*, that corporate managers have no control over prices and that union leaders cannot influence wages.

The real question is how much power over the market do our large economic institutions have? How widespread is it? How enduring? Those who most vociferously support authoritarian incomes policies rarely come forward with hard statistical evidence that market power is effectively used by large corporations and large unions. Certainly if such power were a significant force in the determination of prices and wages in the United States, it would show up in many areas of the statistical record.

We would expect to find, for example, that wage rates rise more rapidly in those industries marked by strong union organization than elsewhere in the economy (as, indeed, we have seen happen in the construction industry in recent years).

If market power over prices were widespread throughout industry, we would expect to see prices increase more rapidly than costs and, consequently, to see profit rates of return rise persistently over time.

If this pricing power existed only in certain industries—in the concentrated industries, presumably—we would expect to see prices in those industries rise more rapidly than elsewhere in the economy, and we would expect to find that the profitability of those industries was above average and persistently rising.

The statistical record, however, does not produce patterns of this kind. On the labor side, the rate of increase in wages over the past 15 to 20 years is very consistent from industry to industry, suggesting that for the most part our labor markets work in a reasonably competitive way.

On the corporate side, profit rates of return (although they fluctuate widely from year to year) tend to be stable over the long term, reflecting the tendency for real wages to parallel closely the trend of national productivity. Further, we find that changes in prices tend to correlate with changes in unit costs from industry to industry. Correspondingly, we find that price changes are correlated inversely with productivity changes, indicating that productivity differentials are shared throughout the economy. We find also that price changes are *not* correlated, industry by industry, with either high levels of profitability or with increasing rates of return over the long term.

All of these trends and relationships are "competitive characteristics." In the long run, these data are telling us, the economy seems to work in a way that the textbooks tell us that a reasonably competitive economy would work.

That is my basic conclusion, and it leads me to believe that permanent price and wage controls are not necessary in the American economy, unless there has somehow been a massive change in the structure of the U.S. economy in recent years from what it was in the 1950's and 1960's.

There can be substantial costs, then—the same kind of costs that I referred to earlier—to permanent wage and price controls. Those cost should be avoided whenever possible. I think we can and should avoid them. The prime regulator of prices and wages in this country is and always has been the interplay of competitive forces operating in a reasonably free market. Monetary and fiscal policies are used to be sure that the total economy operates reasonably close to—but neither far below nor far above—its full potential.

In some sectors of the economy—the "natural" monopolies that I mentioned—direct and permanent regulation of prices is required. For most parts of the economy, however, I doubt that permanent controls are needed.

What will happen in the future on this? I must say, I don't know. There are opposing, conflicting trends here—more and more industrialized countries are turning to direct controls over wages and prices. The success of the stabilization program here in the United States this past year will probably reinforce that trend. At the same time, there are more and more attempts to insert government presence one way or another into our economic life—pollution, consumer safety, etc. Most of these are very beneficial, and some are very necessary.

But it is very possible that this trend toward more regulation of the "private" lives of our citizens, and in particular of the economy, will go too far. This point is gaining recognition. There is a growing realization of the problems of too much reliance on government. Some of you may be familiar with the Brookings Study, headed by Charlie Schultze, formerly Director of the Bureau of the Budget, which came to the very strong conclusion that there is a limit to what government can do to resolve the important problems of this Nation. The United States has a tendency to throw Federal money at its problems. The Brookings Study pointed out that that just doesn't work. Our manpower problems are a great example. I can't think of anything that is more needed than effective manpower programs, but I can't think of anything that is more frustrating in terms of the lack of results from most of what we've done.

The Hunt Commission report is an example of the recognition that the Government's role in the financial area is in need of restructuring. The report did not call for the elimination of regulation; instead it called for a streamlining of the whole system to removing some of the inconsistencies that have characterized it for so long.

The administration bill to reduce transportation regulation is another example. The current discussion of natural gas, the strong feelings that now exist to remove regulation at the wellhead, is another. All of these are examples of a

greater realization of the problems of regulation and of the kind of improvement that is necessary.

Looking ahead, I am hopeful that we will learn to regulate well those industries where regulation is required, and that we will learn to avoid regulation, and therefore will avoid the excess costs of regulation, wherever the competitive market will do the job better without regulation. Thank you very much.

Exhibit 19.—Excerpt from remarks by General Counsel Pierce, March 22, 1973, at the New Orleans Cost of Living Council Regional Conference on Phase III, New Orleans, La.

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During Phase II, as compared to the prefreeze period, the rate of inflation decreased, total employment rose, the rate of unemployment dropped, and real spendable earnings rose. In general, the program received wide public acceptance and voluntary cooperation.

The effectiveness of Phases I and II is clearly shown by the leading economic indicators. At the time Phase I became effective the annual rate of inflation as measured by the Cost of Living Index was 4.8 percent. By the end of Phase II, it had dipped to 3.3 percent. Real GNP was 1.4 percent at the beginning of Phase I, and by the end of Phase II, it had risen to 7.5 percent. During the same period, real spendable earnings rose from 1.2 percent to 3.8 percent, and the level of unemployment had fallen from 6.1 percent to 5 percent.

One may appropriately ask, "If Phase II was operating so well, why did the Government shift to Phase III?"

Development of the rationale for Phase III

While Phase II was generally successful, it did have problems that would eventually require a change in the system. This became very clear to the Cost of Living Council and others responsible for the economic stabilization program after Phase II was carefully analyzed during December 1972 and early January 1973. Consultation meetings were held with labor, management, consumers, Members of Congress, and the members of the various boards and organizations serving the economic stabilization program. After reviewing the results of this consultation process and the experience gained from operating Phase II, it was clear that the burdens of the Phase II control system would mount in the coming year.

It was found that redtape and administrative burdens, both for the Government and the public, would expand. Delays and interferences with the normal conduct of business would become more serious. Inequities in the treatment of different individuals and businesses would multiply. Incentives to efficiency and investment would be weakened.

It was believed that if the present system continued for long unchanged, these difficulties would become so overwhelming that the system would become ineffective. Therefore, the system had to be modified to achieve its continuing contribution to the anti-inflation effort with less danger of injury to the economy, and with greater equity in the treatment of the individuals and businesses covered by the system.

During this battle against inflation—both in the prefreeze and postfreeze periods—the administration learned a number of lessons. Those of us involved with economic stabilization were greatly impressed with the power of competition. In industries where there were lots of firms and excess capacity, so that firms were really fighting for business, competition was probably more effective than our control system in holding down prices. There were many instances during the operation of Phase II when firms met all of the necessary requirements and received price increase approvals, but were not able to implement those approvals because of the competition in their industries.

We also learned that with public cooperation, a voluntary, self-administered controlled system can, in general, operate effectively in reducing inflation. There are, however, certain areas of the economy where, for a variety of reasons, mandatory controls become necessary. At the present time, with rapidly rising

food prices, food processing and retailing industries must be subject to mandatory controls. The health care and construction industries also present problems which—for the present time at least—can be better handled with the aid of mandatory controls.

We also realize that our economy is extremely dynamic and other situations may develop in the future where voluntary restraints are not achieved and mandatory controls will become necessary. Therefore, in any control system, it is necessary to retain the power to impose mandatory controls whenever it is considered imperative to attain the goals of the program.

Finally, we know that no wage-price system, regardless of how ingeniously devised, can be successful and produce substantial results unless certain fundamental economic principles are adhered to. Most fundamental among these is sound fiscal policy. Without strong fiscal discipline, Federal spending may be so pumped up that the same forces are released that caused the earlier inflation. The administration will vigorously resist this danger. That is why it intends to hold Federal spending for fiscal year 1973 within \$250 billion. The administration submitted a budget for fiscal year 1974 in which expenditures are not to exceed \$268.7 billion, and which will not exceed the tax revenues that would be generated by a fully employed economy. It is imperative that Federal spending be kept within these bounds if two very important goals to the American people are to be achieved, namely, further reduction of inflation, and no increase in Federal income taxes.

It was against this background that the Phase III program was formulated.

The Phase III program

Phase III became effective on January 11, 1973. The Cost of Living Council was continued. The Price Commission and Pay Board and all advisory committees that existed under Phase II were terminated, and the authority of the Commission and Board as well as their staffs was transferred to the COLC.

Rental units are excluded from the program, but landlords are expected to exercise restraint. Regulated industries will be guided by the general criteria listed in present Price Commission regulations, and restraint is expected to be reflected in their actions and the actions of regulatory agencies.

Generally speaking, except for the food, health, and construction industries, Phase III will be a voluntary, self-administered program. As a general guide for prices, increases in prices above presently authorized levels should not exceed increases in costs. Even where costs have increased prices should not be increased if the firm's profit margin exceeds the firm's base-profit margin. Alternatively, a firm may increase prices to reflect increased cost without regard to its profit margin if the firm's average price increases would not exceed 1.5 percent in a year. Moreover, the base period for calculation of the profit margin guide has been revised to permit inclusion of any fiscal year that has been concluded since August 15, 1971.

The existing general standards of the Pay Board can be taken for the present as a guide to appropriate maximum wage increases unless and until they are modified. A labor-management advisory committee has been established to advise the Cost of Living Council on whether the standards should be modified and, if so, how.

In general, with the exception of firms in the food, health, and construction industries, all firms with sales of more than \$50 million (approximately 3,500 firms) are required to keep records of profit margin changes as well as price changes which will permit the computation of weighted average price increases. Firms will have the obligation of producing these upon request. All firms with sales of \$250 million or more (approximately 800 firms) are required to file quarterly reports concerning any weighted average price change and their profit margin.

Generally speaking, with the exception of employee units in the food, health, and construction industries, all employee units of 1,000 or more will be required to keep records of wage rate changes, and all employee units of 5,000 or more will be required to file reports with the Cost of Living Council indicating wage rate changes.

The Cost of Living Council staff and the Internal Revenue Service, under the direction of the COLC, will monitor performance through reviewing reports received from firms and employee units; spot checking and auditing the records of firms; and using various government and trade data. There will be a reduction

in the number of Internal Revenue Service agents working on economic stabilization from the 3,000 used in Phase II to approximately 1,500.

The Economic Stabilization Act of 1970, as amended, is sufficient to give the Council the authority to invoke mandatory controls and punitive sanctions when necessary. That is why the act did not have to be further amended, except to provide for a 1-year extension. The Cost of Living Council has the authority to establish mandatory standards where it is necessary to assure that future action in a particular industry is consistent with the national goal of further reducing inflation. Also, if it learns that an action has been or is about to be taken that is inconsistent with the standards or goals of the program, the Council can issue a temporary order setting interim price and wage levels. In short, as has often been stated by officials connected with the economic stabilization program, the COLC has a "big stick in the closet" which it can use if there is any breakdown in the system of voluntary restraint. Recently, for example, the Council took its big stick out of the closet and hit certain oil companies with it by limiting their price increases, canceling their term limit pricing authorizations, and by imposing upon them certain reporting requirements.

The food, health, and construction industries will be under mandatory controls. Special rules have been or will be devised for each of these industries.

Food processors will be required mandatorily to comply with present regulations, somewhat modified, including prenotification and approval of cost-justified price increases. Food retailers will be held to present margin markups. Pay units in the food processing and retailing industries will continue to be covered by present regulations. A committee drawn from the Cost of Living Council has been established to review and recommend appropriate changes in Government policies having an adverse effect on food prices. There will also be established a food industry advisory committee which will be composed of people from the private sector appointed by the President to advise the Council on the operation of the economic stabilization program in the food industry and other matters related to food costs and prices.

The Federal Government has also taken certain steps to increase the supply of food with the expectation that these actions will help reduce the cost of food. For example, the administration has suspended all quotas on meat imports for 1973; and the Department of Agriculture has temporarily suspended quotas on imported, nonfat dry milk, has eliminated the mandatory set-aside requirement under the 1973 wheat program, and has terminated direct export subsidies for lamb, broilers, and flour.

The present controls applicable to the health care industry will continue until appropriate modifications are made by the Cost of Living Council. A committee drawn from the Cost of Living Council will be established to review and make recommendations concerning changes in Government programs that could lessen the rise of health costs. Also, an advisory committee composed of knowledgeable individuals outside the Federal Government will be established to advise the Cost of Living Council generally on the problem of health costs. This committee will also work to mobilize insurance companies and other third-party payers to use their influence to curb the rise in health costs.

The Construction Industry Stabilization Committee, which existed under Phase II, will continue its work with the twin goals of improving the bargaining structure in the industry and achieving additional progress in bringing the rate of wage growth in this sector into line with the general wage growth in the economy. Rules are provided to ensure that modifications in the wage growth rate can be reflected by adjustments in construction prices.

The Committee on Interest and Dividends, which was established under Phase II, and chaired by the Chairman of the Board of Governors of the Federal Reserve System, will be continued. This Committee, subject to review by the COLC, is charged with formulating and executing a program for obtaining voluntary restraints on interest rates and dividends.

Will Phase III be successful?

By the end of 1972 the rate of inflation had been reduced to 3.3 percent. When he announced Phase III, the President stated that a goal of the program was to further reduce the rate of inflation to 2½ percent by the end of 1973. Can this goal be attained along with a further substantial reduction in unemployment, a considerable increase in GNP for 1973, and an increase in real spendable earnings? If this question is eventually answered in the affirmative, then Phase III will have been a success.

In my opinion, the success of Phase III will depend on three factors: (1) Whether Federal spending is held within the budgetary limits recommended by the administration; (2) whether food costs are brought under control; and (3) whether the public will voluntarily comply with the standards for wage and price increases set by the COLC during Phase III. To the extent these things are done, Phase III will be a success. To the extent they are not, Phase II will be a failure.

Thank you so much for your attention.

Exhibit 20.—Article by Assistant Secretary Fiedler, printed in The Wall Street Journal, April 19, 1973, entitled "The Case Against Rigid Controls"

Why not impose more rigid controls on prices and wages?

Prices are surging upward in a number of economic sectors; doesn't that call for more stringent controls? The changeover to the "self-administered" Phase III has been widely regarded as a failure; doesn't that call for a new system of tighter controls? Certainly there is a great demand for tougher controls—from consumer groups, from organized labor, and from other sources. And although the Congress decisively rejected proposals to reinstitute a freeze and to broaden it to encompass other sectors of the economy, there is a sizable minority of Congressmen who are demanding more comprehensive, more rigid, and more permanent controls over prices and wages.

Well, why not?

There are, I think, two fundamental reasons for resisting the call for tighter controls. One reason is liberty—the old-fashioned principle that the individual is the important unit in our society, that his freedom is something to be cherished, and that the Government's power over him should be limited. To me, this principle is a persuasive reason for opposing a move to inflexible, permanent controls.

The second fundamental reason is economic efficiency. Our economy is so complex and changes so rapidly that a system of strict controls on prices and wages applied over a long period of time would damage it seriously. History tells us that a comprehensive system of controls would require a gigantic bureaucracy here in Washington and would produce endless ribbons of redtape throughout the economy. History also tells us that the major economic impact of controls would be inefficiency and inequity.

Those of us who remember World War II know what the comprehensive wage and price controls of that era produced. We remember the restrictions against changing jobs and the shortages and rationing of meat, sugar, gasoline, and many other products. We remember also the black markets and other illegal efforts to circumvent the controls.

Those World War II controls produced great waste in the economy and great inconvenience for the public. But we put up with such problems for patriotic reasons; we were willing to make the sacrifice to help the war effort.

I think it is obvious that today the public would not accept the problems that rigid controls inevitably create. There are no patriotic or other reasons that would lead people to put up with, for example, shortages of basic consumer goods.

The Phase II record

But the World War II experience may not be completely applicable to 1972 and 1973. What, then, can we say about the present controls? Have they done any damage during the year and a half that they've been in effect? Have they hurt productive efficiency and created other problems?

The answer to that is, in the broad general sweep of things, no, but in many specific cases, yes, very definitely. When we look at the economy as a whole, we do not find that productivity growth has been slowed, or any other substantial evidence that the controls have done widespread damage. There are two reasons for this: First, the control system in Phase II was designed wherever possible to be flexible, and, second, the economy was operating with considerable slack. These conditions minimized the troublesome effects of the program.

But while the stabilization program did not produce widespread economic distortions during 1972, it did produce many individual instances of inequity and inefficiency. And the economy was growing so fast that more and more of these difficulties were beginning to show up. Had we continued Phase II

through the current year, with its rapid growth pushing many industries close to full utilization of capacity, these dislocations would have become numerous and serious enough to injure the economy as a whole. To demonstrate that this is not just a "hogyman in the closet," let me cite a few examples of what happened during 1972.

1. The most disturbing and most wasteful difficulties created by the controls program were in the lumber and plywood industry, which was under heavy demand pressure from the boom in homebuilding. There were numerous reports that production was held 5 to 10 percent below maximum, primarily to avoid violating the Price Commission's profit margin rule. Sawmills were performing minor operations on standard cuts of lumber to create "new products" that were exempt from price control. Phony export and reimport transactions were recorded, without any lumber ever leaving the country. Tricks like these kept the Internal Revenue Service working overtime tracking down violators. And in another effort to circumvent the controls, railroad cars full of lumber were being shipped around the country from one middleman to another, accumulating markups, which were individually legal, but not getting the lumber to the final user.

2. Despite the fairly high levels of unemployment that prevailed during 1972, we heard a number of complaints from businessmen that their employees were being lured away by higher wages to a competitor's plant down the road, and that they were prevented by the controls from raising wages to meet the competition in order to stop the pirating of their work force. When businessmen complain that the wages they pay are *too low*, well, that's a pretty sure sign that the controls are interfering with the efficient operation of the labor market.

3. Another inefficiency that was becoming more significant as the program progressed was the redtape that both labor and business found themselves tangled up in. By the end of 1972, for any pay or price request that was at all more than routine, the waiting lines at the Pay Board and Price Commission were getting longer and longer.

4. The controls had a perverse impact on petroleum refining, creating an incentive to distill less fuel oil than necessary and more of some other products. This helped make the fuel oil shortage last winter a little worse than it otherwise would have been.

5. The controls also produced serious difficulties for commodities that are traded in international markets. When the world price rises above the ceiling price of domestic producers, a powerful incentive is created to ship all domestic production out of the country, irrespective of the need for it at home. This situation developed for soybean meal and phosphate fertilizer late in 1972 and threatened to create severe shortages of those commodities here in the United States.

6. The Phase II profit margin limitation created a special kind of problem in some industries. One company, for reasons unrelated to its major product line, would be up against its profit margin limit and would be unable to raise prices on any product. The pressure of competition would, then, prevent other firms in the industry from raising their prices, despite the fact that their costs had increased sharply.

The classic example of this problem is the wine industry, where the Gallo Company had recently developed a very profitable new line of fruit-based wines. Because Gallo was up against its profit margin ceiling, it could not raise prices on its grape wines, despite the fact that a poor crop had sent the price of grapes up some 50 percent. This increase in costs was not too hard on Gallo, but it did hurt other vintners badly. These other vintners generally produce only grape wines and thus would have been justified in raising prices because of the increased costs, but they could not do so because of competition from Gallo. These other vintners, then, saw their profits disappear very quickly and turn to losses. This same situation developed in a number of other industries, including baking, brewer's yeast, linens, pool tables, and others.

The six examples described above are only a few of the many economic distortions and wasteful changes in normal business practices that the controls produced during 1972. We heard endless complaints from labor, business, and consumers about their troubles, and the complaints were growing in frequency and intensity as the year progressed. Moreover, these difficulties mounted despite our best efforts to maintain a flexible and equitable program, and despite the fact that farm products, interest rates, most rents, wages of low-income workers,

and many other sectors of the economy were exempt altogether from the regulations.

Miseducating the people

The storm of protest over Phase III and the great demand that exists to move toward across-the-board price controls indicates that the freeze and Phase II have had a profound effect on the attitudes of the American people. It tells us that what the entire stabilization effort has done, more than anything else, is to miseducate the public to believe that controls are *the* way to solve the problem of inflation.

That is a distressing result. To me, it is clear that a comprehensive system of rigid price and wage controls applied over an extended period would wreak havoc on the basic structure of our economy.

Exhibit 21.—Excerpts from remarks by Assistant Secretary Fiedler, April 25, 1973, before the Tri-State Conference conducted by the Cost of Living Council, St. Louis, Mo.

The eruption of price increases in the past 2 months has raised questions about the prospect of keeping inflation in check over the long term. There is serious concern that this spurt will set off a new spiral of accelerating price-wage-price inflation comparable to the pattern of 1965-1970.

Public discussion of this issue—of what was responsible for the burst of price increases and what should be done about it—has focused almost exclusively on Phase III of the price and wage controls. This emphasis on the controls is worrisome, since it threatens to divert our attention from the basic causes of the situation and from the main targets of economic policy.

Our present system of flexible price and wage controls can make an important contribution to the anti-inflation effort, as it did during 1972. But what happens to inflation during 1973 and 1974 does not depend solely or even predominantly on the controls program. What it does depend on, fundamentally, is the economic pressure of demand upon supply.

Most of our recent inflation has been of this nature. Demand for foodstuffs—especially red meats—has climbed sharply because of rising incomes, but supply did not increase. Under those conditions, a temporary upsurge in food prices was inevitable.

The importance of the spurt in food prices over the past 2 months—both the public perception of this spurt and the impact of food on the price indexes themselves—can hardly be overstated. The public is always sensitive to rising prices, but especially food prices because the shopper comes face to face with them a couple of times a week. And although food represents only about one-fourth of the total weight in both the Consumer Price Index and the Wholesale Price Index, it has accounted for almost two-thirds of the rise in these indexes since January.

To be sure, there have also been many price increases among industrial commodities. The most important of these have also followed the pattern of food; that is, they have been in economic sectors characterized by rapidly increasing demand and/or limited supply. For example, the largest price increases have come in lumber (due to the homebuilding boom), petroleum (the fuel oil shortage), and nonferrous metals (the vigorous business expansion here and abroad).

The fact that these three industrial sectors, together with food, account for the dominant part of the rise in wholesale prices over the past couple of months points up the need to pursue economic policies that get at the fundamentals, and not just the symptoms, of the inflation problem:

To expand food supplies by increasing cropland acreage, selling Government-owned stocks of grains, suspending meat import quotas, and making other major changes in farm policies;

To increase the available supply of nonferrous metals and other commodities by selling excess inventories from Government stockpiles;

To increase gasoline and fuel oil supplies by ending oil import quotas;

To maintain a tight rein on the budget to keep the economy from running away with itself. Of all the policy steps taken, this is the most important. We must not repeat the mistakes of 1965-68 when, at a time of full employment, massive budget deficits in combination with an excessively easy monetary policy

created a runaway inflation. To prevent that unhappy pattern from taking place again, President Nixon is determined to resist the many pressures for increased Federal spending and to hold the budget to noninflationary levels.

Finding the right combination of economic policies to keep the economy on a stable growth path without excessive inflation is not a simple matter. No safe or sure or painless or instantaneous solution is available. But we can be confident that the policies now in place—the resolute posture on fiscal and monetary policies, the substantial actions to increase supplies of commodities with shortages, and the flexible but forceful controls over prices and wages—will prevent the present temporary spurt in prices from becoming an endless inflationary spiral.

Exhibit 22.—Statement by Deputy Under Secretary Bennett, May 2, 1973, before the Subcommittee on Production and Stabilization of the Senate Banking, Housing, and Urban Affairs Committee

Mr. Chairman, I welcome this opportunity to present the administration's view on proposed legislation to allow unregulated ownership of gold by Americans. I am here to oppose it. The time may well come when U.S. regulations can and should treat gold just like any other industrial metal. But that time is not now. It would not be wise to assume now that the time will be on December 31st of this year.

Government restrictions on the freedom of American citizens should be imposed only on the basis of clear-cut justification. And regulations in force should be carefully reviewed periodically—as you are doing today—to ensure that they continue to be justified under changing conditions. Obviously circumstances today are markedly different from those of 1933 when the existing regulations had their beginnings. The problem then was that prices in the United States had been falling. There are, however, as I shall attempt to explain, strong reasons relating to our current circumstances why the regulations should be kept in force at this time.

These existing regulations do not ration or limit the amount of gold which can be used in the United States for customary industrial or artistic uses. Individuals and business firms requiring gold for these purposes may acquire all they need under Treasury license. All that the regulations prohibit is the acquisition of gold for speculative or investment purposes.

It is also important to emphasize that the regulations have never restricted domestic producers of gold from selling their production at the prevailing market prices. Domestic producers of gold today are free to sell to licensed industrial users in the United States or to export without restriction for whatever price the market brings. In recent weeks that price has fluctuated around \$90 per ounce.

Americans may also hold without restriction any amount of gold jewelry or fabricated gold in any form. They can also acquire and trade without license in rare U.S. or foreign gold coins, defined as those minted before 1934, for numismatic purposes. In essence, then, when we speak of the U.S. restrictions on the private ownership of gold we are speaking only of restrictions on investment or speculation in gold bullion.

Americans are not the only ones subject to such restrictions. Practice in this respect varies widely among nations, but a list prepared on the basis of International Monetary Fund data shows 75 countries which maintain restrictions and 44 which do not. The United Kingdom has such restrictions; Canada doesn't. Australia has such restrictions; Japan doesn't. On the continent of Europe, Denmark and Norway have such restrictions; Germany and France don't. In those countries where the unrestricted private holding of gold is permitted, there are wide variations in the extent to which the citizens avail themselves of the opportunity.

Under the circumstances, there is no way in which I can make a precise forecast as to how much gold Americans would buy in the near future if the controls were suddenly removed. Yet I do know that the dollar has experienced two effective devaluations relative to foreign currencies in the last year and a half. My own judgment is that the dollar is now more likely to go up than down in relation to other currencies. At the same time, I think we must realize that the confidence of many may have been shaken. For this reason we should take

into account the real possibility that removal of the controls would be followed by a substantial surge of new demand against the limited market supply. The result could be a sudden large jump in the free market price of gold. Later on the price could fall back sharply again, but meanwhile, the price of gold could display an even greater instability than we have seen in the recent past.

Logically such instability in the price of gold need cause no instability for the value of the dollar in terms of other currencies. But to place any reliance on that fact would be to place too much reliance on logic in an area where irrationality often enters in. Today we are only a few weeks away from the recent period of intense international monetary uncertainty. If in the near future there were a sharp reduction in the value of the dollar in terms of gold in the private market, there could well develop as a consequence a sharp drop in confidence in the dollar in terms of other currencies on purely psychological grounds quite apart from any developments relating to the real flows of our international trade and investment.

At the same time, however, there could develop a seriously adverse real increase in our already serious trade deficit. Gold imports could rise significantly. Yet gold imports are already a costly component of our import bill. As you can see from the first chart attached to the copies you have of my written presentation, U.S. consumption of gold has long surpassed by far our domestic production. Last year, for example, U.S. consumption was more than four times U.S. production, and the trend of consumption was up while the trend of production—even at the new higher prices—was down. The excess of consumption was about 6 million ounces. Purchases of that amount from foreigners again this year would cost us about \$540 million at the present price of gold. If the regulations were rescinded we might have to pay out a lot more, not only for additional imports but in higher costs for our basic industrial needs as well. Our trade position which now at last seems to be improving could be knocked into reverse. The real deterioration of our trade position and the psychological impact of the instability in the gold price could conceivably reinforce each other to the extent of undermining the dollar and creating new turmoil in international monetary affairs. I can't say for sure this would happen. I can say it is a real risk we need not and should not take. Even if the risk is only 1 out of 20 it should be taken seriously. A return again so soon after our recent experience to an international monetary crisis could do more than just handicap the efforts of our international traders and investors. It could seriously damage our effort to fight inflation at home. It could undermine our prestige and influence abroad to the extent of damaging our national security.

In view of these dire possibilities, I might well be asked whether it would not be possible for us, after removing present restrictions on private ownership, to sell enough gold from the Treasury's present gold holdings to avoid any increase in price and to avoid any increases in our gold imports in the near future. The answer, in a physical sense, is "Yes." Our gold stock is probably big enough for that purpose. Such an operation would, however, bring with it disadvantages which I sincerely hope you would find unacceptable.

In the first place, the U.S. Government is now party to an understanding with other major nations that sales of official holdings of gold into the private market will not be made. That understanding was entered into in 1968 at the time the so-called two-tier gold market system was established. Yet even if that obstacle were overcome, would you wish to require us to use our gold reserves for this purpose when the shape of the future international monetary system is not clear? Would you think it wise for us to take unilateral action when major negotiations have begun—with our strong encouragement—to seek widespread international agreement on a future cooperative international monetary system? That would hardly seem the way to gain international cooperation in the future.

In those negotiations we have made clear that we believe that the role of gold should be diminished; it should not have a central role in the international monetary system. Those negotiations are progressing. My boss, Paul Volcker, is off this week discussing the subject with governments in Asia. I returned late last night from several days of discussions with the experts of the European governments. We don't have an agreement, but a good faith effort is underway to reach one. I hope the Congress will not negate this effort by jumping the gun.

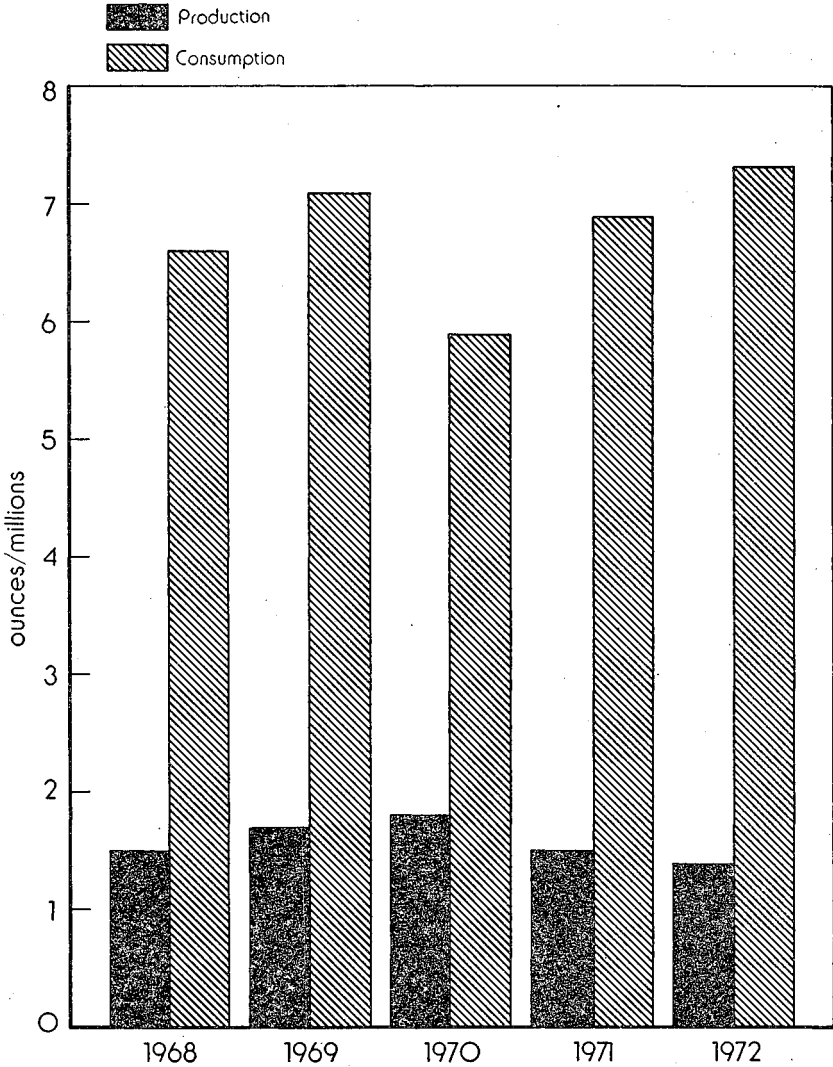
My belief is that the wisest course would be for the Congress not to legislate at this time either a removal of the restrictions on private ownership of gold or a requirement of gold sales by the Treasury. If the Congress should nonetheless,

decide now to indicate that private ownership should be permitted as the progress of reform and other developments allows such action, then I would still strongly urge that the timing of such action should be left for determination by the President. Yet even on that basis, Mr. Chairman, such legislation would not advance our national interest. The most helpful thing the Congress could do would be to complete action promptly on the Par Value Modification Act to ensure that long delay does not give rise to unwarranted suspicions abroad as to U.S. intentions.

Meanwhile, I can assure you that we are pushing vigorously for international monetary reform and for improvement in our trade position. New legislation to change the rules on gold at this time could only hamper these efforts.

Thank you.

U.S. Gold Production and Consumption 1968-1972



Department of the Treasury
Office of Domestic Gold and Silver Operations

London Gold Prices

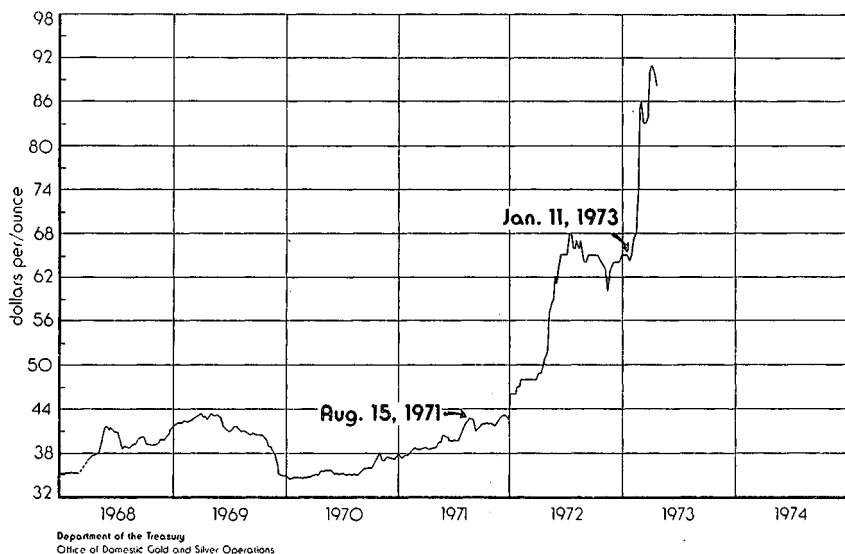


Exhibit 23.—A description of the depository system of the U.S. Government, June 1973

The depository system encompasses all aspects of the deposit of public moneys of the United States with financial institutions. The term "public moneys of the United States" has a broad connotation based on its statutory definition as "Any funds of the United States or any funds the deposit of which is subject to control or regulation by Government agencies or officers." As implied by the italics in the definition, the term embodies two distinct classes of funds, for which the following explanations may be helpful.

I. CASH ASSETS OF THE FEDERAL GOVERNMENT

In category I are all the moneys which, in balance sheet terms, have the common characteristic of being cash assets of the Government, all representing credits to the Government's accounts for revenues or appropriations and funds (including trust funds) or accounts for deposit funds which the Government is holding in a banking capacity. By the same token, all of the cash assets have the common characteristic of being incorporated in the central accounts of the Government on the books of the Bureau of Accounts in the Treasury's Fiscal Service on the basis of the official accounts rendered by all accountable officers of the Government for audit and settlement.

A. Treasurer of the United States.

By and large, the Government's cash assets are in the Treasury within the accountability of the Treasurer of the United States, and most of that money, by far, is in the form of demand account balances. The primary demand accounts are those (a) for day-to-day Treasury operations at the Federal Reserve banks (including also funds in process of collection at the Federal Reserve banks), and (b) for the flow of most of the Government's cash into the Treasury through the tax and loan accounts of most of the Nation's commercial banks. The portions of the Treasurer's cash accountability that are in the form of deposits in commercial banks consist of:

(1) *Treasury tax and loan accounts.* Most of the receipts of the Government flow into the Treasury through Treasury tax and loan accounts. As business

concerns pay their withholding taxes, corporation taxes, and other types of Federal taxes, and as banks subscribe for new issues of designated Treasury securities (for their own or customers' accounts), the funds are transferred on the bank's books from its account with the payer to its account with the Treasury (the tax and loan account). The Treasury then draws on the tax and loan account balances as it actually needs the funds to cover its disbursements, thereby matching the flow of collections and payments with minimum disruption of bank reserves and with no undue impact on the money market. All incorporated banks and trust companies (some 14,000) are eligible to have a tax and loan account with the Treasury, and some 13,000 banks do. They all compete for handling tax payments and subscribing for Government securities for their customers and themselves. The incentive—to avoid unnecessary contraction of bank reserves—is built into the system. Whatever flows through a bank's tax and loan account, whether a large or small bank, is the result of the bank's own business operations.

(2) *Treasurer's general accounts—domestic.* The funds for various classes of collections deposited by Government officers throughout the country reach the Treasury's operating accounts at the Federal Reserve banks either directly or through about 1,100 so-called Treasurer's general accounts at commercial banks designated to provide these local facilities. These are entirely "flow-through" bank accounts in which, with a few exceptions, there are no balances at the close of each day's business, because the banks transfer the funds every day to the respective Federal Reserve banks. About 30 of these accounts serve the same flow-through function but they are special collection accounts (primarily for voluminous deposits by Internal Revenue Service offices) under arrangements permitting the funds to be transferred to the Federal Reserve banks as the commercial bank collects the proceeds (with the conventional distinction between funds immediately available, 1-day, and 2-day deferred availabilities). Therefore, whatever the balance of any such special collection account happens to be at the close of any day, that balance simply represents funds in process of collection.

(3) *Treasurer's general accounts—foreign.* Some relatively minor demand accounts, as checking accounts, needed for day-to-day operations through a few commercial banks are maintained overseas; and

(4) *Compensating balances.* Some deposits are placed solely for the purpose of compensating banks for specific depositary services authorized by the Treasury. Periodically, the Treasury adjusts these balances to permit each bank to earn on its balance an income equivalent to what it is entitled to charge for its services. These services include such things as (I) processing deposits made by all Government officers through the Treasurer's general accounts referred to in item (2) above; (II) operating military banking facilities, both stateside and overseas; (III) handling special bank accounts for State unemployment compensation payments; (IV) furnishing bank drafts to Government officers in special situations where this technique gives the Government advantages in the handling of individual collection instructions; and (V) meeting the currency and coin needs of certain Government installations. These Treasury balances placed in banks for compensation purposes are of two types: (a) *Time deposits*, which apply to virtually all of the banks; and (b) *Special demand deposits*, which apply to just a few banks under special arrangements advantageous to the Government. Prior to 1972, these deposits were mainly in the preceding time deposit category; their conversion to demand account status was especially arranged to permit more prompt recall into the Treasury's operating cash balance as and when desirable in managing the Treasury's cash position.

B. Other accountable officers.

With relatively minor exceptions, all accountable officers who serve as Government disbursing and collecting officers deposit all of their collections into the Treasury and draw checks on the Treasury for their disbursements. Of necessity, disbursing officers operating in foreign countries are largely an exception insofar as they have to draw checks on checking accounts with local banks, for payments in foreign currencies or denominated in military payment certificates. Some accountable officers operating within the United States are authorized, for specified purposes, to have funds temporarily outside the Treasury, including money on deposit in commercial banks at levels commensurate with authorized needs.

(1) The largest single class of deposits in U.S. banks in this category consists of Indian tribal funds and individual Indian moneys in the custody of accountable officers of the Bureau of Indian Affairs serving as agents of the tribes, all such funds being in interest-bearing accounts with banks (including certificates of deposit).

(2) Other funds authorized to be on deposit in demand (checking) accounts or interest-bearing accounts in banks include: (a) Postmasters' checking accounts throughout the country, largely for the flow of their collections into the Treasury (to a minor extent also for certain small purchases best handled locally); (b) Checking accounts of the Veterans Canteen Service, similar to item (a) above; (c) Registry funds temporarily in checking accounts of clerks of the U.S. courts (to the extent that the clerks of the U.S. courts do not deposit such funds directly with the Treasury); and (d) Checking accounts and interest-bearing accounts required under local operating conditions by a few agencies.

II. OTHER FUNDS INCLUDED IN PUBLIC MONEYS OF THE UNITED STATES

All moneys in category II have the common characteristic of not being part of the Government's cash assets. They are not included in the official accounts rendered by any accountable officer for audit and settlement and are not for credit to any of the Government's accounts for revenues, appropriations and funds (including trust funds) or deposit funds. The only thing they have in common with actual Government money in category I is that they, too, fall within the statutory definition of "public moneys of the United States" because they are subject to certain control or regulations by certain Government agencies or officers. By virtue of being such public moneys the Government's interest extends to requiring the deposits in commercial banks to be secured by collateral, for category II as well as category I money, to the extent exceeding the protection covered by the Federal Deposit Insurance Corporation (\$20,000 per depositor). In that connection, the Treasury keeps a special set of records (entirely outside the formal financial system) representing solely the authorized maximum limits of individual bank accounts (each authorization is the amount of collateral the bank has pledged to secure the maximum amount that may be on deposit in the account at any time in excess of the Federal Deposit Insurance Corporation's coverage). *They do not represent amounts actually on deposit in bank accounts at any time.* All moneys in category II, entirely on deposit in commercial banks, fall into two groups, as follows:

A. *Certain nonappropriated funds.*

For the most part, these nonappropriated funds are moneys under the control of personnel of military organizations serving in the capacity of club treasurers, mess officers, exchange officers, etc. Relatively small amounts of nonappropriated funds pertain also to moneys in the custody of produce and commodity committees and boards under the administrative control of the Consumer and Marketing Services of the Department of Agriculture. These accounts in commercial banks are both:

(1) *Demand (checking) accounts*, with balances at levels needed for current operations (in some foreign banks as well as in U.S. banks); and

(2) *Interest-bearing accounts* (including certificates of deposit) for amounts not needed for current operations.

B. *Funds of certain private entities.*

With respect to certain Federal programs for which the statutory definition of "public moneys of the United States" is applicable, the Government makes disbursements which are deposited directly to checking accounts that private entities maintain, in their own names, in their own commercial banks. These are accounts of some grantees, certain contractors, and other private organizations which the Government funds through grants and other advances. The public moneys definition applies only because the Government agency administering the particular program has imposed restrictions on these private accounts. Apart from the protection this affords in the form of collateral, the Government's interest in these particular accounts also extends to providing assurance that money funding current operations of the private entities involved will be with-

drawn from the Treasury and credited to the private checking accounts as closely as possible to the time actually needed for disbursement by the private organizations. This is accomplished by a variety of devices, including extensive use of letters of credit (a technique which, incidentally, applies also to grant programs for which the statutory definition of "public moneys of the United States" is not applicable). The private checking accounts in this category (based upon the Treasury's records of pledged collateral) are funded by disbursements made in programs administered by the agencies identified in the following:

(1) Accounts of private insurance carriers serving as intermediaries for making payments under the medicare program, for which advances are authorized by the Social Security Administration, Department of Health, Education, and Welfare; and

(2) Accounts of grantees and contractors funded through programs of: (a) Atomic Energy Commission; (b) Department of Labor, Manpower Administration (which includes Neighborhood Youth Corps); and (c) Department of Agriculture, Farmers Home Administration.

Exhibit 24.—Other Treasury testimony published in hearings before congressional committees, July 1, 1972–June 30, 1973

Secretary Shultz

Statement on the Economic Stabilization Program, before the Senate Committee on Banking, Housing, and Urban Affairs, January 29, 1973.

Statement on the Federal budget, before the House Committee on Appropriations, February 5, 1973.

Statement on the Federal budget, before the Senate Committee on Appropriations, February 20, 1973.

Statement on the Treasury budget, before the House Subcommittee on Appropriations, March 5, 1973.

Statement, together with John T. Dunlop, Director, Cost of Living Council, in support of the extension of the Economic Stabilization Act, before the House Committee on Banking and Currency, April 2, 1973.

Statement on food and farm prices, before the Subcommittee on Production and Stabilization of the Senate Committee on Banking, Housing and Urban Affairs, April 5, 1973.

Statement on the Treasury budget, before the Senate Subcommittee on Appropriations, May 3, 1973.

Under Secretary for Monetary Affairs Volcker

Statement on the devaluation of the dollar, before the Senate Committee on Appropriations, March 19, 1973.

Assistant Secretary for International Affairs Hennessy

Statement given May 17, 1973, and to be published in hearings before the Subcommittee on Africa of the House Foreign Affairs Committee, 93d Congress, 1st Session, providing information with respect to the transfer of funds to Rhodesia; the funding of the Rhodesian Information Office in the United States; and U.S. fulfillment of obligations under pertinent United Nations Resolutions.

Energy Policy

Exhibit 25.—Statement by Deputy Secretary Simon, April 18, 1973, on the oil import program

President Nixon today signed a proclamation which terminates volumetric quotas on oil imports beginning May 1, 1973. The proclamation substitutes a system of license fees on imports of petroleum and petroleum products into the United States.

Today's action follows an intensive study of the Nation's oil import policies relative to current domestic supplies of crude oil and petroleum refinery capacity and the national security interest of the Nation. The study was conducted by

an interagency task force under my direction as Chairman of the Oil Policy Committee.

License fee program

An explanation of the new license fee program is attached. In essence, however, as of May 1, 1973, there no longer are any volumetric controls on oil imports, and the existing duties on crude oil and refinery product imports are suspended. Any person or company wanting to import crude oil and/or refinery products may do so after obtaining an import license from the Office of Oil and Gas at the Department of Interior and after paying the license fees in force at the time.

In order to provide an equitable transition from the current program to the new license fee system, certain crude oil and product imports will be exempt from license fees for a limited period after May 1, 1973. These exemptions, however, will be phased out over a 7-year period.

Demand and supply

In recent years, the United States has seen its surplus supply of crude oil and refinery capacity rapidly dwindle into a deepening deficit, as demand for petroleum products has spiraled upward and discoveries of new reserves and construction of new refineries in this country have failed to keep pace. Increasing reliance on imports of foreign supplies has raised serious questions with regard to the Nation's balance of payments position and national security requirements. In addition, the difficulty in satisfying the Nation's home heating oil requirements this past winter and the threat of a gasoline shortage this summer underscored the imminent need to reconsider national oil policy, and an investigation of current policies was begun in February by the oil import task force under my direction.

Mandatory oil import program

The task force found that the mandatory oil import program no longer provided the proper climate to support a vigorous domestic petroleum industry, which is essential to the national security and the economic welfare of the Nation. It found that the program was neither adequate to alleviate the threat of near-term crude oil and product shortages, nor adequate to provide longer term incentives for increased investment in domestic exploration and production and new refinery construction and expansion.

The task force found that the program was not so much a failure as it was obsolete. It was established at a time when domestic production was in excess of demand and it was founded on the premise that it was necessary to restrict imports of cheap foreign oil to encourage the domestic petroleum industry in the interest of national security. The conditions which gave rise to this policy no longer exist.

Further, the original purpose of quotas was to provide reasonable self-sufficiency by encouraging the development of domestic production and refining capacity. This clearly has not happened.

Companies were induced to explore and produce abroad in order to benefit both from lower foreign producing costs and the assurance of a large higher priced market at home. Imports now account for 30 percent of production and are expected to climb to the 50 percent level in a few years.

The task force found that these unintended developments are inherent in the quota system, and have not been corrected by the stop-gap measures used to shore up the program over the past years.

Lately refinery capacity has also begun to move abroad. Although other factors have contributed to this development, including environmental restrictions which have blocked refinery plant sitings, the uncertainties of the quota system have had an adverse effect on long-range investments for new refinery construction as well as investments for additional exploration and production in this country. This uncertainty developed because:

1. Import allocations are subject to annual realignment;
2. In recent years the program has been altered frequently, making it a patchwork of special provisions and exceptions; and
3. General dissatisfaction with the program both in industry and the Government has fostered the expectation that it would be abandoned shortly.

Basis for policy recommendation

Based on this assessment of the mandatory oil import program we launched a full-scale effort to develop recommendations to restructure import policies.

We recognized the need to get the Federal Government out of the business of regulating oil imports, since the Government does not have the forecasting capability to predict exactly what import levels will be each year. Our objective was to design a program that would assure the oil industry flexibility to import oil to satisfy the short-term needs of U.S. refiners and consumers while, at the same time, provide longer term stability and additional incentives for increased domestic exploration and production and new refinery construction and expansion.

We knew that in designing this new program the special provisions, exceptions, and subsidies in the MOIP would have to be ended. We realized that this could not be done abruptly, but would have to be done gradually to avoid putting an unfair economic hardship on the numerous persons and companies that together have invested many millions of dollars in the domestic oil industry based on the policies under the MOIP.

We also realized that our new policy recommendations would have to satisfy consumer interests in reasonable prices and sufficient supplies without straining or disrupting the complex mechanism known as the oil industry. We knew that each segment of the industry must continue to be viable in order to meet the supply needs of the Nation both in the near and longer term. The formidability of this task is obvious when you realize that the oil industry is composed of companies that vary in size from global to local and from integrated majors to independent producers, refiners, marketers, and jobbers.

We further recognized that our policy recommendations would have to be compatible with other Government policies and programs, in particular the economic stabilization program.

We knew that in order to be more attractive for oil companies—or for that matter anyone—to build new refineries and explore for more oil in this country, prices in this country for foreign petroleum products would have to be higher than the prices for domestic products. Only in this situation would it be more profitable to manufacture those products here than to make them somewhere else and import them into this country. There had to be clear advantages to producing crude oil in this country rather than producing it somewhere else and in turn selling it in this country. Therefore, we have set a license fee on imports of crude oil and even higher license fees on imports of residual fuel oil, distillates, gasoline, unfinished oils, and other products. Various changes in these incentives are spelled out in advance so that the oil industry will have a reasonable degree of certainty under which to make major new investments in U.S. exploration and development and refinery construction.

Independent refiners

Implementation of the new license fees on May 1, 1973, will give value to unused 1973 import licenses, providing landlocked independent refiners with some additional leverage to bargain for domestic "sweet" (low sulfur) crude oil.

Import licenses, in general, now have no exchange value because the landed prices of foreign crudes—especially sweet crudes—are roughly equivalent to or above domestic crude prices. An increase in the value of independents' licenses by the differential of 10½ cents per barrel initially should help independent refiners bargain for additional sweet crude supplies. Moreover, the ability of the independent refiner to obtain license fee-exempt tickets from the Oil Import Appeals Board will, hopefully, enable them to obtain a sufficient number of tickets to allow them to bargain for adequate crude oil supplies under present-day price relationships.

Under the new license fee program, the exemption of 1973 allocations for all refiners will be phased out over 7 years. The intent is to provide refiners both the time and the incentive to adapt their refineries to run available "sour" crudes or to develop or contract for adequate sweet crude supplies for the long term.

Independent marketers and jobbers

Today's action also gives value to the 1973 import allocations issued by the Oil Import Appeals Board to independent marketers and jobbers, enhancing their ability to bargain for products. The OIAB will continue to hear appeals from this sector of the industry to make certain that no undue hardships occur as a result of tight product supplies. In the long run, the license fee program will further benefit independent jobbers and marketers by encouraging additional refinery capacity, which will make products more readily accessible.

Prices

The impact of today's action on oil prices is expected to be gradual over the long term and minimal in 1973. Imports subject to the new license fees during 1973 are expected to be such a small percentage of the Nation's total oil requirements as to have little, if any, impact on consumer prices. The Cost of Living Council has advised us that there is adequate flexibility under the current oil price controls to allow such price movements should they be necessary to meet the supply needs of the Nation.

Today's action also gives all importers the opportunity to negotiate long-term contracts, and thereby lower prices, for their crude oil and product supplies. This should be especially beneficial to deepwater terminal operators in PAD District I.

Conclusion

The program announced today by the President deals equitably with the many and varied aspects of oil import policy, while satisfying the national security interest by assuring the oil industry the flexibility, certainty, and incentives to meet the growing petroleum needs of the Nation through domestic expansion at all levels of the production and distribution system.

Today's action suspends oil import quota restrictions without abandoning the mandatory oil import program. It opens the way for foreign imports to alleviate potential shortages of crude oil and finished products, without foreclosing the option of reimposing mandatory controls at any time in the future, should that ever again become necessary or desirable. The intent is to maintain import control and accountability without restricting the flow of essential oil into the United States.

The license fee approach gives the President the flexibility to satisfy short-term needs of consumers without destroying long-term incentive, namely, domestic exploration and production of crude oil, and construction and expansion of domestic refineries.

Caution: The following text is meant to clarify the Presidential proclamation concerning changes in the modified oil import program. It does not have any legal effect in the interpretation of the regulations to be published shortly.

SUMMARY OF THE MODIFIED OIL IMPORT PROGRAM

As it is currently structured, the mandatory oil import program has neither prevented near-term crude oil and product shortages nor provided adequate longer term incentives for increased investment in domestic exploration and production and new refinery construction and expansion. The program is not so much a failure as it is obsolete. It was established at a time when domestic production was in excess of demand and it was founded on the premise that it was necessary to restrict imports of cheap foreign oil to encourage the domestic petroleum industry in the interests of national security. Today foreign oil prices are roughly equivalent to or above domestic prices, and this country must import ever larger amounts of foreign oil to supplement its inadequate domestic production.

Not only does the program provide little benefit now, it has the very real potential of aggravating tight supply conditions. Unexpected increases in the demand for imports could lead to a situation in which there is insufficient import tickets, creating the possibility of a shortage that otherwise could have been avoided.

Probably the greatest shortcoming of the current program, however, is the uncertainty inherent in its operation. This uncertainty has an adverse effect on long-range investment planning for new refinery construction and drilling. It is created because:

1. Import allocations are subject to annual realignment;
2. In recent years the program has been altered frequently, making it a patchwork of special provisions and exceptions; and,
3. General dissatisfaction with the program both in industry and Government is fostering the expectation that it will be abandoned shortly.

Therefore, it is recommended that the program be modified to meet current needs and objectives. The program must be restructured to assure the oil industry the flexibility to import oil to satisfy the short-term needs of U.S. refiners and consumers while, at the same time, providing longer term stability and additional incentives for increased domestic exploration and production and new refinery

construction and expansion. We believe the program recommended below will achieve these objectives.

There are built into the program a number of exemptions to license fees during the next 7 years. This is done to provide a period of transition during which both producers and consumers will be able to adjust to the new system. In the long run, however, each of these exemptions will be phased out of existence in order to create a simpler and more uniform program than now exists.

Plan of action

1. Volumetric quotas now established under the mandatory oil import program are being eliminated and a system of license fees established to regulate the level of crude oil and product imports. This change will help to assure adequate supplies of crude oil and refinery products in the short run and sufficient incentives to domestic drilling and construction of refineries in the long run. The legal basis for these changes is provided by section 232 of the Trade Expansion Act of 1962.

2. Effective May 1, 1973, any person or company wishing to import crude oil and petroleum products may do so simply by applying for an import license to the Department of the Interior, Office of Oil and Gas, and by paying the appropriate license fee.

3. Also effective May 1, 1973, existing tariffs on crude oil and refinery products will be suspended. In their place, license fees will be imposed on imports equal, in the long run, to $\frac{1}{2}$ cent per gallon of crude and $1\frac{1}{2}$ cents per gallon for unfinished oils and all refinery products. Fees will be paid to the Office of Oil and Gas at the time of application for an import license.

4. These long-term fees will take effect at the end of 1975. In the meantime, license fees will be stepped-up over time. The following schedule of fees will apply to all but exempt imports.

Schedule of license fees

[Cents per barrel]

Product	May 1 1973	Nov. 1 1973	May 1 1974	Nov. 1 1974	May 1 1975	Nov. 1 1975
Crude oil.....	10½	13	15½	18	21	21
Residual fuel oil, unfinished oils, distillates and refinery products other than gasoline.....	15	20	30	42	52	63
Gasoline.....	52	54½	57	59½	63	63

5. License fees will be reassessed from time to time to assure that the primary objectives of the program are being met; namely, to provide adequate incentives to domestic exploration and drilling for crude oil and construction and expansion of domestic refineries, while not imposing unnecessary burdens on the American consumer.

6. All import licenses outstanding as of May 1, 1973, will be honored by the U.S. Government license fee-exempt.

7. Certain crude oil and product imports will also be exempt from license fees for a limited period of time after May 1, 1973. Current program participants will be granted yearly allocations, exempt from license fees, equal to import levels in effect as of April 1, 1973, for residual fuel oil and quota levels in effect as of January 1, 1973, for crude oil and petroleum products other than residual fuel oil. The exempt allocations will be granted through April 30, 1974, after which the level upon which allocations are based will be reduced by a fraction of the original level each year for the next 7 years. No allocations will be granted license fee-exempt beyond April 30, 1980. The schedule by which exemptions will be phased out is:

Percentage of initial allocation exempt from license fees

After April 30	Percent
1973	100
1974	90
1975	80
1976	65
1977	50
1978	35
1979	20
1980	0

8. Crude oil import licenses not subject to license fees will continue to be convertible to unfinished oils and finished products at existing rates (15 and 1 percent, respectively) until January 1, 1974. Crude oil licenses subject to license fees will not be convertible.

9. Current participants in the mandatory oil import program are:

- a. Refiners.
- b. Petrochemical plant operators.
- c. Deepwater terminal operators in District I.
- d. Asphalt marketers or consumers in Districts I-IV.
- e. Recipients of grants from the Oil Import Appeals Board.

Persons or groups other than those currently participating in the program would also be allowed to import crude oil and products, subject to the license fee schedule indicated in section 4.

10. The Oil Import Appeals Board will assume primary responsibility for assuring adequate supplies of oil for the independent segment of the industry. To this end, the OIAB will be authorized to distribute fee-exempt licenses to established independent refiners and marketers experiencing exceptional hardship or emergency. The OIAB will also advise the Oil Policy Committee about other ways to assist the independent segment of the industry. Integrated oil companies with special hardship or emergency needs will also be permitted to apply to the OIAB for assistance. However, those companies with a domestic crude oil production capability will be required to demonstrate their inability to obtain by exchange import licenses from those already distributed by the U.S. Government and their willingness to supply established independent refiners with 1972 allocations of crude oil and established independent marketers with 1972 allocations of refinery products. Specific guidelines for the OIAB will be issued shortly after the proclamation. The OIAB will on all matters report to the Chairman of the Oil Policy Committee. The OIAB's power to distribute license fee-exempt import licenses will expire on April 30, 1980.

11. Fee-exempt import licenses may, as at present, be exchanged for domestically produced crude oil at a rate negotiated by the parties involved in the exchange. In any exchange, licenses not subject to a license fee would retain their license fee-exempt status.

12. Imports of ethane, propane, and butane will be exempt from license fees. License fees will also be refunded on quantities of imported crude used to produce asphalt.

13. Companies building new refineries or petrochemical plants or expanding existing refineries or petrochemical plants coming onstream after April 30, 1973, will be granted license fee-exempt allocations equal to 75 percent of their additional inputs for their first 5 years of operation. Throughput earning exempt allocations under these provisions will not be counted as certified refinery inputs in estimating exempt allocations.

14. License fee exemption of existing petrochemical plants using heavy feedstocks will be considered by the Oil Policy Committee at a later date.

15. Deepwater terminal operators in District I currently under the program will be allowed to import 50,000 barrels per day of No. 2 fuel oil exempt from license fee. After May 1, 1973, these imports of No. 2 fuel oil must be produced from Western Hemisphere crude oil unless otherwise exempted. The Western Hemisphere preference requirement will apply only if the Chairman of the Oil Policy Committee determines that imports from the Western Hemisphere are available. If they are not available, license fee-exempt imports will be permitted from other sources. The Chairman of the Oil Policy Committee shall determine whether, because of supply, price, and other considerations, the Western Hemisphere restriction is unduly restrictive and may suspend or reimpose this restriction as needed.

16. Import licenses for crude oil and products produced in all Western Hemisphere countries will be subject to license fees unless otherwise exempted. The fee-exempt volume of imports for all Canadian and Mexican crude oil and products will be established at the average daily volume of imports into the United States under the existing quotas or during the first quarter of 1973, whichever is higher. The State Department will advise the OPC from time to time of any changes in the license fees on these imports which it deems to be in the security interests of the United States. Product imports for which no quota now exists will be allowed into the country under the license fee schedule presented in section 4.

17. To integrate Puerto Rican imports more fully into the U.S. program, imports of crude oil and finished products to Puerto Rico will be subject to the same license fees after May 1, 1973, as the mainland and will be allowed from anywhere in the world.

a. All finished products refined in Puerto Rico will be shipped to the mainland license fee-exempt.

b. All license fees on Puerto Rican imports of oil will revert to the Commonwealth of Puerto Rico.

c. Imports of crude oil and unfinished oils now governed by contractual agreements between Puerto Rico and the U.S. Government will be exempt from license fees for the remainder of the terms of these contracts. Upon expiration of these contracts, the exemption will be phased out according to the schedule in paragraph 7.

d. Imports of crude oil and unfinished oils used to manufacture finished products shipped to the mainland under the historical classification based on shipments prior to 1965 will be exempt from license fees and that exemption will be phased out over the same schedule provided for exempt refinery allocations.

e. Finally, the Commonwealth will be allowed to impose restrictions on shipments to the mainland of petrochemical intermediates and products necessary to assure continued growth of the downstream petrochemical industry in Puerto Rico. However, ultimate responsibility for determining import policy will reside with the Chairman of the Oil Policy Committee.

18. Imports of crude oil and finished products into the Virgin Islands and free trade zones would be exempt from license fees after May 1, 1973. Exports from the Virgin Islands and entries from free trade zones into the United States will be subject to fees. However, the existing refinery in the Virgin Islands may continue to export to the United States license fee-exempt those products governed by contract with the U.S. Government for the term of that contract.

19. All imports from possessions outside the U.S. customs territory will be subject to license charges.

20. Imports under existing allocations to the Department of Defense will be allowed license fee-exempt. These allocations will be phased out over the same period allowed for exempt allocations.

21. Whatever customs drawbacks apply to existing tariffs or the import-for-export provisions that apply to existing petrochemical programs will similarly apply to license fees.

22. The Oil Policy Committee will explore ways to use the license fee program as an incentive for investment in domestic storage capability and desulfurization of crude oil.

23. Applications for import allocations exempt from license fees will continue to be submitted and allocations assigned according to the current annual cycle. Applications for import allocations subject to license fees will be accepted and processed by the Department of the Interior at any time.

24. After termination of the various temporary exemptions, there will be no differences in license fees or import restrictions for the various petroleum districts in the United States.

What these changes will accomplish

1. These changes would suspend oil import quota restrictions without abandoning the mandatory oil import program. They open the way for foreign imports to alleviate potential shortages of crude oil and finished products, without foreclosing the option of reimposing mandatory controls at some time in the future. Nor do they foreclose the option of auctioning some portion of import allocations should that become desirable. The intent is to maintain import control and accountability without restricting the flow of essential oil into the United States.

2. These changes provide for the implementation of a permanent oil import program that leaves no uncertainty as to the U.S. Government's longrun policy intent to assure the availability of adequate supplies of crude oil and finished products while, at the same time, providing the incentive for increased investment in domestic exploration and production and refinery construction. To do this, the program establishes over time a clear differential between the prices of domestic and foreign petroleum in the United States that favors U.S. oil pro-

duction and refining. Various changes in these incentives are spelled out in advance so that the oil industry will have a reasonable degree of certainty under which to make major new investments in U.S. drilling and refinery construction. These incentives will be assessed from time to time and, if necessary, increased to assure that they are sufficient to encourage domestic investment.

3. This approach minimizes the impact on oil prices during the next 2 years. The license fees will be increased over time. In any event, imports subject to the proposed license fees during 1973 are expected to be such a small percentage of the Nation's total oil requirements as to have little, if any, impact on consumer prices. Moreover, there is adequate flexibility under current oil price controls to allow such price movements should they be necessary.

The trend toward increased prices will begin in 1974, when the Nation is expected to require an additional 1 million barrels per day of petroleum to satisfy its demand. Should price controls be extended in any form, adequate and timely consideration could be given to the potential impact of license fees on prices and the impact of continuation of price controls on the effectiveness of the changes discussed here.

There may be some upward price movement for distillate fuels related to license fee charges in 1973. Because the Nation does not have the refinery capacity to satisfy its requirements for both gasoline this summer and heating oil next winter, under the license fee approach domestic refiners could be expected to maximize gasoline output over the next several months in favor of increased distillate imports. There are several reasons for this:

a. Distillates are more likely to be available from overseas due to foreign refinery yield patterns, although foreign supplies may not satisfy the sulfur specifications of U.S. environmental restrictions.

b. Prices for foreign distillates will be seasonally low over the next several months, whereas gasoline prices will not be.

c. Maximizing domestic gasoline output maximizes a refiner's dollar return.

4. Implementation of license fees on May 1, 1973, would help to give value to unused 1973 import tickets, providing landlocked independent refiners with some leverage to bargain for domestic sweet crude oil. The current worldwide shortage of sweet crudes, coupled with rising foreign prices, has wiped out the value of the independent refiners' tickets and has led to many small refiners cutting back production for lack of refinery feedstock. Import licenses, in general, now have no exchange value because the landed price of foreign crudes is roughly equivalent or above domestic crude prices. Raising the value of independents' unused licenses should help the independents to bargain for additional sweet crude supplies. Moreover, the ability of the independent refiner to obtain additional fee-exempt licenses from the OIAB would, hopefully, enable him to obtain an adequate number of tickets necessary to arrange exchanges with the majors under present-day price relationships.

5. Under the proposed license fee program, the subsidy provided by exemption of 1973 allocations for all refiners would be phased out over 7 years with the initial reduction coming in the second year. The intent is to provide refiners both the time and the incentive to retool their refineries to run sour crudes or to develop or contract for adequate sweet crude supplies for the long term.

6. This approach also gives value to 1973 import allocations issued by the Oil Import Appeals Board to independent jobbers and marketers, enhancing their ability to bargain for products. The OIAB will continue to hear appeals from this sector of the industry to make certain that no undue hardships occur as a result of tight product supplies. In the long run, the license fee approach will further benefit independent jobbers and marketers by encouraging additional refinery capacity, which will make products more readily accessible.

7. This approach also gives all importers the opportunity to negotiate long-term contracts, and thereby lower prices, for their crude oil and product supplies. This should be especially beneficial to deepwater terminal operators in District I.

Exhibit 26.—Statement by Deputy Secretary Simon, May 10, 1973, before the Senate Banking, Housing, and Urban Affairs Committee on possible shortages of gasoline and other petroleum products

I am delighted to appear before you today to discuss the possible shortages of gasoline and other petroleum products. As such, I would like to focus on the following:

- (1) The causes behind these shortages;
- (2) The effect of these shortages;
- (3) The impact that gasoline shortages will have on other products for the remainder of this year and on home heating oil supplies next winter;
- (4) The effect of the new mandatory oil import program; and
- (5) What steps are being taken to prevent such shortages and their recurrence.

The growth of demand for energy

The first thing to understand is that the demand for energy has been increasing continually while our supply has not. With 6 percent of the world's population, we are consuming 33 percent of the world's energy. Furthermore, the demand for energy in this country is growing at an annual rate of about 4 percent and by 1990, our energy needs will be double that of 1970.

Further, demand for gasoline in the United States has been growing faster in the past several years than at any other time in recent history. Since 1968, gasoline demand has risen at an annual rate of about 5 percent. During the past 2 years the rate of increase has been about 6 percent per year. Part of this rise in demand can be explained by growth in the population, growth in the economy, and the increasing number of cars on the road.

But demand has also risen significantly because of the many power-using devices added to cars. These include automatic transmissions, air conditioning, various safety features, and the changes made in automobiles since 1970 in compliance with EPA regulations issued under the mandate of the Clean Air Act. Producers' compliance with these regulations has led to substantially reduced engine efficiency. As more vehicles come on the road equipped with safety, emission control, and physical comfort devices, average mileage per gallon will decrease further. An automobile that once got 14 miles per gallon now gets 8 or 9 miles, and it may get only 6 or 7 miles per gallon if present trends continue.

Because new automobiles are not getting the gasoline mileage obtained by their counterparts 5 and 10 years ago, and because we are driving more, gasoline consumption has risen. We are using 300,000 barrels per day more of gasoline this year than last year.

Failure to build refineries

While gasoline demand has been growing at about 6 percent per year, the volume of crude oil processed by refiners has risen only 3 percent per year. We are now extremely short of refinery capacity and, at the time of the President's energy message, which announced the new oil import program, no new refineries were under construction. Furthermore, expansion of existing refineries had ceased. Growth in the capacity of the industry had come to an end because the industry found that it was more profitable to invest abroad than in the United States.

One reason for this is that environmental restrictions have made it increasingly difficult to find acceptable sites for new refineries in this country. Because of resistance to refinery siting, it may take 3 years to obtain site approvals today, in addition to the 3 years required for construction. Yet modern refineries can be designed so that they do not significantly pollute the environment. In this regard, I would mention a recent trip which you, Chairman McIntyre, made to inspect a new refinery in the State of Washington. I understand that you were impressed by the cleanliness of this refinery and have urged your fellow Senators from New England to support such a refinery in their area. I wholeheartedly agree with you.

Another reason why the industry has located new refineries abroad is that U.S. oil import restrictions, in the past, created uncertainty as to whether new domestic refineries could obtain sufficient imported supplies of crude oil. As long as the Government set import quotas on a year-to-year and, in some cases, on a month-to-month basis, no company was assured of the stability of supply necessary to encourage domestic refinery construction. This impediment ended on April 18 when we terminated volumetric quotas on oil imports.

Finally, the tax and other economic benefits available to refiners in the Caribbean and in Canada have been more lucrative than similar provisions available in the United States. For all these reasons, U.S. refinery construction has been standing still while U.S. demand for refinery products has been growing.

To meet the growing demand for gasoline, refiners have been changing their mix of products to increase their yield of gasoline. The average yield of gasoline

per barrel of crude oil rose from 43.8 in 1968 to 46.9 percent in 1972. This means, of course, that the yield of other products, such as fuel oil, has been reduced. It is also a short-term expedient at best. Whatever the product mix, it will be necessary to increase substantially our overall imports of refinery products to avert both a gasoline shortage this summer and a fuel oil shortage next winter.

Our growing lack of refinery products was driven home to the public late in 1972 with shortages of distillates and other heating fuels in various parts of the country. Refineries had to increase their percentage of distillate production and, correspondingly, reduce gasoline production. As a result, we are now coming into the summer season with low gasoline stocks. As of April 20, we had only 204 million barrels of gasoline in storage. This is down 12 percent from last year, while demand is up 6 percent. Furthermore, domestic production, even today, is not keeping pace with demand. We are using, on average, 47 million barrels of gasoline weekly, and producing only 43 million barrels. For this reason, we are faced with the prospect of serious limitations on gasoline supply.

An important aspect of the supply problem is the distribution system in this country. Some areas of the country are close to pipelines and refineries. Some areas are served by the retail outlets of the major oil companies. These areas will not feel a shortage as much as other areas which are relatively distant from pipelines and not well-served by the major oil companies.

Recognizing the serious nature of the gasoline and fuel oil shortage, and that there are regional differences in the intensity of the problem, we have established regional subcommittees of the Oil Policy Committee, of which I am Chairman. These groups consist of representatives of the independent segment of the industry serving particular areas of the country. In addition, we have contacted the Governor's office of each State and explained to them the need to reach some compatibility between our energy needs and State environmental requirements. As a result, representatives of the Governors' offices are attending these subcommittee meetings, and we are able to identify regional problems and deal expeditiously with them. Working in this way, we are able to maintain flexibility in the administration of the new oil import program and to be responsive to the special problems of particular areas of the country.

The problems of the independent oil companies

We are greatly concerned about the independent companies. The independent segment of the oil industry—the independent refiners and the independent marketers—are faced with related but distinct problems. The refiners face crude oil shortages; the marketers, gasoline shortages.

To understand how these problems developed, it is important to realize that until the early 1970's, we had surplus crude oil production capacity in the United States. This enabled independent refiners to buy crude oil and build refineries to supply, among others, independent jobbers, marketers, and other wholesale customers. There was also a surplus of gasoline and other products being produced by the major oil companies. Independent marketers took advantage of this surplus and opened thousands of gasoline stations to sell gasoline purchased in the spot market. By efficient servicing of consumers, these marketers were able to sell gasoline for a few cents a gallon less than the major oil companies. I believe that these independents had a healthy influence on the petroleum industry—by giving consumers a greater choice between price and service they made it possible for consumers to buy gasoline at lower prices.

The gasoline shortage has hit these independents hardest. In the first place, independent refineries can no longer get adequate supplies of crude oil. They used to obtain domestic crude oil by exchanging their import licenses with the major oil companies. The major companies used the import licenses to import cheaper foreign crude for their own use, while providing the independent refiners with domestic crude oil. In addition, the so-called sliding scale method of allocating import licenses under the old system gave smaller refineries more than a proportionate share of the licenses.

All this has changed during the last 2 years. Quoted prices of foreign crude oil are now equal to or higher than prices of American crude sold in the same markets. There is a worldwide shortage of low-sulfur or sweet crude. As a result, major oil companies have had no economic incentive to trade their domestic sweet crude production for imported crude obtained by means of independents' import tickets. Further, because of local air quality standards, companies are compelled to use low-sulfur crude even though their plants are designed for

refining high-sulfur crude. The result is that the independent refineries cannot get the crude oil they need and are operating at less than full capacity.

Independent gasoline marketers are also in a difficult position. The wholesale market for gasoline is drying up. Many of the independents find it impossible to purchase gasoline wholesale. Hundreds of independent gasoline stations across the country are closing down. Those that can obtain gasoline abroad find it available only at much higher prices. This hurts them competitively, since their main selling point with the public is that they can underprice the major oil companies.

The problems of the independent segment of the industry were given considerable attention in designing the new oil import program. Indeed, had it not been for the independents, the changes in the program might have been announced much sooner than they were. Our basic objective was to balance the need to preserve the independent segment of the petroleum industry with the desire to create a vigorous domestic industry through incentives for construction of new refineries in the United States and for exploration for new reserves of crude oil. We also wanted to eliminate the many exceptions built into the oil import program and to assure a reasonable stability of prices.

Perhaps the major benefit of the new program is the flexibility that it provides to importers. Marketers will be able to shop for supplies of oil anywhere in the world. They will no longer be dependent entirely on their traditional sources of supply. Moreover, through the availability of fee-exempt licenses issued by the Oil Import Appeals Board, independent marketers should have access to products at lower cost than their major competitors for the remainder of this decade. This should provide the time required by the independent marketers to make the changes necessary to protect their market position.

Another benefit of the new program is the incentive it creates for additional output. The independent marketers have depended for their economic well-being on the excess refinery capacity of the major oil companies. Excess refinery capacity no longer exists, largely because we, as a Nation, have discouraged refinery expansion and construction. The greatest hope for the independent marketers, in the long run, will be the incentives provided both independent and major refiners to produce additional supplies of crude oil and products. This, in the end, is the only real solution to the problems the independent marketers now face.

The effect of the new import program and other policies on the independent oil companies

Let me discuss at greater length some of the steps we have taken to protect the independents. In the past, the Oil Import Appeals Board (OIAB) would not distribute import licenses in cases of hardships until September. These licenses were, by and large, distributed to the independent refiners and marketers. Early this year the OIAB began to allocate tickets immediately upon application. It had soon disbursed its entire 1973 allocation. Then, on March 23, 1973, the President issued a proclamation granting unlimited allocations to the Oil Import Appeals Board in an effort to make more crude oil and product available to both the independents and the Nation. Finally, on April 18, in another proclamation, the President removed volumetric controls altogether.

The new program does several things to help strengthen the short-term position of the independent refiners and marketers, enabling them to establish themselves on a more enduring basis.

1. Outstanding import licenses will be honored free of license fee. Since the independents hold a large share of these licenses because of the sliding scale and past OIAB allocations, this provides some value to their tickets where none existed previously. The independents will be able to import oil at lower cost than the majors. As a result, the majors should now have greater incentive to trade with the independents.

2. To provide greater value to the independents' tickets, we have suspended existing tariffs. Had we not done this, the independents' ticket value would have been lower. The only other way to create value under the new program was to have the consumer pay substantially higher prices.

3. The Oil Import Appeals Board has been given specific responsibility for helping the independent refiners and marketers by issuing fee-exempt tickets. Major oil companies may also appeal to the Oil Import Appeals Board, but they must demonstrate their inability to obtain import licenses by exchanging

with independents or their willingness to supply established independent marketers and refiners with the same proportion of crude oil or products supplied in 1972.

4. The Government has begun to allocate its "royalty oil" to independent refineries in need. Under the terms of relatively recent lease sales, the Government can collect some of its royalties in cash or in a share of the oil produced on lease lands. In choosing the latter course, it is, in effect, diverting crude oil from the major to the independent refineries. To date, about 60,000 barrels per day have been allocated in this manner to the independents. There is a possibility for an additional sharing of royalty oil of up to 140,000 barrels per day under this program.

5. All of these actions are probably not sufficient to assure distribution of adequate supplies of refinery products to independent marketers and, especially, adequate supplies of crude oil to independent refiners. It is for this reason that the Government has decided to utilize the authority given it under the recently enacted Economic Stabilization Act to allocate both crude oil and products to independents, municipalities, and other purchasers who have been cut off from their traditional sources of supply.

The Oil Policy Committee has been given general responsibility for drafting an allocation program; the Office of Oil and Gas in the Department of the Interior, responsibility for administering the program. The program adopted by the administration relies on voluntary compliance with guidelines, set by the Government, calling for the supply of no less than the proportion of 1971 and 1972 sales to independents and other customers at prices not to exceed posted and rack prices charged by refiners, marketers, distributors, and jobbers. Our purpose is to apportion, as evenly as possible, any curtailment in consumption that will result from gasoline and distillate shortages. Priority will be given to meeting the needs of farming, other essential industries, and State and local governments. A description of the allocation plan is attached as appendix A.

The program will apply to all segments of the industry. The oil companies' adherence to these guidelines will be monitored and, if voluntary compliance fails, more stringent measures will be taken by the administration. We hope and expect, however, that this will be unnecessary. Our preliminary soundings suggest that the companies are aware of the problems created by curtailments and are willing to continue to provide a fair share of petroleum products to their established customers.

6. Perhaps the most critical problem, however, is the supply of sweet crude oil to independent refiners. There is, at present, a general shortage of low-sulfur crude oil brought on, in part, by the requirements of several Eastern States and municipalities that refineries use sweet crude oil to meet air quality standards, even though these refineries are designed to take sour or high-sulfur crude oil. This has diverted sweet crude to the east coast refineries of major oil companies and away from inland independent refineries, many of whom are unable to handle high-sulfur crude oil.

At the same time, the major oil companies have had little incentive to exchange crude oil because the price of domestic oil is now equal to or lower than the landed price of foreign oil. Under Cost of Living Council rules, the majors cannot charge the replacement value for domestically produced crude oil, but must absorb the losses resulting from an exchange. It is no surprise, therefore, that the majors have been reluctant to swap U.S. for foreign crude oil.

The administration is trying to rectify these problems. We are working with the Cost of Living Council to find a compatibility between maintaining stable prices and providing adequate compensation to the major oil companies that do exchange domestically produced oil for imported oil.

Solutions to the gasoline and distillate shortage

These measures should help bring about a more equitable distribution of crude oil and products in the short run. What about the long run? What is being done to solve the basic gasoline and distillate shortages that have created the distribution problems with which we are now concerned?

1. We have established a license fee program for crude oil and product imports. This program removes all volumetric quotas on imports and allows free importation of crude and product subject to a fee of 21 cents and 63 cents a barrel, or $\frac{1}{2}$ and $1\frac{1}{2}$ cents per gallon, respectively, after $2\frac{1}{2}$ years. This is a longrun system which is designed to spur the construction of refineries in the United

States. It does this by removing obstacles to acquiring an assured supply of crude oil and by instituting a price differential between crude and products sufficient to guarantee an adequate profit from domestic refining. I am happy to report that, since the President's energy message on April 18, a number of companies, including Shell, Ashland, The Pittston Corp., and Standard Oil of California, have announced that they now plan to build or expand refineries in the United States as long as sites are available. Others have indicated to us that they are seriously considering building refineries here but have not yet made their plans public. In addition, several independent marketers have stated their intention to develop their own U.S. refinery capability, a necessary step if the independent marketers are to become a fully viable entity in the industry. In each case, however, the decision to build a new refinery is contingent upon a satisfactory solution to the "siting problem"—the seemingly chronic inability of the industry to obtain approval to build new refineries in many parts of the country.

2. We are also taking actions to solve the domestic crude oil shortage by a proposal we are making to the Congress for an exploratory drilling investment credit. This gives a 7-percent tax credit for new drilling, plus a supplementary credit of 5 percent for successful wells. We are confident that this program, if enacted by the Congress, will stimulate crude oil production and have a significant impact on gasoline and fuel oil supplies.

Conservation measures

Energy conservation can play an important role in stretching gasoline supplies and thus reducing the shortage. To this end, we will need the cooperation of the Government, industry, and the public. For example, the public is being encouraged to minimize its use of automobiles this summer. According to the Automobile Manufacturers Association, about 56 percent of the cars on the road contain only the driver. This underutilization of cars can be reduced in many cases, especially in metropolitan areas. Car pools and public transportation should be substituted, where possible, for single-occupant cars. Use of smaller cars, with better gasoline mileage performance, is another measure the public might take to conserve gasoline. Additional measures include reducing the use of the automobile air conditioner, keeping tires properly inflated, cutting off motors when stalled in traffic, and avoiding excessive speeds on the highway. I am attaching as appendix B a list of conservation measures that can be taken to help reduce the demand for petroleum products.

Gasoline prices

Some have expressed concern that the price of gasoline will rise to astronomical levels. This concern is unfounded. There has been a substantial rise in foreign crude oil prices in the last 3 years, and we will probably experience additional price increases in the future. But crude oil accounts for only a small fraction of the costs of producing gasoline. For instance, if the crude oil price were doubled, this would increase the price of gasoline by only 8 cents a gallon.

One of the largest components of the price of gasoline is represented by Federal and State taxes. The breakdown in the retail price of a gallon of gasoline costing 39 cents is as follows: Crude oil—8.1 cents; transportation to refinery and refining—5.3 cents; wholesaling and retailing—13.9 cents; State taxes—7.7 cents; and Federal tax—4 cents.

It is interesting to note that in England, the retail price of regular gas is 64½ cents a gallon; in Germany, 79½ cents; in France, 91½ cents; and in Italy, a dollar. With prices like these, it is no wonder that European drivers prefer smaller cars. Why are European gasoline prices so high? The answer is primarily the higher taxes paid by motorists in these countries. In Europe, taxes account for up to 75 percent of the retail price. By comparison, taxes represent only 30 percent of the price in the United States.

Gasoline and other prices will probably increase over time. This would provide benefits to the Nation:

1. It will help to save some independent gasoline dealers and refiners who are otherwise going to go out of business.
2. It will encourage Americans to conserve on gasoline.
3. It would also help to provide the economic incentives needed to speed up the construction and expansion of badly needed domestic refinery capacity.

Fuel oil

A major effort is being made now, and for the rest of the summer, to produce more gasoline. This will have the effect of reducing the yield of fuel oil below that which was being produced a few months ago. The question is whether, as a result, we will have adequate stocks of fuel oil for next winter.

In January, we removed all restrictions on the importation of No. 2 fuel oil. Partly for this reason, stocks of distillate fuel oil are now higher than at this time last year. Imports of fuel oil continue at high levels. We are now importing over 200,000 barrels per day. This, combined with domestic production, gives us a total projected supply that is adequate to meet our needs this summer and, barring extremely cold weather, to make it through next winter.

In addition to this, we are confident that the recent changes in the oil import program will help us to attain needed levels of imports of fuel oil. Major oil companies can now bring in any amount of fuel oil they wish by paying a license fee of 15 cents a barrel. The independents can, effectively, bring in fuel oil without paying any fee at all.

Further, I believe there is adequate refinery capacity overseas to produce the fuel oil required by the United States, particularly if U.S. refineries maximize their yields of gasoline.

Conclusion

In conclusion, let me say that I am basically opposed, as I am sure are most of the members of this committee, to the needless injection of Government regulation and control into any industry, particularly where there is every evidence of intense and healthy competition. I do not want to take any step which would discourage private initiative.

I believe the new oil import program provides the proper incentives for such initiative.

Of course, I realize that the new program has not solved all of the problems. We did not expect that it would, because there is just no way that any program can create a barrel of oil. In the long run, however, I feel this program will help create a vigorous domestic petroleum industry.

At the same time, in the short run, I think we are in a situation in which we need to make decisions on priorities. We cannot afford to let crops go unplanted or unharvested for lack of diesel fuel for our tractors. We cannot let our vital industries close down. We cannot endanger public health or safety. And, finally, we should not let the independent segment of the oil industry, which provides competition in the marketplace, be forced to shut down.

Thank you.

APPENDIX A

Allocation of Crude Oil and Refinery Products

The program for allocation of crude oil and refinery products will be voluntary and (1) backed up by guidelines established by the Government, (2) a mechanism for providing continuing scrutiny of compliance with these guidelines, and (3) the threat of imposition of more stringent regulations requiring reallocating crude oil and products should this program fail. General policy direction will be vested in the Oil Policy Committee; day-to-day administration of the program, in the Office of Oil and Gas (OOG). An oil allocation section shall be established in the OOG to administer the program.

Under the program, each producer, refiner, marketer, jobber, and distributor will agree to make available in each State to each of its customers (including those purchasers in the spot market) the same percentage of its total supply of crude oil and products that it provided during each quarter of a base period (defined as the fourth quarter of 1971 and the first three quarters of 1972).

Under the program, OOG may assign to each producer, refiner, marketer, jobber, and distributor allocations for priority customers still unable to obtain needed supplies of crude oil and products, not to exceed 10 percent of any supplier's total sales of crude oil and products during the base period. This assignment by OOG will be based upon demonstrated need. The basic purpose of the assignment is to assure adequate supplies of crude oil and products to priority users who, for some reason, are not well-served under the proportional allocation program. It will be particularly important for fulfilling the needs of new customers that have entered the marketplace since 1971-72.

In distributing the oil for OOG allocation, priority will be given to supplying the following activities or to independent marketers, jobbers, and refiners who supply the following activities:

1. Farming, dairy, and fishing activities and services directly related to the cultivation, production, and preservation of food.
2. Food processing and distribution services.
3. Health, medical, dental, nursing, and supporting services except commercial health and recreational activities.
4. Police, firefighting, and emergency aid services.
5. Public passenger transportation, including buses, rail, intercity, and mass transit systems, but excluding tour and excursion services.
6. Rail, highway, sea, and air freight transportation services, and transportation and warehousing services not elsewhere specified.
7. Other State and local government activities.
8. The fuel needs of residents in States or parts of States not well-served by major oil companies and unable to obtain sufficient crude oil or products.

Wholesale and retail marketers of gasoline shall not be deemed priority customers unless they supply a substantial proportion of their product to these priority users.

When convenient, various companies may exchange supply obligations incurred under this program in order to simplify distribution problems.

The Office of Oil and Gas will receive complaints from anyone who feels he is not receiving a proper allocation of supplies. If it deems it necessary, OOG may require a public hearing and submission of data, by suppliers, on their 1971 and 1972 exchanges and/or sales of crude oil, unfinished oils, and products. These data will include the names and addresses of customers, the amounts of crude oil and products sold to them, the legal relationship between major oil companies and customers, and whatever other information OOG believes necessary to conduct the hearing. The OOG will then verify the accuracy of complaints against a supplier and, if justified, impose mandatory allocation on the supplier.

The price at which petroleum products shall be sold to independent marketers, wholesale distributors, and other unaffiliated customers shall not exceed normal refinery rack prices charged by major companies to new contract customers. The price which wholesale distributors may charge independent marketers shall not exceed normal wholesale prices, or normal refinery rack prices plus a normal wholesale markup.

Where independent refiners have previously received domestic crude oil in exchange for import tickets, the independent refiners will be required to surrender license fee-exempt quotas in return for receiving the privilege of purchasing crude oil under the program. Where the independent refiners previously purchased crude oil without surrendering import tickets, no license fee-exempt quotas will have to be surrendered. The price at which crude oil shall be sold to independent refiners shall not exceed posted crude oil prices plus an applicable pipeline transportation charge except, however, where crude oil is sold as required based upon previous exchanges of import tickets for domestic oil, the major companies may charge a price equivalent to the average landed cost of any oil imported to replace the oil sold under the provisions of this program.

Immediately following the initiation of this program, the Oil Policy Committee shall begin hearings to determine any changes that may be required to make the program equitable to all classes of suppliers and purchasers, and whether the program should be made mandatory. The Chairman of the Oil Policy Committee will designate an ad hoc board to conduct such hearings and report its findings to the Oil Policy Committee. The board shall be composed of representatives of the Interior, Treasury, and Commerce Departments, GSA/OEP, and any other representatives as the Chairman of the Oil Policy Committee may feel appropriate. The Chairman of the Oil Policy Committee shall designate the chairman of this board.

The Oil Policy Committee will also investigate and recommend additional measures that should be undertaken to encourage allocations by major suppliers. For example, it will investigate changes in Cost of Living Council rules and environmental standards and regulations that seem necessary to assure efficient utilization and equitable distribution of crude oil and products.

APPENDIX B

Actions to reduce the demand for petroleum products

1. Consolidate airline flights to attain higher efficiency per passenger mile and thereby lower fuel consumption.
2. Encourage mass transportation. In metropolitan cities, people could be encouraged to use buses and trains.
3. Reduce speed on all highways which could save 11 percent fuel when driving 50 instead of 60 mph and 25 percent fuel when driving 50 instead of 70 mph. Legislation requiring 50 mph maximum speed on state highways and interstates might be required.
4. Keep engine in top shape. A poorly tuned engine reduces mileage by 10 percent.
5. Form car pools.
6. Plan trips to stores—combining visits to cleaners, drug, department, and grocery stores.
7. Use car air conditioners sparingly. You can save as much as 10 percent on fuel consumption when it's not in use.
8. Keep tires properly inflated. Underinflated tires affect gasoline mileage by approximately 1 mile per gallon.
9. Warm up engine before driving.
10. Use multigrade motor oil in engine. It can give you 10 percent better mileage than regular grade oils.
11. Start slowly and stop slowly—you save gasoline.
12. Stagger working hours in metropolitan cities to ease traffic jams and wasteful engine idling.
13. Walk more.
14. Eliminate or curtail nonessential driving.
15. Take vacations by train or bus.
16. Lower the thermostat setting by 2 degrees in your home in winter or raise air conditioner setting in summer which can save significant volumes of fuels.
17. Add home insulation.
18. Minimize recreational driving, flying, and boating.
19. Ship more freight by rail and water which operate with good fuel economy.

Federal Debt Management

Exhibit 27.—Statement by Secretary Shultz, October 11, 1972, before the Senate Finance Committee on the public debt limit

We are appearing today with a sense of urgency on the subject of the debt limitation for fiscal year 1973.

The temporary limit of \$450 billion in section 21 of the Second Liberty Bond Act, as amended, will expire on October 31, 1972. At that time the debt subject to limitation will be approximately \$437 billion, while the permanent limit is only \$400 billion. It is, therefore, necessary to have action on the debt limit before the Congress adjourns.

As we requested, the House has approved a temporary limit of \$465 billion through June 30, 1973. Based upon our current estimates that budget revenues for the fiscal year will continue to improve to approximately \$225 billion and that budget outlays are limited to \$250 billion, this should be sufficient to carry us through the fiscal year.

But let me emphasize that \$250 billion figure. We must limit our outlays to \$250 billion. And the only certain way is to include in the bill before you the President's proposal for a spending ceiling.

We're talking about a ceiling of a quarter of a trillion dollars—and the President's belief is that, somehow, we ought to be able to get along on a quarter of a trillion dollars a year. If we make the effort, we can.

I believe we can succeed in this endeavor as well as we have succeeded in the fight against inflation.

The recent international monetary meetings proved to me that the performance of the U.S. economy has become the envy of the world. Everybody speaks about it in terms of our strong rate of real growth and our relatively low rate of inflation—unsatisfactory though that rate may be.

The big question is: Can we maintain this success? Can we maintain strong, real growth and keep inflation declining? If we can, every person in this Nation will benefit. If we cannot, every American will suffer.

If we have another flood of inflation caused by overspending, wage increases will again be wiped out by price increases. Price hikes will become the rule rather than the exception. We will find ourselves right back in the same sort of fiscal and economic trouble that we had in the late 1960's.

There is no reason for us to repeat that sorry performance. One way to ensure success rather than inflation is to do as the President has done—bang on the table and call for an absolute spending ceiling.

The fact is, we have got to change the whole way of thinking in every part of the Government—not only in the Congress but in the administration itself. The approach has to become, "fight, and keep spending under control."

I have in the past weeks spoken to groups of business, labor, and civic leaders from many parts of the country. I have found intense public interest in the idea we are discussing here today. But I have also found disbelief—a feeling we cannot do it. Our record speaks against us.

The question most often asked of me at these meetings was this: "What programs can you cut out if Congress passes the spending ceiling?"

I have worked in many parts of Government. Before joining the Treasury I served at OMB, which has more than a passing interest in expenditures. And I told the questioners what I tell you now: "We can hold the line *everywhere*. What we need is the will to act."

We need a get-tough attitude, an awareness that every dollar we spend comes from somebody's taxes. If we do not hold the line on expenditures, we will not be able to hold the line on taxes.

Finally, let me say two things. First, it is a financial necessity for your Government to have the debt limit increased and extended. And second—and even more important, perhaps—it is in the interest of every American to have the spending ceiling enacted at the same time. I urge prompt approval of the measure before you.

TABLE I.—Public debt subject to limitation, fiscal year 1973, based on estimated budget outlays of \$250 billion and receipts of \$225 billion
[In billions of dollars]

	Operating cash balance	Public debt subject to limitation	With \$3 billion margin for contingencies
1972			
ACTUAL			
June 30.....	10.1	428.6	
July 17.....	6.2	432.3	
28.....	9.6	*437.0	
31.....	9.0	433.7	
Aug. 15.....	2.1	434.8	
30.....	4.6	*438.2	
31.....	5.0	436.8	
Sept. 14.....	1.9	438.2	
ESTIMATED			
28.....	6.0	436	
29.....	6.0	432	
Oct. 16.....	6.0	440	
30.....	6.0	*441	
31.....	6.0	437	
Nov. 15.....	6.0	443	
29.....	6.0	*444	
30.....	6.0	441	
Dec. 15.....	6.0	*447	
29.....	6.0	445	
1973			
Jan. 15.....	6.0	*451	*454
31.....	6.0	444	447
Feb. 15.....	6.0	451	454
27.....	6.0	*452	*455
28.....	6.0	449	452
Mar. 15.....	6.0	457	460
29.....	6.0	*458	*461
30.....	6.0	454	457
Apr. 16.....	6.0	*461	*464
30.....	6.0	451	454
May 15.....	6.0	458	461
30.....	6.0	*462	*465
31.....	6.0	458	461
June 15.....	6.0	*465	*468
29.....	6.0	456	459

*Peak level of month.

TABLE II.—*Budget receipts, outlays, and surplus or deficit(—) by fund*

[In billions of dollars]

	Fiscal year		
	Actual 1971	Actual 1972 ^a	Current 1973
Receipts:			
Trust funds.....	66.2	72.9	82.6
Federal funds.....	133.8	148.8	155.6
Deduct: intragovernmental receipts.....	11.6	13.1	13.2
Total unified budget.....	188.4	208.6	225.0
Outlays:			
Trust funds.....	59.4	67.0	75.2
Federal funds.....	163.7	177.7	188.0
Deduct: intragovernmental outlays.....	11.6	13.1	13.2
Total unified budget.....	211.4	231.6	250.0
Budget surplus, or deficit (—):			
Trust funds.....	6.8	5.9	7.4
Federal funds.....	-29.9	-28.9	-32.4
Total unified budget.....	-23.0	-23.0	-25.0

^a Preliminary.

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	June estimate	Change from June 1972 estimate	Actual *	January 1972 estimate	Change from January 1972 estimate	June estimate	Change from June 1972 estimate	Current estimate
Receipts.....	197.8	+9.2	207.0	+1.6	208.6	220.8	+2.2	223.0	+2.0	225.0
Outlays.....	236.6	-3.6	233.0	-1.4	231.6	246.3	+3.8	250.0	.....	250.0
Deficit (—).....	-38.8	+12.8	-26.0	+3.0	-23.0	-25.5	-1.6	-27.0	+2.0	-25.0

* Preliminary

TABLE IV.—Comparison of fiscal year 1972 receipts as estimated in January 1972, June 1972, and actual (preliminary) June 1972

(In billions of dollars)

	January 1972 budget	Change from January 1972 budget				June 1972 estimate	Change from June estimate				Actual fiscal year 1972 (pre- liminary)
		Economic and re- estimate	Legisla- tion	Other	Total		Economic and re- estimate	Legisla- tion	Other	Total	
Individual income tax.....	86.5	+6.4		+1.5	+7.9	94.4	+4			+4	94.8
Corporation income tax.....	30.1	+1.5			+1.5	31.6	+4			+4	32.0
Employment taxes and contributions.....	46.4		-.1		-.1	46.3	-.1			-.1	46.1
Unemployment insurance.....	4.4	-.1			-.1	4.3	+1			+1	4.4
Contributions for other insurance and re- tirement.....	3.4	+1			+1	3.5	(*)			(*)	3.4
Excise taxes.....	15.2					15.2	+3			+3	15.5
Estate and gift taxes.....	5.2	-.1			-.1	5.1	+3			+3	5.4
Customs duties.....	3.2					3.2	(*)			(*)	3.3
Miscellaneous receipts.....	3.5					3.5	+1			+1	3.6
Total budget receipts.....	197.8	+7.8	-.1	+1.5	+9.2	207.0	+1.6			+1.6	208.6
<i>Underlying income assumptions calendar year 1971</i>											
Gross national product.....	² 1,047					² 1,047.0					1,050
Personal income.....	² 857					² 857.0					861
Corporate profits before tax.....	² 85					² 85.5					83

* Less than \$50 million.

¹ Change in capital gains tax estimate.² Figures are consistent with pre-July 1972 Commerce figures.

TABLE V.—Comparison of fiscal year 1973 receipts as estimated in January 1972, June 1972, and currently

[In billions of dollars]

	January 1972 budget	Change from January 1972 budget				June 1972 estimate	Change from June estimate				Current estimate
		Economic and reestimate	Legislation	Other	Total		Economic and reestimate	Legislation	Other	Total	
Individual income tax.....	93.9	+0.1		¹ +1.5	+1.6	95.5	+3.5			+3.5	99.0
Corporation income tax.....	35.7	+3			+3	36.0	-.5			-.5	35.5
Employment taxes and contributions.....	55.1		+0.1		+1	55.2	+7	-1.6		-.9	54.3
Unemployment insurance.....	5.0					5.0		+1		+1	5.1
Contributions for other insurance and retirement.....	3.6	+1			+1	3.7					3.7
Excise taxes.....	16.3					16.3		-.1		-.1	16.2
Estate and gift taxes.....	4.3					4.3					4.3
Customs duties.....	2.8	+1			+1	2.9					2.9
Miscellaneous receipts.....	4.1					4.1	-.1			-.1	4.0
Total budget receipts.....	220.8	+6	+1	+1.5	+2.2	223.0	+3.6	-1.6		+2.0	225.0
<i>Underlying income assumptions calendar year 1972</i>											
Gross national product.....	^{*1,145}					^{*1,145}					1,152
Personal income.....	^{*924}					^{*924}					936
Corporate profits before tax.....	^{*99}					^{*99}					97

¹ Change in capital gains tax estimate.^{*} Figures are consistent with pre-July 1972 Commerce revision.

Exhibit 28.—Statement by Under Secretary for Monetary Affairs Volcker, March 1, 1973, before the House Ways and Means Committee on the proposed Federal financing bank

I am pleased to be here today to express the views of the administration on the Federal Financing Bank Act of 1973. The bill would establish a Federal financing bank to provide for coordinated and more efficient financing of Federal and federally assisted borrowings from the public.

This legislation was first submitted to the Congress by the Secretary of the Treasury in December 1971. An amended version of the bill was reported favorably by your committee on September 29, 1972, and was passed by the Senate on October 16, 1972. Yet the bill was not taken up on the floor of the House before adjournment of the 92d Congress.

The Federal Financing Bank Act of 1973 has two major purposes: First, it would establish a new agency—the Federal financing bank—to provide a means of centralizing the marketing and reducing the cost of direct and guaranteed borrowing activities of Federal agencies. Second, the bill would assure debt management coordination by requiring the approval of the Secretary of the Treasury of Federal agency plans with respect to direct and guaranteed security issues in the market.

The need for more effective financing and coordination of Federal credit programs has been recognized in a number of Government and private studies over the past decade and in several reports to the Congress in recent years by the Comptroller General.

The pressing need for the Federal Financing Bank Act at this juncture arises from the growing tendency to finance credit programs directly in the securities markets rather than through lending institutions. Because of the proliferation of new Federal borrowing activities, we are already at the point where some Federal financing is coming to market at least 3 out of every 5 business days.

Until recent years, the typical forms of credit assistance by Federal agencies were either direct budget loans financed by the Treasury or guarantees of loans generally made by lending institutions, such as commercial banks and thrift institutions, who were normally engaged in that type of lending activity and were equipped to service the loans and assume some portion of the loan risks. But in recent years direct loans have given way to increased guaranteed lending, and at the same time we have moved toward full guarantees of timely payment of principal and interest on loans made by private lenders so that the share of risk borne by the lender has declined. Also, the Congress has increasingly provided for direct Federal interest subsidies on loans made by private lenders, so that a portion or all of any extra borrowing costs resulting from inefficient financing of these loans is now borne directly by the Federal taxpayer rather than by the borrower.

Moreover, even with complete Federal guarantees and interest subsidies, it was found that the flow of credit at reasonable interest rates for the various purposes authorized to be assisted by the Congress was not always adequate. Thus, more and more of these programs have come to be financed, like Treasury borrowings, directly in the securities markets rather than through lending institutions. This has been particularly true during tight money periods when the flow of deposit funds to banks and thrift institutions has not been sufficient to assure the availability of financing for Federal credit assistance programs.

Consequently, we have relied more and more on direct securities market financing by means of (1) issues by the privately owned federally sponsored agencies, such as FNMA and the farm credit agencies; (2) direct borrowings by Government-owned agencies such as the Export-Import Bank, TVA, and the Postal Service; (3) loan asset sales in the securities market by Government agencies, such as the Farmers Home Administration, CCC, GNMA, FHA, VA, SBA, and GSA; and (4) other federally guaranteed securities, such as GNMA mortgage-backed securities, public housing bonds, urban renewal notes, new community debentures, merchant marine bonds, mass transit bonds, etc. Similar financing arrangements have been proposed for a number of new agencies or programs.

Federal credit agencies are thus required to develop their own financing staffs, and their abilities to cope with their principal program functions are lessened by the need also to deal with the complex debt management operations essential to minimizing their borrowing costs and avoiding cash flow problems which could disrupt their basic lending programs.

Borrowing costs of the various Federal agency financing methods normally exceed Treasury borrowing costs by substantial amounts, despite the fact that these issues are backed by the Federal Government. Borrowing costs are increased because of the sheer proliferation of competing issues crowding each other in the financing calendar, the cumbersome nature of many of the securities, problems of timing and small size of issues, and the limited markets in which they are sold. Underwriting costs are often a significant additional cost factor due to the method of marketing.

Under the proposed Federal Financing Bank Act, these essentially debt management problems could be shifted from the program agencies to the Federal financing bank. Many of the obligations which are now placed directly in the private market under numerous Federal programs would instead be financed by the bank. The bank in turn would issue its own securities. The bank would have the necessary expertise, flexibility, volume, and marketing power to minimize financing costs and to assure an effective flow of credit for programs established by the Congress.

The proposed legislation would also assure more orderly and effective Federal financial management by requiring the submission of agency financing plans to the Secretary of the Treasury and the coordination of borrowing activities by the Secretary. The Congress has required such Treasury coordination of agency borrowings in many cases, but some agencies are not subject to the requirements; and in many cases the requirements are vague or incomplete, and their lack of uniformity is awkward and inefficient to administer.

The Federal Financing Bank Act would thus provide both a more effective means of financing as well as a focal point for early recognition of the volume and timing of the proposed level of Government-assisted credit and its likely impact on financial markets.

During the course of the financing bank hearings last year and in our discussions with Federal agencies, public interest groups, and capital market participants, considerable support for the legislation has developed. Most people agree that the coordinated and economical financing of the Government's activities and programs is clearly in the public interest. In those discussions we found it helpful to emphasize the following points:

First, 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 purposes of Federal agency programs. The bank is designed merely to improve the financing of programs otherwise authorized by the Congress.

Second, the Federal financing bank would not be another big bureaucracy. It would rely upon the 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.

Third, 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. The bank is intended to improve the financing of all Federal agency borrowing activities, regardless of their budget treatment.

Fourth, 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 financing 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. Those programs currently require about 1 out of every 6 dollars invested in tax-exempt obligations. Over time the Federal financing bank would permit the removal of the financing of these federally impacted 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.

Virtually all interested parties now agree that the Federal Government should not be financing its own programs, including its loan guarantee programs, in the

tax-exempt market. It makes no sense to me, in view of the obvious potential problems in the municipal market, for Federal agencies to be adding to those problems and competing with hard-pressed local governments for the limited and erratic supply of funds attracted by tax exemption.

The financing bank itself would have no authority to subsidize municipal obligations, and it would be authorized to purchase only those municipal obligations which are issued under those few programs which are directly subsidized by other Federal agencies. To the extent that a decision is made to finance those particular programs through the bank, there could be significant savings to government at all levels. Such financing would not involve the Federal Government in any municipal borrowing or project it was not already involved in. Thus the financing bank legislation does not raise the question of Federal control over municipal borrowing.

I would like to turn now to the two provisions of the bill before you today which differ from the bill approved by your committee last year.

First, under this bill, the obligations issued by the Federal financing bank would be subject to State and local taxation to the same extent as the obligations of private corporations. This provision is a departure from the usual practice of exempting obligations of Federal agencies from State and local taxes. But the obligations issued by the Federal financing bank would be issued primarily for the purpose of financing the bank's purchases of guaranteed obligations which would otherwise be financed directly in the market on a taxable basis. Consequently, if the Federal financing bank issues were exempted from State and local taxation, there would be a loss of tax revenues to State and local governments as compared to the present methods of financing guaranteed obligations.

The other difference between this bill and the bill approved by your committee last year is that this bill would require the approval of the Secretary of the Treasury of the market financing aspects of certain guaranteed obligations sold in the market. The bill reported by your committee would have required approval of the Secretary of the Treasury of the market financing aspects of obligations *issued or sold* by Federal agencies but not of obligations *guaranteed* by Federal agencies.

Thus, under the bill approved last year, the Treasury would be responsible for coordinating the marketing of guaranteed issues only when they are sold directly by a Federal agency. Yet a number of Federal agencies guarantee obligations sold by others, e.g., by private trustees selected by the Federal agency to handle the sale. Federal agencies arrange for the sale in securities markets of guaranteed merchant marine bonds, new community debentures, tax-exempt public housing bonds, SBIC debentures, GSA building certificates, and many other securities, which are not actually acquired by a Federal agency in the financing process.

Because of the technical distinction in last year's bill, based on whether an agency actually acquires a security before arranging for its market financing, there could be a substantial volume of Government-backed securities flowing to the market without any overall debt management coordination.

We recognize the concerns expressed in the Congress last year about the administrative problems which could result if Treasury approval were required of the terms of each individual loan guarantee, especially in programs involving large numbers of small loans which are financed by depository institutions rather than in the securities market. We have no intention of getting involved in such guaranteed loans, and we had tried to make this clear last year.

Our intent in section 7 of the bill is simply to provide for coordination of agency financing in the securities market. To clarify this further, we have amended last year's proposal, so that the bill before you would not require Treasury approval of obligations guaranteed in connection with programs involving the guarantee of large numbers of individual obligations that are originated and serviced by local lending institutions and that are not ordinarily bought and sold in the same market as bonds and other similar types of investment securities. We believe that this amendment would properly limit Treasury's responsibilities but would also assure the effective financing of agency programs in the securities market.

I would also like to point out that the provisions of the bill before your committee today are the same as the provisions of the bill reported by your committee last year with respect to the U.S. Postal Service. There has been no change in our understanding of the application of the Federal Financing Bank Act provisions to the Postal Reorganization Act. As stated by Assistant Postmaster General Bailar in testimony before your committee on September 27, 1972, on the Federal Financ-

ing Bank Act (S. 3001), under the Postal Reorganization Act the Treasury may purchase all Postal Service obligations if it does so within the prescribed 15-day period; and the Federal Financing Bank Act would have the effect of giving the Secretary of the Treasury the authority to exercise this preemptive right by requiring the Postal Service to sell its securities to the Federal financing bank. Thus, the Federal Financing Bank Act would simply provide an additional optional method of financing the postal obligations.

Mr. Chairman, that concludes my prepared statement. I would be happy to try to answer any questions regarding this legislation.

Exhibit 29.—Statement by Secretary Shultz, June 4, 1973, before the House Ways and Means Committee on the public debt limit

The temporary debt limit of \$465 billion will expire on June 30 of this year. The debt subject to limitation on that date will be about \$460 billion and will, therefore, greatly exceed the permanent debt limit of \$400 billion. Since additional debt will need to be incurred in fiscal year 1974 to finance both seasonal needs and the overall deficit in the Federal funds accounts, it is now timely to consider what provision should be made for the year ahead.

Attached to my statement is a table (table I) showing our estimates of the debt subject to limit on peak dates throughout the coming fiscal year. This is based upon the reestimates of budget receipts and outlays contained in the midsession review and summarized in attached tables II and III. Also attached to my statement are tables comparing our current receipts estimates with the January budget estimates (tables IV and V).

In summary, our reestimates show unified budget deficits of \$17.8 billion in the current fiscal year and \$2.7 billion in fiscal year 1974. The January estimates were \$24.8 billion and \$12.7 billion, respectively, so you can see there has been an improvement of \$17.0 billion since January for the 2 fiscal years taken together.

The corresponding Federal funds deficits for the 2 fiscal years, which are the more relevant deficits for consideration of the debt limit, are now estimated to be, respectively, \$27.9 billion in fiscal year 1973 and \$18.8 billion in fiscal year 1974 against the January estimates of \$34.1 billion and \$27.8 billion. So there has been an improvement of \$15.2 billion in the Federal funds account.

As the committee knows, the Federal funds part of the unified budget is similar in concept to the old administrative budget. It includes the funds which the Government administrators as owner and excludes those which the Government administrators in a trustee or fiduciary capacity.

The largest part of the Federal funds deficit—and, therefore, the largest part of the growth in the debt subject to limit—however, is associated with transactions between Federal funds and trust funds. These consist largely of Federal funds payments to social insurance trust funds. These are now estimated to net \$21.2 billion in fiscal 1973 and \$20.7 billion in fiscal 1974. Interest on Federal securities held by trust funds is the largest single item. Other major payments include the Federal payments as employer to the civil service retirement fund and the matching payment for supplementary medical insurance. The large surpluses in the trust funds of \$10.1 billion in fiscal year 1973 and \$16.1 billion expected in fiscal year 1974 are invested in U.S. Government securities. Therefore, the debt ceiling must increase enough to include these amounts as well as the amount of debt sold to the general public.

Table I, on the conventional basis, provides for a constant \$6 billion operating cash balance and a \$3 billion allowance for contingencies. This table indicates a maximum figure of \$482 billion which applies to a brief period between the end of May and the June tax payment date. Since this date is 12 months in the future, I suggest that an additional \$3 billion margin is appropriate. Therefore, I am requesting a debt limit ceiling of \$485 billion.

I would also like to comment briefly on the improvement in the fiscal year 1973 budget position from the January estimates and also on the improvement in the fiscal year 1974 outlook.

As shown by the detailed figures in the midsession review, all of the improvement in both fiscal years is the result of higher than previously anticipated tax receipts. Higher income tax receipts account for most of the changes in estimated receipts in fiscal years 1973 and 1974. In total, we have revised individual income taxes up by about \$8 billion for the 2 years combined. Corporation income taxes are up \$7 billion. Social insurance taxes and contributions are up over $\frac{1}{2}$ billion and other receipts—excise taxes, customs duties, and so forth—are up by $\frac{1}{2}$ billion. In total, the increase in receipts for the 2 fiscal years is about \$17 billion.

We welcome the increased receipts and resulting decrease in the unified budget deficit because the budget, as planned, will be exerting more restraint on the economy as the economy moves toward full potential output, thus reducing inflationary pressure.

We welcome the decrease in the unified budget deficit because it reduces the Government's borrowing requirements. We welcome the fact that the full-employment budget, which measures the expansionary or restrictive pressures of the unified budget, on a cyclically adjusted basis, has moved from a slight deficit to a small but significant surplus.

This is completely appropriate under present circumstances and should not be taken as a basis for less vigilance over expenditure totals. As President Nixon said 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." To this I could add, "with reasonable stability in prices." To allow an expenditure increase above \$268.7 billion in fiscal 1974 would simply feed inflationary fires and make achievement of our domestic and international economic goals even more difficult.

While we welcome these shifts in our budgetary expectations, it should be recognized that part of the higher receipts reflect an excessive pace of inflation in the economy. I make this point to reemphasize the pressing need—which both the administration and the Congress face—to exercise restraint over Federal outlays so that they can be held to totals not higher than the figures specified by President Nixon in his budget message in January; that is, \$249.8 billion in fiscal year 1973 and \$268.7 billion in fiscal year 1974.

As one with responsibility for the sound financing of the Federal Government, I applaud wholeheartedly the efforts by many Members in both Houses to find an effective basis for exerting responsible congressional control over the outlay totals. The control of outlays has become, as it should be, a joint and cooperative effort of the administration and the Congress, and the overwhelming need for success in this joint effort should spur us all toward finding a workable approach.

Over the years, many Members of the Congress have considered the debt limit as a tool for the control of Government outlays, and successive Secretaries of the Treasury have come before you to argue, as best they might, that the debt limit at best is a very imperfect tool for this purpose—that it is much like locking the barn door after the horse has gone, because the Treasury has no choice but to pay the bills after the obligations have been undertaken.

Perhaps when the Congress has successfully dealt with the problem of directly imposing an overall ceiling on outlays, it will be unnecessary to have a debt limit per se, since then this additional limitation would have no real function but might only impair the Treasury's ability to finance the Federal Government in the most effective and constructive way.

We have found the debt limit hearings to be of value when the timing and circumstances have been such as to give both the administration and the Congress an opportunity to reevaluate the budget.

Yet I see no reason why the Congress could not establish a procedure to accomplish the same purpose of budget, taxation, and debt review apart from a time frame during which a change in law is required.

Today, however, I am not proposing such a procedural change. I am not proposing elimination of the debt ceiling, but rather I am proposing only a simple increase in the temporary ceiling.

In addition, I would like to recommend that the committee move to eliminate the 4½-percent interest rate ceiling which has applied to all Treasury bonds, except for those issued under the \$10 billion exception which the Congress approved 2 years ago.

I make this recommendation in the light of the record which shows that the \$10 billion authority has been used responsibly by the Treasury Department to contribute to some improvement in the structure of the public debt.

As some members are aware, the average maturity of the privately held public debt has now been reduced to a very low level of 3 years. This is a trend which I would like to see reversed, but not in any radical or exaggerated fashion which would carry a risk of upsetting financial markets and impairing the ability of the various sectors of the private economy to finance in those markets.

We have, of course, undertaken and we will continue to undertake debt management policies which will minimize any disturbing impact of Treasury financing operations on financial markets. We have put an increasing part of our financing on a routine basis and reduced the size of our refundings to more manageable proportions. Some of the measures for these purposes include the shifting of the annual bill cycle to a 52-week basis, initiating the offering of

2-year notes on a regular basis, and the reduction of the quarterly maturities in private hands to amounts of \$5 billion less.

We have also made greater use of auction techniques for pricing our securities. In this way we have avoided the risk of overpricing or underpricing new Treasury obligations in rapidly moving financial markets.

We have now utilized the exception from the 4¼-percent interest rate ceiling on seven occasions to issue a total of \$8.4 billion of medium- and long-term bonds with maturities, at time of issue, ranging from 9 years 9 months for the 6¾'s of February 1982 when they were reopened in May 1972 to 25 years for the 7's of May 1993-1998.

The first occasion was in August 1971, when in connection with the refunding of the regular quarterly maturity, we issued the first Treasury bond since 1965. This was a 10-year security. Three months later, in November, again in connection with a regular quarterly refunding, we issued a 15-year bond. As a result of the fall in interest rates that had taken place, the coupon was only 6½ percent, compared to 7 percent on the previous issue.

In February 1972, we offered a 10-year bond, this time with a 6¾-percent coupon. In May, we were able to reopen the issue. In August, we offered a 12-year bond with the same 6¾-percent coupon.

Use of \$10 billion authority

Issue date	Coupon percent	Maturity Yrs-Mos	Yield percent	Amount issued		
				Total	Private	Private for cash
Aug. 15, 1971.....	7	10-0	7.11	807	466	1195
Nov. 15, 1971.....	6½	15-0	6.15	1,216	543	124
Feb. 15, 1972.....	6¾	10-0	Par	2,197	1,643	166
May 15, 1972.....	6¾	9-9	6.29	505	505	2505
Aug. 15, 1972.....	6¾	12-0	6.45	2,353	1,173	141
Jan. 10, 1973.....	6¾	20-1	6.79	627	627	3627
May 15, 1973.....	7	25-0	7.11	692	552	3552

¹ Sold to individuals in amounts of \$10,000 or less.

² Noncompetitive tenders for up to \$50,000 were accepted at the average price.

³ Noncompetitive subscriptions were accepted from individuals and others for amounts up to \$250,000.

In January, for the first and to date the only time apart from a regular quarterly refunding, we offered a bond for cash. This was the first time we had auctioned such a long-term bond. This 20-year 1-month bond carried a coupon of 6¾ percent. Our seventh offering was a 25-year bond, callable at the Government's option after 20 years, and we came full circle, back to a 7-percent coupon.

These moderate sales of bonds were accomplished without any perceptible adverse effects on long-term capital markets. Compared with the much larger totals of corporate and State and municipal offerings, they have taken only a minor fraction of long-term funds available for investment. In fact, we believe that the success of these offerings reflects a demand on the part of investors for moderate amounts of the highest quality long-term securities which can only be satisfied through Treasury issues, a demand which was unsatisfied between 1965 and 1971 when the Treasury was unable to offer new bonds because of the 4¼-percent ceiling. I should point out also that a portion of these offerings was taken on original issue by the Federal Reserve System and Government accounts and additional amounts were acquired by them subsequently in the market. Private holders, therefore, currently have a total of \$4.5 billion, as against \$3.9 billion held by Government accounts and the Federal Reserve.

This points out a dilemma we have faced: How to assure that the trust accounts can obtain a reasonable amount of new long-term securities without dissipating the small amount of authority we have to issue bonds which should largely be reserved for improving the structure of the privately held Federal debt. Removal of the ceiling would resolve that dilemma.

Along with removal of the 4¼-percent ceiling, we believe it would be appropriate to remove the ceiling on series E and H savings bonds. The rate now is 5½ percent, and there have been many changes, both of the rate to maturity and the interim rates, over the more than 30 years since E bonds were put on sale by the Treasury in May 1941.

While we have made no decision with respect to future savings bonds rates, removal of the ceiling will allow us more easily to alter the rates in the interest of the program if in the future it becomes necessary to do so in order to offer

a fair return to savers. As the committee knows, there are over \$58 billion of savings bonds now outstanding. This program has become a fundamental and stable part of our debt management program. We want to make sure it continues to serve both our needs and those of the public fairly.

My final request is also partially related to the matter of equity and the small saver in the United States. As this committee is well aware, we have a problem in overwithholding of individual income taxes and there has been discussion in previous hearings of providing for the investment of individual tax refunds in an interest-bearing Treasury security.

I would like to request at this time that the Congress give the Treasury the authority to institute a procedure by which tax refunds could be invested—at the option of the taxpayer—in an interest-bearing Treasury bond. The procedure would be to issue a refund check which could either be cashed in a normal manner or held. If held, it would automatically bear interest as a security after a specified period of time. We think that there is considerable merit in establishing a system now for future use. In addition to the argument of equity there are other advantages to such a procedure. First, it would encourage savings by taxpayers, and second, the procedure would contribute to more orderly cash and debt management by the Treasury.

Mr. Chairman, members of the committee, this is the end of my prepared statement. I would be most happy to answer any questions which the committee might have and to furnish any supplemental material it would find useful. We understand you may want to take up the Federal financing bank legislation also at this time. We are quite pleased with the bill as reported by the Senate Banking Committee, and I would be glad to comment on that also.

TABLE I.—*Estimated public debt subject to limitation, fiscal year 1974, based on estimated budget outlays of \$268.7 billion and receipts of \$266.0 billion*

(In billions of dollars)			
	Operating cash balance	Public debt subject to limitation	With \$3 billion margin for contingencies
<i>1973</i>			
June 30.....	\$6	\$455	\$458
July 31.....	6	461	464
Aug. 31.....	6	467	470
Sept. 30.....	6	460	463
Oct. 31.....	6	464	467
Nov. 30.....	6	467	470
Dec. 31.....	6	466	469
<i>1974</i>			
Jan. 31.....	6	467	470
Feb. 28.....	6	470	473
Mar. 31.....	6	474	477
Apr. 30.....	6	470	473
May 31.....	6	479	482
June 30.....	6	472	475

TABLE II.—*Budget receipts, outlays, and surplus or deficit (—) by fund*

(In billions of dollars)			
	Fiscal year		
	Actual 1972	Current 1973	Current 1974
Receipts:			
Federal funds.....	148.8	160.9	181.1
Trust funds.....	73.0	92.5	106.1
Deduct: Intragovernmental receipts.....	13.2	21.4	21.0
Total unified budget.....	208.6	232.0	266.0
Outlays:			
Federal funds.....	178.0	188.8	199.8
Trust funds.....	67.1	82.4	90.1
Deduct: Intragovernmental outlays.....	13.2	21.4	21.1
Total unified budget.....	231.9	249.8	268.7
Budget surplus, or deficit (—):			
Federal funds.....	—29.1	—27.9	—18.8
Trust funds.....	5.9	10.1	16.1
Total unified budget.....	—23.2	—17.8	—2.7

TABLE III.—*Unified budget receipts, outlays, and surplus or deficit (—)*
[In billions of dollars]

	Fiscal year 1973					Fiscal year 1974				
	January 1973 estimate	Change from January 1973 estimate	May 1 estimate	Change from May estimate	Current estimate	January 1973 estimate	Change from January 1973 estimate	May 1 estimate	Change from May estimate	Current estimate
Receipts.....	225.0	+5.0	230.0	+2.0	232.0	256.0	+7.0	263.0	+3.0	266.0
Outlays.....	249.8	-----	249.8	(*)	249.8	268.7	-----	268.7	(*)	268.7
Deficit (—)	-24.8	+5.0	-19.8	+2.0	-17.8	-12.7	+7.0	-5.7	+3.0	-2.7

*Less than \$50 million.

TABLE IV.—*Comparison of fiscal year 1973 receipts as estimated in January 1973, May 1973, and currently*
[In billions of dollars]

	January 1973 budget	Change from January 1973 budget			May 1 1973, estimate	Change from May 1973, estimate			Current estimate
		Economic and re-estimate	Legis-lation	Total		Economic and re-estimate	Legis-lation	Total	
Individual income tax.....	99.4	+2.0	-----	+2.0	101.4	+1.6	-----	+1.6	103.0
Corporation income tax.....	33.5	+2.0	-----	+2.0	35.5	+5	-----	+5	36.0
Employment tax and contributions.....	55.6	-----	-----	-----	55.6	-.3	-----	-.3	55.3
Unemployment insurance.....	5.3	+4	-----	+4	5.7	-----	-----	-----	5.7
Contributions for other insurance and retirement.....	3.7	-----	-----	-----	3.7	-----	-----	-----	3.7
Excise taxes.....	16.0	-----	-----	-----	16.0	+1	-----	+1	16.1
Estate and gift taxes.....	4.6	+4	-----	+4	5.0	-----	-----	-----	5.0
Customs duties.....	3.0	+2	-----	+2	3.2	-----	-----	-----	3.2
Miscellaneous receipts.....	4.0	-1	-----	-1	3.9	+2.1	-0.2	-----	3.9
Total budget receipts.....	225.0	+5.0	-----	+5.0	230.0	+2.2	-2	+2.0	232.0

Underlying income assumptions—calendar year 1972

Gross national product.....	1,151.9	1,151.8	1,151.8
Personal income.....	935.8	935.9	935.9
Corporate profits before tax.....	93.8	94.3	94.3

¹ Transfer of writeoff of silver certificates to fiscal 1974.

TABLE V.—*Comparison of fiscal year 1974 receipts as estimated in January 1973, May 1973, and currently*
[In billions of dollars]

	January 1973 budget	Change from January 1973 budget			May 1 1973, estimate	Change from May 1973, estimate			Current estimate
		Economic and re-estimate	Legis-lation	Total		Economic and re-estimate	Legis-lation	Total	
Individual income tax.....	111.6	+3.7	-----	+3.7	115.3	+0.7	-----	+0.7	116.0
Corporation income tax.....	37.0	+3.0	-----	+3.0	40.0	+1.5	-----	+1.5	41.5
Employment tax and contributions.....	67.9	-----	-----	-----	67.9	+5	-----	+5	68.4
Unemployment insurance.....	6.3	-1	-----	-1	6.2	-----	-----	-----	6.2
Contributions for other insurance and retirement.....	4.0	-----	-----	-----	4.0	-----	-----	-----	4.0
Excise taxes.....	16.8	-----	-----	-----	16.8	-----	-----	-----	16.8
Estate and gift taxes.....	5.0	+4	-----	+4	5.4	-----	-----	-----	5.4
Customs duties.....	3.3	+2	-----	+2	3.5	-----	-----	-----	3.5
Miscellaneous receipts.....	4.1	-2	-----	-2	3.9	+1.1	+0.2	+3	4.2
Total budget receipts.....	256.0	+7.0	-----	+7.0	263.0	+2.8	+2	+3.0	266.0

Underlying income assumptions—Calendar year 1973

Gross national product.....	1,267.0	1,283.0	1,283.0
Personal income.....	1,018.0	1,030.0	1,030.0
Corporate profits before tax.....	108.0	116.0	116.0

¹ Transfer of writeoff of silver certificates to fiscal 1974.

Exhibit 30.—Other Treasury testimony in hearings before congressional committees**Secretary Shultz**

Statement of September 18, 1972, before the House Committee on Ways and Means regarding the public debt limit.

Statement of June 21, 1973, before the Senate Finance Committee regarding the public debt limit.

Under Secretary for Monetary Affairs Volcker

Statement of September 27, 1972, before the House Committee on Ways and Means regarding legislation to create a Federal financing bank.

Law Enforcement Developments**Exhibit 31.—Statement by Assistant Secretary Rossides, September 6, 1972, before the New York County Lawyers Association, New York, N.Y., on the administration's antinarcotics program**

I am pleased to report that President Nixon's antinarcotics drive is succeeding. The President's action program:

- (1) Has turned the tide in the war against drug traffickers.
- (2) Has galvanized the nations of the world into action. More has been done on the international front in the last 3½ years than in the previous 35. The most recent example of international cooperation generated by the President's program is the extradition from Paraguay of Auguste Ricord to face trial in the United States in a Bureau of Customs case. Ricord was indicted in connection with the smuggling of 97.5 pounds of heroin into the United States.
- (3) Has reduced the supply of heroin.
- (4) Is taking the profit out of the heroin traffic, which is the part of the program I will highlight today.

Nine hundred and nineteen major targets in 42 States, 67 metropolitan areas, and the District of Columbia were selected by Treasury's Target Selection Committee and referred to the IRS for intensive tax investigation (see table 1). Under the direction of IRS Commissioner Johnnie M. Walters, 410 Treasury agents and 112 support personnel are presently conducting the intensive tax investigations. In addition, 798 minor traffickers are under tax action.

Taking the profit out of narcotics

\$66.1 million in taxes and penalties have been assessed under the program, of which more than \$10.9 million has already been collected in the form of cash or valued property. *We are now using the drug traffickers illegal profits to put them out of business.*

Eight men have been convicted on criminal tax charges; 23 other criminal tax cases are pending in Federal district courts in New York, Miami, Detroit, Los Angeles, San Francisco, Seattle, Boston, Indianapolis, Baltimore, and Washington, D.C., and in other areas; and another 49 investigations have been completed with prosecution recommendations. (See table II.)

During August we achieved the following results: 72 major targets for intensive tax scrutiny were added; an additional \$3.6 million in taxes and penalties were assessed, of which \$1.1 million was collected; and 18 cases were recommended for prosecution. In addition, 112 minor targets were placed under tax action.

We believe this represents a tremendous achievement. By focusing attention on the persons responsible for the narcotics distribution, this program is making a major additional contribution to the President's offensive against drug abuse.

Table I

State	Metropolitan areas	Targets	Completed investigations
Alabama	Mobile.....	2	.....
Alaska	Anchorage.....	1	.....
Arizona	Phoenix-Tucson-Yuma.....	38	..... 4
Arkansas	Little Rock.....	2	.....
California	Los Angeles-San Diego.....	45	..... 11
	San Francisco-Oakland.....	39	..... 5
Colorado	Denver.....	8	.....
Connecticut	Hartford.....	13	..... 5
Delaware	Wilmington.....	1	.....
District of Columbia	Washington.....	22	..... 5
Florida	Miami-Tampa-Jacksonville.....	74	..... 17
Hawaii	Honolulu.....	10	..... 2
Georgia	Atlanta.....	28	..... 8
Illinois	Chicago-Springfield.....	45	..... 7
Indiana	Indianapolis-Gary.....	9	..... 2
Kentucky	Louisville-Covington-Newport.....	5	.....
Louisiana	New Orleans.....	13	..... 4
Maine	Bangor.....	1	.....
Maryland	Baltimore.....	10	..... 1
Massachusetts	Boston.....	21	..... 2
Michigan	Detroit.....	58	..... 6
Minnesota	St. Paul-Minneapolis.....	2	.....
Mississippi	Gulfport.....	1	.....
Missouri	St. Louis-Kansas City.....	17	..... 2
Nevada	Las Vegas.....	3	.....
New Hampshire	Portsmouth.....	3	..... 1
New Jersey	Newark-Camden.....	61	..... 8
New Mexico	Albuquerque.....	11	..... 2
New York	Albany.....	10	..... 6
	Buffalo-Rochester.....	12	..... 35
	New York City and suburbs.....	138	..... 1
North Carolina	Greensboro-Charlotte.....	17	.....
Ohio	Cincinnati-Dayton.....	13	.....
	Cleveland.....	8	.....
Oklahoma	Oklahoma City.....	3	.....
Oregon	Portland.....	12	..... 1
Pennsylvania	Philadelphia.....	41	..... 1
	Pittsburgh.....	16	..... 5
Rhode Island	Providence.....	1	.....
South Carolina	Columbia.....	5	..... 1
Tennessee	Nashville-Memphis.....	6	.....
Texas	Austin-Houston-El Paso.....	43	..... 12
	Dallas.....	4	..... 1
Utah	Salt Lake City.....	2	.....
Virginia	Richmond-Norfolk, Arlington-Alexandria.....	26	.....
Washington	Seattle.....	16	..... 5
West Virginia	Parkersburg.....	1	.....
Wisconsin	Milwaukee.....	2	.....
	Total.....	919	160

Table II

	Number	Amount
Major target assessments:		
Regular.....	60	\$7,710,730
Jeopardy ¹	23	18,862,460
Tax year termination ²	33	8,642,629
Total.....	116	35,215,819
Minor target assessments: ³		
Jeopardy.....	58	2,273,352
Tax year termination.....	740	28,705,629
Total.....	798	30,978,981
Total assessments involving narcotic traffickers.....	914	66,194,800
Seizures involving narcotic traffickers:		
Major targets:		
Currency.....		1,990,126
Property.....		87,238
Minor targets:		
Currency.....		7,351,258
Property.....		1,549,174
Total amount seized.....		10,977,796
Cases recommended for prosecution.....		49
Criminal tax cases in U.S. courts awaiting trial.....		23
Criminal tax convictions.....		8

¹ Jeopardy assessments are assessments of taxes made where a return has been filed or should have been filed, but where circumstances exist under which delay might jeopardize the collection of the revenue.

² Termination of tax year is a computation of the tax due and assessment made where the time for filing the return has not become due where circumstances exist under which delay might jeopardize the revenue.

³ These are assessments made as a result of seizures by other law enforcement agencies of cash or other assets against current income of narcotic traffickers where delay might jeopardize collection of the revenue.

The word for the drug traffickers is to get out of the illegal drug traffic or face up to intensive tax investigation. This word should be spread in every city and town in the United States. We have institutionalized this program. Everyone in this illegal business should realize that they will be subjected to tough tax scrutiny.

The program's objectives—to take the profit out of the illegal traffic in narcotics and thereby further disrupt the traffic—are accomplished in two ways:

1. *Major targets*—by conducting systematic tax investigations of middle and upper echelon narcotics traffickers, smugglers, and financiers. These are the people who frequently are insulated from the daily operations of the drug traffic through intermediaries.

2. *Minor targets*—by the systematic drive to seize—to be applied to taxes and penalties owing—the substantial amounts of cash that are frequently found in the hands of minor narcotics traffickers, those below the middle and upper echelon level.

Although all of the penalties and taxes that have been assessed may not be collected, the impact of this program on the narcotics traffic is already substantial and increasing each month.

Essential cooperation of State and local police and Federal agencies

Treasury has coordinated this tax program with State and local police, whose more than 350,000 officers constitute the first line of defense against the internal traffic in narcotics, as well as with the antismuggling drive of its Bureau of Customs, the drive against narcotics distribution of the Bureau of Narcotics and Dangerous Drugs, and the prosecution efforts of the Tax and Criminal Divisions of the Department of Justice. Their cooperation is an essential ingredient to the success of the program.

The reasons for the substantial results since the program was initiated are many, I mention the following:

1. Morale and dedication of the men and women of the Internal Revenue Service.

2. Direct line organization, coordinated with all regional and district elements of IRS, with control of the nationwide program stemming from Washington.

3. Streamlined procedures for expedited investigation and review of cases.
4. Treasury Target Selection Committee system controlling the selection of major narcotics traffickers and financiers as targets of the program.
5. Cooperation of State and local police agencies, Customs, BNDD, and DALE in identifying major and minor targets, in developing intelligence on them, and in locating cash and other assets in their possession.
6. Cooperation of Department of Justice attorneys in securing indictments and trying the cases.

In summary, we are doing the job better and faster but we are still not satisfied. This is not the time to be overoptimistic. Much more needs to be done in the war on narcotics.

The Treasury/IRS narcotics trafficker program is a major enforcement effort, but it must be emphasized that it is only one part of this administration's comprehensive drive against the *supply* of narcotics and the *demand* for narcotics.

The President's multidimensional war on drug abuse

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. 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.

Much has already been accomplished in this area. In France, as an example, we have received close cooperation in joint antinarcotics programs during Arthur K. Watson's tenure as Ambassador. For the first time, the French have made the war on drugs a priority program. The fruits of the French effort have been considerable. On March 2, 1972, the French Customs seized 935 pounds of heroin, the largest such seizure in history. On March 6, 1972, French Customs seized 321 pounds of morphine at the Italian border, and on March 16, 1972, French narcotics agents seized 220 pounds of almost pure heroin and discovered a functioning heroin laboratory. In July, the French narcotics agents seized three heroin laboratories, one of which produced enough heroin to supply one-fifth of this country's addicts for a year. We can assume that a substantial portion of the heroin was destined for the United States. These seizures give renewed inspiration to all of us involved in combating this evil.

The Turkish and U.S. Governments announced in June 1971 that after June 1972 there would be no further planting of opium poppy in Turkey. Turkish opium has been a major source of heroin for U.S. addicts.

And most recently, extradition proceedings have come to a conclusion with the arrival of Auguste Ricord here in New York on September 2, 1972, to face trial in the United States, in a Bureau of Customs case. Ricord was indicted in connection with the smuggling of 97.5 pounds of heroin into the United States.

The President established the Cabinet Committee on International Narcotics Control, under the chairmanship of Secretary of State Rogers, to coordinate the United States initiative on the international level.

Second, he placed particular emphasis on the crucial roles of education, research, and rehabilitation.

On January 1, 1969, the Federal Government was funding only 16 treatment programs. This number has grown enormously, and as of the end of fiscal year 1972, there were 321 Federal treatment programs operating. Funding in the areas of education, research, and rehabilitation have also increased substantially. More money will be spent on these programs during this administration than in all the preceding years. For fiscal year 1973 alone, \$485.2 million has been requested for programs in these areas. This is over 10 times the amount funded in fiscal year 1969.

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 anti-drug-abuse program. As part of this aspect of the program, he has elicited the support of leading athletes and other celebrities for the production of antinarcotic public service advertisements which have been especially effective among the youth.

Fifth, he provided a substantial increase in budgetary support for the Bureau of Narcotics and Dangerous Drugs and the Bureau of Customs and initiated the Treasury/IRS tax drive on drug traffickers. In fiscal year 1973, \$244.2 million will be spent on narcotics-related law enforcement as compared with \$20.2 million which was spent in fiscal year 1969.

Sixth, he recognized the central role of the States and the need for close Federal-State cooperation in a unified drive against drug abuse. Through the Law Enforcement Assistance Administration (LEAA), substantial funds have been transmitted to our States for the attack on drug abuse. Also, he established the Office of Drug Abuse Law Enforcement in the Department of Justice to assist in the assault on the street-level heroin pusher working closely with State and local enforcement agencies.

Exhibit 32.—Remarks of Assistant Secretary Rossides, September 13, 1972, before the Federal Bar Association and other sponsors of the Symposium on International Trade, Washington, D.C., on "Antidumping and Countervailing Duty Laws: Instruments for Freer Trade, and the Development of a Doctrine of Fairness in International Trade"

For the promotion of freer trade and the development of a doctrine of fairness in international trade, there are probably no more important laws than the U.S. antidumping and countervailing duty laws. These laws, designed to counteract and defend American traders against foreign price discrimination and subsidization of exports, are little understood by the public. They are administered by the Treasury Department and for many years prior to this administration were little used in the manner intended by the Congress to defend American industry and jobs against these foreign unfair trade practices.

Increased use of antidumping and countervailing duty laws

One of the accomplishments of this administration is the rejuvenation of the antidumping and countervailing duty laws. The first effort by the Treasury Department was to tighten the application and use of the antidumping law. The statistics demonstrate how effective this effort has been. In the 2 fiscal years prior to the Nixon administration, only 25 investigations of dumping were initiated. In fiscal 1969 and 1970, 48 investigations were started—a 92-percent increase; and in the last 2 fiscal years, we have commenced 62 investigations—a 148-percent increase over the 2 fiscal years (1967-68) immediately prior to the Nixon administration. In 1967-68, there were 27 final Treasury Decisions, whereas in 1971-72, there were 59 such decisions—a 119-percent increase.

In the fiscal year just completed, investigations resulted in 23 findings of foreign price discrimination in exports to the United States and 18 findings of dumping, an alltime record. I anticipate a continuing increase in the number of complaints filed under that act as American businessmen become more familiar with the statute and its administration.

This vigorous application and use of the antidumping law have led to allegations by some of our friends abroad that the United States is abandoning its traditional liberal stance and using these two statutes as instruments of protectionism.

Nothing could be further from the truth.

In the final analysis, the antidumping and countervailing duty laws are two great liberal trade laws of the United States and indeed of the international community! *They are instruments for freer trade.*

What is dumping? In a typical dumping situation, a foreign company sells its merchandise for less in the United States than in its home market, causing injury to U.S. industry. Under our law, the Treasury Department is responsible for determining whether a foreign company has been dumping, while the Tariff Commission determines the question of injury. Dumping duties are assessed only if there is *both* dumping and injury.

What is a countervailing duty? In a typical countervailing duty situation, subsidies are paid by foreign governments on exports. The subsidies may be simple direct bounty payments or, frequently, may be in the guise of other benefits to assist the exporter. Duties are collected in an amount which will offset such subsidies.

Typical dumping case

A foreign firm sells its merchandise for \$1,000 in its home market, where competition with other producers may be limited. Realizing that it could not compete successfully in international trade at this price, the foreign firm elects to sell its product abroad, perhaps only for a short time, at lower prices to capture the market.

In the United States, American producers sell the same product, manufactured here, for \$950. The foreign firm, until its product name becomes widely known in this country, will be tempted to underprice similar American products in order to compete successfully. It therefore sells its product in the United States for \$900—\$100 less than its home market. If it succeeds in its objective, American firms will lose contracts, and American labor will lose jobs because of what is universally recognized as an unfair international trade practice.

If the Tariff Commission finds that American industry has been injured by such foreign dumping, the Secretary of the Treasury is required to impose dumping duties equivalent to the dumping margin. In our hypothetical case, the dumping margin would be \$100.

The clear objective of the Antidumping Act is to eliminate any incentive that foreign firms might otherwise have to dump their merchandise in the United States.

Typical countervailing duty case

If a foreign exporter receives a bounty or grant of \$100 on exportation of an item which he normally sells in the United States for \$1,000, he is then in a position to sell this item for \$900 in the United States. An American producer may have been manufacturing this same item for sale in the United States for \$950. If it were not for the subsidy payment, the American firm would, all other conditions being equal, be able to undersell its foreign competition by \$50.

Because of the subsidy, however, the American firm now suddenly finds itself in a situation where its product can be undersold in the United States by the foreign firm by \$50—this despite the fact that if normal market forces had been allowed to function without interference, the American manufacturer's greater efficiency would have permitted it to hold its fair share of the market.

If the Secretary of the Treasury finds that a bounty or grant is being paid or bestowed on exports to the United States, he is required to impose, on top of the normally assessed duty, an additional duty equivalent to the bounty or grant—\$100 in the case of our hypothetical example.

The rationale of the statute is simple and straightforward. No U.S. firm, no matter how efficient, is in a position to compete successfully against the resources of a foreign government. Why should American firms lose contracts and American labor lose jobs, when American merchandise is underpriced by foreign competition not through the operation of normal market forces, but because of subsidies given by foreign governments on exports to the United States? The subsidizations toward which countervailing duties are directed are recognized as unfair international trade practices.

We represent the world's largest consumer market. Because of this, and because of the liberal access to our market which we have traditionally allowed to foreign competition, we have over the years become a major target for foreign governments and firms willing to resort to subsidies and dumping as a means of underselling U.S. products within our own borders.

What this administration has done to discourage unfair international trade practices

When this administration assumed office, five professionals in the Bureau of Customs were responsible for administering the antidumping and countervailing duty laws. In addition, one career Treasury official devoted part time to supervising this area.

The consequences of the lax administration of these two statutes were predictable. Dumping investigations took 2 and even 3 years for the Treasury Department to complete. Countervailing duty investigations frequently took even longer.

By the time the investigations were completed, even if there were a finding of dumping or a decision to countervail, the foreign dumpers and subsidizing governments had succeeded in their objective of penetrating the American market by means unfair to U.S. industry and labor.

This administration has acted decisively and energetically on many fronts to halt the erosion that had been and was taking place in our international balance of trade. To the extent the practices I have described contributed to this process, they are being examined and acted upon within the context of our rejuvenated administration of the antidumping and countervailing duty laws.

With the bipartisan support of the Congress, we increased the Treasury staff in the Bureau of Customs assigned to investigating and analyzing unfair international trade practices from 5 to 41, and we have since directed an increase to 60 professionals.

We streamlined procedures in order to reduce the inordinate time required to decide cases.

In order to institutionalize the changes that had been made and to establish a mechanism for adequate Treasury supervision in this area, the Secretary approved the establishment under my supervision of the Office of Tariff and Trade Affairs. We now have the mechanism to ensure that the Treasury Department will have an ongoing operation for proper supervision and administration of these two acts.

We also made significant policy changes in the administration of the Antidumping Act. Among other things, in May 1970, we terminated the old policy of indiscriminately accepting price assurances in dumping cases—a policy which was actually encouraging dumping. Now we accept assurances (that they will discontinue dumping prices) as a basis for closing out cases only when the dumping margins are minimal in relation to the volume of sales.

Under the new policy, foreign concerns are impelled to take the Antidumping Act into account *before* they engage in sales to the United States.

Results of changes in administration approach

The administration's personnel, policy, and administrative changes in implementing the antidumping and countervailing duty statutes have brought the substantial results I mentioned at the beginning of my talk. U.S. industry and labor have reacted favorably to our efforts to defend Americans from unfair international trade practices. This is a development they had been seeking for years. The present administration understands and is sympathetic with their problems and is doing something in their behalf.

It is surprising and heartening to American industry and labor to learn that the filing of antidumping and countervailing duty complaints, where the evidence is plain, is no longer an exercise in futility.

What lies ahead

Now we are studying possible refinements of the use of these measures which defend U.S. industry against unfair competition, partly to make sure they appropriately cover newer practices that may be emerging. In new proposed Antidumping Regulations which were published for comment on April 19, we moved one step further in our plan to clarify and tighten further the procedures of the Antidumping Act. The comments are now being considered, and I anticipate that the revised regulations will be issued in definitive form in the near future, hopefully within 1 month.

We are also turning our attention to making full and appropriate use of the countervailing duty law to defend American industry against imports which are unfairly competitive because of foreign subsidies granted to exporters. With our expanded staff and administrative and policy changes, we are now, at long last, in a position to analyze many sophisticated subsidies which have previously escaped our attention.

Amendments of both the antidumping and countervailing duty laws will be required to achieve freer and fairer competition in international trade. We have well underway a study of a number of possible amendments in connection with our continuing campaign to guarantee effective administration of these statutes for fair trade.

International reaction to the administration's new approach

Not surprisingly, foreign governments and exporters did not react enthusiastically to the changes made. This is understandable, since one of the consequences of the new approach was to make it more difficult for price discriminators to sell their merchandise in the United States.

Instead of asking themselves why this was so, many of the governments and firms concerned automatically concluded that, to the extent that access to the

U.S. market for their goods was being impaired by reason of the new administration approach, this constituted protectionism. Such a conclusion fails to take into account basic concepts of fairness in the conduct of international trade, as well as the explicit rules of the GATT.

If, for example, foreign firms gain access to the U.S. market through subsidization of their sales to this country, is it protectionism to take action to nullify the advantages gained by the subsidies? If such firms gain access to the U.S. market by dumping their merchandise here, is it protectionism to nullify the advantages gained from dumping? GATT Article VI and the International Anti-Dumping Code clearly indicate to the contrary.

We take pride in our fair administration of these laws. Numerous complaints by domestic producers have been rejected because of lack of evidence of price discrimination, injury, or subsidy. And critical foreign governments have failed to take note of the fact that, after investigation, a significant number of anti-dumping cases have resulted in negative determinations.

And I should point out that vigorous application of these laws where appropriate has helped to forestall the enactment of protectionist legislation of a type which could turn the clock back 20 years on the movement for more liberal world trade.

The basic problem that our major trading partners find with the measures taken by this administration to counter unfair international trade practices is that once entry is effected into a lucrative market such as that of the United States—regardless of the method by which it was achieved—those profiting from such access are understandably reluctant to give up the advantages they have achieved.

No vested right in lax enforcement

I am *not* prepared to concede that any one, whether it be a foreign government or a foreign firm, has a vested right in lax enforcement of our international fair trade statutes.

On the contrary, if we had been more alert years ago to the implications of proper utilization of the antidumping and countervailing duty laws, perhaps the United States would not be confronted, first, with complaints from our business and labor communities that we have not promptly reacted to their charges of injury from unfair international trade practices and, second, with a growth of protectionist sentiment in some quarters in the United States, a development this administration deplors.

A liberal trade policy can have no meaning if we do not subsume in the definition of liberal trade the concept of fair trade. I firmly believe it is a mistake ever to allow unfair trade practices to take root. They are an impediment to the liberal trade policy for which the United States has consistently stood. But I cannot see the United States returning to a policy which ignores the interests of efficient American producers and of American labor. Those interests are ignored when we permit foreign firms to benefit through subsidies or resort to dumping tactics.

Development of a doctrine of fairness in international trade

This leads me to the conclusion that we must adopt and develop the doctrine, which I have called the doctrine of fairness in international trade.

I happen to believe that we can make a valuable contribution toward the development of such a doctrine through our case-by-case handling of complaints filed under the antidumping and countervailing duty laws. The case-by-case method helps to identify problems that develop and begin the process of solving them. Through this process we can flesh out the meaning of the general phrases incorporated in international agreements.

The future

Under the leadership of President Nixon, the United States has embarked upon a program of discussions and negotiations designed to lead to a new set of monetary and trade rules and new procedures for implementing them. In our handling of complaints filed under the antidumping and countervailing duty laws, we expect to make an important contribution to the need to maintain fair play in international trade. We hope to demonstrate to our trading partners that neither they nor we can gain by engaging in unfair international trade practices; that everyone loses under such circumstances.

We are in a period of rapid change in international finance and trade. New techniques of monetary management, trade regulation, taxation, and export pro-

motion are being evolved by the major trading nations of the world. The impact of these techniques must be examined on a case-by-case basis. To the extent that they interfere with the operation of normal economic factors of free competition, our approach enables us to take steps to compensate for these factors—not to give our traders an advantage, but to eliminate any resulting disadvantage. In this way, I believe the United States, as the largest single market in the world, can make a significant contribution to the development of a doctrine of fairness in international trade.

Statistics on numbers of antidumping cases, fiscal years 1967–1972

Fiscal year	Investigations initiated	Findings of sales at less than fair value	Findings of no sales at less than fair value	Final discontinuances*	Findings of dumping
1967.....	10	1	10	.....	1
1968.....	15	6	10	.....	1
1969.....	22	1	5	.....	5
1970.....	26	7	17	.....	6
1971.....	23	14	6	3	7
1972.....	39	23	5	8	18

*Notices of discontinuance were not issued prior to fiscal year 1971.

Exhibit 33.—Excerpt from remarks by Assistant Secretary Rossides, September 24, 1972, before the National Officer Installation Dinner of Bnai Zion, New York, N.Y.

It is a privilege to be here tonight to participate in the tribute to the Munich martyrs, the installation ceremony for your national officers, and the launching of the celebration of 25 years of independence for Israel.

I will discuss with you three broad areas: President Nixon's leadership in combating terrorism, his war against drug abuse, and his accomplishments in building peace with prosperity for the world.

Terrorism: Munich—skyjacking—mail

President Nixon has acted against terrorism and has provided leadership to the free world community in this effort. There is no single easy answer to terrorism but there is an answer: Bringing together the combined efforts of the world community—its governments, its law enforcement agencies, and its citizens—to prevent any safe havens for terrorists throughout the world, and especially to provide for extradition or punishment of guilty parties. President Nixon is committed to seeing that this will be done.

Terrorist acts of violence and anarchy anywhere in the world must be stopped decisively. If terrorism succeeds in one instance, then the price goes up in the next instance.

So long as terrorists believe that the methods they employ will yield results, they will continue perpetrating their crimes. Civilized society must never succumb to a conspiracy of violence.

Certainly the answer to terrorism is not "come home America."

The tragedy at Tel Aviv's Lod Airport, the murders in Munich, and the sending of bombs through the mail obviously command headlines; but what should not be overlooked, particularly by those who resort to terrorist activities, is that substantial progress is being made by the world community toward containing these threats, with this administration in a leadership role. President Nixon has directed a series of actions on the diplomatic front and on the enforcement front to strengthen the net to ensnare these criminals.

In the aftermath of the Munich tragedy, President Nixon moved swiftly to tighten security in the United States against terrorist attacks. In the President's words:

Since we are dealing with international outlaws who are unpredictable, we have to take extra security measures to protect those who might be the targets of this kind of activity in the future. That might include Americans of Israeli background, American citizens.

Then he placed a telephone call to Premier Golda Meir and assured her personally that the U.S. Government would protect Israeli citizens in the United States who might be threatened. He also directed that the Executive Protective Service, operating under the Secret Service, assist the New York Police Department in providing security at the Israeli and other U.N. missions in New York. Moreover, we intensified EPS security for the Israeli Embassy and its personnel in Washington. I would also note that the U.S. Customs Service intercepted the three explosive envelopes addressed to Israeli officials in New York.

President Nixon also established a high-level intelligence committee, under the direction of the State Department, to establish special relations with intelligence groups of friendly nations for the exchange of information about terrorists. Secretary Rogers conferred with representatives of more than 50 embassies in Washington to examine plans for a collective security system against terrorism. Also, Secretary Rogers expressed the administration's full support for legislation extending to foreign "official guests" of the United States the provisions of Federal laws against attacks on foreign government officials here.

Finally, I was proud to see Ambassador George Bush exercise only the second veto by the United States in the 27-year history of the U.N. Security Council. The proposed resolution was so obviously one-sided against Israel that it did not even mention the Palestinian Arab terrorist attack on the Israeli Olympic team. The United States vetoed this resolution because every attempt our Government made to balance the resolution by calling for the condemnation of terrorism was blocked by China and the Soviet Union.

Air piracy

President Nixon also led the world community into action against terrorism in the air piracy area, following the multiple hijackings in September 1970, where Arab terrorists seized four commercial airplanes, imperiled 600 passengers, and then destroyed the planes with a capital loss of \$50 million.

Our President's reaction was swift and vigorous. His historic message delivered on September 11, 1970, declared:

Piracy is not a new challenge for the community of nations. Most countries, including the United States, found effective means of dealing with piracy on the high seas a century and a half ago. We can—and we will—deal effectively with piracy in the sky today.

There was no suggestion in launching this bold program for "America to come home." Rather, the President chose to lead the world in fighting a new terrorist menace that threatened all peace-loving people, wherever they might live.

The President called for armed guards on U.S. carriers and for predeparture inspections. Within 24 hours of the President's action, I am proud to say that 100 Treasury agents were in the air—the first American sky marshals. And within a week Treasury agents protecting principal overseas flights numbered 275.

The President then selected Treasury as the agency to develop a permanent sky marshal force because of the close relationship to Treasury responsibilities and expertise in enforcing customs laws and in the Secret Service protective mission. This Treasury sky marshal force works in close coordination with the Department of Transportation, FAA, and the Department of Justice.

Treasury is proud of the job done in recruiting, screening, training, deploying, and supervising a semipermanent force of about 1,300 customs security officers, who now are able to perform their mission through predeparture screening of airline passengers and as guards aboard planes in flight.

With this assignment, Treasury enforcement came full-circle. Treasury is the oldest Federal law enforcement organization in the United States. In the early days of our Nation, customs officers of Treasury fought sea pirates—in the 20th century they are being called upon to protect against the menace of aerial piracy.

The President's program consists of diplomatic and enforcement elements:

First, U.S. diplomacy is working for agreement within the community of nations so that none will offer sanctuary to skyjackers. Obviously, if a skyjacker were punished wherever he lands, or returned to the country where the crime was committed, it would create an important deterrent and close a serious loophole.

Diplomatic initiatives of the President have received support of almost all of the nations of the world. In practically every country, skyjackers have only one thing to look forward to—prison.

The President's forceful action in September 1970 dramatically led the world toward doing something constructive about this problem for the first time.

Secondly, there are armed enforcement personnel, customs security officers, who screen and inspect passengers before they board their aircraft and who, on selected flights, accompany the plane in the air.

To date there has not been a skyjacking attempted on a flight where customs security officers have conducted a predeparture search. We have detained 55,000 potentially lethal weapons and made 2,072 arrests on the ground for possession of illegal weapons, immigration violations, transport of narcotics, and other law violations. Of those arrested, 328 possessed weapons and made hijacking or sabotage threats and 738 possessed narcotics, marijuana, or dangerous drugs.

In the air, CSO's have made 40 arrests for actions endangering crew, passengers, or the aircraft, including 17 in response to threats of hijacking and 23 for other causes involving air safety.

Every one of us working on this complex problem knows that a great deal still has to be done. In the recent ICAO conference in Washington, the United States took the lead in formulating an enforcement convention under which subscribing nations would take firm and prompt action to effectively prevent air piracy.

The President's multidimensional war on drug abuse

The President's worldwide war against drug abuse is succeeding.¹

* * * * *

As a result of this multifaceted effort, we have already stemmed the tide and seen a reduction in the supply of heroin in the United States, particularly on the east coast.

It is, therefore, not surprising to note that the National Shomrim Society, the police organization whose members are of the Jewish faith, has voted President Nixon its Man of the Year Award!

"A full generation of peace . . . a new prosperity without war"

The President's leadership in combatting criminal violence, by individuals or organized conspiracies, is one aspect of his overall objective of bringing about world peace.

Implicit in everything the President does is his dedicated pursuit of peace. His objective is a new prosperity without war, a full generation of peace for the United States and the world.

Indeed, his achievements in foreign policy, supplemented by the benefits flowing from his new economic policy and his actions in the area of law enforcement, will lead historians of this century to refer to Richard Nixon as the Peace President.

Let me tell you why:

1. He is bringing to an end the war in Vietnam in a manner that will ensure a lasting peace. Since he has taken office, the U.S. troop level in that country has dropped from 542,000 in January 1969 to 36,500 as of today; this means that our direct involvement in Vietnam has been reduced by 93 percent. The casualty rate has also dropped dramatically, with zero deaths last week.

2. The President made a historic journey to Peking last May which began a dialogue with a government that represents nearly one-quarter of the world's population. Already trade agreements have been reached with the Republic of China and many other accords to further world peace are just over the horizon.

3. Mr. Nixon was the first American President to visit Moscow. This journey opened up new lines of communication with the other superpower, damping the fires of the cold war.

4. The Moscow trip achieved an arms race accord. The Senate has approved a treaty limiting defensive weapon sites in each country. In the immediate future the Congress will send to the President a resolution authorizing approval of the U.S.-Soviet interim agreement limiting offensive nuclear weapons.

5. During the Nixon administration, the four powers were able to reach an historic agreement on the status of Berlin, a potential tinderbox for 25 years.

6. Through President Nixon's initiative and leadership, the Middle East has enjoyed over 2 years of cease-fire. It was the President's position that before any agreement could be reached between the two sides, a cease-fire must prevail.

¹ See exhibit 31.

Recognizing that Israeli strength must be maintained until peace is achieved, the President has provided for economic and military assistance, both grant and credit, to Israel amounting to over \$600 million in fiscal year 1971, over \$500 million in fiscal year 1972, and over \$500 million projected for fiscal year 1973.

These are not pious promises but solid contributions. We are determined not to permit the military balance to tip against Israel.

Foreign Minister Abba Eban and other Israeli leaders have declared that President Nixon has "impressively fulfilled his promises to Israel."

7. Integral to the President's objective of world peace is economic prosperity. His new economic policy, announced on August 15, 1971, marked a watershed in world history, not just U.S. history. Because of the new economic policy we are now achieving a peacetime economy with real growth and vitality, as well as reasonable price stability. Economists of various schools of thought are as close to consensus as they have ever been that a major upswing in the economy without excessive inflation is now taking place.

What does this new era signify for the United States and the rest of the trading world? Essentially, it means we are well on the road to creating 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 economic basis for a lasting peace with prosperity.

"A full generation of peace . . . a new prosperity without war" sums up the guiding principle of President Nixon's administration. This may well be a modern-day application of the immortal words of that revered teacher, Hillel, who, when asked to condense the "Torah" into the briefest possible form, replied: "What is hateful to thee, Never do to thy fellow man."

Exhibit 34.—Excerpts from remarks of Assistant Secretary Rossides, October 17, 1972, before the 79th annual conference of the International Association of Chiefs of Police, Inc., Salt Lake City, Utah

It is a pleasure to be with you at the 79th annual conference on the International Association of Chiefs of Police.

Your distinguished professional society, which includes members from over 60 nations, is the kind of cooperative effort needed to meet the threat of modern crime. As you well know, criminals today have as little respect for international boundaries as they have for the rule of law. Therefore, the fight against crime is truly a global responsibility for the law enforcement elements of every civilized nation in the world community.

I would like to stress three themes this morning:

First, the successes of President Nixon's worldwide war on the drug trafficker;

Second, the need for an ongoing cooperative effort between Federal law enforcement agencies and State and local police—the first line of internal defense against criminal forces; and,

Third, the professionalism of the peace officer.

The President's multidimensional war on drug abuse

Last Sunday began the third annual "National Drug Abuse Prevention Week." In President Nixon's proclamation launching the event, he made this observation:

The enormous human tragedy of drug abuse gives pause to our customary gesture of setting aside 7 days a year for intensified concern with this or that social problem. More than a problem, narcotics and dangerous drugs are a grave emergency threatening each and all of us.

Drug Abuse Prevention Week, therefore, is but one more occasion to redouble our war against this enemy, to take stock of large victories won in a short time, identify areas of continuing concern, and target more resources on them.

I am pleased to report that President Nixon's antinarcotics drive is succeeding.¹

* * * * *

¹ See exhibit 31.

The need for ongoing cooperative efforts between Federal and local law enforcement agencies

The Treasury Department deeply appreciates your assistance in the fight against illegal narcotics.

I would like to report to you the results of one of these programs—the Treasury/IRS narcotics trafficker program—which would not have attained the remarkable success without your dedicated aid. In the 15 months that we have worked on this program, we have selected 1,011 individuals as major targets for tax investigation.

The word for the drug traffickers is to get out of this illegal business or face up to intensive tax investigation. The warning should be spread in every city and town in the United States that this program is institutionalized and is working. Everyone in this illegal trade should know full well that he will be subject to tough tax scrutiny and possible criminal penalties.

This program is one reason we have the drug traffickers taking steps backward and all of us must now redouble the pressure on them.

Treasury has coordinated this tax program with State and local police, whose more than 350,000 officers constitute the first line of defense against the internal traffic in narcotics. The cooperation of State and local police in identifying key traffickers, in furnishing intelligence information on them, and, in several cases, in actually working with our agents on some phases of the investigations, has been an invaluable contribution to this program. A substantial number of the major targets under tax investigation were referred to us by State and local police.

The police have also been of great assistance to our program by contacting IRS whenever, in the course of arrests or searches, they have found substantial cash or other assets in the possession of persons involved in the drug traffic. In this manner, we have been able to remove considerable sums of cash from the drug traffic by applying it to taxes and penalties owed. This aspect of our program could not be effective without the assistance of the local police.

Law enforcement cooperation is a two-way street

The Treasury Department, with its diverse law enforcement missions, has the second largest law enforcement arm in the Federal Government—with over 6,000 Treasury agents. These agents are in four operating agencies of the Department: The U.S. Secret Service, the Bureau of Customs, the Internal Revenue Service, and the Bureau of Alcohol, Tobacco and Firearms. Each of these agencies has a specialized mission. Our policy is to assist and complement, but never to usurp, the job the local police must ultimately do.

The Treasury Department assists your law enforcement agencies with a multitude of resources and capabilities, including our advanced forensic sciences techniques, which are primarily, though not exclusively, carried out by the ATF and Customs Bureaus, and the facilities of the International Criminal Police Organization (INTERPOL).

Should the occasion arise, INTERPOL can provide you with the means and capability of pursuing a criminal who flees the United States, as well as obtaining vital information and evidence in a foreign country thousands of miles away. The national central bureau of INTERPOL, operated by the Treasury Department in Washington, can draw upon the police resources of 114 countries located on every continent of the globe. With the exception of the Soviet Union, Communist China, and their satellites, every major country in the world is a participating member.

INTERPOL serves any police or investigative agency, whether it be local, county, State, or Federal, having a requirement for investigation, from a routine criminal name check to a full criminal investigation leading to the gathering of evidence and subsequent arrests and extradition of the fugitive.

The Treasury Department pays the annual membership dues and maintains and staffs the national central bureau. So no charges are assessed local police departments for investigations, telex, cable or radio messages. Thus, you, the local Chiefs of Police, are completely free to utilize INTERPOL's services.

The professionalism of the peace officer

Now let me give you my appreciation of the work being done by the first line of defense—the local police officer. There is no question that police officers in this country are doing an outstanding job of maintaining the public safety and cur-

tailoring the criminal element, while simultaneously respecting the substantive and procedural civil rights of all our citizens.

In fact, the role of the policeman is that of a peace officer and we should start using that more descriptive title.

I was in Miami Beach last August and personally witnessed some of the confrontations that the officers of Chief Rocky Pomerance had with the various protestors. The Miami Beach police did a magnificent job in preventing much of the potential violence that could have marred the conventions there. They behaved with marked restraint. Only after some of the protestors interfered with the rights of law-abiding citizens and delegates were they arrested—and then with moderate force.

The police force in a country is an essential element not only for the safeguarding of the rights of the citizens, but also for ensuring the minimal stability needed for any system of representative government to progress in an orderly fashion. In fact, on a number of occasions the most anarchistic protestors have found the protection of the peace officer necessary to ensure their very ability to protest!

Yet in the United States prior to this administration the policeman had been the forgotten man. Leaders spoke and wrote a great deal about almost every other institution but very little about the essential and paramount role of our law enforcement officials. President Nixon has changed that. He set the tone of leadership and support for law enforcement as an integral part of the rule of law.

If law enforcement is to continue to be regarded as an honored profession, then the challenge to every law enforcement officer is to be a professional—properly trained, judicious in application of his enforcement tools, and with personal integrity and character.

Your own organization, the IACP, works toward these goals because its program is on a professional level, designed to strengthen the capability of peace officers to maintain public order with a minimum use of force and, at the same time, to improve their own public image.

I know that these are the objectives of your association and of all of you here today.

For his part, President Nixon will continue to do whatever his administration can to help your forces maintain peak effectiveness, as together we combat the menace that drug traffickers and other criminals represent for America.

In his speech last Sunday, the President made a categorical commitment:

... it is our local police forces who are the real frontline soldiers in the war against crime. As President over the past 4 years, I have given all-out backing to our peace officers in their dedicated effort to make all of us safer on the streets and more secure in our homes, and I shall continue to do so.

Exhibit 35.—Press release, November 17, 1972, announcing exemptions and interpretations relating to the regulations issued under Public Law 91-508, the Currency and Foreign Transactions Reporting Act

Exemptions and interpretations relating to the regulations implementing Public Law 91-508, the Currency and Foreign Transactions Reporting Act, were announced today by Assistant Secretary of the Treasury Eugene T. Rossides. This material, which will be published shortly in the Federal Register, includes an exemption from the requirement that a taxpayer identification number be obtained by banks with respect to Christmas Club accounts on which the annual interest is not anticipated to exceed \$10.00.

A copy of the notice follows:

**INTERPRETATION OF AND EXEMPTIONS FROM THE TREASURY DEPARTMENT
REGULATIONS ISSUED TO IMPLEMENT TITLES I AND II OF PUBLIC LAW 91-508**

Introduction

Advice has been requested by persons subject to these regulations concerning the conclusions of the Treasury Department on the application of the law and the regulations, and requests have been received for exemptions from various requirements of the regulations which were published on April 5, 1970, 37 F.R.

6912 (1972), pursuant to the authority contained in Section 103.45 of the regulations. Interpretations made and exemptions granted up to this time are set forth below. Additional interpretations and exemptions will appear from time to time as the occasion warrants. Identifying details and confidential information have been deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements concerning disclosure of information obtained from members of the public.

Sec. 103.11 Exemption from.

1. The definition of a bank as appears in Sec. 103.11(a) (7) was not intended to include a company which is wholly engaged in financing inventories and retail installment sales of automobile dealers. Such a company requested and was granted an exemption from the recordkeeping and reporting requirements of Part 103, Title 31, Code of Federal Regulations. However, if said company is a "financial institution" within the meaning of Sec. 103.11 (other than as a "bank") it would, of course, have to comply with these provisions of this part relating to financial institutions other than banks.

Sec. 103.23 Interpretations.

1. Unless a transaction in foreign currency for clients who are nonresidents of the United States and performed through brokers outside the U.S. involves the physical transportation, mailing or shipment of currency, bearer investment securities or negotiable instruments in bearer form into or out of the U.S. in amounts exceeding \$5,000 on any one occasion, there is no duty to report the transfer. A transfer of funds by means of bank check, bank draft, or wire transfer need not be reported.

2. A bank is not required to prepare Form 4790 if the bank receives such items over the counter from a person who may have transported them into the United States or if the bank delivers such items over the counter to a person who may transport them out of the United States. However, if a bank knows that such items have been transported into the country, it must file a report on Form 4790 if a complete and truthful report has not been filed by the customer.

3. Sec. 103.23(c) provides that a bank is not required to report currency or other monetary instruments mailed or shipped through the postal service or by common carrier. When a trust company is acting as a corporate executor or corporate trustee, no report need be filed with respect to currency or bearer monetary instruments mailed or shipped through the postal service.

4. In the case where a trust company acts as custodian for individual executors and trustees who maintain Custody Accounts for those estates and trusts where they are named fiduciary, it will be necessary to file a Form 4790, Report of International Transportation of Currency or Monetary Instruments, under the circumstances described in Sec. 103.23(a).

5. A private courier service does not qualify as a "common carrier" under the regulations.

Sec. 103.23 Exemptions from.

1. A bank whose employees physically transport currency across the Canadian border on a weekly basis for deposit with a Canadian bank which is only a few hundred yards away requested an exemption from the requirements of Sec. 103.23. Due to the special circumstances, the Department granted the request provided that an accurate record of such transfers is maintained by the bank.

2. A bank in Maine, which for a period of more than twenty years, has used its personnel to physically transport sums of currency and checks in excess of \$5,000 to and from a bank in a contiguous Canadian town several times a month, requested and was granted an exemption from the reporting requirements of Sec. 103.23 due to the special circumstances involved. The Department, however, does require the bank to maintain an accurate account of such transfers.

3. An exemption is granted to any merchant shipping company from the requirement to report the transportation into or out of the United States of currency or bearer instruments in amounts in excess of \$5,000 with respect to currency or bearer instruments placed on board ship by the owner or operator in order to provide for reasonable shipping needs. Records of such monies placed on board are to be maintained by the shipping companies.

4. A company that transports sealed packages containing money and valuables under written bilateral contracts for banks, brokerage houses, and security dealers requested an exemption from the requirements of this section. Under the

provisions of Sec. 103.23 (c) (7), such companies are exempt from reporting the transportation of currency or monetary instruments overland between established offices of banks or brokers or dealers in securities and foreign banks. The company in question is further granted an exemption from reporting overland shipments between domestic banks, brokers or security dealers and foreign persons. However, all firms engaged in international carriage of valuables by air must continue to file with the Bureau of Customs reports of international air shipments.

Sec. 103.33(a) Interpretation.

1. This regulation requires the keeping of records, the majority of which are already kept by financial institutions. The typical loan application form asks the applicant to state the purpose of the loan, so it would seem normal in the case of each extension of credit in an amount in excess of \$5,000 for the record to contain a reference to the nature or the purpose of the loan. However, if it is a passbook loan, for example, the entry "passbook loan" would suffice.

Sec. 103.34(a) Interpretations.

1. Any citizen residing or doing business in the United States and any citizen of the United States who opens an account with a financial institution after June 30, 1972, must provide that institution with his taxpayer identification number at the time the account is opened. For individuals, the taxpayer identification number is his social security number; for corporations, partnerships, and other entities, it is the IRS employer identification number.

Banks, savings and loan associations, building and loan associations, savings banks, credit unions, and brokers and dealers in securities are included in this requirement. If an account is opened in more than one individual's name, the financial institution is required to secure and maintain the social security number of at least one individual having a financial interest in that account.

If the customer does not have a taxpayer identification number or has lost his card and is unaware of his number, the account may be opened provided the customer (or if under eighteen years of age, his guardian) authorizes the Social Security Administration to furnish his social security number to both the customer and the financial institution, or the customer, regardless of age, authorizes the Internal Revenue Service to furnish his employer identification number to both the customer and the financial institution.

With respect to accounts opened for trusts, charitable organizations, clubs and similar entities the financial institution should secure the employer identification number of the entity. An employer identification number must be obtained for this purpose even though an organization might not otherwise require one. See instructions published July 6, 1972 (37 F.R. 13279).

2. This requirement of a taxpayer identification number does not apply to aliens who are ambassadors, ministers, career diplomatic or consular officers, or to naval, military and other attaches of foreign embassies and legations, and the members of their immediate families, nor to aliens who are accredited representatives to international organizations entitled to enjoy privileges, exemptions and immunities as an international organization under the International Organizations Immunities Act of December 29, 1945 (22 U.S.C. 288), and the members of their immediate families.

3. In regard to determining the proper identifying number to be furnished by accounts opened in more than one name, the bank should follow the regulations and rulings issued by the Internal Revenue Service under Section 6109 of the Internal Revenue Code. These rules are outlined on the back of IRS Form 3435. However, the bank should not use Form 3435 to apply for a taxpayer identification number for a new account, but should instead use Form SS-4 or SS-5.

4. The bankruptcy estate of an individual or partnership is considered as a separate entity from the individual or partnership. However, the Treasury Department does not regard the estate of a corporation in bankruptcy as an entity separate from the corporation. Accordingly, the trustee of a corporation in bankruptcy should use the identification number of the corporation. Upon completion of the IRS Form SS-4 with an appropriate authorization to furnish the Employer Identification Number to the institution, a trustee will be permitted to make deposits. He need not wait until the Employer Identification Number is obtained.

5. All accounts that are primarily savings or checking accounts, with the exception of mortgage escrow accounts, are deposit accounts and are subject to the requirements of this section.

6. Where a person purchases a money order directly from the bank or through an agent of the bank and the bank maintains only a consolidated account with no separate record by customer, no deposit account has been opened by the customer and only those recordkeeping requirements normally applicable to cashiers' checks would apply.

7. Where a person re-opens a checking account after June 30, 1972, the bank is required to secure the social security number just as with a new account, and the same would apply to the automatic extension of a certificate of deposit.

8. A certificate of deposit sold in bearer form is an interest-bearing form of commercial paper, which need not be purchased from the bank, but is available in the money market. It is not a deposit account as that term is used in the regulations and no identification number need be obtained. In the case of registered certificates of deposit, the taxpayer identification number must be secured.

9. A credit card program operated by a bank does not involve a deposit account and is not, therefore, subject to the requirements of this section.

10. Section 103.34(a) exempts nonresident aliens not doing business in the United States from the requirement to furnish the bank with a taxpayer identification number. If an alien asserts that he is neither residing nor doing business in the United States a bank therefore may open the account without obtaining a taxpayer identification number, provided that it secures a statement from the person to that effect and provided the bank is unaware of any facts inconsistent with that statement. Normal banking practices for ascertaining identity and location of customers should be followed. All nonresident aliens in the United States should have one of the following U.S. Immigration and Naturalization Service forms:

1. Form I-151 (Alien Registration Receipt Card)
2. Form I-185 (Nonresident Alien Canadian Border Crossing Card)
3. Form I-186 (Nonresident Alien Mexican Border Crossing Card)
4. Form I-94 (Arrival-Departure Record)
5. Form I-95A (Alien Crewman's Landing Permit)
6. Form I-184 (Alien Crewman's Landing Permit and Identification Card)

The bank should maintain a record of the applicant's country of citizenship and the number assigned him on his INS form or other official document issued by the applicant's government.

11. In regard to a business firm opening an account in the name of employees who are foreign nationals not residing in the United States, the bank may open the account for them without securing a taxpayer identification number pursuant to this section provided that the bank is satisfied that the persons are nonresident aliens not doing business in the United States. The bank should verify the identity and whereabouts of such persons and require the business firm to supply for each such account a statement to the effect that the employee is a nonresident alien not doing business in the United States.

12. It is acknowledged that the "Old Order Amish" people do not accept social security benefits or pay self-employment tax. In 1965, the Internal Revenue Code was amended to provide an exemption from self-employment tax if a person can show that he is a member of a recognized religious sect which follows the practice of making reasonable provisions for its dependent members. While the Amish people are opposed to and exempted from the social security program, they do pay their Federal taxes. A bank should explain to its Amish customers that the number required to open any account is merely a taxpayer identification number and in no way obligates such person to the social security system. However, if a depositor still objects on religious grounds to applying for a social security number, Form SS-4, Application for an Employer Identification Number, can be used instead.

13. If a new business has applied for an employer identification number, but has not yet received it when it seeks to open a bank account, the bank may open the account if it secures a completed Form SS-4 in accordance with the instructions issued by Treasury. The completed Form should not be sent to IRS but simply retained as evidence that an application for a number is pending. Since in the above instance the bank will not automatically receive the number, it must follow up with the customer to insure that the number is furnished within a reasonable time. Generally speaking, the Internal Revenue Service furnishes an employer identification number to an applicant within 45 days.

Sec. 103.34(a) Exemptions from.

1. An exemption from the requirements of this subsection is granted with respect to all accounts opened as part of a school savings program for school

savers up to eighteen years of age, provided that the amount of interest earned on such accounts is \$10 or less. Children over eighteen years of age may apply for a social security number without parental authorization and payments of interest aggregating \$10 or more are required by Section 6049, Internal Revenue Code of 1954, to be reported on Form 1099, together with the depositor's social security number. Banks having a school savings program should set up appropriate procedures to obtain numbers for accounts held by persons aged eighteen years or older and for all accounts earning interest of \$10 or more annually.

2. An exemption from the requirements of this subsection is granted with respect to Christmas Club accounts, provided the annual interest is not anticipated to exceed \$10.00.

Section 103.34(b) Interpretations.

1. If there is no check or draft corresponding to a pre-authorized paper entry, it will be sufficient to maintain the customer's authorization to charge his account and the memorandum list of entries for a period of five years.

2. Insurance companies commonly issue drafts in settlement of claims or for other purposes which are payable through a particular bank, but which are drawn on the company itself and not on a deposit account. However, drafts which are issued by insurance companies are treated as checks throughout the financial system, despite the fact that they are not drawn on a deposit account, and are, therefore, subject to the requirements of Sec. 103.34(b) (3). If these drafts meet the volume and purpose requirements of this section, no copy need be retained. If they do not meet these standards, it will be necessary for the bank to retain a copy of the draft as required by this section and to retain the records required by Sec. 103.34(b) (10) for a period of two years.

3. Clean drafts, including "cash items drafts," are drawn "payable through" or "payable at" a particular bank. The bank receives them and presents them to its customer who reviews them and pays for those it accepts. The majority of such items should be eligible for exemption under Sec. 103.34(b) (3), those which are not eligible should be microfilmed or copied before they are released to the customer.

4. Sec. 103.34(b) (10) does not require a receiving bank to copy or be able to produce an item drawn on another bank. Furthermore, a bank need not be able to supply a description of a deposited check if it can trace a check through its domestic processing system.

Sec. 103.36 Interpretation.

1. A bank must retain for a period of five years checks drawn on itself. However, the proof and entry run tapes, which allow a bank to reconstruct an account, need only be retained for a period of two years.

Sec. 103.37 Interpretation.

1. The term "temporarily" used in this section should be interpreted as a vacation or business assignment expected to last less than six months.

Sec. 103.42 Interpretation.

1. This section provides that nothing contained herein shall require or authorize the microfilming or other reproduction of currency or obligation or security of the United States as defined in 18 U.S.C. 8 or any obligation or security of any foreign government. However, government checks may be microfilmed, but not copied, for the purpose of tracing or identifying a transaction.

Sec. 103.45 Exemptions.

1. A bank, whose employees physically transport currency across the Canadian border on a weekly basis for deposit with a Canadian bank which is only a few hundred yards away, requested an exemption from the requirements of Sec. 103.23. Due to the special circumstances, the Department granted the request provided that an accurate record of such transfers is maintained by the bank.

2. A bank in Maine, which for a period of more than twenty years has used its personnel to physically transport sums of currency and checks in excess of \$5,000 to and from a bank in a contiguous Canadian town several times a month, requested and was granted an exemption from the reporting requirements of Sec. 103.23 due to the special circumstances involved. The Department, however, does require the bank to maintain an accurate record of such transfers.

3. An exemption is granted to any merchant shipping company from the requirement to report the transportation into or out of the United States of cur-

rency or bearer instruments in amounts in excess of \$5,000 with respect to currency or bearer instruments placed on board ship by the owner or operator in order to provide for reasonable shipping needs. Records of such monies placed on board are to be maintained by the shipping companies.

4. A company wholly engaged in financing inventories and retail installment sales of automobile dealers which came within the definition of a "bank" in Sec. 103.11(a) (7) requested and was granted an exemption from the recordkeeping and reporting requirements of Part 103, Title 31, Code of Federal Regulations. However, if said company is a "financial institution" within the meaning of Sec. 103.11 (other than as a "bank") it would, of course, have to comply with those provisions of this part relating to financial institutions other than banks.

5. An exemption from the requirements of Sec. 103.34(a) is granted with respect to all accounts opened as part of a school savings program for school savers up to eighteen years of age, provided that the amount of interest earned on such accounts is \$10 or less. Children over eighteen years of age may apply for a social security number without parental authorization and payments of interest aggregating \$10 or more are required by Section 6049, Internal Revenue Code of 1954, to be reported on Form 1099, together with the depositor's social security number. Banks having a school savings program should set up appropriate procedures to obtain numbers for accounts held by persons aged eighteen years or older and for all accounts earning interest of \$10 or more annually.

6. An exemption from the provisions of Part 103, Title 31, Code of Federal Regulations, is granted to those persons who are registered with the Securities and Exchange Commission as broker-dealers solely in order to offer and sell variable annuity contracts issued by life insurance companies. However, if a person so registered at any time offers and sells other types of securities in addition to variable annuity contracts, this exemption does not apply to any part of his business. This exemption will in no way affect recordkeeping regulations or other requirements promulgated under the Securities and Exchange Act of 1934, as amended.

7. An exemption from the requirements of Sec. 103.34(a) is granted with respect to Christmas Club accounts, provided the annual interest is not anticipated to exceed \$10.00.

(Signed) EUGENE T. ROSSIDES,
*Assistant Secretary for Enforcement,
Tariff and Trade Affairs, and Operations.*

Exhibit 36.—Amendments, effective January 17, 1973, to the regulations on financial recordkeeping and reporting of currency and foreign transactions

Title 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 103—FINANCIAL RECORDKEEPING AND REPORTING OF CURRENCY AND FOREIGN TRANSACTIONS

On October 28, 1972, a notice of proposed rule making containing proposed amendments to various provisions of this Part was published in the Federal Register (37 F.R. 23114 (1972)). In accordance with the notice, interested persons 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 following amendments are hereby adopted effective January 17, 1973.

(Signed) SAMUEL R. PIERCE, Jr.,
General Counsel.

(Signed) EUGENE T. ROSSIDES,
Assistant Secretary.

PREAMBLE

The key provisions of the proposal were essentially as follows:

1. Eliminate the requirement that banks keep microfilm copies of checks drawn for \$100 or less.

2. Require that information made available to other departments or agencies under this part shall be received in confidence and not disclosed except for official purposes.

3. State specifically that these regulations do not authorize the Secretary or any other person to inspect or review financial records maintained under this part.

4. Eliminate operators of credit card systems from the definition of a financial institution subject to this part.

5. Delete a phrase which allows the Secretary by written order or authorization to impose additional record-keeping or reporting requirements.

After careful consideration of the comments received, it has been decided to exempt checks of \$100 or less from the copying requirement.

With regard to disclosure of information, the proposed change is intended to ensure that information resulting from the recordkeeping and reporting requirements will be made available to other departments or agencies of the United States solely for the purposes intended. Various comments suggested that the proposed language did not go far enough, and that the change should forbid disclosure to any other department or agency. Such a restriction would mean that cases involving information obtained from this Department could not be referred to the Department of Justice for prosecution until the Secretary gave his approval. This would simply cause further delay without serving any worthwhile purpose. Every federal department or agency has sanctions against the unauthorized disclosure of official information, and those sanctions have proved effective. Accordingly, the proposed language has been adopted unchanged.

Certain of the comments on the proposed regulation dealing with access to records maintained under this part suggested that the proposal is inadequate to protect the rights of bank customers; however, the proposal is intended merely to point out that these regulations do not authorize access to customer records, but that access to such records is governed by other applicable law. The supervisory agencies which have been given responsibility for assuring compliance with the regulations may, of course, have access to these records as necessary to assure that they are being kept as required.

The proposal to eliminate operators of credit card systems from the definition of a financial institution for purposes of this part met with general approval, except that some doubt arose as to its effect upon the operation of bank credit card systems. Since it was agreed that all credit card operators, including banks, should be removed from the scope of the regulations, the definition of a financial institution has been amended to exclude bank credit card systems, as well as operators of credit card systems, from the definition.

Comments on the proposed deletion of the phrase which allows the Secretary by written order or authorization to impose additional recordkeeping or reporting requirements were favorable to the proposal; however, one comment suggested that the phrase "or otherwise modify" the requirements of this part also should be deleted. This suggestion is consistent with the intent of the proposed amendment, and it has been adopted.

AMENDMENTS

Part 103 of Title 31 of the Code of Federal Regulations is amended as follows:

Subpart A is amended by deleting from § 103.11 subparagraph (5) of the definition of a financial institution, renumbering the following subparagraphs so that the definition of financial institutions will read as follows:

"*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 (except bank credit card systems);

(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) A licensed transmitter of funds, or other person engaged in the business of transmitting funds abroad for others."

Subpart C is amended by amending § 103.34 to read as follows:

"§ 103.34 Additional Records To Be Made and Retained by Banks

(a) (1) 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

by a citizen of the United States, such bank shall, within forty-five days from the date such an account is opened, 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.

In the event that a bank has been unable to secure the identification required herein with respect to an account within the 45-day period specified, it shall nevertheless not be deemed to be in violation of this section if (i) it has made a reasonable effort to secure such identification, and (ii) it maintains a list containing the names, addresses, and account numbers of those persons from whom it has been unable to secure such identification, and makes the names, addresses, and account numbers of those persons available to the Secretary as directed by him.

(2) The 45-day period provided for in paragraph (1) shall be extended where the person opening the account has applied for a taxpayer identification or social security number on Form SS-4 or SS-5, until such time as the person maintaining the account has had a reasonable opportunity to secure such number and furnish it to the bank.

(3) A taxpayer identification number for a deposit or share account required under subsection (1) need not be secured in the following instances: (i) accounts for public funds opened by agencies and instrumentalities of Federal, State, local or foreign governments, (ii) accounts for aliens who are (a) ambassadors, ministers, career diplomatic or consular officers, or (b) naval, military or other attaches of foreign embassies and legations, and for the members of their immediate families, (iii) accounts for aliens who are accredited representatives to international organizations which are entitled to enjoy privileges, exemptions and immunities as an international organization under the International Organization Immunities Act of December 29, 1945 (22 U.S.C. sec. 288), and for the members of their immediate families, (iv) aliens temporarily residing in the United States for a period not to exceed 180 days, (v) aliens not engaged in a trade or business in the United States who are attending a recognized college or university or any training program, supervised or conducted by an agency of the Federal Government, (vi) unincorporated subordinate units of a tax exempt central organization which are covered by a group exemption letter, (vii) interest bearing accounts maintained by a person under 18 years of age opened as part of a school thrift savings program, provided the annual interest does not exceed \$10, and (viii) Christmas Club, vacation club and similar installment savings programs provided the annual interest does not exceed \$10. In instances (vii) and (viii), the bank shall, within fifteen days following the end of any calendar year in which the interest accrued in that year exceeds \$10, use its best efforts to secure and maintain the appropriate taxpayer identification number or application form therefor.

(4) The rules and regulations issued by the Internal Revenue Service under Section 6109 of the Internal Revenue Code of 1954 shall determine what constitutes a taxpayer identification number and whose number shall be obtained in the case of an account maintained by one or more persons.

(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 order drawn on the bank or issued and payable by it, except those drawn for \$100 or less or 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 government 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 in excess of \$100 (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 bank, broker or dealer in foreign exchange outside the United States;

(9) A record of each receipt of currency, other monetary instruments, investment securities or checks, 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 bank, broker or dealer in foreign exchange 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 in excess of \$100 deposited in such account through its domestic processing system or to supply a description of a deposited check in excess of \$100. This subparagraph shall be applicable only with respect to demand deposits."

Subpart C is further amended by amending § 103.35 by deleting "paragraph (1)" in subparagraph (a) (2), and substituting therefor the words "subparagraph (a) (1) of this section"; and by deleting "subsection (1)" in subparagraph (a) (3), and substituting therefor the words "subparagraph (a) (1) of this section."

Subpart D is amended by amending § 103.43 to read as follows:

"§ 103.43 Availability of Information

The Secretary may make any information set forth in any report 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. Any information made available under this section to other departments or agencies of the United States shall be received by them in confidence, and shall not be disclosed to any person except for official purposes relating to the investigation or proceeding in connection with which the information is sought."

Subpart D is further amended by amending § 103.45 to read as follows:

"§ 103.45 Exceptions, Exemptions, and Reports

(a) The Secretary, in his sole discretion, may by written order or authorization make exceptions to or grant exemptions from the requirements of this part. Such exceptions or exemptions 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 of 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."

Subpart D is further amended by adding a new § 103.51 as follows:

"§ 103.51 Access to Records

Except as provided in 103.34(a) (1) and 103.35(a) (1) of this part, and except for the purpose of assuring compliance with the recordkeeping and reporting requirements of this part, this part does not authorize the Secretary or any other person to inspect or review the records required to be maintained by subpart C hereof. Other inspection, review or access to such records is governed by other applicable law."

Exhibit 37.—Excerpt from remarks by Assistant Secretary Morgan, May 21, 1973, before the Los Angeles Air Cargo Association, Los Angeles, Calif., on "International Trade in the Years Ahead"

The past, the present, and the future

The United States today is at a crossroads in its economic relations with the rest of the world. Twenty-five years ago we decided, in our own interest, to contribute our wealth, influence, and energy to help our weakened allies, as well as our former enemies, gain the economic strength they so desperately needed. We did so in order to achieve a more secure and more prosperous world for all.

At that time the United States was the center of economic power in the world. Today, economic power has become polycentric. The Common Market, not the United States, is now the world's largest trading unit. Japan, through enormous effort and spectacular growth, has become a strong and still-growing force in the world economy. And other countries throughout the world are playing increasingly stronger roles.

Along with this growth, a number of problems have developed. The basic premise of a dominant U.S. economy which underlay international trade and monetary arrangements built up with considerable effort in the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund, and similar organizations is no longer valid. Basic reforms of the rules are needed. Furthermore, restrictions and other nontariff trade barriers continue to exist which may have been justifiable at one time to protect weaker economies, but which can no longer be justified today. Worse yet, these problems have grown in scope. And if they are allowed to continue and to increase, they will block our efforts to achieve a more open trade society.

Too many nations have tended to regard international trade problems with a narrow, inward philosophy, overlooking the benefits of more expansive trade policies.

Unfair trading arrangements have put the workers of one nation at a disadvantage with those of another. A reluctance to remove restrictions has limited the principles of an open world economy. These are the types of things we seek to eliminate.

The upcoming trade and monetary negotiations will provide an opportunity for the United States and its trading partners to strike a new posture in international economic relations. To achieve this, we must restructure the entire international economic system, including its monetary, investment, and trade sectors. This is the challenge which lies ahead.

The Trade Reform Act of 1973

In the trade area, the Trade Reform Act of 1973 will provide the President with the tools he needs to negotiate effectively on behalf of American workers, businessmen, and consumers. In addition, it will update our domestic laws to take into account new economic realities.

The major proposals of the bill are designed to provide the President with broad, flexible authority to—

1. Negotiate the lowering of tariff barriers intrinsic to a more open and equitable trading system.

2. Deal with excessively rapid increases in imports that disrupt domestic markets and displace American workers.

3. Deal with unfair competition against U.S. products, both at home and abroad.

4. Manage U.S. trade policy more efficiently and use it more effectively to meet the needs of a more balanced and effective monetary system, as well as our balance of payments problems and to combat domestic inflation.

5. Permit the granting of most-favored-nation treatment to countries not now receiving it in order to take advantage of new trade opportunities.

6. Follow the lead of other developed countries in granting developing countries generalized tariff preferences designed to enhance the contribution trade can make to the development of these countries.

I have heard it said that the President is seeking more authority in this bill than has ever been granted previously. That statement is inaccurate. What the President is seeking to achieve in the Trade Reform Act of 1973 is to enable American representatives to sit at the bargaining table with the same type of negotiating authority that our trading partners have. Foreign governments are

understandably reluctant to negotiate with American officials who have no ability to commit the United States to anything concrete. One of the aims of the Trade Reform Act is to create a closer working relationship between the legislative and executive branches which will demonstrate to all our trading partners that the United States intends to, and will have the power to, negotiate seriously.

In order to achieve a more open and equitable trading system, we must have the ability to encourage change and to provide incentives to other nations to alter existing relationships which have become outmoded and inequitable. This is the reason for the requested authority to lower tariffs, and to reduce nontariff barriers and other restrictions on trade with the United States. We are still the world's largest economy, and as such we are in a position to provide both attractive incentives to the international trading community, and disincentives when necessary. While seeking a more open world trading system, the United States has the right to, and will strive to obtain, more equitable treatment for American business, American labor, and the American people.

The Antidumping Act and countervailing duty laws

Among the disincentives to which I referred are the Antidumping Act, involving the acts of foreign companies, and the countervailing duty law, involving the acts of foreign governments. Both statutes are administered by my office in the Treasury Department. These laws are designed to defend American producers and labor against unfair foreign price practices and subsidization of exports.

For those of you who are not familiar with the statutes, let me explain what dumping is and what a countervailing duty is.¹

* * * * *

Proposed amendments to Antidumping Act and countervailing duty law

The Trade Reform Act of 1973 will, if enacted, make a number of significant changes in present procedures for administering these two statutes.

The principal change in the Antidumping Act is a requirement that all findings, conclusions, and the rationale therefor be stated on the record. This will be helpful to American producers and importers as well as foreign manufacturers and exporters in that they will be better able to obtain case-by-case guidance as to what constitutes dumping. The statute also sets time limits for the completion of Treasury antidumping investigations—9 months in the normal case and 12 months for more complex decisions. Although similar time limits were recently prescribed in Treasury's revised Antidumping Regulations, this is the first time they are being fixed by statute.

The countervailing duty law would be amended to establish a 12-month statutory time limit for reaching decisions in countervailing duty investigations. At the present time there is no deadline. Secondly, the countervailing duty law, now applicable only to dutiable merchandise, would be extended to cover duty-free merchandise contingent upon a Tariff Commission determination of injury to U.S. industry. The exemption of duty-free merchandise from existing law makes little sense today, especially after the Kennedy Round cuts, when many items of a competitive nature became duty free. The injury requirement in this case is essential from the standpoint of our international obligations and would be applicable only for such time as required.

Other amendments to this law would authorize the Secretary of the Treasury to refrain from countervailing products already subject to quantitative limitations if the Secretary considers such limitations an adequate substitute. In addition, the Secretary would be given the discretion to refrain from assessing countervailing duties where such action would result in a "significant detriment to the economic interests of the United States."

Rationale of U.S. antidumping and countervailing duty policy

Because we represent the world's largest consumer market, and because of the open access to our market traditionally allowed to foreign competition, we have over the years become a major target for foreign governments and firms willing to resort to subsidies and dumping as a means of underselling U.S. products within our own borders.

A liberal trade policy can have no meaning if we do not encompass in the definition of liberal trade the concept of *fair trade*. I firmly believe it is a mistake to

¹ See exhibit 31.

ever allow unfair trade practices to gain a foothold, for they are an impediment to the open and fair trade policy of the United States. This administration is firmly opposed to any policy which ignores the interests of American producers, American labor, and the American consumer. And American interests would be ignored if we were to permit foreign firms to benefit either through subsidies or by resorting to dumping tactics.

Impact of recent currency realignments on dumping

The Antidumping Act is also related to the recent currency realignments and the improved outlook for American business and labor both at home and abroad. Let me explain how.

The objective of the international currency realignments was to provide a better U.S. and world payments balance. We are seeking to realize a world in which America can compete more effectively at home and abroad through a more realistic price structure. As a result of the actions taken, American products are more competitive at home and abroad while the prices of foreign products are less competitive in the United States and third markets.

As I explained earlier, dumping normally occurs when merchandise is sold by a foreign exporter to a purchaser in the United States at a lower price than in the exporter's home market, and these sales injure U.S. industry. The recent changes in the market rate of the dollar in relation to certain foreign currencies have effectively increased the home market price of foreign merchandise, as expressed in dollars. Thus, sales at less than fair value may occur following the changes in the market rate of the dollar unless foreign exporters take effective actions to adjust prices to the exchange rate changes either by lowering them in the home market or increasing them in the United States.

The Antidumping Act, combined with the currency realignments, thus becomes an effective incentive toward improving our balance of payments position and making the recent currency realignments and devaluations work.

The chairman of the board of a large corporation states in a recent letter to a senior administration official the reasons for his company's improved competitive position in relation to foreign electronics firms:

"The principal reasons for this dramatic turnaround were the President's insistence on a revision of the completely unfair exchange rates for the dollar, and the Administration's insistence on investigating and proceeding against dumping of our industry products and investigating other government's export subsidies."

This case demonstrates how recent actions of this administration are helping to redress the U.S. international trade position.

Conclusion

We are in a period of rapid change in international trade and finance. Enormous tasks still lie ahead. New techniques of international monetary, trade, and tax management are being evolved by the United States and other major trading nations of the world. New international rules of fair play must be negotiated. Through the Trade Reform Act of 1973, and the strict administration of our fair trade laws and similar measures, this administration looks forward to a new era of prosperity not only for the United States, but for all people everywhere.

Taxation Developments

Exhibit 38.—Statement by Under Secretary Cohen, July 21, 1972, before the Joint Economic Committee

I am pleased to have the opportunity to appear before you today to participate in your consideration of the Federal tax structure.

The President has stated that he will submit to the Congress for action next year recommendations for further tax reform. Chairman Mills of the Committee on Ways and Means and Chairman Long of the Committee on Finance, as well as numerous members of both committees, have also stated that further tax reform legislation will be taken up next year. The Treasury is conducting a thorough review of the tax law in preparation for this legislation.

The Tax Reform Act of 1969, on which the administration and the Congress collaborated throughout almost the entire year 1969, was a landmark in the long history of tax legislation. Together with the Revenue Act of 1971, it represented a major achievement in improving the equity and efficiency of the tax structure.

The President's recommendation for the low-income allowance, adopted by the Congress in 1969 and updated in 1971, has removed from the Federal income tax rolls substantially all citizens whose incomes are below the poverty level. For single persons the minimum income level at which the tax applies has been raised from \$900 in 1969 to \$2,050 in 1972. For a family of four it has been raised from \$3,000 in 1969 to \$4,300 in 1972. These changes mark a major advance in the equity of the income tax structure.

At the other end of the income scale, much has been said in the heat of a political campaign year to indicate that the rich somehow manage to avoid paying income taxes. In the face of political rhetoric, it is important that we keep a proper perspective and consider the need for further reform of the tax structure with a calm and deliberate appraisal.

It is true that a small number of taxpayers with high adjusted gross income showed no net taxable income on their tax returns for 1970. But if we look at the data as a whole it is clear that persons with high adjusted gross incomes are paying heavy Federal income taxes. The Preliminary Statistics of Income for 1970 show the following:

Adjusted gross income class	Total number of returns	Number showing no tax	Number showing tax due	Average tax paid
Over \$1,000,000-----	624	3	621	\$984, 862
Over 500,000-----	2, 393	22	2, 371	483, 089
Over 200,000-----	15, 323	112	15, 211	177, 161
Over 100,000-----	77, 899	394	77, 505	73, 678
Over 50,000-----	429, 568	1, 338	428, 230	28, 886

When three persons out of a group of 624 with adjusted gross income above \$1 million pay no tax, it is pertinent to inquire why this might occur. But in making the inquiry, one should not lose sight of the fact that 621 of this group paid an average tax of about \$985,000, for a total of \$612 million. This represented an effective tax of 46.4 percent of their adjusted gross income and 65.3 percent of their net taxable income.

Similarly, for the 15,323 with adjusted gross incomes above \$200,000, the data shows 112 persons paying no tax; but it shows that 15,211 persons paid an average tax of \$177,161, for a total of \$2.7 billion. This represented an effective tax of 44.1 percent of their adjusted gross income and 59.5 percent of their taxable income.

We should be slow to condemn a Federal income tax system that produces by voluntary assessment these huge amounts of tax on high adjusted gross income groups merely because a fraction of one percent of the cases report no tax due.

It is important also to note that this is preliminary data taken from returns as filed and prior to audit by the Internal Revenue Service. A review of many of the returns indicates that on audit taxes may be found to be due.

The Treasury Department and the Joint Committee on Internal Revenue Taxation have reviewed the returns showing no tax filed by the 112¹ persons with adjusted gross incomes above \$200,000; and I am attaching to my statement letters that I have written to Congressmen Conable and Reuss concerning our analysis of the returns, together with a brief discussion of them in a speech that I gave on April 29, 1972.² From these analyses it will be seen that—

Some of these paid high income taxes abroad, which are credited against U.S. tax to avoid double taxation.

Some of them paid very high U.S. taxes for 1969 and paid their State income taxes in 1970 on their high 1969 income. On the cash basis of accounting used by most individuals, the high 1969 State income taxes paid in 1970 exceeded their 1970 incomes and eliminated their 1970 Federal tax liability. This is merely a result of the cash basis of accounting and is not a recurring circumstance.

Many of them had high deductions for interest paid. There are indications that some of these may owe minimum tax for 1970 on audit of the returns.

¹ As explained in my letters to Congressmen Conable and Reuss, attached as appendices A and B hereto, examination of the returns later showed that there were 106 nontaxable returns involved that were governed by the Tax Reform Act of 1969.

² For the full text of the April 29, 1972, speech, see the 1972 Annual Report, pp. 341-48.

Moreover, the 1969 act will have the effect, starting January 1, 1972, of disallowing interest deductions that substantially exceed investment income. To the extent that the interest paid offsets investment income, we should consider revising the definition of "adjusted gross income" to require that the interest be deducted in computing adjusted gross income rather than being treated as a personal deduction.

Some of them had large miscellaneous deductions claimed as business bad debts, business litigation payments, and expenses of deriving income, which, if they are allowed on audit, again might better be classified as reducing adjusted gross income rather than being treated as a personal deduction. In other words, if these deductions are properly taken as expenses of earning business or investment income and make the persons nontaxable, those persons ought not really be classed as "high-income" persons merely because they have high gross income and incur high expenses in earning that income, since the income tax is properly levied only on net income.

I do not intend by these observations about the nontaxable returns to indicate that further reform is not in order. I mean only to stress that substantially all those with high adjusted gross income are paying heavy amounts of taxes and that the few nontaxable cases, while requiring analysis and review, should not distract us from a proper appraisal of the overall system.

Indeed, we should be careful to note that the changes made since January 1, 1969, have produced a significant shift in the distribution of the Federal income tax on individuals, reducing the burden in the lower income levels and raising it in the higher, as 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.

As will be seen from this table, the income tax burden has been reduced in the zero to \$3,000 income class by 82 percent, and has been reduced in gradually decreasing percentages in each higher income class to the \$50,000 to \$100,000 level. But in the income level above \$100,000 the liability has been raised 7.4 percent.

It has sometimes been charged that the tax laws and regulations since the beginning of 1969 have favored corporations as against individuals. This is not so. Treasury estimates show that the combined effect of changes in the law and regulations since January 1, 1969 have had the following effect:

For the four 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 \$12.0 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.

It is clear that the changes have not preferred corporations as against individuals. Substantially all the reductions have gone to individuals. These circumstances should be borne in mind as we prepare for another thorough review of the Federal tax structure.

The Joint Economic Committee published on January 11, 1972, an extensive staff study entitled "The Economics of Federal Subsidy Programs." Included in that study was an analysis of what was called "tax subsidies." The data for this was taken primarily from a letter dated May 11, 1971, from former Assistant Secretary Weidenbaum to Chairman Proxmire giving revenue cost estimates for the fiscal years ended June 30, 1970, and 1971, prepared by the Treasury staff, of certain items in the tax structure selected by the staff of the Joint Economic Committee. The letter appears as appendix A of the committee staff study, at pages 205-206.

I am attaching hereto as appendix C a schedule showing similar estimates for these same items for the calendar year 1971, which would correspond to the fiscal year 1972. (The figures for fiscal years 1970 and 1971 in Mr. Weidenbaum's letter represented estimates for calendar years 1969 and 1970.) There are also included estimates as to several additional items which the committee staff included in the list that appears in the committee staff study at page 31.

In addition, as you requested, I am attaching as appendix D our preliminary figures as to the breakdown of these estimates to indicate their effect on individual tax liabilities by adjusted gross income categories.

I should say as a word of caution that with respect to a number of items in the list these estimates are difficult to prepare and involve substantial uncertainties because of lack of information concerning them on tax returns. As an illustration, tax-exempt State and local bond interest is not reported on tax returns, and the estimates must be prepared from other sources which themselves are open to some question. When the data is not available on tax returns, the breakdown between income classes presents special uncertainties. We are continuing to do further work to improve these estimates.

We are in the process of preparing, in consultation with the staff of the Joint Committee on Internal Revenue Taxation, a more detailed report with respect to these matters, as was agreed in the conference report on the Revenue Act of 1971. The report is to be made to the Joint Committee on Internal Revenue Taxation, the House Committee on Ways and Means, and the Senate Committee on Finance, and we shall be pleased to furnish the Joint Economic Committee with a copy of that report when it is completed.

As Mr. Weidenbaum noted in his letter, "There is considerable conceptual controversy as to what is and what is not a tax subsidy." The Treasury is pleased to furnish to the congressional committees estimates as to the revenue effect of various aspects of the tax law on which the committees wish information. Yet the characterization of particular items as subsidies, the exclusion of other items from the list, and the economic and net revenue and budgetary effects of changing or repealing these items are all matters on which there is extensive division of opinion.*

In particular, while it is desirable that this information be available for public scrutiny and analysis, we should bear in mind its shortcomings. Among the difficulties, to list a few, are the following:

1. The estimate for each item is made on the assumption that it would be eliminated without any other changes in the law. Thus if two or more items were changed, the result of the several changes being made concurrently could produce greater or less revenue effect than the sum of the changes calculated independently of each other. Thus an addition of the separate estimates may not produce meaningful figures.

*See, e.g., the criticism in Bittker, *Accounting for Federal "Tax Subsidies"* in the *National Budget*, XXII National Tax Journal 244 and the reply in Surrey and Hellmuth, *The Tax Expenditure Budget-Response to Professor Bittker*, XXII National Tax Journal 528.

2. The estimates assume no change in tax rates, personal exemptions, or the minimum standard deduction. The serious economic effects of terminating or changing these various provisions of existing law without a basic change in the rate structure, for example, have not been taken into account in making the estimates. The changes would affect investment patterns and activity. One cannot assume, therefore, that termination of these provisions would raise the revenue indicated by each item.

3. In the estimates, no offset is made for the cost of substitute programs that would doubtless be enacted to replace some of the tax provisions if they were terminated. For example, with respect to the exemption for State and local bond interest, the cost of Federal payments to offset the increased cost of taxable State and local bonds has not been reflected; nor, for example, has any provision been made for the cost of substitute programs that might be needed with respect to housing if the tax provisions relating to housing were changed. In many instances there doubtless would be no net revenue gain from a change.

4. The estimates have been prepared on the basis of the so-called first level effects, without any offset for the "feedback" increases in revenue that now flow from the increased investment and economic activity that many of the present provisions generate.

5. If various existing provisions were changed, the statutory changes in many instances would contain effective date provisions that would apply only to subsequent investments or activity occurring after the date of the change and not to investments and commitments previously made. Thus the revenue effect in many instances would be small initially and would require a number of years to reach the amounts indicated.

6. The Federal tax law includes not only provisions that cause a reduction in tax that arguably are "subsidies" but also other provisions that increase the tax burden and affect its distribution, some of which arguably are "penalties." These offsetting items should be taken into account.

As illustrations:

The list includes the additional tax that would be due if capital gains were treated as ordinary income. But there is a penalty involved in existing law in the provision that net capital losses can be deducted by individuals only against \$1,000 of ordinary income annually and no deduction for net capital losses can be taken by corporations. If capital gains were to be treated as ordinary income, should capital losses be treated as ordinary deductions and allowed in full against ordinary income? If so, since taxpayers might choose to realize their capital losses and defer realization of their capital gain, there could be an actual loss in revenue.

The income tax on corporations, estimated now at a level of some \$36 billion, is in reality borne by individuals, either by the shareholders of the corporations or by consumers of their products and services. Economists and others differ as to the extent to which the corporate tax burden is passed forward to consumers or backward to shareholders. I am attaching as appendix E an estimate as to the distribution of the burden by income classes based on five different assumptions as to the extent of the division of the corporate tax burden between consumers and shareholders. If the corporate tax is assumed to be shifted forward, it is in essence an excise tax on consumers and bears heavily on low- and middle-income level individuals; if it is assumed to be borne by shareholders, the estimates show that it increases substantially the income tax burden on upper income level individuals.

The estate and gift tax, as well as other Federal taxes, represent additional burdens that are not taken into account in the attached list. They have a significant effect upon the distribution of the tax burden.

The income tax rate structure itself can be said to involve a "penalty" to one group or another depending upon their points of view; for it affects differently single persons, married couples, heads of households, and surviving spouses, as well as affecting differently low-income, middle-income, or high-income groups.

These are merely illustrations of difficulties involved in considering the effects of the provisions which the committee staff has selected as "tax subsidies." Again let me say that I think it highly desirable that these matters be publicly reviewed and debated; but the review and the debate should take into account the many different problems that in combination make solutions so difficult to find. There are no easy answers.

Each issue of tax policy is encased in a long history with plentiful arguments on either side. Many of them are not included in the committee staff's list. All of them are deserving of a thorough review in the Congress in 1973, as should be done periodically. The changes made in 1969 and 1971 represented a major overhaul of the tax system to improve its equity and its efficiency. More remains to be done. But in the process of review, let us not forget that, whatever its problems, our Federal income tax system has been the most efficient revenue device in the history of the world. As we constantly strive to improve it, we must proceed with calm analysis and thoughtful judgment of the complex issues.

APPENDIX A

MARCH 1, 1972.

DEAR MR. CONABLE: In response to your request, I am writing to set forth the information that we have developed to date with respect to individuals with adjusted gross incomes above \$200,000 for the year 1970 who showed no income tax due on their federal income tax returns for that year.

The information that there were 112 such individuals came from computer runs made from preliminary data extracted for statistical purposes in connection with the customary preparation by the Internal Revenue Service of its Statistics of Income series. The data is derived from a sample of some 500,000 of the approximately 75,000,000 individual income tax returns. The sample includes all returns filed that show adjusted gross income above \$200,000, and the information extracted from each return and fed into the computer shows, among numerous items, the amount of adjusted gross income reported and the federal income tax shown on the return to be payable. It is thus a routine matter, as a part of other analyses of data, to run the computer to identify the number of returns with adjusted gross income above \$200,000 which reported no tax due.

This statistical data is preliminary, however, and is customarily reviewed before publication of final data for the year.

Moreover, I should point out that this data is taken from the returns as filed by the taxpayers before audit of the returns by the Internal Revenue Service. I understand that at least 58 of these returns are already under audit by the Service or have been assigned for audit. We have now received in the Treasury copies of all the returns, and it appears likely that tax will be collected on a number of the returns after audit.

The Tax Reform Act of 1969 took effect, in general, as of January 1, 1970, although some of its provisions become effective gradually over a period of years. It is significant to note, therefore, that—

(a) There was a substantial decrease between 1969 and 1970 in the number of nontaxable returns with adjusted gross income above \$200,000—from 300 to 112.

(b) The percentage which those 112 nontaxable returns bore to the total number of returns with adjusted gross income above \$200,000 dropped from 1.6% in 1969 to 0.7% in 1970. (There were some 18,000 returns with adjusted gross incomes above \$200,000 in 1969 and some 15,000 in 1970.)

(c) The total adjusted gross income on nontaxable returns with adjusted gross income above \$200,000 dropped from \$279 million to \$46 million, less than 17% of the 1969 total.

(d) The number of nontaxable returns with adjusted gross income above \$1,000,000 dropped from 52 in 1969 to 3 in 1970.

Of the 112 returns listed preliminarily, examination of copies of the returns shows that inadvertently 8 were erroneously so classified: Paid a "minimum tax" under 1969 Act, 2; paid income tax under Sec. 962 (permitting individuals under certain circumstances to pay corporate income tax instead of individual income tax on certain types of foreign income), 1; delinquent returns for prior year (not subject to 1969 Act), 3; returns with net operating loss carried over from prior year, 1; duplicate return, 1.

Of the remaining 104 returns, 6 returns paid substantial income tax to foreign countries, mostly on salaries, for which credit is allowable against U.S. income tax.

On the remaining 98 returns, the principal deduction against adjusted gross income resulting in no tax was as follows:

State income tax, 12. Review of the returns before audit indicates that this is likely due to payments in 1970 by cash basis taxpayers of state income tax for

1969 or prior years. For example, a person having a large capital gain or other non-recurring income in 1969 generally can pay the state income tax on that 1969 income when he files his state return for 1969 in the spring of 1970, in which event that state tax is deductible on the cash basis of accounting in his 1970 federal income tax return. The state tax on large non-recurring 1969 income may offset all or a substantial part of the taxpayer's lower 1970 income. Also, if on audit of his state returns for prior years the taxpayer paid additional state taxes for those years in 1970, he might have a very substantial deduction for state taxes in 1970. It is also possible that he could have paid in 1970 state taxes on 1970 income that is not subject to federal income tax, such as interest on state and local bonds, but it does not seem from a review of the copies of the returns that the large deductions were caused by that circumstance.

Charitable contributions, 13. Only 2 of these returns showed contributions above the 50% maximum generally permitted, and one of these was a return for a fiscal year ending in 1970, which was not subject to the 1969 Act. In 1966 there were 49 nontaxable returns with adjusted gross income above \$200,000 that took the "unlimited" charitable contribution deduction, which was ended by the 1969 Act.

Interest expense, 54. In many cases interest is incurred as an expense of borrowing money for investments which produce current ordinary income. If the interest paid is high in relation to the income received, this may result in returns showing high adjusted gross income but no net taxable income; this may reflect simply a failure by the taxpayer to earn a net profit on his investment, as in the case of a business that borrows money, pays interest to its creditors, and has no net profit after paying the interest. Where the taxpayer's interest paid substantially exceeds his investment income, however, the 1969 Act included the excess among the preferences subject to the minimum tax for the years 1970 and 1971; and indications are that as a result of that provision in the 1969 Act, a number of these returns will be subjected to the minimum tax on audit. For 1972 and subsequent years, investment interest paid that exceeds by more than \$25,000 the taxpayer's investment income will generally be disallowed under the Tax Reform Act of 1969.

Some of the interest claimed as personal deductions on the 1970 returns may properly be classed as business items, but the interest deduction was shown by the taxpayer as a non-business item on his return. The place at which the interest deduction was reflected on the return might be immaterial if no tax is due.

Miscellaneous deductions: Loss of securities pledge as collateral for loans, 3; gambling losses, 1; (Gambling losses are deductible against gambling gains; this return merely reports miscellaneous gambling income above \$400,000 and a deduction for an identical amount of miscellaneous gambling losses for the year.)

Investment expense other than interest, 7; theft casualties, 2; sundry (bad debts, payments in settlement of litigation, etc.), 6.

A number of these deductions involve large sums and some involve unusual transactions. On audit of the returns the deductions may be disallowed or reduced, or they may be treated as capital losses, which may be deducted only against \$1,000 of income other than capital gains.

Respectfully yours,

(Signed) EDWIN S. COHEN.

THE HONORABLE BARBER B. CONABLE, JR.,
House of Representatives,
Washington, D.C. 20515

Major sources of income and deductions for 106 nontaxable income tax returns with adjusted gross incomes of \$200,000 or more in 1970, classified by largest deduction or credit¹

[Dollar amounts in thousands]

	Income and deductions, returns for which largest deduction or credit was—					Total
	Foreign tax credit	Taxes paid	Charitable contribution	Interest paid	Miscellaneous deductions	
Number of returns.....	7	12	12	55	20	106
Wages and salaries.....	\$767	\$562	\$372	\$2,673	\$1,445	\$5,819
Dividends.....	1,015	1,700	7,506	11,402	6,525	28,148
Interest.....	701	2,467	1,009	5,132	1,395	10,704
Capital gains (100 percent).....	2	563	108	5,132	2,466	8,271
Other income.....	(20)	(893)	(424)	(4,353)	533	(5,157)
Adjusted gross income.....	2,462	4,123	8,516	18,470	11,134	44,705
Amended gross income ²	2,471	4,427	8,606	20,166	12,392	48,062
Deductions:						
Contributions.....	39	389	4,227	2,019	1,976	8,650
Interest.....	89	416	1,327	17,337	1,261	20,430
Tax.....	111	4,160	973	1,106	1,426	7,776
Medical.....	(*)	29	39	74	56	198
Miscellaneous.....	55	417	2,380	1,533	10,516	14,901
Total deductions.....	294	5,412	8,947	22,069	15,235	51,957
Taxable income.....	2,156	(*)	67	205	-----	2,428
Ordinary tax.....	1,384	(*)	21	84	-----	1,489
Minimum tax.....	-----	-----	-----	-----	-----	-----
Foreign tax credit.....	1,384	(*)	7	84	-----	1,475
Other credits.....	-----	-----	14	(*)	-----	14
Tax after credits.....	-----	-----	-----	-----	-----	-----

*Less than \$500.

¹ Excludes one fiscal year return for which the provisions of the Tax Reform Act of 1969 were inapplicable.

² Adjusted gross income plus the excluded half of net long-term capital gains plus deductions for depletion and depreciation reported on the tax returns which are estimated to be in excess of deductions allowed under cost depletion and straight-line depreciation accounting methods.

APPENDIX B

APRIL 28, 1972.

DEAR MR. REUSS:

I am writing in reply to your letter of March 23, 1972, requesting further information with respect to individuals reporting adjusted gross incomes of \$200,000 or more for 1970 who paid no Federal income tax for that year. As you noted, I reviewed the nature of these returns in my letter of March 1, 1972, to Congressman Barber B. Conable, Jr., which was reprinted in the Congressional Record on that day.

In your letter to me you asked if I could select a representative sampling of those returns and analyze them in the way that eleven returns of high income individuals were analyzed in the 1968 "Tax Reform Studies and Proposals" (pp. 89-94). This would involve summarizing various items of income, deductions and credits on the individual returns. We have given careful consideration to your request and I have reviewed it at length with Dr. Laurence N. Woodworth, Chief of Staff of the Joint Committee on Internal Revenue Taxation.

As I advised Mr. Verdier of your office, we have concluded that, even deleting the names, addresses and identification numbers of those individuals, we could not disclose the information publicly without breaching the requirements of confidentiality of tax returns. Disclosure of salary or other large items of income or deductions for the year 1970 would make it possible to identify some of the individuals from information that is either publicly available or known to other persons who were involved in transactions with those individuals; and once the individual is so identified from particular items, his other income and deductions would become known. By contrast, the cases described in the 1968 Studies by the prior administration were taken from returns filed in various earlier years that were not identified.

Dr. Woodworth and I concluded that the best method of giving the information to you without breach of disclosure requirements was to set forth the aggregate totals for the items of income and deduction you requested for all the returns in each of the five categories referred to in my letter to Congressman Conable. Those categories were selected according to the principal item of credit or deduction that made the return nontaxable: (1) foreign tax credit; (2) taxes; (3) contributions; (4) interest and (5) miscellaneous. In addition, data includes the grand total for all five categories as a group. In each instance the data includes items you requested, as follows:

Adjusted gross income	Total deductions
Amended gross income	Contributions
Wages and salaries	Interest
Dividends	Taxes
Interest	Medical
Capital gains (100 percent)	Other
Other income (net)	Taxable income
	Tax

A schedule showing this information, prepared in a cooperative effort by the staff of the Treasury Department and the Joint Committee on Internal Revenue Taxation, is attached. Some minor changes have been required in the draft schedule that was given to you by Dr. Woodworth on April 15; first, one previously included return that had contributions as the principal deduction has been deleted because, as noted in my letter to Mr. Conable, it was a return for a fiscal year that began in 1969 and ended in 1970, and accordingly was not governed by the Tax Reform Act of 1969, which in general took effect for the first time for years beginning in 1970; and, second, three additional returns have been located. The attached schedule, therefore, includes 106 returns instead of the 104 returns previously included.

You asked that the schedules show not only "adjusted gross income" but also "amended gross income." The term "amended gross income" is not used in the tax law, but we understand that you intended it to include in addition to the above items found in adjusted gross income 100 percent instead of 50 percent of long-term capital gains, as well as tax exempt interest on state and local obligations, percentage depletion in excess of cost depletion and depreciation in excess of straight-line depreciation.

As you will notice in the schedule, we have included in the table 100 percent of capital gains, although only 50 percent are included under the Internal Revenue Code.

However, we are unable at this time to include amounts for tax exempt interest on state and local bonds because those amounts are not required to be reported on the tax returns and cannot be obtained prior to audit of the returns.

There has been included in "amended gross income" the amount of percentage depletion shown in the individual tax returns in excess of what is estimated cost depletion might have been and depreciation shown in the return in excess of estimates of straight-line depreciation.

With respect to the 12 returns in which the principal deduction was taxes paid, aggregating \$4,160,000, it may be noted that of this amount \$4,046,000 represented state and local income taxes paid. As I remarked in my letter to Congressman Conable, it appears likely that these large deductions were due to the fact that individual taxpayers generally file their returns on a cash basis; and these deductions seem to represent payments in 1970 on the filing of state and local income tax returns for 1969 in which large gains or income were reported. We have now obtained data as to the 1969 Federal income tax returns of 11 of these 12 individuals, and find that they paid 1969 Federal income tax totaling about \$18 million, an average of more than \$1.6 million of tax per individual.

With respect to returns in which miscellaneous deductions were the largest item, the aggregate of \$10,371,000 in miscellaneous deductions included the following:

Loss of securities pledged to secure loans, loss on guarantees of loans, and payments in settlement of litigation-----	\$5,510,000
Accounting, bookkeeping and professional fees, investment counsel and management fees-----	2,155,000
Theft and casualty losses-----	658,000
Other-----	2,193,000
	10,516,000

I would emphasize, as I did in my letter to Congressman Conable, that this information has been compiled from the returns as filed without audit, that most of these returns are under audit, and that these audits may produce substantial assessments of tax. In particular, it appears that a number of the returns will be subjected to the minimum tax on audit, and that some of the miscellaneous deductions may be disallowed or reduced, or treated as capital losses which may be deducted only against \$1,000 of income other than capital gains. To the extent that the interest and miscellaneous deductions are allowed on audit, it appears likely that many of them represent business and investment expenses or losses that perhaps should be deducted in computing adjusted gross income instead of being included among miscellaneous deductions.

You asked for a statement of the percentage which the tax paid on these returns bears to amended gross income and amended taxable income. Since these returns constitute a group in which no Federal income tax was paid, that percentage is necessarily zero, except to the extent that tax will prove to be due following audit of the returns. However, with respect to the seven cases in which the U.S. tax was offset in full by foreign tax paid, the taxpayers paid foreign income tax aggregating about \$1.5 billion. This represented an effective foreign income tax rate of 70 percent of the U.S. taxable income and 62 percent of the U.S. adjusted gross income and U.S. amended gross income.

You also inquired as to the effective rate of tax on persons at the poverty level. Prior to the Tax Reform Act of 1969, Federal income tax was imposed on the income of single persons in excess of \$900 (personal exemption of \$600 plus minimum standard deduction of \$300); and, in general, this minimum level was increased by \$700 for each additional person included in the return (additional personal exemption of \$600 plus \$100 minimum standard deduction). This resulted in taxes being imposed on persons below the poverty level.

However, the President recommended in 1969 the institution of the Low Income Allowance which was incorporated in the Tax Reform Act of 1969 so as to raise the minimum level to which the income tax could be applied to approximately the then estimated poverty levels. Under the 1969 Act the minimum level of tax was to be adjusted to a small extent in the years 1971-1973. In the Revenue Act of 1971, effective for the year 1972, the minimum levels for tax were increased as follows:

<i>Family size (up to 4)</i>	<i>Minimum level for tax</i>	<i>Estimated poverty level</i>
1	\$2,050	\$2,170
2	2,800	2,810
3	3,550	3,350
4	4,300	4,290

Because of the need to have systematic increases as the size of the family increases, the minimum level of tax is sometimes somewhat below and sometimes somewhat above the estimated poverty level. For a single person in 1972 it is possible for a person to pay tax at a tax rate of 14 percent on \$120 of income below the estimated poverty level of \$2,170, or a tax of \$16.80, an effective rate of less than one percent. A married couple could pay tax of \$1.40 if their income was \$2,800, which would be \$10 below the estimated \$2,810 poverty level—an effective tax rate of 0.05%.

Income for poverty level purposes includes so-called "transfer payments" (such as social security benefits, unemployment insurance and welfare payments) which are not included in income for tax purposes; and the poverty levels are based upon the assumption that the individual occupies his own separate household, which it has not been considered feasible to require for tax purposes. Thus while there are some minor differences between the minimum income tax level and the estimated poverty level, the general plan of the law since the 1969 Act has been to impose no Federal income tax on persons below the estimated poverty levels.

Enclosed for your convenience is a copy of my letter of March 1, 1972, to Congressman Conable.

I trust this provides the information which you requested.

Respectfully yours,

(Signed) EDWIN S. COHEN.

THE HONORABLE HENRY S. REUSS
House of Representatives
Washington, D.C. 20515

APPENDIX C

Effect of selected tax provisions
(In millions of dollars)

	Calendar year 1971		
	Corpora- tions	Indi- viduals	Total
Exclusion of benefits and allowances to Armed Forces personnel.....		650	650
Exemption for certain income earned abroad by U.S. citizens.....		50	50
Exclusion of income earned by individuals in U.S. possessions.....		10	10
Western Hemisphere trade corporations.....	75		75
Exclusion of gross-up on dividends of less developed country corporations.....	55		55
Deferral of income of controlled foreign subsidiaries.....	165		165
Exclusion of income earned by corporations in U.S. possessions.....	80		80
Farming: Expensing and capital gain treatment.....	50	790	840
Timber: Capital gain treatment for certain income.....	125	50	175
Expensing of exploration and development costs.....	260	65	325
Excess of percentage over cost depletion.....	785	200	985
Capital gains treatment of royalties on coal and iron ore.....	5		5
Investment credit.....	1,495	305	1,800
Depreciation on buildings (other than rental housing) in excess of straight-line.....	320	160	480
Asset depreciation range.....	600	100	700
Dividend exclusion.....		300	300
Capital gains: Corporation (other than agriculture and natural resources).....	380		380
Bad debt reserves of financial institutions in excess of actual.....	400		400
Exemption of credit unions.....	40		40
Deductibility of interest on consumer credit.....		1,800	1,800
Expensing of research and development expenditures.....	545		545
\$25,000 surtax exemption.....	2,300		2,300
Deferral of tax on shipping companies.....	10		10
Rail freight car amortization.....	45		45
Deductibility of interest on mortgages on owner-occupied homes.....		2,400	2,400
Deductibility of property taxes on owner-occupied homes.....		2,700	2,700
Depreciation on rental housing in excess of straight-line.....	300	200	500
Housing rehabilitation.....	10	15	25
Disability insurance benefits.....		155	155
Provisions relating to aged, blind, and disabled:			
Combined cost for additional exemption, retirement income credit, and			
exclusion of OASDHI for aged.....		3,250	3,250
Additional exemption for blind.....		10	10
"Sick pay" exclusion.....		120	120
Exclusion of unemployment insurance benefits.....		800	800
Exclusion of workmen's compensation benefits.....		320	320
Exclusion of public assistance benefits.....		65	65
Net exclusion of pension contributions and earnings:			
Plans for employees.....		3,650	3,650
Plans for self-employed persons.....		250	250
Exclusion of other employee benefits:			
Premiums on group term life insurance.....		500	500
Deductibility of accident and death benefits.....		30	30
Medical insurance premiums and medical care.....		2,000	2,000
Privately financed supplementary unemployment benefits.....		5	5
Meals and lodging.....		170	170
Exclusion of interest on life insurance savings.....		1,100	1,100
Deductibility of charitable contributions (other than education).....		3,200	3,200
Deductibility of medical expenses.....		1,900	1,900
Deductibility of child and dependent care expenses.....		30	30
Deductibility of casualty losses.....		165	165
Excess of standard deduction over minimum.....		700	700
Capital gains: Individuals.....		5,600	5,600
Pollution control amortization.....	15		15
Additional personal exemption for students.....		550	550
Deductibility of contributions to educational institutions.....		275	275
Exclusion of scholarships and fellowships.....		110	110
Exclusion of certain veterans' benefits.....		700	700
Exemption of interest on State and local debt.....	1,800	800	2,600
Deductibility of nonbusiness State and local taxes (other than on owner-occupied homes).....		5,600	5,600

¹ Considered in isolation this estimate would be \$800 million. However, if considered in conjunction with percentage depletion the \$325 million gives a more accurate picture of the revenue effect.

² Effective for only a part year in calendar year 1971. The full-year effect would be \$3.3 billion.

³ First-year effect, second-year effect would be \$1.7 billion. Thereafter builds up for a period of years.

⁴ Assumes present restriction on capital losses is retained.

⁵ This will decline over time as present law becomes fully effective.

⁶ The estimate appears only because the investment credit is effective for only a part year. It will disappear when the investment credit is fully effective.

⁷ The liberalized child care deductions which become effective in calendar year 1972 would increase the estimate to \$175 million.

*Not comparable with previous estimates due to revised and/or new sources of data and improved estimating methods.

APPENDIX D

Estimated distribution of selected items of tax preferences of individuals by adjusted gross income class, calendar year 1971

[In millions of dollars]

Adjusted gross income class	Exclusion of benefits and allowances to Armed Forces personnel	Exemption for certain income earned abroad by U.S. citizens	Exclusion of income earned by individuals in U.S. possessions	Farming: Expensing and capital gain treatment	Timber: Capital gain treatment for certain income	Expensing of exploration and development costs	Excess of percentage over cost depletion	Investment credit	Depreciation on buildings (other than rental housing) in excess of straight-line	Asset depreciation range	Dividend exclusion	Deductibility of interest on consumer credit
\$0-3,000.....	15	(*)	(*)	20	(*)	(*)	1	3	(*)	(*)	5	1
\$3,000-\$5,000.....	120	1	(*)	55	2	1	2	16	3	2	13	44
\$5,000-\$7,000.....	175	4	1	80	2	3	8	27	5	4	17	64
\$7,000-\$10,000.....	180	6	1	120	2	2	6	41	11	6	29	185
\$10,000-\$15,000.....	115	7	2	155	4	4	12	51	18	12	55	435
\$15,000-\$20,000.....	28	16	3	90	2	16	12	32	12	9	46	380
\$20,000-\$50,000.....	13	15	3	170	9	43	50	73	47	37	99	620
\$50,000-\$100,000....	3	1	(*)	55	8	14	43	33	28	23	27	59
\$100,000 and over....	1	(*)	(*)	45	21	21	66	29	36	7	9	12
Total.....	650	50	10	790	50	65	200	305	160	100	300	1,800

Estimated distribution of selected items of tax preferences of individuals by adjusted gross income class, calendar year 1971—Continued

[In millions of dollars]

Adjusted gross income class	Deducti- bility of interest on mortgages on owner- occupied homes	Deducti- bility of property taxes on owner- occupied homes	Depreciation on rental housing in excess of straight- line	Housing rehabili- tation	Dis- ability insur- ance benefits	Provisions relating to aged, blind, and dis- abled		"Sick pay" exclu- sion]	Exclusion of unem- ployment insurance benefits	Exclusion of work- men's compen- sation benefits	Exclusion of public assistance benefits	Net exclusion of pen- sion contributions and earnings	
						Combined cost for additional exemption retirement income credit, and exclusion of OASDHI for aged	Additional exemption for blind					Plans for employees	Plans for self- employed
0-\$3,000.....	(*)	(*)	(*)	(*)	35	805	1	2	65	15	25	45	(*)
\$3,000-\$5,000.....	27	41	4	(*)	40	750	2	13	110	28	20	145	7
\$5,000-\$7,000.....	81	84	6	1	25	420	2	16	110	41	15	230	10
\$7,000-\$10,000.....	276	263	14	1	30	585	2	32	185	69	5	535	13
\$10,000-\$15,000.....	719	642	22	2	10	245	1	19	230	83	(*)	995	22
\$15,000-\$20,000.....	543	505	15	1	5	125	1	20	65	39	(*)	685	18
\$20,000-\$50,000.....	621	788	59	6	6	215	1	16	30	38	(*)	750	96
\$50,000-\$100,000....	101	240	35	3	3	70	(*)	2	5	6	(*)	175	71
\$100,000 and over....	32	137	45	1	1	35	(*)	(*)	(*)	1	(*)	90	13
Total.....	2,400	2,700	200	15	155	3,250	10	120	800	320	65	3,650	250

Estimated distribution of selected items of tax preferences of individuals by adjusted gross income class, calendar year 1971—Continued

(In millions of dollars)

Adjusted gross income class	Exclusion of other employee benefits					Exclusion of interest on life insurance savings	Deducti- bility of charitable contribu- tions (other than education)	Deducti- bility of medical expenses	Deducti- bility of child and dependent care expense	Deducti- bility of casualty losses	Excess of standard deduction over minimum
	Premiums on group life insurance	Deducti- bility of accident and death benefits	Medical insurance premiums and medical care	Privately financed supplemen- tary unem- ployment benefits	Meals and lodging						
0-\$3,000.....	5	(*)	25	(*)	2	5	3	5	1	(*)	0
\$3,000-\$5,000.....	20	1	80	(*)	14	20	31	100	7	5	3
\$5,000-\$7,000.....	30	2	125	1	22	35	82	205	12	10	15
\$7,000-\$10,000.....	75	5	300	1	35	85	225	325	5	30	100
\$10,000-\$15,000.....	135	8	550	2	35	205	467	470	3	40	415
\$15,000-\$20,000.....	95	6	380	1	25	185	364	310	1	20	115
\$20,000-\$50,000.....	105	6	415	(*)	30	420	716	360	1	30	50
\$50,000-\$100,000.....	25	1	95	(*)	5	80	426	90	(*)	20	2
\$100,000 and over.....	10	1	30	(*)	2	65	886	35	(*)	10	(*)
Total.....	500	30	2,000	5	170	1,100	3,200	1,900	30	165	700

Estimated distribution of selected items of tax preferences of individuals by adjusted gross income class, calendar year 1971—Continued

[In millions of dollars]

Adjusted gross income class	Capital gains: Individuals	Additional personal exemp- tion for students	Deductibility of contributions to educational institutions	Exclusion of scholarships and fellowships	Exclusion of certain veterans' benefits	Exemption of interest on State and local debt	Deductibility of nonbusiness State and local taxes (other than on owner- occupied homes)
0-\$3,000.....	30	1	(*)	6	30	5	4
\$3,000-\$5,000.....	60	17	3	26	95	(*)	56
\$5,000-\$7,000.....	70	40	7	28	110	(*)	88
\$7,000-\$10,000.....	150	101	20	22	130	5	361
\$10,000-\$15,000.....	230	182	58	15	220	10	772
\$15,000-\$20,000.....	210	92	70	10	70	20	772
\$20,000-\$50,000.....	960	47	90	3	41	100	1,713
\$50,000-\$100,000.....	920	54	20	(*)	3	300	908
\$100,000 and over.....	2,970	16	7	(*)	1	360	928
Total.....	5,600	550	275	110	700	800	5,600

*Less than \$500,000

APPENDIX E

Distribution of the corporate income tax burden on individuals¹

Adjusted gross income class	Full forward shifting to consumer prices	Three-fourths borne by consumers, one-fourth borne by stockholders	One-half borne by consumers, one-half borne by stockholders	One-fourth borne by consumers, three-fourths borne by stockholders	Full tax borne by stockholders
<i>\$ billions</i>					
0-\$3,000.....	2.8	2.8	2.8	2.7	2.7
\$3,000-\$5,000.....	2.4	2.1	1.8	1.6	1.3
\$5,000-\$7,000.....	2.9	2.4	2.0	1.5	1.0
\$7,000-\$10,000.....	5.4	4.5	3.6	2.6	1.7
\$10,000-\$15,000.....	7.5	6.3	5.2	4.0	2.8
\$15,000-\$20,000.....	4.0	3.5	3.0	2.5	2.0
\$20,000-\$50,000.....	3.3	4.3	5.3	6.3	7.3
\$50,000-\$100,000.....	.7	1.7	2.6	3.6	4.6
\$100,000 and over.....	.5	1.9	3.4	4.9	6.4
Total.....	29.6	29.6	29.6	29.6	29.6

¹ Net liability at calendar year 1971 levels after all credits.

Exhibit 39.—Statement by Secretary Shultz, August 14, 1972, before the House Ways and Means Committee on title II of H.R. 16141, allowing a tax credit for parents of students in nonpublic elementary and secondary schools

I welcome this opportunity to appear before you in connection with a subject which I believe to be very important: Aid to nonpublic schools.

My testimony will be confined to title II of H.R. 16141. That is the portion of the bill which would give parents of students in nonpublic elementary and secondary schools a credit of up to \$200 against their income taxes for tuition paid to those schools.

The administration strongly supports the goals of title II.

We believe that the existing system of nonpublic schools, which educates a tenth of our children, is a vital national asset. The nonpublic school system provides a diversity which is healthy. It provides, in many instances, a proving ground for innovation and experimentation which is of great benefit to public education and the public generally. It shoulders a heavy burden of costs which would otherwise fall on the public generally. Large-scale closings of nonpublic schools, if allowed to continue, could be accompanied by disruption of countless communities and neighborhoods in which nonpublic schools are sources of pride and stability. We must do all that we can to prevent this from happening.

A tax credit is not a complete answer to the problems of nonpublic school parents. But it can help in a major way and it can be placed in operation quickly. We believe the credit proposed to be consistent with our existing system of tax deductions. The burden of maintaining private schools is carried primarily by the parents of students, by alumni and friends of the school, and, in the case of sectarian schools, by contributors to the church or synagogue involved. The Internal Revenue Code has since 1916 allowed deductions to alumni and friends for contributions to nonprofit nonpublic schools, and to members of religious congregations for church or synagogue contributions which are, in fact, used to support such schools. The present bill would extend similar benefits to the parents who are the third principal class of supporters of such schools. The fact that the tax benefit would come in the form of a credit, rather than a deduction, would serve to make the benefit more uniformly available to all taxpayers, regardless of their marginal tax rates. We do not believe the use of a credit as distinguished from a deduction raises any constitutional problems.

On June 21 of this year, in a letter to you from Mr. Weinberger, the Director of the Office of Management and Budget, the administration pledged its support to the principle of a tax credit to parents for nonpublic school tuition. At that time we indicated that the proposals then under consideration needed modification in several respects. We are pleased to note that the most important of the modifications which we suggested has been adopted in H.R. 16141. That recom-

mentation related to the amount of the credit. We proposed that there be given a credit for 100 percent of tuition up to \$200 per child per year, instead of a credit for 50 percent of tuition up to \$400 per child per year, as then proposed. Our recommendation was intended to give greater benefits to lower income tax families and to minimize the amount of tuition increases which might result.

We made two other recommendations, however, which we believe to be important and which have not been incorporated in the present bill. They are:

First, we recommended that the credit should be gradually phased out for families with adjusted gross incomes over \$18,000. This would make the credit comparable with the deductions authorized for child care expenses under present law. The majority of taxpayers whose dependents attend nonpublic schools have incomes below \$18,000.

Second, we suggest that an effort be made to devise a way that the credit or a comparable benefit can be made available to families who pay no income tax. We are puzzled by H.R. 16141 in this respect because the text of the explanation in the committee print indicates that a refundable credit is to be provided for this purpose, but the text of the bill itself fails to do so. If the committee does indeed favor a refundable credit, we urge that it give careful attention to the question of whether there may be constitutional objections to the refundable feature; and we recommend that such a feature be made separable from the basic credit so that the constitutionality of the latter is not endangered. We believe a refundable credit would be desirable. However, if it should not be constitutionally possible, we believe that a nonrefundable credit is nonetheless desirable. A nonrefundable credit could be utilized by the great majority of nonpublic school parents. There are relatively few parents of nonpublic school students who pay no Federal income tax. Scholarship programs, or other forms of subsidized tuition, presently take care of many such students and would hopefully continue to do so.

There is one final, but important, constraint. If this legislation is enacted, a corresponding offset either by way of expenditure reduction or revenue increase would have to be found. I shall not add to Mr. Weinberger's testimony on this aspect.

The committee print explaining the bill contains a revenue estimate by the Joint Committee on Internal Revenue Taxation. It estimates an annual revenue loss of \$584 million. We believe that to be a realistic estimate for a refundable credit, assuming no increases in tuition. However, there will surely be tuition increases, as one of the purposes of a tuition credit is to permit schools to raise tuition without losing students. It seems safe to assume that all schools will raise their tuition to at least \$200. As the bill is now drafted without a refundable provision, we believe the revenue loss would be \$790 million per year. If a refundable provision were added, the revenue loss would rise to an estimated \$970 million.

In closing, Mr. Chairman, let me repeat that although we suggest modifications to H.R. 16141 and must condition our support on the expectation that Congress will make adequate, offsetting adjustments in other expenditures, we are strongly in favor of the purposes of title II of the bill.

Exhibit 40.—Remarks by General Counsel Pierce, December 1, 1972, before the thirteenth Southwestern Ohio Tax Institute Seminar, Cincinnati, Ohio, on tax shelters

It gives me great pleasure to have this opportunity to address you today on your general topic of "Tax Shelters." I do not intend, however, to discuss or to describe in detail any particular shelter or group of shelters. Rather I would like to put the tax shelter concept into perspective by discussing it against the background of the popular notion of tax loopholes, and considering whether there should be any changes in the Federal tax laws as they relate to tax shelters. Many people use the terms "tax shelters," "tax incentives," and "tax loopholes" almost synonymously. To them, they are simply legal devices by which rich individuals and big corporations avoid the payment of taxes. These people believe that since these devices allow the rich to escape the payment of taxes, they should be subjects of tax reform. There are, however, clear distinctions between these separate concepts which are of vital importance to any considera-

tion of tax reform and I shall attempt to develop these distinctions during the course of this talk.

The recent political campaigns indicated that candidates for office from the precinct level to the national level felt that voters were concerned about the subject of taxes. We in the Treasury are also aware of this concern. We must be constantly alert to problems that arise in the tax system. It is absolutely vital that this system be kept as fair and equitable as possible for it to serve the best interest of the Nation. Certainly, inequities in this system will arise and they must be dealt with. However, it must always be borne in mind that our Federal income tax system has been the most efficient revenue device in the history of the world. Consequently, as we strive to improve it, changes should be made only after the most careful and thoughtful deliberations.

Tax incentives and preferences have been a part of our income tax structure since its beginning. In general, a tax preference is a provision that recognizes the peculiar or unusual circumstances of a particular taxpayer or an expenditure. For example, a blind or elderly taxpayer is permitted to take an additional personal exemption when computing his tax, and an individual is permitted to deduct a portion of his medical expenses. A tax incentive, on the other hand, is usually thought of as a provision that induces a taxpayer to incur a particular expenditure or to undertake a particular activity. For example, the investment credit provides assistance for a taxpayer to invest in machinery and equipment, and the DISC provisions provide an incentive to export goods produced in the United States. Both tax incentives and tax preferences are provisions that are carefully considered and intentionally enacted into law by the Congress of the United States.

Much of the recent campaign rhetoric spoke of many tax incentives and preferences as tax loopholes which should be closed. As the Congress deliberately and intentionally enacted these provisions, it is inaccurate to refer to them as loopholes. We feel that the term "loophole" should be used to describe situations where taxpayers devise a method for gaining an unintended tax benefit. With respect to tax incentives and tax preferences, Congress intended them as tax benefits. I do not mean to suggest, however, that tax reform should be limited to closing loopholes. Tax incentives and preferences should be periodically reviewed and reassessed.

It is interesting to observe that the political attacks were aimed primarily at those tax incentives and preferences traditionally thought of as benefiting the wealthy without regard to the comparative magnitude of the revenue loss. Almost no attention was given to the largest items of tax preferences such as those given to individual homeowners. These preferences result from the deductibility of interest on home mortgages and the deductibility of State and local real estate taxes. The revenue cost of an item such as depletion is very small when compared to the revenue cost of these preferences. I hasten to add, however, that it is extremely important to give careful consideration to even the very smallest revenue losses in order to keep the system equitable for all taxpayers.

Many tax incentives represent a congressional reaction to a specific problem or need. For example, section 167(k) of the Code allows a special 5-year depreciation period for expenditures to rehabilitate housing for low-income families. In view of the need for better housing for many poverty-level families, the need for this incentive is apparent to all of us. Other incentives and preferences may not be focused so precisely on a specific need. The consequences of a change at this time will still require careful analysis. For example, the current tax treatment of capital gains has recently been criticized. For more than 50 years the tax system has given special treatment to capital gains. To a certain extent, this preferential treatment represents a response to those who argue that these gains are not truly income and thus they should not be taxed at all. In any event, this system has been reviewed and changed many times by Congress (most recently in 1969). Any further significant changes in the tax treatment of capital gains and losses could have a critical effect on the investment and capital markets. Changes having such a significant impact can be made only after lengthy and detailed study.

A favorite target of the "loophole closers" is the depletion allowance. This is an incentive that has been a part of our tax structure almost from its inception. The allowance for percentage depletion was enacted by Congress almost 50 years ago. Again, this is a subject Congress has reviewed carefully over the

years. In 1969, the percentage rate structure was carefully revised, lowering the value of a deduction in almost all cases. As the Treasury's representative on the President's Oil Policy Committee, I have become keenly aware of the very real energy crisis that this Nation faces. Therefore, any further changes in the depletion rates, or other depletion provisions, should come only after thorough consideration of this problem.

In summary, I feel that our system of planned tax incentives and preferences has, in general, served us well in the past. Rather than completely revising that system, we must consider each suggested change very carefully.

The background of tax incentives and preferences provides the basic building blocks for the concept of tax shelters. A tax shelter arises when the deduction of a later year is accelerated into the current year and a profitable enterprise therefore produces an artificial loss which is deducted against income from other sources. As the artificial loss is deducted from income upon which the taxpayer would otherwise pay a high tax, this other income is said to be sheltered. As an additional benefit, it is usually planned or hoped that the income produced from the venture will be taxed at a lower rate. This effect may result from the operation of a tax incentive or preference such as depletion, or from a decline in the taxpayer's income (with a consequent lowering of the applicable tax bracket).

The artificial accounting losses generally arise from certain investments in real estate, minerals, and agriculture which permit a mismatching of income and the expense of earning that income. These losses are usually produced in the following ways:

1. *Interest and taxes during construction of a building.*—Interest and taxes paid during the period of construction of residential and other commercial real estate are permitted under Federal tax law to be deducted currently, even though there is not yet any rental income from the building and even though these items are essentially construction costs which would normally be capitalized and deducted as depreciation over the life of the building as the income comes in.

2. *Accelerated depreciation on rental real estate.*—Accelerated methods of depreciation of real estate permit the depreciation deductions of later years to be accelerated into the early years of the building's life. Typically, this accumulation of depreciation is at least double the economic decline in value and substantially exceeds the net rental income, thus producing an artificial accounting loss even though the building is economically profitable and produces a significant cash flow.

3. *Intangible drilling and development costs of oil and gas wells (IDC).*—Nearly all the costs of exploring for and drilling an oil and gas well—which is in effect acquisition by exploration rather than by purchase—are deductible in the year paid, which normally precedes by about 15 months the first income from oil or gas produced from the well. Such acquisition costs would, but for the express exception in the tax law, be capitalized and deducted over the life of the well as the income comes in. In the case of a passive investor not regularly engaged in the business, the IDC deduction necessarily produces an artificial loss in excess of mineral income.

4. *Cash method of accounting for investments in agriculture.*—The cost of feed and other agricultural items may be deducted in the year paid even though in other businesses these same kinds of costs would be capitalized or included in inventory cost, the result of either of which is to defer the deduction until the receipt of the income produced. The purpose is to relieve farmers of the burdens of complicated accounting systems, but the result is that passive investors in agriculture may also accelerate deductions and create artificial losses deductible against their income from other sources.

The typical investor in tax shelters is a high-income individual in about a 50-percent tax bracket with a large portion of ordinary income subject to full rates of tax. A tax shelter is usually made available to such a taxpayer through a salesman, investment counsel, attorney, accountant, or financial advisor. The shelter may take the form of a direct investment in a venture, or the purchase of an interest in a partnership or Subchapter S corporation undertaking the venture. I think most analysts would probably agree that the majority of the tax shelter business ventures represent legitimate and ethical efforts to bring investment money into tax-favored businesses. If this is so, then, is there any basis for concern? A review of recent history of tax shelters suggests that there is.

For one thing, we in Treasury are alarmed that the success of those in the shelter business has spawned significant numbers of ventures that may not be economical for the typical investor. You will probably say that this is a problem for the Securities and Exchange Commission, and you would be right. But the magnitude of the problem also bothers us at Treasury. For example, the SEC informs us that up to 10 percent of *all* new SEC filings are now real estate tax shelters. When oil and gas and other ventures are included, the percentage becomes even larger. The SEC has had to set up a special division just to process tax shelter filings.

An important concern for us at Treasury is the impact that this volume of selling has on the general public. We have all seen advertisements offering to sell investments that will reduce your taxes. This highly visible indication that high taxes can be easily reduced gives an inflated notion of the extent to which loopholes may be present in the law. This general attitude does a great deal to foster the type of political rhetoric to which I referred earlier.

If this attitude should become widespread, it could seriously undermine the public's confidence in our tax system. As you know, the genius of our system is its self-assessing nature. Any significant erosion of taxpayer confidence in the integrity of the system would have serious effects. This problem was illustrated very graphically in a recent television program in which Archie Bunker was discovered not reporting income he earned while driving a taxi on Sundays. When questioned, he said that this was his tax shelter. He observed that all the "rich guys" have tax shelters so he felt that he deserved one also.

Through a combination of notoriety and widespread use and abuse, tax shelters have become a symbolic issue generating considerable pressure for reform.

It is very likely that careful thought will be given by Congress when it reconvenes to the adjustment and reconsideration of various tax incentives and preferences. As you probably know, Congressman Mills, of the House Ways and Means Committee, has introduced a bill calling for the phaseout repeal of a number of tax preferences. Congressman Ullman has introduced a bill which would require a reconsideration of each item of tax preference. During the deliberation of these and similar bills, it seems quite likely that the social utility of tax shelters as a concept will be examined.

Professor Friedman argues that the elimination of tax shelters could produce "something for everybody." Investors would shift to more productive investments, producing more revenue for the Government, which could be shared with taxpayers in the form of reduced rates. Only the merchandisers of tax shelters would lose. I am not certain that Professor Friedman's approach is correct.

As a practical matter it is extremely difficult to divorce the tax shelter from the specific incentive that Congress intended when enacting the provisions that provide the deductions on which the shelter is based. In many situations, it is difficult to distinguish a legitimate investor in an industry from a person who is merely seeking a tax shelter. To the extent the incentive has a valid policy basis for its existence, there will be valid arguments for its preservation. These arguments will lose much of their validity, however, if the incentive has had a prominent role as a tax shelter scheme.

It is imperative that everything possible be done to achieve the maximum amount of equity and fairness in our tax system. It is almost as important that we make certain that the system also has the appearance of fairness or we will lose public confidence in the system. For this reason, the widespread use of tax shelter arrangements in a manner that suggests a possible defect in the system is being closely studied at the Treasury. This is an area of complex issues and good solutions are not easy to come by. Obviously, much more work remains to be done. However, we are watching developments in the field of tax shelters very carefully and are studying the area quite intensely so that if it should become necessary, the Treasury will be ready to propose changes to preserve the integrity of the tax system.

Exhibit 41.—Statement by Under Secretary for Monetary Affairs Volcker, January 30, 1973, before the House Ways and Means Committee on the extension of the interest equalization tax

I am grateful for the opportunity to appear before this committee in support of the administration's proposal for a 2-year extension of the Interest Equalization Tax Act. As members of the committee are aware, the IET was enacted in

September 1964 as one means of protecting our balance of payments by restraining the outflow of portfolio capital from the United States to the developed countries of the world. Subsequently, on four occasions, the law authorizing the IET has been extended, with some small modifications. Under present legislation, the IET expires on March 31 of this year. I urge you to provide for the extension of this tax for another 2 years.

The question of continuing the IET—as well as the other capital restraint programs—must be considered in the context of the continuing U.S. balance of payments problems and of the current international monetary reform negotiations. We are in the midst of an interrelated process in which we are seeking to build a new international monetary system as well as strengthen our balance of payments. One of our basic objectives in that effort is to establish a cooperative monetary order in which not only the United States but other nations as well, feel able to conduct their business without substantial reliance on controls. Yet, with a deep deficit in our payments still evident, we cannot move immediately to that objective. Instead, failure to extend the IET during this transitional period would damage both the reform and balance of payments efforts.

The IET covers transactions involving the acquisition of foreign securities by U.S. persons. The tax has plainly discouraged borrowers from other industrialized countries that would wish to raise long-term financing in the U.S. market. It has also diminished purchases of foreign stocks by Americans. Thus, the IET provides significant support to an important segment of our balance of payments position.

The Interest Equalization Tax Act gives the President authority to vary the effective rate of the tax between zero and the equivalent of 1½ percent per annum on purchases by U.S. persons of securities issued by foreigners. Since April 1969, the level of the tax has been set at ¾ percent. There are no plans to alter this rate at the present time although, of course, we keep the situation under review and would, within the authority contained in the act, make whatever alterations in the rate circumstances might warrant.

While the IET directly discourages foreign borrowing in U.S. financial markets, it also serves to reinforce programs of mandatory and voluntary restraint in two other broad areas of capital outflows. These companion programs are the Commerce Department's foreign direct investment program (FDIP), aimed at containing the balance of payments costs of U.S. direct investment abroad, and the Federal Reserve Board's voluntary foreign credit restraint (VFCR) program, which is designed to limit outflows of funds from banks and other financial institutions. These three programs—the IET, the FDIP, and the VFCR—are complementary and mutually reinforcing. The FDIP and the VFCR are being continued. The extension of the IET is necessary so that the support that it gives to the other two programs may also continue. Without the IET, the effectiveness of the capital outflow restraint policy as a whole, and of the FDIP and VFCR in particular, would be endangered.

As I mentioned earlier, we are engaged in grappling with the major challenges of achieving world monetary reform and of bringing our payments situation into a sustainable equilibrium position.

A necessary first step towards international monetary reform was achieved with the currency realignment and other steps agreed at the Smithsonian in December 1971. In 1972, the negotiating machinery was established in the form of the Committee on Reform of the International Monetary System and Related Issues—the Committee of Twenty, or C-20 as it is called—under the aegis of the International Monetary Fund.

The C-20 negotiations are aimed at a fundamental reform of the system created almost 30 years ago at Bretton Woods. The United States seeks an international financial system which is more responsive to the needs of today's world and more attuned to the changed circumstances of international trade and investment. This means a system which encourages prompt and effective adjustment of payments imbalances by all countries—surplus or deficit, large or small. The system should provide a sufficient choice of adjustment measures so that no country is forced to adopt undesirable controls due to a lack of effective alternatives. U.S. proposals to achieve these goals have been placed on the table, and discussions are underway. I have just returned from a meeting of the C-20 Deputies in Paris last week. We are making progress in terms of achieving a common understanding of the issues and means of dealing with them, although many tough problems remain to be solved.

As you know, we are also in a period of discussion and review with respect to international trading barriers and practices, and exchanges of ideas are also underway on new understandings covering flows of capital among nations.

In all of these areas—monetary reform, trade, and investment—we look forward to a new era of international cooperation and progress. The IET and the other U.S. capital restraint programs are looked upon by our major trading partners as a sign of the earnest intention of the United States to redress its balance of payments position and as a contribution to international financial stability in a time of transition and potential stress. Their removal or substantial modification now, at a time when we are engaged in complex negotiations to establish a new framework for international economic affairs, could endanger both those negotiations and the relative monetary stability that has existed since the Smithsonian agreement. We must continue to demonstrate our willingness to cope with our balance of payments problems while at the same time moving ahead with the broader negotiations.

The deficit in the U.S. balance of payments continues. While complete data for 1972 are not yet available, all indications are that the deficit last year was larger than in any year prior to 1971, when the result was affected by large capital outflows in anticipation of exchange rate changes. Looking at the components of the U.S. balance of payments in 1972, we find that the trade balance deteriorated by about \$4 billion from 1971, partly because of the earlier start of business recovery here than in the other major industrialized countries, and partly because of the initial increase of dollar import costs due to the exchange rate change in December of 1971. The worsening of the trade balance was, however, to a large extent, offset by an increase in foreign purchases of U.S. securities and, to a lesser extent, by a rise in foreign direct investment in the United States.

Recent data remind us that our efforts to improve our trade position and our balance of payments require a period of time to show large results. There is evidence that our relative competitive position in many markets has improved and continued strong efforts to control inflation—in line with the President's program—will bring further improvement. But we must face the fact that our current position does not give us grounds for abolishing the capital restraint programs.

Within the limitations imposed by our balance of payments, we have, at times, taken steps to improve the administration of the capital restraint programs and to ease the compliance problems of business. We do not feel, given the present state of affairs, that further significant relaxations are justified. For these reasons the administration has presented to the Congress a bill providing simply for a 2-year renewal of IET authority. However, in addition to the extension, if the committee is prepared to consider related amendments consonant with the spirit and intent of the legislation, the administration has certain more or less technical changes to propose.

Possible amendments

The administration suggests—

Amending the estate tax provisions of the Internal Revenue Code to provide an exemption from estate tax for certain obligations issued to foreigners which are made subject to the interest equalization tax by an election of the issuer and the interest on which is exempt from the U.S. withholding tax under a provision enacted in 1971.

Limiting the IET exemption for less developed country corporations to corporations that have significant economic contact with less developed countries, by eliminating the special rules under which a shipping company can qualify as a less developed country shipping corporation by registering its ships in a less developed country.

In addition, it has been suggested that the interest equalization tax in some cases is a deterrent to direct investment in the United States by foreign corporations since, if they should desire to raise a portion of long-term financing for such investment in the United States, the securities they issue would be subject to the IET. We believe that the existing legislation provides authority to exempt new issues of foreign securities for this purpose by Executive order. Treasury would be prepared to recommend such an order. However, to assure compliance it would be necessary to amend the statute so that the tax would be imposed on an issuer who did not comply with the conditions of the Executive order.¹

¹ See exhibit 42 for summary tables on the U.S. balance of payments and transactions in foreign securities.

Exhibit 42.—Statement by Under Secretary for Monetary Affairs Volcker, March 7, 1973, before the Senate Committee on Finance on the extension of the interest equalization tax

I am pleased to appear on behalf of the administration to support the extension of the interest equalization tax. Under present legislation, the IET would expire at the end of this month.

This tax was enacted in 1964 as a temporary measure, designed to help curtail our balance of payments deficit. Our continuing deficit has made it necessary to extend the bill on four previous occasions. We believe that recent exchange rate actions—accompanied by and combined with effective policies in other directions—can, and will, and must bring that deficit to an end. But those actions cannot bring a cure to the deficit instantaneously. The hard fact is that no matter how forceful our policies—and I believe they are forceful—it will take time for the more fundamental cures to work, and for our trade balance to recover. For the transitional period ahead, therefore, our payments position still needs the protection provided by the IET.

The IET sharply restrains the purchases by U.S. residents of securities issued by other developed countries of the world (with the exception of Canada) by imposing a graduated tax, currently equivalent to $\frac{3}{4}$ percent per annum. By effectively raising the cost of U.S. capital to borrowers in the developed countries to a level more comparable with borrowing costs in their own countries, the outflow of portfolio capital from the United States is contained. Our experience with the IET indicates that it has been effective in those areas to which it applies. Moreover, the tax complements and supports the Commerce Department's program to restrain outflows of direct investment capital (FDIP) and the Federal Reserve's voluntary program to limit the export of funds by financial institutions (VFCR). These three programs are interrelated and mutually reinforcing.

As I suggested, we are pursuing policies, both at home and internationally, to bring an end to a payments deficit that has persisted for too long. So far as exchange rates are concerned, two exchange rate realignments—one at the Smithsonian and again in February—have, I am convinced, produced a fair and realistic base for repairing our trade and payments position.

We do not, and cannot, look to exchange rate changes to do the whole job. Competitive pricing, to be effective, requires that foreign markets be open to us. We must attend to the efficiency, productivity, and price stability of the U.S. economy to maintain our competitive edge. The administration has, as you know, been moving vigorously in these directions.

Our confidence that the steps we have taken and are taking will restore our basic balance of payments position is an important factor in our thinking that this is the last time we should ask for an extension of this legislation, provided the expiration date is set at the end of 1974.

The speculative atmosphere in international currency markets in the past few weeks does not disturb our basic conviction in that respect.

I would point out the currency movements which have occurred are not of the type that the IET is designed to impede or, indeed, is capable of impeding. However, it also seems obvious that this is not the time to permit this measure to expire. We continue to need the IET and the other programs of capital restraint in this period of transition and uncertainty in international monetary affairs.

We are now engaged in an effort to build a new international economic system. One of our objectives in that effort is to establish a cooperative monetary order in which the United States and other nations do not have to rely on controls to maintain balance. Our conviction on that score also underlies our expressed intent to phase out the IET by the end of 1974, along with the foreign direct investment program. However, the objectives of reform would be not served by a precipitous dismantling of these restraint measures today. Instead, we must move by stages, consistent with anticipated improvement in our basic payments position. As we do so, we hope and expect that more foreign capital will be attracted to our markets, reflecting the positive attributes not only of satisfactory return, but of high liquidity and freedom from threat of official controls.

The IET extension bill, as it was approved by the House, incorporates certain technical amendments which we are prepared to support. However, extension of the IET authority until December 31, 1974, rather than the date of June 30,

1974, provided in the bill as passed by the House, seems to us appropriate. This would bring the expiration date into line with the final "phasing out" date stated by Secretary Shultz for the existing restraint programs announced on February 12 in his statement on foreign economic policy. This date should provide us with an ample margin of time to accomplish the objective, without forcing action out of keeping with the development of our external position. At the same time, we have signaled our determination to achieve a payments position and a monetary system that can stand without this artificial crutch.

TABLE I.—*Balance of payments summary table, 1961-1972*

[In millions of dollars]

	1961-1965 average	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972	1972 ^p
Merchandise:									
Exports.....	23,011	29,287	30,638	33,576	36,417	41,963	42,770	47,391	48,838
Imports.....	17,578	25,463	26,821	32,964	35,796	39,799	45,459	54,355	55,659
Balance.....	5,433	3,824	3,817	612	621	2,164	-2,689	-6,964	-6,821
Military transactions, investment incomes, other services and remittances, net.....	218	366	43	612	-12	-76	1,888	545	.....
Balance on current account (excl. Government grants).....	5,652	4,190	3,858	1,223	610	2,089	-802	-6,419	.....
Government grants and capital, net.....	-3,042	-3,379	-4,226	-3,866	-3,570	-3,752	-4,423	-3,191	.....
Private long-term capital: ¹									
U.S. assets abroad.....	-3,631	-3,918	-4,429	-4,297	-4,855	-5,753	-6,348	-5,392	.....
Foreign assets in the United States.....	193	1,363	1,517	5,495	4,805	4,355	2,268	4,759	.....
Balance.....	-3,438	-2,555	-2,912	1,198	-50	-1,398	-4,079	-633	.....
Current and long-term capital accounts, net.....	-828	-1,744	-3,280	-1,444	-3,011	-3,059	-9,304	-10,243	.....
Short-term nonliquid capital, net.....	-924	-104	-522	230	-640	-482	-2,386	-611	.....
Errors and omissions.....	-848	-302	-881	-399	-2,470	-1,174	-11,031	-2,951	.....
Net liquidity balance (excl. SDR allocations).....	-2,600	-2,151	-4,683	-1,610	-6,122	-4,718	-22,719	-13,804	-14,607
Transactions in liquid funds other than those of official reserve agencies, net.....	849	2,370	1,265	3,251	8,824	-5,988	-7,763	1,461	3,667
Official reserve transactions balance (excl. SDR allocations).....	-1,751	219	-3,418	1,641	2,702	-10,706	-30,482	-12,343	-10,940

*Seasonally adjusted, annual rate. ^p Preliminary.¹ For detail see table II.

Source: U.S. Department of Commerce, Survey of Current Business, December 1972 and earlier issues, plus Commerce News Press Release of Feb. 14, 1973.

TABLE II.—*Private long-term capital, 1961-1972*

[In millions of dollars]

[Inflows of capital to U.S. (+): outflows of U.S. capital (-)]

	1961-1965 average	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972	1972 ^p
U.S. assets abroad, net:									
U.S. direct investments (net).....	2,205	-3,661	-3,137	-3,209	-3,254	-4,400	-4,765	-3,331	-----
U.S. purchases of foreign securities (net).....	-854	-482	-1,266	-1,226	-1,494	-942	-909	-693	-----
Stocks.....	17	207	-51	-153	-467	-68	-20	292	-----
Bonds.....	-871	-689	-1,216	-1,073	-1,028	-874	-889	-983	-----
Outstanding U.S. loans and other foreign assets:									
Reported by U.S. banks.....	438	337	255	358	317	175	-565	-1,156	-----
Reported by U.S. concerns other than banks.....	134	-112	-281	-220	-424	-586	-109	-212	-----
Total U.S. assets abroad, net.....	-3,631	-3,918	-4,429	-4,297	-4,855	-5,753	-6,348	-5,392	-----
Foreign assets in the United States, net:									
Foreign direct investments (net).....	50	86	258	319	832	1,030	-67	332	-----
Foreign purchases of U.S. securities other than Treasury issues (net).....	60	909	1,016	4,389	3,112	2,190	2,282	3,599	4,443
Stocks.....	-7	-305	701	2,096	1,665	697	849	1,652	2,374
Bonds.....	67	1,214	315	2,292	1,547	1,493	1,433	1,947	2,069
Outstanding foreign loans to the U.S. and other foreign assets in the United States:									
Reported by U.S. banks.....	76	188	158	72	160	23	-249	281	148
Reported by U.S. concerns other than banks.....	6	180	85	715	701	1,112	303	547	-----
Total foreign assets in the United States (net).....	193	1,363	1,517	5,495	4,805	4,355	2,269	4,759	-----
Balances:									
Direct investments.....	-2,154	-3,575	-2,879	-2,890	-2,422	-3,370	-4,832	-2,999	-----
Transactions in securities.....	-795	427	-250	3,163	1,618	1,248	1,373	2,905	3,844
Other long-term claims.....	-489	593	217	925	754	724	-620	-540	-----
Total private long-term capital.....	-3,438	-2,555	-2,912	1,198	-50	-1,398	-4,079	-633	-----

*Seasonally adjusted, annual rate. ^p Preliminary.

Note.—Details may not add to totals and quarterly figures may not add to annual figures due to rounding.

Source: U.S. Department of Commerce, Survey of Current Business, December 1972 and earlier issues, plus Commerce News Press Release of Feb. 14, 1973.

TABLE III.—*Purchases by U.S. residents of foreign securities newly issued in the United States, by area, 1962-1972*

[In millions of dollars]

	1962	1963		1964	1965	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972
		First half ^a	Second half ^a									
All areas.....	1,076	1,000	250	1,063	1,206	1,210	1,619	1,712	1,668	1,456	1,506	1,137
IET countries, total.....	356	343	110	35	147	19	14	45	13	130	3	17
West Europe including United Kingdom.....	195	219	53	35	95	15	42	11	130			
Japan.....	101	107	57	52	4	14	3				3	
Other ¹	60	17						3				17
of which:												
Exempt from IET ²			110	20	52	10	14	3		130	3	
Subject to IET.....				15	95	9	42	14				17
Other countries, total (exempt).....	722	656	141	1,027	1,058	1,191	1,605	1,667	1,655	1,326	1,503	1,120
Canada.....	458	608	85	700	709	922	1,007	957	1,270	775	790	616
Latin America ³	119	13	23	200	36	68	140	144	32	117	33	54
Other countries.....	61	35	33	115	134	121	212	176	189	193	304	176
International institutions.....	84			4	179	80	246	390	164	241	376	274

^aNot seasonally adjusted.¹Australia, New Zealand, South Africa.²Related to the export, the direct investment, and the Japanese exemptions. The latter for \$100 million per year, ran from 1965 to February 1970.³Represents commitments made prior to July 18, 1963, the date of inception of the IET.⁴Includes Inter-American Development Bank issues.

Source: Department of Commerce, Bureau of Economic Analysis; Department of the Treasury, OASIA.

TABLE IV.—*Net transactions in outstanding foreign securities by U.S. residents by area, 1962-1972*

[Net U.S. purchases (—); in millions of dollars]

	1962	1963		1964	1965	1966	1967	1968	1969	1970	1971	Jan.-Sept.* 1972
		First half*	Second half*									
All areas.....	-96	-151	102	194	225	300	-135	-60	-305	80	117	211
IET countries, total.....	15	-85	85	181	234	222	-111	0	-284	120	145	228
West Europe.....	-16	-52	54	152	119	149	-96	-33	90	27	16	373
Japan.....	-23	-25	-4	6	10	5	6	-292	31	-125	-156	
Canada ¹	79	7	30	17	147	68	-8	36	-82	53	247	10
Other ¹	-25	-15	5	12	-38	-5	-2	-9	0	9	7	1
Other countries, total.....	-13	-6	10	2	-8	26	-36	-74	-51	-53	-23	-24
Latin America ²	-25	-3	1	-13	-13	2	-13	-72	-65	-64	-23	-18
Other countries.....	12	-3	9	15	5	24	-23	-2	14	11	0	-6
International institutions.....	-98	-60	6	11	-3	51	13	16	30	13	-3	7

*Not seasonally adjusted.

¹ Australia, New Zealand, South Africa.² Includes Latin American Development Bank issue of \$145 million in 1964.³ Excludes Canadian repurchases, undertaken in 1966, 1967, and 1968 for reserve management purposes.

NOTES.—These data reflect residence of seller rather than the original country of issue of the security—the basis on which the IET applies. Also, the above data show net purchases (or sales) whereas the IET applies to gross purchases. Detail may not add to total due to rounding.

Source: Department of Commerce, Bureau of Economic Analysis.

Exhibit 43.—Statement by Secretary Shultz, April 30, 1973, before the House Ways and Means Committee on the administration's tax proposals

Mr. Chairman and members of this distinguished committee, I am pleased to be with you this morning to discuss President Nixon's tax proposals.

A tax system as complicated as ours requires constant attention to keep it fair and efficient. The record shows that this administration is dedicated to that effort. This is the third time in 4 years that we have presented major recommendations to your committee. The first of these occasions was 1969. Acting upon the President's 1969 recommendations, Congress enacted changes which corrected a long list of inequities and inefficiencies. Your committee stated in its report that it was not aware of any prior tax reform bill of equal substantive scope.

In 1971, we came back to you with additional proposals. The revenue act adopted later that year carried forward the relief for our lowest income classes which President Nixon had recommended and which Congress commenced in 1969. Our proposals in 1971 also recognized the key role which taxes can play in providing incentives for basic growth in the economy. Modest tax incentives which appear by their terms to benefit a few can create jobs and prosperity for everyone. The entire country is the winner when that occurs. The Revenue Act of 1971 was enacted in that philosophy and, at the President's recommendation, it reinstituted the investment credit and endorsed liberalized depreciation rules. Those measures have contributed greatly to the resurgence of our economy in the last 18 months.

We cannot expect to overhaul the entire tax system every 2 years. It is basically a sound system and we have made far-reaching improvements in it in the last 4 years. Nonetheless, I am pleased today to recommend to you a series of modifications which we believe will be major contributions to the fairness of the revenue system, to its efficient operation, and to the well-being of our Nation as a whole.

There are three basic goals to which our recommendations are directed. They are:

Tax equity. We must ensure that all persons pay their fair share. There is, of course, no single way to define a fair share. Individual opinions differ. Nonetheless, we must have a system which most of the public accepts as fair.

Simplification. Many provisions of tax law that affect large numbers of individual taxpayers are inordinately complicated. The annual tax return form may never provide pleasure, but it need not be a nightmare.

Economic growth. The tax system must be conducive to the stable growth of our domestic economy and the longrun improvement of our position in world markets. Any change in the tax law that impedes the productivity of our national economy will risk the loss of the prosperity we now enjoy. Certain provisions in the tax law which stimulate economic growth must be preserved.

Before I outline our specific recommendations, I should like to review with you the perspective in which we have approached, in 1973, the general subject of changes in our tax system.

We should note, first, that our revenue system has been spectacularly successful in raising the revenues required to run our country. The cooperation of individual citizens makes our system the envy of the modern world. We must do nothing to impair that cooperation. We must deal effectively with aspects of the system that may undermine confidence in it and, therefore, cooperation with it.

Second, under our progressive tax system those with high incomes pay proportionately more than those with low incomes. The changes made by the 1969 and 1971 legislation were markedly progressive in their effect. This is apparent from table 1, which indicates that in the 4 years from 1969 to 1972, the greatest percentage reductions in tax have been made in the low-income groups, that substantial reductions have been made in the middle-income groups, but that significant increases have been made in the income levels above \$100,000. The large decreases in tax for the low-income groups flow primarily from the President's 1969 recommendation to Congress of a low-income allowance, which, when coupled with the increase in the personal exemption, removed from the Federal income tax rolls substantially all persons below the poverty levels. That principle was updated in the 1971 Revenue 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.

TABLE 1.—*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.

Third, the aggregate income taxes paid by individuals have not increased significantly as a percentage of personal income for 20 years, but have remained at about 10 percent. Under our system of graduated rates, an individual taxpayer pays proportionately more taxes as his income grows. That is still true for individual taxpayers. However, a series of tax reductions has kept the overall ratio of income taxes to personal income from rising. Thus, in the aggregate, the level of individual income taxes compared to personal income has remained relatively constant although personal incomes have risen very substantially.

Fourth, we have enjoyed a steady growth in our gross national product and in the affluence of our citizens. That is partly attributable to the fact that we have as a Nation made enormous and increasing investments in the business segment of our economy, which have enabled us constantly to increase our productivity and remain competitive with other nations. The tax system plays a key role in that process of increased productivity because taxes take away, or drive away, dollars which business might otherwise use to make the capital investments which produce increased prosperity and more jobs. Table 2 indicates the extent to which the business sector of our economy contributes to our gross na-

TABLE 2.—*1971 gross private business sector product and income taxes*

[In billions of dollars]

ITEM	1971 Gross product		Allocated Federal income taxes	
	Amount	Percent	Amount	Percent
Gross national product.....	1,050.4	100.0	120.6	100.0
Gross product originating in the private business sector ¹	812.2	77.3	104.6	86.7
Claims against product:				
Compensation of employees ²	528.3	50.3	55.4	45.9
Profits ²	86.7	8.3	45.3	37.6
Rent.....	10.7	1.0	1.5	1.2
Interest.....	18.4	1.8	2.4	2.0
Capital consumption allowances.....	81.3	7.7		
Indirect taxes.....	86.7	8.3		

¹ Excludes households, including imputed rental of owner-occupied dwellings, nonprofit institutions, and all government activity.

² Self-employed, proprietors' and partners' incomes have been allocated as between personal service and capital incomes, compensation of employees and profits.

Source: Adapted from tables in the *Survey of Current Business*, July 1972.

tional product and to our Federal tax revenues. You will see from the table that business produces 77 percent of the GNP and generates 87 percent of the personal and corporate income taxes. In terms of our national economic health, it is critical that U.S. business remain healthy and that it increase its productivity. Private investment is one of the most important factors in making this enormous economy continue to grow.

It has in recent months become painfully obvious to everyone that we cannot rest on our past successes and that other countries have become much more competitive. Table 3 shows the amount of new investment which has been occurring in our country compared with the other industrial nations for which data are available. You will see, for example, that Japan—a country roughly the same size as the State of California—has been making new investment at a rate which is roughly two-thirds of the total for our entire Nation. That is not necessarily cause for alarm, as Japan has a long way to go before it reaches our level of economic well-being. Nonetheless, looking into the future it is cause for concern that our effort is relatively so small compared to that of other industrial countries, and that as a percentage of GNP, our investment has been cut nearly in half, while that of our competitors has climbed sharply.

TABLE 3.—*Net domestic investment* and as percent of GNP*

[In millions of U.S. dollars]

Country	1950		1955		1960		1965		1970	
	Percent		Percent		Percent		Percent		Percent	
United States.....	\$32,843	11.4	\$35,626	8.8	\$36,835	7.2	\$52,093	7.5	\$61,645	6.2
Canada.....	1,866	11.0	2,865	10.6	3,789	10.4	6,294	13.0	7,981	10.5
Japan.....	N.A.		2,539	10.6	8,589	20.0	16,010	18.2	42,928	21.6
United Kingdom.....	2,075	5.6	3,800	7.1	6,075	23.6	10,017	27.9	11,319	9.3
Germany.....	1,919	8.2	16,128	14.3	10,640	15.0	17,933	15.9	29,317	15.7
France.....	1,846	6.5	4,166	8.6	7,032	11.4	14,241	14.3	22,982	15.5
Netherlands.....	513	10.3	1,058	13.4	1,635	14.4	3,039	15.8	5,579	17.7
Italy.....	N.A.		2,895	12.0	4,749	13.5	6,032	10.2	11,767	12.6
Sweden.....	1,115	19.3	1,857	20.3	1,653	12.7	2,945	14.3	4,071	13.2
Belgium.....	N.A.		695	7.6	1,013	8.8	2,131	12.5	3,237	12.5

*Figure obtained by subtracting "depreciation and other operating provisions" from "gross domestic fixed asset formation."

¹ Excludes the Saar and West Berlin.

² Amount of "depreciation and other operating provisions" not available making amount and percentage larger than in actuality.

N.A. Not available.

Source: OECD, *National Accounts of OECD Countries*.

We have for a number of years recognized the national need to encourage new investment and greater productivity in order that all of our citizens might live better. The Kennedy and Johnson administrations took steps to encourage investment by lowering the tax on corporations by 4 percentage points, by liberalizing depreciation rules, and by instituting the investment credit. All three of those changes were designed to increase the resources which business might use to expand and modernize and the incentive to do so. All three of these changes are part of our law today. Congress 2 years ago added a fourth change, a further liberalization in the depreciation rules. We believe that all four of these provisions make an important contribution to our economic well-being and to our revenues and that they should be retained. And in designing our tax package generally, we have tried to be sure that we do not unduly impair the ability of American industry to modernize and expand, for that modernization and expansion is vital to all our citizens.

Let me now turn to specific proposals.

Viewed as a package, our recommendations are essentially neutral in their budgetary effect and can be accomplished within the spending limitations of the administration's budget for fiscal 1974. By holding down Federal taxes and spending, and by stimulating productivity, the overall tax program will be a major weapon in winning the fight against inflation. The recommended tax relief and the new tax incentive provision will be paid for by the tax reform measures, which will collect a reasonable amount of income taxes from those

citizens who are not now paying a fair share of the tax burden. A general tax increase is both unnecessary and undesirable.

Proposals with respect to high-income taxpayers who pay little or no tax

Much attention has been paid to the fact that some 72 citizens with high adjusted gross incomes pay no Federal income tax. These people are neither tax dodgers nor tax cheats. Many pay no taxes because they make large donations to worthy causes—donations which existing law encourages by allowing a deduction. The great majority of persons with high incomes are paying tax and lots of it. In 1971, persons with adjusted gross incomes above \$200,000 paid an average Federal individual income tax of \$182,000. Further, the wealthy as a group are paying more tax now than they were before the enactment of the Tax Reform Act of 1969. Nonetheless, taxpayers who have large income and pay little or no tax do exist in limited, but significant numbers. In our continuing effort to produce sound tax reform, we have two proposals which deal with investment devices which are popularly referred to as tax shelters.

A common characteristic of a tax shelter investment is that it produces deductions and exclusions—particularly in the early years—which may be used against other income of the taxpayer. The result may be an outright reduction in taxes, an indefinite deferral of tax, or a conversion of ordinary income into capital gain.

Sometimes these results are unintended and are caused by the exploitation of tax rules which are sound in normal situations. Other times the results flow from rules deliberately designed to provide tax incentives for particular activities. Where the rules were intended as incentives, the fact that taxpayers use them to erase their entire taxable incomes means that the incentives have been successful. But such a result has a dangerously demoralizing effect on the operation of our revenue system, as it appears to most taxpayers simply to provide a means by which the wealthy avoid the payment of income taxes.

In addition, the widespread tax shelter market introduces significant distortions into our economy. Preoccupation with tax manipulations—particularly tax deductible "losses"—too often obscures the economic realities and can have the effect of discouraging profitable and efficient enterprise. Inefficient tax incentives available in the form of "artificial losses" to investors in preferred types of properties may benefit only the promoters of tax shelter schemes without contributing effectively to the social objectives of the incentives.

For example, there are those who invest in farms not for the purpose of efficiently producing food and fiber at a profit, but to produce an artificial tax "loss" which will shelter their nonfarm income from tax. These investors compete with full-time farmers to bid up the prices of the necessary land, livestock, and equipment. Somewhat perversely, overreaction to existing tax laws may lead "hobby" farmers to be lavish and wasteful in their expenses. The result can be a competitive increase in the operating cost of all farmers.

Our proposals will eliminate these situations. They will increase the fairness of the tax system and remove the spectacle of high-income taxpayers who pay no tax by parlaying tax deductions and exclusions. Our proposals will reverse the economic inefficiencies inherent in tax shelters and shift the emphasis away from investments which produce tax losses and will put the premium where it belongs—on sound economic investments and efficient operations which produce income.

Our proposals limit the use of some provisions that were intended as incentives. Where that is the case, the proposals should not be interpreted as necessarily foreclosing the possibility of providing other incentives or subsidies. We do mean, however, to foreclose the use of the tax system to provide incentives to a degree that impairs the confidence of the ordinary citizen in the fairness of the system.

In order to achieve this result, we propose that the existing minimum tax be repealed for individuals and that it be replaced by two new provisions applicable to individuals. They are a minimum taxable income provision and a limitation on artificial accounting losses. In general, the minimum taxable income provision will deal with those tax items that are outright exclusions from income, and the limitation on artificial accounting losses will deal with those tax rules that provide deferrals. Both provisions are simple in principle and we have tried to design them as simply as possible.

Minimum taxable income.—The minimum taxable income proposal would prevent the combination of exclusions and itemized deductions from offsetting more than one-half of a taxpayer's income, and every individual will be required to pay tax on at least the balance. The exclusions involved are the exclusions (1) for one-half of long-term capital gains, (2) for the bargain element of a stock option at the time of exercise, (3) for percentage depletion in excess of adjusted basis, and (4) for income earned abroad and presently excluded under section 911 of the Code. A taxpayer's minimum taxable income will be computed by adding these exclusions to his adjusted gross income. From that sum he will subtract his personal exemptions plus \$10,000, which will make the provision inapplicable to low- and middle-income individuals. The resulting amount is the taxpayer's minimum taxable income base, and it is divided by two to produce his minimum taxable income, which is the minimum amount on which he must pay tax at regular rates. The operation of this provision is explained by an example in table 4.

TABLE 4.

<i>Current law</i>		<i>Minimum taxable income</i>	
Salary.....	\$100,000	Adjusted gross income.....	\$210,000
Stock option bargain.....	(Excluded)	Plus:	
Long-term gain in stock.....	\$100,000	Option.....	\$50,000
Less 50 percent exclusion.....	50,000	Percentage depletion.....	40,000
Mineral income.....	100,000	Excluded gains.....	50,000
Percentage depletion.....	40,000		140,000
		Expanded AGI.....	350,000
Adjusted gross income.....	210,000	Less:	
Less deductions:		Exemptions.....	6,000
Interest on deep discount		Low-income floor.....	10,000
bond margin loan.....	25,000		16,000
Charitable contribution		MTI base.....	334,000
to public charity.....	100,000	Minimum taxable income (50	
State income tax.....	30,000	percent of base).....	167,000
Other personal deduc-		Tax.....	88,340
tions.....	49,000		
Exemptions.....	6,000		
	210,000		
Taxable income.....	0		
Tax (joint return) (minimum			
tax).....	11,000		

Limitation on artificial accounting losses.—The limitation on artificial accounting losses deals with deductions that are clearly associated with the production of income in some future year. Existing tax accounting rules permit a number of such deductions, thus mismatching them with the income to which they relate and producing accounting losses that are artificial. The amounts of these deductions are often greatly magnified by the use of borrowed funds. Examples of such deductions include prepaid feed in the case of livestock feeding syndications, intangible drilling expenses in the case of mineral exploration, and taxes and interest during construction, and accelerated depreciation in excess of straight-line depreciation in the case of buildings.

We do not propose that any of these deductions be disallowed. Nor do we propose that they be capitalized. We propose only that if they create a loss from the activity to which they relate, that loss may not be used to offset or shelter other unrelated income of the taxpayer. The loss must be suspended until the property commences to produce income, at which time the loss may be used against such income as rapidly as it is generated.

You will observe that this still permits a taxpayer to shelter income from the investment itself. Thus, there remains a substantial area in which incentives may operate. Taxpayers may still purchase investments on which the income can be tax free for substantial periods, but the tax system will no longer pay them to buy such investments. They must buy with after-tax dollars and will not get to use the deductions from the investment until it starts to produce income. They will be using their own money, rather than tax dollars, to buy the investment.

In general, the limitation on artificial accounting losses will not affect those taxpayers who are regularly and profitably engaged in the business activity involved. In the case of mineral exploration and housing—where existing law implements intended incentives—the proposal is liberal in defining the related activity against which such losses may be used. Thus, in the case of such losses

associated with mineral exploration, they may be used against the income from all oil and gas production wherever situated; and in the case of such losses associated with housing, they may be used against the income from all housing wherever situated. The provision should have no effect in the case of ordinary farmers for the reasons outlined in the technical explanation accompanying this statement.¹

Further, investments presently existing or for which commitments have been made will be unaffected, since they have been made in reliance on existing law. Housing projects which will receive certain kinds of governmental subsidy assistance will be similarly unaffected even though investment commitments are not yet firm. This preserves the status quo with respect to Federal housing programs that depend on such subsidies. Approval of new projects has been suspended by HUD and the Department of Agriculture pending the reexamination of existing programs, on which the President is to make policy recommendations to the Congress in early September.

Other new projects commenced after April 30, 1973, would be subject to the limitation on artificial accounting losses.

The minimum taxable income provision and the limitation on artificial losses will apply to individuals and will be inapplicable to corporations other than Subchapter S corporations. Corporations do not have the graduated rates which provide the impetus for tax shelters and no major problem exists in the corporate sector. The rules proposed are tailored for individuals and would be administratively unworkable for corporations with varied activities. Corporations will continue to be subject to the present minimum tax.

In addition to providing a more equitable income tax the rule will help to eliminate from our economy the distortions inherent in the widespread tax shelter market. Tax deductions now prematurely available in the form of "losses" will hereafter be available only to offset income produced by the same or related investment. Where the investor will be risking his own money rather than simply the Government's tax dollars, he will be more careful to investigate the soundness of the investment. This provides the right kind of tax incentive by rewarding efficiency and success.

The minimum taxable income provision and the limitation on artificial accounting losses would in combination raise about \$1 billion in revenues, for a net revenue gain of \$800 million after taking into account the revenue loss of about \$200 million arising out of the repeal of the present minimum tax on individuals.

Proposals with respect to simplification of the tax laws

We believe there is overwhelming need for major simplification of our tax system and propose to provide it. The burgeoning complexity of the existing system seriously threatens its effective operation.

The genius of our income tax system is voluntary compliance. The willingness of the American public to comply with tax rules is essential. No amount of policing will achieve compliance if that willingness should disappear. When the law is too complicated, many taxpayers cannot comply. Others give up trying. The resulting noncompliance by significant segments of the population infects the entire system and destroys acceptance of it by the public as a whole.

Many tax professionals are concerned that we may be at a critical point. For example, a recent report on tax simplification by a blue-ribbon committee of the New York State Bar Association states:

"This committee is unanimously of the view that the present course of development of the tax law, if not reversed, may well result in a breakdown of the self-assessment system. Indeed, some members believe that the breakdown has to some extent occurred."

We share that concern.

No magic road to simplification exists. I have no simple formula to offer you to unwind all of the complexity encrusting the tax law.

On the contrary, we will get simplification only if we work hard and long at it. Hundreds of items must be considered individually. Most of those items were enacted in the belief that they produced greater equity. Some have outlived their usefulness. Others need to be pared down or integrated into broader and simpler provisions.

¹ Omitted from this exhibit.

Working at simplifying the law.—I urge that we roll up our sleeves and commence this long-range project. The administration has several specific suggestions to begin this process, but we must not delude ourselves. We will not have achieved in a single bill the simplification we need.

Thus a most important recommendation on the subject of complexity relates to procedures. We recommend that as the administration and your committee work together on new legislation in the coming months, we set up procedures under which we can carry forward a systematic program of simplification next year, and the following year, and the year after that. It will be hard work. It will be undramatic. But it will be of the greatest longrun importance.

Efforts to simplify specific provisions of the law are already underway. Several months ago the tax staff at the Treasury began work in cooperation with the staff of the Joint Committee on Internal Revenue Taxation to draft for your consideration suggested revisions of such provisions as those relating to:

- The deduction for moving expenses;
- The exclusion of sick pay and disability compensation;
- The retirement income credit for the elderly;
- The provision for taxing annuities; and
- The accumulation trust rules.

The aim was to strip away unnecessary complication and to make them readily understandable and easy of application without sacrificing any of the essential equity and benefits these provisions are designed to achieve. I will tell you about some of these today, and in the course of your deliberations in the coming months, we expect to make additional alternatives available to you.

In most instances, simplification can be best achieved by being more liberal with taxpayers and it will undoubtedly be necessary in some instances to compromise the desire for simplicity with the need to avoid major revenue loss.

Simplifying the tax return form.—Major simplification requires major simplification of the tax forms, to relieve millions of individuals from the annual agony of April 15. We must make progress on that now. I am pleased to present to this committee a vastly simplified tax return concept to which the President attaches the greatest importance. Some months ago I asked our tax staff at Treasury and at the Internal Revenue Service to consider what might be done both legislatively and administratively to simplify the preparation of tax returns for the 75 million individual citizens who file them. That work is still continuing. However, we are now prepared to present to you a first-stage simplification of the return form which could be used by most individuals who now itemize. It would be possible with just a few legislative changes which we will recommend to your committee.

* * * * *

The form 1040-S will be possible if Congress will do the following, which I recommend:

Miscellaneous deduction allowance. We recommend the enactment of a provision for a miscellaneous deduction allowance of \$500 per return. Every taxpayer who itemizes would receive this allowance.

Elimination of deductions. In order to simplify the form and to pay for the taxpayer benefits we are proposing, we recommend that the Code be amended to eliminate the following itemized deductions and exclusions.

First, no itemized deduction would be allowed for the first \$200 of those deductions which are now collected on the tax return under the schedule titled "miscellaneous deductions."

Second, medical and casualty deductions would be combined and an itemized deduction would be permitted only to the extent that the combined total exceeds a floor equal to 5 percent of the taxpayer's adjusted gross income.

Third, the dividends received deduction would be eliminated.

Fourth, the deduction for gasoline tax and other miscellaneous taxes would be eliminated.

Fifth, the sick pay exclusion would be eliminated.

A child care deduction. We recommend that the child care deduction be amended to apply to all such expenses actually paid during the year, subject only to the limitation that the amount may not exceed the lesser of \$4,800 a year (which is the present maximum) or the amount of earned income of the lesser compensated spouse. The deduction will be phased out on a dollar-for-dollar basis for incomes in excess of \$22,800. The expected revenue loss is less than \$20 million.

Simplified tables. Our third specific recommendation is the enactment of a Code provision which would permit us to eliminate the present tax tables which are based on adjusted gross income and to replace them with tables based upon taxable income. That would permit the Internal Revenue Service to replace five pages of complicated tables in the instruction book with a single table. This would be a purely mechanical change and would have no effect on anyone's tax liability nor upon the revenues. It would require taxpayers to perform a little more simple arithmetic than they now do, but it is the judgment of the Internal Revenue Service that that inconvenience would be greatly outweighed by the advantages of less confusing tables.

Age credit. We recommend an age credit to replace the complex retirement income credit, which would be repealed. The base would be \$1,500 in the case of a single taxpayer or in the case of married taxpayers where only one spouse is over 65; \$2,250 for married taxpayers filing jointly; and \$1,125 for married taxpayers filing separately. From that amount the taxpayer will deduct social security and railroad retirement benefits received. The credit will be 15 percent of the difference. No reduction is required for earned income. Retirees and widows over 65 should not be penalized if they need to work. This amendment will do away with a credit which is now so complicated that tens of thousands of our elderly taxpayers compute it incorrectly or fail to claim it, in favor of a slightly more liberal credit which is vastly more simple. The revenue loss will be \$200 million.

These four recommendations may seem minor when considered individually, but they would, we believe, open the door to a major simplification in the return forms for a great many taxpayers.

Recommendation to help meet the national energy needs

Our next recommendation is that Congress enact an investment credit for exploratory drilling.

Our annual consumption of oil and gas now exceeds the annual increase, through new exploration, of the known reserves in our own country. State regulatory commissions which formerly restricted production have lifted these limitations, and production is up. Restrictions on the importation from abroad of crude oil have also been relaxed. However, the real need is neither for more rapid development and consumption of existing domestic reserves nor for imports which will worsen our balance of payments and tend to make us dependent on foreign sources. Instead, the need is for new exploration in the United States which will add to the national wealth of known oil and gas reserves for the future and assure the continued availability at reasonable prices at home—not abroad—of adequate fuel supplies. Like the 7-percent investment credit enacted in 1971 at President Nixon's recommendation, to which it is similar, this new credit will be an efficient tax incentive that will produce the desired results quickly and at comparatively little revenue cost.

This credit should serve as an overall incentive for new exploration in the United States. Further, it is structured to reward success by providing a greater credit for a commercially productive well. In this way the Nation will be a guaranteed winner, for a successful well will at the same time both provide needed energy resources and also increase the tax revenues.

The new credit would extend to oil and gas exploration a proven and successful tax incentive device. The limitation on artificial accounting losses and to a lesser degree the minimum taxable income provisions discussed above will limit somewhat existing incentives for oil and gas production. The new credit offsets the effects of that limitation. It is thus a rechanneling of existing incentives to a more efficient purpose—from production generally to the domestic exploration for which there is critical need.

Under the proposed credit, a driller of a new domestic exploratory hole may claim the 7-percent investment credit on his intangible drilling costs plus an allowance for geological and geophysical expenses. If the exploratory hole proves commercially productive, a supplementary credit of 5 percent of the IDC will be allowed against the first tax payable on net income from the production.

An "exploratory hole" will be defined as a hole, intended to produce oil or gas, which is bottomed not less than 2 miles horizontally or 3,000 feet vertically from a producing well.

The 7-percent exploratory drilling investment credit, but not the supplementary 5-percent credit, will be subject to the same overall limitations which currently apply to the investment tax credit. In other words, no taxpayer may claim investment tax credit or exploratory drilling credit exceeding in the aggregate \$25,000 plus 50 percent of his precredit tax liability in excess of \$25,000. Carrybacks and carryovers for the exploratory drilling credit will be available on a similar basis to the investment tax credit. Various special investment tax credit provisions, such as those regarding useful lives of eligible property, credit recapture, used property, public utility property, and pipeline companies, however, will not affect the exploratory drilling credit.

The credit will be available for exploratory wells drilled domestically, including off-shore, in Puerto Rico, and in territories or possessions of the United States or their surrounding waters. Wells drilled elsewhere will not. The credit will be available to corporations, individuals, or other entities.

The 7-percent credit will apply to all intangible drilling costs as currently computed. In addition, the credit base will include an allowance for geological and geophysical costs of up to \$50,000 per exploratory well. The figure of \$50,000 per well represents a conservative estimate of the national average of geological and geophysical costs per exploratory hole. Because allocation of geological and geophysical costs to any particular well is difficult or impractical, and because a generalized incentive to perform geological and geophysical activities within the United States is desirable, the taxpayer will be permitted to allocate to any exploratory well geological and geophysical costs, wherever incurred in the United States, up to the \$50,000 limit. In order to prevent abuse, only wells 1,250 feet or more in depth will qualify for this geological and geophysical inclusion in the credit base.

The credit will be effective with respect to all drilling commenced after April 17, 1973.

Recommendation to provide property tax relief for the elderly

This administration has continually recognized the Nation's problems with respect to the property tax and has been committed to reducing residential property taxes. Therefore, the revenues gained from the recommended tax reforms will be further used to provide major tax relief to the elderly—a large segment of our population who are now overburdened by excessive State and local property taxes on their homes.

While the burden of property taxes is a matter of increasing concern to all of our citizens, it falls with particular force upon elderly taxpayers. The Advisory Commission on Intergovernmental Relations estimates that in 1970 the average homeowner paid about 3.4 percent of household income in property taxes, while homeowners age 65 or older paid on the average about 8.1 percent. Elderly homeowners with less than \$2,000 income paid an average of 16.6 percent of family income, and in the high-tax Northeast region such homeowners paid more than 30 percent of their meager income in property taxes. Elderly renters are also affected; many are paying an excessive portion of their income in rent.

In scope and distribution this burden is a national problem. The imposition of excessive property taxes on the elderly undercuts social security and other Federal programs designed to provide retirement benefits, as well as a minimum of security for the aged.

While many States have adopted measures to deal with this problem, the State response has generally proved insufficient. Fourteen States have adopted State-financed tax rebate provisions (called "circuit breakers") that are specifically designed to relieve property tax overload situations. Only 7 of these provide full coverage for renters, and the 14 States vary widely in the amount of relief afforded. For example, low-income ceilings (\$6,000 or less) in 9 of the 14 States deny relief entirely to the large number of middle-income elderly now paying excessive property taxes.

To deal with these problems, we propose enactment of a refundable property tax credit for our low- and middle-income elderly. The credit would be allowed for real property taxes over 5 percent of household income, up to a limit on the credit of \$500. Household income would be broadly defined to include items of income that are nontaxable but are nevertheless part of a household's economic income.

Equivalent relief would be afforded under the proposal to elderly renters. Available information from real estate assessors' offices and national income statistics

indicates that real property taxes paid on rented homes and apartments average about 15 percent of rental value. The proposed credit would accordingly treat renters as having paid property taxes equal to 15 percent of their rental payments, and would subject them to the same floor and ceiling.

The credit would be phased out for household incomes between \$15,000 and \$25,000, so as to concentrate the benefits of the credit on low- and middle-income elderly persons. It would be refundable—a taxpayer would be entitled to a payment for any excess of his credit over his Federal income tax due—to extend the benefit of the credit to the lowest income elderly who pay little or no Federal income tax.

Recommendation to provide a nonpublic school tuition credit

The nonpublic school system educates a tenth of our school children. In order to preserve this vital national asset and to provide needed tax relief for the many low- and middle-income families who bear a large part of the cost, we recommend enactment of a refundable income tax credit for nonpublic elementary and secondary school tuition.

The tax credit will apply only to tuition paid to nonprofit schools and will be for 50 percent of the tuition paid for each child. The maximum amount of tax credit for any one child in a single school year will be \$200. The credit will be claimed on the income tax return for the year in which the tuition is paid. To the extent the total credit exceeds the income tax liability, the excess will be refunded in a cash payment. In recommending this refundable feature, we are particularly concerned about low-income families. We want them to benefit from the tuition credit even though they owe little or no Federal income tax. To further concentrate the credit on the low- and middle-income families most in need of this important relief, the credit will phase out as income rises above \$18,000.

The nonpublic school system plays a vital role in our society. These schools provide a diversity of education in the best of our traditions and are a source of innovation and experimentation in educational advances which benefit the public school system and the public in general. In many American communities they are an important element of stability and civic responsibility. However, education costs are rising, the enrollment in the nonpublic schools is declining, and an important American institution may be in jeopardy.

The nonpublic school tuition credit will help reverse this trend. The revenue cost in fiscal year 1974 will be approximately \$300 million, which is already included in the administration's budget for fiscal 1974.

Recommendation to increase the financing capabilities of State and local governments and to reduce the amount of tax-exempt interest

State and local governments have a rapidly growing need for revenues to provide public schools, highways, and the like, plus a wider array of new social and community services than ever before. The State and local tax bases have expanded and the rates of these taxes have in many instances gone up also. However, State and local governments have traditionally financed much of their immediate needs for heavy capital outlays through borrowing. They continue to do so today. Their needs for adequate debt financing will increase, not diminish, in the future. At present they are limited to the narrow market for tax-free obligations. The proposal would give them an option to utilize the broader market for taxable obligations when that seems to them advantageous.

Specifically, we recommend enactment of an additional tax provision which will make available to State and local governments the option of issuing either a tax-exempt bond, as they now do, or of issuing a bond on which the interest will be subject to Federal income tax. If the governmental unit issues a taxable bond, in order to be attractive to investors the bond will have to bear a higher rate of interest than if it were tax exempt. To compensate the issuing government for this additional interest cost, the Federal Government will pay an interest subsidy equal to 30 percent of the net interest expense on a qualifying State or local obligation on which the issuer has elected to pay federally taxable interest. Generally, any State or local obligation now exempt from Federal income tax would be eligible for the subsidy if the Secretary of the Treasury agrees to pay it and the issuer elects to subject the interest to Federal tax. Certain limited exceptions are provided to prevent inordinate costs to the Federal Government.

The issuer would receive the 30-percent subsidy, less Treasury administrative costs, in time to make its interest payments to the bondholders. (The issuer would

have to report to the Internal Revenue Service the payments of the taxable interest.

The subsidy would not affect the exempt status of interest on nonsubsidized obligations, which will continue to be freely issued.

The proposal will provide a more stable market for State and local government obligations by enabling these governments to compete more effectively with corporations, especially when market rates are high. It will also make municipal obligations attractive to pension trusts and other exempt organizations, which presently do not typically invest in tax-exempt obligations. The subsidy program will also tend to reduce the supply of tax-exempt obligations and slightly depress interest rates on those remaining, thereby reducing both municipal borrowing costs and the availability and attractiveness of exempt obligations to high-bracket taxpayers.

We estimate subsidy costs for the first year of \$180 million, with increased tax receipts at about the same level, partly depending on the average marginal tax bracket of the holders of investors in tax-exempt obligations. A reasonable estimate is that there would be little net gain or loss to Treasury at the 30-percent subsidy level.

Recommendations with respect to arbitrage on advance refundings of State and municipal securities

Prior to 1969, State and local governments had engaged in the practice of issuing securities on which they paid tax-free interest at low rates and investing the profits in higher yielding taxable securities.

The "arbitrage" spread between the nontaxable and taxable securities afforded a substantial profit to the issuers and spawned a substantial volume of State and local bonds which had no other legitimate purpose. The Tax Reform Act of 1969 provided that bonds of State and local governments would lose their tax-exempt character if issued in the expectation of investing the proceeds in higher yielding securities.

The easiest vehicles for abuse were so-called advance refunding bonds, which were new State and local obligations issued to refund outstanding old obligations that could not be called for a number of years. The proceeds of advance refunding bonds are typically placed in escrow and invested until the call dates of the old bonds, thus providing a pretext for issuing new bonds and investing the proceeds for long periods of time with arbitrage profit. A substantial volume of advance refunding bonds are issued for legitimate reasons unrelated to arbitrage. Since, under the 1969 act, the proceeds of State and local bonds may not be invested in obligations bearing a materially higher yield, issuers are now required to invest proceeds of advance refunding bonds in securities having an artificially low yield. There is no other practical way to eliminate the practice of arbitrage. The result of the rule is that issuers are required to give away the windfall difference between the yields on the tax-exempt and taxable bonds. The beneficiaries are usually promoters, underwriters, or banks, who have an understandable incentive to promote even more advance refundings. This is a fundamentally unhealthy situation.

We recommend that Congress enact an incentive to rechannel the windfall arbitrage element back to the United States. This is appropriate because it is the tax exemption provided by the United States which creates the windfall element.

This purpose would be accomplished by providing that in the case of advance refunding issues the proceeds may be invested to obtain a yield equal to the yield permitted under present law plus an additional one-fourth of 1 percentage point. Issuers would be entitled to this extra profit only if the proceeds were invested in special Federal securities designated by the Treasury, which would be retained by the issuer until their maturity dates and used to retire the outstanding State or local obligations on their call date. Since most issuers are obligated by State law to invest funds at the highest permissible yields, we expect that most issuers of advance refunding bonds will invest in the new Treasury securities. This will allow the U.S. Government to recover most of the taxes lost through tax-exempt advance refundings by issuing the special securities at very favorable rates. At the same time, issuers will be able to obtain higher yields than they can obtain under existing law and also enjoy the flexibility, safety, and relatively low cost of the new Federal investment securities. The only losers will be those promoters and underwriters who would otherwise pocket the windfall arbitrage profit.

Recommendations on the taxation of foreign source income

President Nixon's April 10 message to Congress on trade legislation urgently requested, and committed him to help develop, legislation enabling the United States to enter this fall's international trade negotiations with the tools to build a fair and open trading world.

The interrelationship of taxes, trade, and investment should not be lost upon us. Our tax system must be conducive to the longrun improvement of our position in world markets. Thus, President Nixon's trade message contained specific recommendations on the taxation of foreign source income. Let me restate those recommendations, which we arrived at after careful consideration of the arguments and theories abounding in this area.

A number of countries provide tax holidays from local taxes in order to attract investment. In order that American companies will not make their investment decisions on the basis of tax inducements of this sort, we request the amendment of our tax law to tax U.S. shareholders on the earnings from new investments which enjoy such tax incentives, even before such earnings are repatriated. We are prepared, however, in limited and appropriate circumstances, to enter into tax treaties with other countries, subject to Senate approval, to recognize certain such incentives.

In addition, we believe that a U.S.-controlled corporation which moves its plant to enjoy lower foreign tax rates, while manufacturing goods for the U.S. market, should be taxed currently in the United States. We have proposed, therefore, that where a U.S.-owned foreign corporation, subject to a significantly lower foreign tax rate, has more than 25 percent of its receipts from exporting goods destined for the United States, the U.S. shareholders should pay tax currently on its income.

Where U.S. companies deduct against U.S. income losses from their foreign branch operations, we have proposed to reduce their subsequent foreign tax credits by the amount of such losses. This will avoid the United States bearing the cost during the loss years and receiving no revenue during profitable years.

The President has also instructed the Department of the Treasury, in consultation with the Department of Justice, to institute procedures involving mineral importing companies, which import from their foreign affiliates, to determine intercompany selling prices and tax payments in advance, in order to expedite the determination and payment of their taxes.

Proposals with respect to tax return preparers

A very large and growing number of individual income tax returns are prepared by employees of commercial firms who are neither lawyers nor accountants. On the whole, a good job is done by these firms and the trend to commercial preparation concerns us only to the extent that it indicates that taxpayers cannot—or in any event, believe they cannot—prepare their own returns. However, the Internal Revenue Service has been concerned for several years about a growing number of incidents which indicate negligence or fraud on the part of a minority of commercial preparers of tax returns.

It has been suggested that we institute a licensing program for tax preparers. The Internal Revenue Service believes that such a program is neither feasible nor appropriate. A program of licensing everybody will not cure the negligence and fraud of a minority, and would be a clear case of overkill. The principal result of a licensing program would be to insist upon the overqualification of tax return preparers, which would result in excessive costs to the public.

We do, however, believe that some steps are required to make tax return preparers responsible to a greater degree than at present for the returns they prepare and to raise the degree of compliance with the internal revenue law.

We, thus, propose a three-part approach.

First, the proposed legislation will require each tax return preparer to place his identification number on each return he prepares, and will require a person who employs tax return preparers to file a return listing the name, taxpayer identification number, and place of work of each such employee. This information will facilitate inspection of the manner in which a tax return preparer conducts his preparation service when facts warrant such investigation.

Second, the proposed legislation will provide civil penalties for tax return preparers in the case of negligent or intentional disregard of the internal revenue laws and in the case of willful attempts to evade, defeat, or understate a taxpayer's tax liability.

Third, the proposed legislation will authorize injunctive action against preparers who engage in conduct subject to civil or criminal penalties or other acts which substantially interfere with the administration of the internal revenue laws. Thus, although some of the civil penalties provided may appear to be nominal, the provisions themselves will serve a dual function, since the acts involved will also be grounds for injunctive relief.

Taxation of political contributions and activities

I would like to ask your committee to consider the manner in which the income tax laws should be applied with respect to political parties. I have no specific legislative proposals to present on this subject because we believe it is a subject best left to Congress. Nonetheless, I should like to explain how the tax aspects of political operations present problems in the administration of the tax law, and to suggest several areas about which we are concerned.

The income tax status of political parties has been in legal limbo since the beginning of our income tax system. It is a matter of history that the Internal Revenue Service has never attempted to tax political parties, although there is nothing specific in the Internal Revenue Code which says that they are nontaxable. The situation with respect to political parties is much the same as the situation with respect to social security, as there is nothing in the Internal Revenue Code which makes social security benefits nontaxable, either. They have just grown up that way.

In the absence of a specific statutory rule, we find that there are no clear rules to govern the more complicated transactions. Thus, for example, in last year's campaign we found emerging a practice of making contributions "to political parties in the form of appreciated securities, in the apparent expectation that neither the donors nor the political parties would be taxable on the appreciation." This occurred with respect to both major political parties and was apparently done without realization that the contribution and subsequent sale of the property might have income tax consequences for the parties involved. The Internal Revenue Service in noting the practice issued an announcement cautioning that tax consequences might result from the contribution and subsequent sale of securities, and asked for public comment on that issue.

Comments both oral and in writing were received from a number of persons and organizations, including the two major political parties. These comments reflected widely differing points of view and legal positions but taken as a whole strongly support our belief that the tax status of political parties and committees and the tax status of various aspects of political activity require a legislative solution.

It is argued, with much cogency, that political parties have never in fact been taxed, and that nontaxable status is presently accorded a wide variety of public organizations, including civic leagues, country clubs, labor unions, lodges, and cemetery companies—many of which are less committed to a general public purpose than are political parties.

We believe that Congress should address itself to this problem and make it clear whether political parties are to be completely nontaxable, or are to be taxable for some purposes but not for others, or are to be taxable in their entirety.

Second, we ask that your committee consider the specific problem raised by the contribution of appreciated securities or other property. If an individual contributes to a political party securities for which he paid \$1,000 and which are now worth \$5,000, should he or the party or either of them be taxable on the \$4,000 of gain? If the political party is nontaxable and the contribution is treated as a gift, neither the contributor nor the party has income tax liability under present concepts. The common law which has grown up is that the contribution is a gift. I suggest that you should reconsider that rule. If the individual had himself purchased television time or billboard space to extol his preferred candidate and had used appreciated securities to pay for it, he would have been taxable on the \$4,000 of gain. Should the result be different if he contributes the securities to a political party which in turn buys the same television spot or billboard space? Should contributions to a political party be treated as payments to the party to advance objectives favored by the contributor? Should such contributions be treated differently from club or union dues or assessments, which are not thought of as gifts but rather as payment for services to be performed?

That raises a third question which we ask you to consider, which is whether such payments should be treated as gifts for gift tax purposes. The Internal Revenue Service has held for many years that they are, although a recent court decision in the fifth circuit has held to the contrary.

We believe it essential both to our political processes and to the administration of the tax laws, that any rules adopted be clear rules so that we may carry forward the serious business of electing public officials and of collecting the revenue without injecting politics into the revenue system. Whatever solution is adopted, the objective, of course, must be to preserve the integrity and independence of our political system and its political parties. We urge that whatever rules you prescribe you adopt an approach that will minimize the involvement of the Internal Revenue Service in the affairs of the political system.

Estate and gift tax revisions

I am not today proposing specific changes in the laws relating to estate and gift taxes. That does not mean that we are opposed to change.

Most of the controversy involving estate and gift taxes turns on matters of personal philosophy. There is no one key to truth in this area and even individuals of the same critical persuasion feel differently and deeply. The permutations and combinations of options are myriad. Differences in view must be compromised for they cannot be reconciled, and Congress is the best place to do it.

We do have several broad convictions which I urge you consider as you approach this project.

First, we urge that whatever changes are made in estate and gift tax laws, they be balanced in a way which does not change the overall revenues from these taxes.

Second, we believe that whatever changes are made, transition rules are of the greatest importance. You should not change the basic rules so abruptly that you frustrate the lifetime planning of millions of our citizens who have arranged their affairs in reliance on existing rules. You should be careful not to subvert the sense of responsibility with which our citizens work to build their businesses and their estates on behalf of their families.

Third, we urge that you do nothing which will jeopardize the vitality of our voluntary charities, which depend heavily on gifts and bequests. These organizations are an important influence for diversity and a bulwark against over-reliance on big government. The tax privileges extended to these institutions were purged of abuse in 1969, and we believe the existing deductions for charitable gifts and bequests are an appropriate way to encourage those institutions. We believe the public accepts them as fair.

The principal issues in the estate and gift tax area have been identified as the problems of rates, the treatment of unrealized appreciation at death, generation-skipping, a unified gift and estate tax, and changes in the marital deduction. We have no magic answer to any of these items but we shall be pleased to work with your committee and share with you what expertise we have.

Other items

I have not spoken today of the administration's proposal with respect either to pensions, for that topic will be the subject of detailed testimony on a later occasion.

I have tried today to outline those subjects which, in our opinion, have the greatest priority. There is a great backlog of lesser substantive and technical provisions which should be considered by your busy committee. I am hopeful that with the assistance of our joint staffs many of them can be considered on this occasion and that for those which are not, we can devise a system for their orderly consideration in the future. Among the particular items which we hope you will find time to deal with are the proposals which we recently submitted clarifying the tax law with respect to prisoners of war and those missing in action.

The major proposals which I have outlined are made after careful analysis and in a continuing effort to reform our tax structure so it will be more equitable and efficient, so it will be more conducive to stable economic growth, and so it will be more responsive to urgent social needs. We have taken significant steps toward achievement of these objectives. More needs to be done and we look forward to working constructively with your committee in the days ahead.

TABLE 5.—Administration's tax program—magnitudes of revenue changes

[The following numbers are approximations only. They represent judgments based on data available, which are more reliable in some instances than others. Some items will change over a period of years, e.g., the proposal with respect to foreign losses phases in gradually and will produce revenue gains rising slowly from zero in the first year to something in the neighborhood of \$150 million after 10 years. (It is reflected in the table at zero.) Readers are accordingly cautioned that the estimates should be used only to indicate the order of magnitudes involved. In millions of dollars]

		First full-year effect
NEW ITEMS		
1. Minimum taxable income and tax shelters.....	+1,000	
Less repeal of the 10 percent minimum tax.....	-200	+800
2. Simplification.....		-400
3. Investment credit for domestic oil and gas exploration.....		-50
4. Property tax credit for elderly.....		-500
		-150
BUDGETED ITEM		
5. Tuition credit for nonpublic schools.....		-450

**Exhibit 44.—Statement by Assistant Secretary Hickman, May 10, 1973,
before the House Ways and Means Committee**

My testimony today concerns the relationship of our tax system to international trade policy. I will explain the administration's proposals for changes in the tax laws relating to income from foreign sources.

Some would use our tax system as a tool to deter foreign investment. We believe that would be a mistake. As Secretary Shultz stated in his testimony yesterday, the evidence is that foreign investment has made a positive contribution to our balance of payments, to our exports, and to jobs and prosperity at home.

The administration's tax proposals rest on the conviction, stated in the President's trade message, that "our income taxes are not the cause of our trade problems and tax changes will not solve them." The basic dislocations and distortions that exist with respect to international trade and investment must be solved by hard bargaining with other countries. The route to increased domestic investment for exports lies in realistic monetary exchange rates and in assuring fair access to foreign markets for U.S.-made products. It does not lie in inhibiting foreign investment by use of the tax laws.

Our proposals for tax changes deal with distortions created by existing tax laws, both domestic and foreign. What is wrong with the tax system we aim to remedy. But we do not propose to use our tax laws to correct or to mask broader problems not caused by taxes.

The present system—basic concepts

Under the existing law, we impose an income tax on individuals and an income tax on corporations. Corporate earnings which are distributed are taxed twice—once to the corporation when it earns them and again to the shareholders when they receive them. We do not purport to tax foreign citizens or foreign corporations except on income earned in the United States.

These general principles apply to U.S. investment at home and abroad. Thus, we tax the worldwide income of a corporation that is incorporated in the United States, and we tax a foreign corporation on income earned in the United States. But, we generally do not tax a foreign corporation on income earned outside the United States, whether or not that corporation is controlled by U.S. owners. However, when the income of such a corporation is distributed as a dividend to its shareholders, if those shareholders are U.S. citizens, residents, or corporations, we tax them on the dividends they receive. In order to eliminate double taxation of the same income at the corporate level, we give a tax credit to corporate shareholders for foreign income taxes paid by the foreign corporation.

The result is that foreign subsidiaries compete in foreign markets under the same tax burdens as their foreign competition. As a foreign corporation operating abroad, it pays tax abroad and not in the United States. However, at the stockholder level, the earnings are subject to U.S. tax under the general rules ap-

plicable to shareholders. When income is repatriated from the subsidiary to the U.S. shareholders it is taxed to the shareholders at regular U.S. tax rates, subject to a credit for foreign income taxes. This credit cannot exceed the amount of tax due to the United States on the foreign income, so that it does not reduce tax liability on U.S. source income.

Effects of the present system

Our present system of taxing foreign source income has on the whole served us well. It minimizes the intrusion of taxes into investment decision. At present, a business can—and typically does—decide whether or not to invest in a particular foreign country on the basis of market and business factors, knowing that it will be taxed in that country just as its local competitors are taxed.

Thus, the present system has maximized the responsiveness of investment to the forces of a free market. By being competitive abroad, American-owned foreign businesses have opened major new markets to American companies and have promoted exports, prosperity, and jobs at home.

Table 1 indicates the contribution which American investment abroad is making to our balance of payments problem. The income flowing back to the United States from investments abroad is today roughly twice as large as the flow of new investment out. Foreign investment makes a major contribution on the basis of repatriated earnings alone, to say nothing of the indirect benefits which flow from the opening of foreign markets to Americans.

Not too many years ago, foreign tax rates were substantially lower than U.S. tax rates, and it was argued by some that those lesser tax rates were a critical factor in many investment decisions to locate abroad. Whatever the logical merits of that position, the facts have changed very significantly in recent years. Tax rates in the major industrial nations which are open to U.S. investment are now in roughly the same range as U.S. tax rates. This is apparent from table 2. In addition to the income tax rates indicated on table 2, it is important to keep in mind that the foreign governments listed collect additional withholding taxes at rates ranging up to 35 percent on the payment of dividends and interest flowing from foreign subsidiaries to U.S. shareholders. Thus, in many cases, the combination of foreign income and withholding taxes exceeds the rate at which a corporation's income would be taxed in the United States. Under these circumstances, it is apparent that comparative tax rates are of only marginal significance in normal cases and major countries.

Table 3 illustrates still a further fact, that foreign subsidiaries repatriate about half of their foreign earnings and reinvest about half abroad. Students of corporate activity know that corporations today must reinvest a substantial portion of their earnings if they are to stay healthy and competitive. The payout rate for foreign corporations indicated in table 3 is comparable to the dividend payout ratio for American industry generally. There may, of course, be individual cases in which companies reinvest abroad solely to avoid the additional tax occasioned by repatriation. But in the aggregate, the situation seems to be a fundamentally healthy one in which normal percentages of income are returned to the United States and taxed here.

Tax proposals of H.R. 62

H.R. 62 proposes two major changes in the existing tax system. It would eliminate the credit for taxes paid to foreign countries and it would abolish the rule that shareholders are taxed on dividends only when those dividends are paid to them. We have considered these proposals at length and have concluded that they are undesirable because they would destroy the neutrality of our tax system with respect to decisions to invest abroad. Let me deal briefly with each of the two proposals.

1. *Proposals to replace the foreign tax credit with a deduction for foreign taxes.* No major nation taxes foreign source income in the manner or to the extent contemplated in H.R. 62. Every major industrial nation has devised some system for preventing double taxation of the same income by itself and other nations. These unilateral rules have been supplemented by international conventions for the avoidance of double taxation. There are two methods generally employed to that end. One method is simply to exempt from domestic tax income having its source in some other nation. This is the method followed, for example, by France. A second method is to tax foreign source income domestically but to allow credit against domestic tax for foreign taxes paid on the same income. This is the method followed by the United States.

Within countries there may be double taxation of the same income at different political levels. For example, in our country both the States and the Federal Government may tax the same income. Where that occurs, the nation must work out internally the interrelations between local and national taxes in order to arrive at a total level of tax which is tolerable. As a practical matter, that kind of accommodation is simply not possible between nations, as the levels of total tax in each nation have become relatively high.

Let me illustrate the level of tax which would result if we were to allow foreign taxes only as a deduction. If, for example, \$100 of corporate income pays \$46 of corporate tax in England, a deduction for that tax would leave the remaining \$54 subject to tax at 48 percent in the United States. The corporation would pay an additional \$26 of U.S. tax for a total of \$72 tax on each \$100 of corporate income. That would be an effective tax rate of 72 percent. If the remaining \$28 were taxed when distributed to shareholders, at say 50 percent, the result would be an effective tax rate on distributed corporate income of 86 percent. That is an unrealistic level of taxation. People simply will not invest if the tax collector claims too large a share of the profits.

Thus, the primary reason why elimination of the foreign tax credit is unrealistic is that it would, in fact, be nearly confiscatory.

2. *Proposal to accelerate taxation of shareholders.* H.R. 62 would abandon the general rule that shareholders are taxed on corporate income only when that income is received. The proposal would accelerate the time at which shareholders are taxed on foreign source income by disregarding the corporate entity and taxing such income directly to the shareholders as earned. That is a fundamental change in our system of corporate taxation, and in rejecting it we were influenced by the following considerations:

(1) There is no persuasive evidence that the present system distorts investment decisions except in unusual cases. As previously noted, the income and withholding tax rates in the major industrial nations are sufficiently close to U.S. rates that any differences would be unimportant.

(2) Such a system would mean that American-controlled corporations operating abroad would in many instances be at a substantial disadvantage compared to their foreign competitors with respect to the tax burden on profits retained in the business.

(3) Where there is a disadvantage at the corporate level, only American-controlled companies would be subject to it and there would be a substantial incentive, if not a necessity, for Americans to divest themselves of control. That would entail a substantial loss in American investment values and a substantial decrease in the ability of American firms to manage their foreign investments. We do not believe that to be desirable.

(4) The revenue gain to the Treasury from accelerating the taxation of shareholders would be minor in comparison to the depressing effect on U.S. economic activity abroad. We estimate that the acceleration of the tax on shareholders would produce about \$300 million of additional revenue to the United States. One of the chief effects of such a proposal would be simply to increase the amount of tax which corporations pay to foreign governments. Let me illustrate why that is so by assuming a corporation which earns \$100 and is subject to a 40-percent income tax rate in country X. The company knows that when it ultimately repatriates its earnings there will be an additional 10-percent withholding tax due to country X. If a taxation of the U.S. corporate shareholders were accelerated and they were required to pay \$48 of tax to the United States, it would make sense for the foreign subsidiary to declare a dividend of the \$60 which remains net after taxes in country X and to pay a \$6 withholding tax to country X on that amount. It would then have paid a total of \$46 tax to country X, all of which would be creditable against the \$48 of tax owing to the United States. It would thus satisfy its potential withholding tax liability to country X without increasing its total tax. The net result is that the company's tax has increased from \$40 to \$48, but of that \$8 increase, only \$2 goes to the U.S. treasury and the remaining \$6 goes to the treasury of country X. The results would be different where the rates are different from those assumed, but the point is that a substantial amount of additional tax would go to foreign governments.

For all these reasons, we believe it desirable to stay with the general rule that corporate earnings are taxed to shareholders only when received.

1961-1962 congressional review of foreign source income

These issues are not new. In 1961 and 1962, Congress reviewed in depth U.S. tax policy with respect to the taxation of foreign income and concluded that it was generally appropriate to tax the earnings of U.S.-controlled foreign corporations when those earnings are distributed to U.S. shareholders, i.e., to continue to apply the same rules that we apply to shareholders of U.S. corporations. This committee rejected a general proposal to tax the undistributed income of foreign corporations to their U.S. shareholders. The Report of the Committee on Ways and Means on the Revenue Act of 1962 stated that:

Testimony in hearings before your committee suggested that the location of investments in these countries is an important factor in stimulating American exports to the same areas. Moreover, it appeared that to impose the U.S. tax currently on the U.S. shareholders of American-owned businesses operating abroad would place such firms at a disadvantage with other firms located in the same areas not subject to U.S. tax. (H.R. Rep. No. 1447, 87th Congress, 2d Session 57-8 (1962).)

However, Congress recognized in 1962—and the administration's proposals recognize now—that changes in our tax structure should be made where the tax rules themselves create inequities or artificial distortions in investment decisions. Thus, in 1962, the Congress provided a special rule for foreign source income of holding companies and certain selling and service subsidiaries operating in foreign "tax havens," and in that limited situation accelerated the time at which U.S. shareholders were taxed on that income. Also in 1962, the law was changed to ensure that untaxed and undistributed profits of a controlled foreign corporation, whether or not operating in a tax haven, would not escape ordinary income tax as a result of a sale or liquidation of the foreign corporation.

The administration's proposals

We have three proposals for legislative change. They are advanced in the belief that our system is fair in its general application, but that in certain limited situations we need changes in our tax system to neutralize distortions in investment decisions and revenue collections caused by certain features of some foreign tax systems.

TAX HOLIDAYS

There has been an increasing tendency for both developed and developing countries to provide "holidays" from their income taxes in order to attract investment in manufacturing. This can mean that no income tax, or very little tax, is paid with respect to the earnings of certain foreign corporations until the income is distributed as a dividend. This kind of deliberate and wholesale tax enticement does often control investment decisions. We believe that is a tax distortion and that it should be neutralized.

We are requesting amendment of the tax laws so that earnings from new or additional U.S. investments in manufacturing or processing facilities which take advantage of such tax incentives will be taxed to the U.S. shareholders at the time they are earned. Where such an incentive is availed of, the income of the foreign corporation will be taxed currently thereafter, regardless of whether the incentive is in effect for a subsequent year, unless the corporation ceases to be engaged in manufacturing or processing operations. We are prepared, in appropriate circumstances, to enter into tax treaties with other countries, subject to Senate approval, to recognize incentives under appropriate safeguards.

In order to give the Secretary of the Treasury or his delegate broad authority to define by rules or regulations the general categories of foreign tax investment incentives subject to the rule, and to determine whether specific practices or benefits constitute such an investment incentive, the proposal will define a foreign tax investment incentive in broad terms. It will include any income tax related benefit, however effected, which is intended to encourage or has the effect of encouraging investment in the foreign country which provides the benefit, and whether or not granted to nationals as well as foreigners. Such a benefit may be provided by law, regulation, or individually negotiated arrangements. However, the fact that there is a generally low rate of tax in a country will not be considered by itself a tax incentive. It is intended that only major tax concessions would be affected. Examples of benefits or practices of the type which constitute investment incentives include tax holidays (which are partial or com-

plete exemptions from tax for a period of time); deductions for reinvestment reserves; certain grants; and certain depreciation rules bearing no relationship to useful life.

RUNAWAY PLANTS

We also believe that the United States has a legitimate interest in taxing currently the income of a corporation that has moved abroad to take advantage of lower tax rates to manufacture goods destined for the United States. To accomplish this we propose, in addition to the tax holiday rule, that where a U.S.-owned foreign corporation has more than 25 percent of its receipts from the manufacture of goods destined for the United States and is subject to a significantly lower tax rate, the income of such corporation will be taxed currently to the U.S. shareholders. A foreign tax will be deemed significantly lower where the foreign effective tax rate is less than 80 percent of the U.S. statutory corporate tax rate. The tests as to the percentage of exports to the United States and the effective foreign tax rates will be applied annually.

Our proposal for tax holidays and runaway plants will add a new section to the Internal Revenue Code providing that a U.S. shareholder (i.e., a shareholder who is a U.S. person owning 10 percent or more of the stock) of a controlled foreign corporation will be treated as having received his pro rata share of the corporation's earnings and profits for a taxable year if the corporation is one that receives a tax holiday or a similar tax investment incentive or is a runaway plant. A controlled foreign corporation is one having more than 50 percent of its combined voting power owned by U.S. shareholders. The tax holiday and runaway plant rules would be in addition to those added by the Congress in 1962 in its tax haven legislation, and the mechanism for taxing the shareholders would be comparable, but without certain escape clauses that were provided in the 1962 legislation.

A corporation will be regarded as engaged in manufacturing or processing operations if the unadjusted basis of the tangible property and real property used in its manufacturing or processing operations exceeds 10 percent of the unadjusted basis of all tangible property and real property of the corporation. Corporations engaged in other businesses, such as mining, would be unaffected. The provisions will apply to any new investment or additional investment in existing manufacturing or processing operations after April 9, 1973. In the case of additional investment or replacement of existing investment, a transitional rule is proposed so that these provisions will not be applicable until the increased investment exceeds 20 percent of the investment on April 9, 1973.

FOREIGN LOSSES

We have also proposed that where U.S. taxpayers have used foreign losses to offset other income taxable by the United States and those foreign losses are not taken into account by the foreign jurisdictions in later years, then the United States will, in effect, recapture those losses by a reduction of the foreign tax credit or an inclusion in the gross income of the taxpayer in later years. This proposal modifies the present system under which the United States bears the cost during the loss years, but receives none of the revenue during the profitable years. In these circumstances, we wish to be certain of our fair share of the tax revenues.

The reduction in the tax credit would apply where the taxpayer itself continues to operate abroad in profitable years. However, since initial losses are frequently anticipated, one tax planning technique has been to operate in a branch form to deduct losses against U.S. income during the startup period followed by incorporation of the foreign branch as a foreign subsidiary at or near the time the operation becomes profitable. In order to prevent this maneuver, the legislation proposes the recapture of losses by taking the previous losses into income upon the incorporation of a branch or comparable change in its tax status.

TABLE 1.—U.S. direct foreign investment, balance of payments flows, 1970 and 1971
[Millions of dollars]

	1970		1971	
	Net capital outflows	Income inflow ¹	Net capital outflow	Income inflow ¹
All areas.....	4,400	7,920	4,765	9,455
Developing countries ²	1,162	3,784	1,940	4,743
Developed countries.....	3,238	4,136	2,824	4,713
Canada.....	908	1,301	226	1,397
Europe.....	1,914	2,200	2,083	2,595
EEC.....	994	1,198	1,305	1,392
All other Europe.....	920	1,002	778	1,203
Western Hemisphere.....	568	1,375	668	1,460
Other areas.....	1,010	3,045	1,788	4,004

¹ Includes after-tax branch profits plus dividends, interest, royalties, fees and film rentals net of foreign withholding taxes.

² Includes unallocated international direct investment.

Source: U.S. Department of Commerce, Survey of Current Business, November 1972.

TABLE 2.—Statutory (1972) tax rates for selected countries

Country	Statutory corporate income tax rate	Withholding rates on dividends ¹
Canada.....	250	15
Mexico.....	342	15
Panama.....	450	8
Argentina.....	33	12
Brazil.....	530/5	20
Venezuela.....	650/60	15
Belgium.....	735/10	15
France.....	60	5
Germany.....	851/15	15
Italy.....	943	5
Netherlands.....	48	5
Sweden.....	40	15
Switzerland.....	1029	5
United Kingdom.....	1140/38.75	15
Republic of South Africa.....	1243/25	15
Japan.....	1336.75/26	10
Philippines.....	1435	35
Australia.....	47.5	15

¹ Where a reduced rate of withholding is applied for parent-subsidiary dividends, that rate is shown.

² 21 percent of first \$35,000, and 50 percent of the excess.

³ Progressive rate structure of 5 to 42 percent.

⁴ Corporations are taxed according to a progressive rate structure with bracket progression. The highest percent on the excess is 50 percent.

⁵ 30 percent of taxable income and 5 percent on distributed profits of other than service corporations.

⁶ Progressive rate structure with a maximum rate of 50 percent of income over 28,000,000 bolivares. Corporations engaged in oil and mining activity are subject to a rate of 60 percent on gross increments.

⁷ 30 percent for distributed income with a floating rate on undistributed income; maximum is 35 percent on excess over B.Fr. 5,000,000. 10-percent surcharge on basic rate.

⁸ Tax on undistributed profits/distributed profits. Distributed profits also bear substantial local taxes.

⁹ Companies in Italy are subject to both the income tax, at rates varying from 18 to 25 percent, and to the company tax of 18 percent.

¹⁰ Federal tax is a maximum of 7.2 percent; however, the cantons assess a progressive corporation tax. The maximum rate is 29.78 percent including Federal and communal rates.

¹¹ A corporate tax of 40 percent is levied on all corporate profits and a 38.75-percent tax is applied on distributed profits.

¹² The normal tax on companies is 43 percent. There is a 25-percent tax on undistributed profits. Mining income is taxed at 40 percent except for diamond mining (45 percent) and gold mining (special formula).

¹³ Undistributed profits are taxed at a maximum rate of 36.75 percent. Distributed profits are taxed at maximum rate of 26 percent.

¹⁴ Corporate tax is 25 percent of first 100,000 pesos and 35 percent of the excess.

TABLE 3.—*Payout ratios of earnings of U.S. subsidiaries abroad*

[Figures in millions of U.S. dollars]

	Developed countries		Other areas		All areas	
	1970	1971 ^a	1970	1971 ^a	1970	1971 ^a
I. All industries:						
a. Dividends paid.....	2,247	2,472	1,144	1,510	3,391	3,982
b. Foreign withholding taxes.....	298	319	118	129	416	448
c. Dividends received.....	1,949	2,153	1,026	1,381	2,975	3,534
d. Reinvested earnings.....	2,075	2,375	874	741	2,948	3,116
e. Total earnings (a+d).....	4,322	4,847	2,018	2,251	6,339	7,098
f. Payout ratio (a as percent of e).....	52	51	57	67	53	56
II. Manufacturing:						
a. Dividends paid.....	1,499	1,584	299	294	1,799	1,878
b. Foreign withholding taxes.....	206	214	51	53	257	267
c. Dividends received.....	1,293	1,370	248	241	1,542	1,611
d. Reinvested earnings.....	1,252	1,508	282	277	1,534	1,785
e. Total earnings (a+d).....	2,751	3,092	581	571	3,333	3,663
f. Payout ratio (a as percent of e).....	54	51	51	51	54	51

^a Preliminary.

NOTE.—Data exclude interest earnings as well as royalties and fees.

Source: Department of Commerce, Survey of Current Business.

Exhibit 45.—Remarks by Deputy Secretary Simon, May 19, 1973, before the Section of Taxation, American Bar Association, Washington, D.C., on tax reform

I am delighted to have the opportunity to discuss the administration's approach to tax reform with this distinguished group. The Section of Taxation of the American Bar Association has for many decades contributed much to the legal profession. It has also, through sound and intelligent assistance to the Treasury Department and the taxwriting committees of the Congress, contributed greatly to the continuing improvement of the Nation's tax laws.

In the few months that I have served here in Washington, I have become involved in a wide range of public policy issues, including international monetary reform, trade, the economic stabilization program, energy, and many others. Of all these issues, the one that I have found the most complex, and yet one that is so important to us all, is the subject of taxes. As the President said in April of 1969, "Tax policy should not seek to 'soak' any group or give a 'break' to any other—it should aim to serve the Nation as a whole." As such, tax policy must be formulated with great care.

I would like to review with you the record of the Nixon administration in the area of taxes. In so doing, we can better understand this administration's objectives with respect to the tax law, our approach to changing the law, and the policies we have pursued in the recent tax proposals. I think you will then see that we have continually sought genuine and major improvement of the tax system to make it serve the Nation better; not merely change for the sake of change but change that will result in a more equitable distribution of the tax burden.

The President committed himself to tax reform in the 1968 campaign, and within 100 days of his inauguration, he proposed major and fundamental tax reform. In so doing, two basic objectives which underlie the administration's approach to tax policy became evident:

- (1) *Tax equity*—assuring that every person pays a fair and reasonable share of the cost of his government and that when a citizen files his tax return and pays a reasonable amount of tax, he does so with renewed confidence that his fellow Americans are doing the same.
- (2) *Tax simplification*—relieving the average American taxpayer of the inordinate complexity in filing his tax returns, which is often a more onerous burden than paying the tax itself and which must be eased if our system of self-assessment and voluntary compliance is to survive.

Underlying each of these objectives has been our desire to foster sound economic growth. The tax system must be conducive to the stable growth of our domestic economy and the longrun improvement of our position in world markets. Consistent with our goals of greater tax equity and tax simplification, we have pursued changes in the tax system which would make American industry more competitive in world markets, resulting in more jobs in our country.

We took important steps toward achieving these objectives with the Tax Reform Act of 1969, which has been characterized as the most substantive tax reform bill ever enacted. We pursued these goals further through the enactment of the Revenue Act of 1971. We restored the investment tax credit and liberalized depreciation rules. These changes have contributed greatly to the resurgence of the national economy without compromising the essential equity of our tax system.

Impact of 1969-1971 administration tax reform

We are now just able to assess the full effects of the Tax Reform Act of 1969 and, to a lesser degree, the Revenue Act of 1971; and although all of the pertinent statistics are not yet available, Treasury estimates show that the tax reform and relief provisions of the 1969 and 1971 legislation were extremely progressive in their effect and resulted in reducing individual income taxes while increasing corporate income taxes.

For the 4 calendar years 1969 to 1972: Corporate income taxes have increased by an aggregate of \$4.9 billion; individual income taxes have decreased by an aggregate of \$18.9 billion; and excise taxes, mostly affecting individuals, have decreased by \$3.5 billion.

Equally as significant is the fact that for the years 1969 to 1972, the greatest percentage reductions in tax have been made in the low-income groups and substantial reductions have been made in the middle-income groups. Further, there were significant increases in tax liability for the highest income groups. Thus, due to the 1969 and 1971 changes, persons in the zero to \$3,000 income class had 82 percent less tax liability in 1971 than they would have paid if the Tax Reform Act of 1969 and the Revenue Act of 1971 had not been in effect. Persons in the \$10,000 to \$15,000 income class had 13 percent less, and persons in the \$100,000 and over income class had 7½ percent more.

Further, much concern has been expressed because some citizens with high adjusted gross incomes pay no Federal income tax. These people are neither tax dodgers nor tax cheats. Many of them pay no taxes because of various tax incentives purposely enacted by Congress. As important, however, is the fact that a great majority of persons with high adjusted gross income are paying tax. In 1971 there were a total of 18,261 persons in the country with adjusted gross incomes of \$200,000 or more, and 18,189, or 99.6 percent, of them paid an average Federal individual income tax of \$182,000—a total of about \$3.3 billion. Thus, the wealthy as a group are paying large amounts of Federal income tax and more now than they were before the enactment of the Tax Reform Act of 1969.

These figures reveal that this administration has already produced sound tax reform, the kind that more equitably spreads the tax burden and avoids incentive-destroying tax levels that would hinder economic growth and increase unemployment.

Greater equity and simplification has occurred

The administration's desire to improve the equity of the Federal tax structure and achieve simplification of the tax law may be further illustrated in a number of different ways.

The low-income allowance.—A most significant step toward greater equity was taken by the enactment of the low-income allowance, which the President recommended and Congress adopted in 1969 and which was updated in 1971. Under this provision, single persons with income of less than \$2,050 and a family of four with income of less than \$4,300 did not have to pay Federal income tax in 1972. It should be noted that the low-income allowance is of considerable benefit to students who work during their years of higher education since they often earn less than the taxable income level of \$2,050. The low-income allowance has removed from the tax rolls substantially all of those whose incomes are below the poverty level. Thus as a result of the 1969 and 1971 acts, some 9.5 million tax returns, or 12 million taxpayers, that owed tax prior to 1969 no longer owe tax. This represents about 13 percent of all the tax returns that would have showed a tax due in 1972 had not the 1969 and 1971 acts been adopted.

Moreover, we significantly relaxed the withholding requirements so that large numbers of persons who owe no tax—for example, the college students working in the summer—will not have to file returns to recover a refund of tax needlessly withheld. I think that these steps represent major simplification in the tax law and offer genuine tax relief to the young, the elderly, the disadvantaged, and the handicapped.

New rate schedule for single persons.—Another notable change in the 1969 act produced greater equity for single persons. Under previous law, a single person's tax liability could be as much as 40 percent above a married couple with the same income. The 1969 act added a new rate schedule for single persons which ensured that in no case would a single person's tax be more than 20 percent greater than the tax payable by a married couple with the same income.

Increase in standard deduction.—The regular standard deduction was increased from 10 percent of adjusted gross income with a \$1,000 ceiling to 15 percent of adjusted gross income with a \$2,000 ceiling for 1972 and after. As a result of the 1969 and 1971 acts, and primarily due to the liberalized standard deduction, some 13 million returns which would have itemized deductions in 1972 will be able to shift to the standard deduction. This is also a significant step toward simplification.

Increase in the personal exemption.—As a further adjustment of the tax burden for individuals and in an attempt to achieve greater equity in the tax law, the personal exemption was increased from \$600 in 1969 to \$750 for 1972 and after.

Tax preferences—further equity

Whenever the subject of taxes is discussed, attention is immediately focused on the so-called preferences in the Federal income tax. These preferences are most varied and the list depends on one's particular point of view. What is viewed as an unfair preference by one man is considered an equitable provision by another. The administration's efforts in 1969 resulted in considerable attention being focused on preferences. We sought to restrict tax avoidance while at the same time preserving provisions which help stimulate economic growth. As such, the changes embodied in the 1969 act affected specific preferences in a number of areas. For instance—

Certain mineral transactions were treated in such a way that would stop artificial creation of net operating losses in these industries;

Exempt organizations, including private foundations, have come under stricter surveillance;

The rules affecting charitable deductions were tightened to screen out the unreasonable and yet not stop those that help legitimate charities;

The practice of using multiple subsidiaries and affiliated corporations to take undue advantage of the lower tax rate on the first \$25,000 of corporate income was curbed; and

The use of farm losses was restricted in order to curb abuses in this area. Further, the 1969 act affected such areas as oil depletion, real estate depreciation, and interest deductions.

This effort was an important first step in our continuing desire to achieve greater equity in the tax law. But in dealing with this area of preferences, I think it is wise to be very cautious and not hasty in calling for the elimination of one provision or the other. There have always been many provisions inserted in the law for purposes of stimulation of investment in particular types of property and other expenditures deemed desirable for the national interest because they act as inducements to private investment or expenditures. Every preference in the tax law serves to reduce the tax for those who take advantage of it and also reduces the revenue yield derived from the tax. However, a decision must be made as to whether the benefits that flow from the existence of the tax preference are worth the estimated loss of revenue to the Government. This cost-benefit analysis is of primary importance to evaluate the desirability of the preference and should be made at frequent intervals as a matter of continuing concern. In so doing, it is important to realize that each of these preferences tends to shift the burden of income tax from one taxpayer to another. Since the Government requires a certain level of revenue to finance its needs, the preference used by some taxpayers will cause a shift of higher burden on those taxpayers who either do not choose to take advantage of the preference or are not able financially to do so. We have been committed to this careful analysis

and in making our recent proposals to Congress, we went to great length to do this.

1973 tax reform proposals

The President's recent "Proposals for Tax Change" are aimed at furthering our goals of greater equity and simplification in our tax system without sacrificing vital incentives for economic growth. The proposals represent a lengthy and careful study by the Treasury Department. In addition, the Ways and Means Committee had previously concluded several months of hearings in which panels of experts and public witnesses explored in great detail nearly every aspect of the Internal Revenue Code. Many of you participated in these hearings, which contributed substantially to a clearer understanding of our tax system as it exists today and how it can be made better.

The administration proposals take into account and build upon the foundation of this extensive background in providing a balanced program of tax equity, tax relief, and tax incentives to facilitate economic growth, help meet the Nation's energy needs, and expand the financial capabilities of State and local governments. In all, there are 11 major proposals to which we recommend that the taxwriting committees of the Congress give their immediate attention.

In order to better understand these tax proposals, it is important to keep in mind several general principles:

First, there is the amount of tax Americans are called on to pay. We feel that Americans are already taxed enough. The President has repeatedly taken the position that a general tax increase is both unnecessary and undesirable, and his tax proposals are essentially neutral in their budgetary effect.

Second, there is the matter of who pays these taxes; that is, the relative distribution of the tax burden among citizens. As I mentioned earlier, the 1969 and 1971 tax changes added considerably to the progressive aspects of our tax system, and the recent proposals add to this progressiveness.

Proposals for property tax relief, the credit for nonpublic school tuition, and the major simplification of the average person's tax return all will benefit the lower and middle-income Americans and will be offset by the revenues from the minimum taxable income and artificial accounting loss proposals which will require those few individuals who are not now paying a reasonable amount of tax to do so.

Third, there is the amount of the tax burden borne by the capital which is necessary to permit us to modernize and expand. We exercised great care in developing these proposals not to impair the ability of American industry to compete effectively with the rest of the world.

All the proposals are important, including the property tax relief and the tax credit for tuition paid to nonpublic schools, which alone provide about \$800 million of needed tax relief and equity for low- and middle-income citizens. The proposals in the foreign area are of great importance and will play a vital role in the overall program of the administration in strengthening our domestic economy. And the proposal for optional issuance of State and local bonds will be of great importance to these governmental units. However, I would like to focus particularly on three of the proposals: The minimum taxable income and artificial accounting loss proposal, the exploratory drilling credit, and the tax simplification proposal.

The minimum taxable income and artificial accounting loss proposal involves a bold step in our effort to achieve greater equity. These proposals will affect a number of high-income taxpayers who pay little or no tax.

Some of the causes underlying this phenomenon—particularly the so-called tax shelters—represent real economic inefficiencies in which an undue emphasis has been placed on tax losses instead of efficient operations which add to economic growth. A common characteristic of a tax shelter investment is that it produces deductions and exclusions, particularly in the early years, which may be used against other income of the taxpayer. The result may be an outright reduction in taxes, an indefinite deferral of tax, or a conversion of ordinary income into capital gain.

Sometimes these results are unintended and are caused by the exploitation of tax rules which are sound in normal situations. Other times the results flow from rules deliberately designed to provide tax incentives for particular activities. Nevertheless, aspects of the tax shelter market have introduced significant distortions into our economy. Preoccupation with tax advantages—particularly

tax deductible "losses"—too often obscures the economic realities and can have the effect of discouraging profitable and efficient enterprise. Inefficient tax incentives available in the form of "artificial losses" to investors in preferred types of properties may not contribute effectively to the social objectives of the incentives.

Our proposals are aimed at eliminating these situations in order to increase the fairness of the tax system. The basic approach is to preserve all the tax incentives in the law as well as the traditional exclusions and itemized deductions, which serve good purposes and are important to tax equity: but in the case of certain tax incentive and accounting rules, to shift the emphasis away from investments which produce tax losses to sound economic investments and efficient operations which produce income.

In order to achieve this result, we have proposed that the existing minimum tax be repealed for individuals and that it be replaced by a minimum taxable income provision and a limitation on artificial accounting losses. In general, the minimum taxable income provision will deal with those tax items that are outright exclusions from income, and the limitation on artificial accounting losses will deal with those tax rules that provide deferrals.

We have already heard a number of comments that the minimum taxable income proposal will have an adverse effect on such worthwhile causes as charitable giving. Further, concern has been expressed that the limitation on artificial accounting losses will greatly discourage certain needed investments, such as those for the development of oil and gas reserves. A close examination of the proposals, however, will show that the effect of these proposals in such areas will not be drastic.

First of all, I think it is important to note the combined full-year revenue impact of the minimum taxable income and artificial accounting loss proposals, at 1972 levels of income, is estimated at about \$800 million, after taking into account repeal of the present minimum tax on individuals which amounts to about \$200 million.

With respect to the minimum taxable income proposal, the proposal is estimated to affect about 130,000 people at most. The proposal will reduce the charitable contributions of some of these people, but the maximum possible reduction would be a small percentage of total charitable gifts and is far less than the annual growth in charitable giving from those persons not affected. Specifically, total annual giving by individuals to charity is estimated to be about \$16 billion and the annual growth in charitable giving by individuals alone is about \$1 billion. We currently estimate that total annual giving by those persons who would be affected by the minimum taxable income proposal is about \$850 million, of which preliminary estimates show that about \$350 million may be affected. Further, we estimate that the average annual contribution to charity by individuals affected by this proposal is about \$8,000 to \$10,000. There will, of course, be cases in which a particular charity is heavily dependent on large gifts from one individual who may be influenced by this tax provision to reduce his contributions; but we feel that these instances will not be significant and, in the long run, this provision will help preserve the still generous charitable contribution provisions which remain in the law.

With respect to the artificial accounting loss proposal and its impact on the oil and gas industry, I feel that exploratory drilling should not be seriously affected. I think that a major impact of the proposal will be to shift investment initiative away from ventures aimed at producing a tax loss to those which will be economically successful. If the exploratory hole is productive, the intangible drilling costs may still be written off against related income, and the tax savings will probably be reinvested in another venture. It is also important to note that exploratory holes that are dry will get the same deductions as they do now, except that the intangible drilling costs on year-end holes not completed by December 31 will be postponed 1 year. Therefore, the proposal will probably result in earlier planning in order to have wells completed rather than merely "spudded in" by December 31.

The exploratory drilling credit.—Not only is it important to understand that the minimum taxable income proposal should have a limited impact on investment in the oil and gas industry, but it is also important to realize that we have proposed a new exploratory drilling investment credit which should serve as an added incentive to increased domestic exploration and development.

This credit is structured to reward success by providing a greater credit for a commercially productive well. In this way, the Nation will be a guaranteed winner, for a successful well will at the same time provide needed energy resources and also increase the tax revenues.

This new credit extends to oil and gas exploration a proven and successful tax incentive device; namely, the investment credit restored in 1971 at the President's recommendation. In general, it allows a driller of a new domestic exploratory hole to claim the 7-percent investment credit on his intangible drilling costs and, if the exploratory hole is productive, to claim a supplementary credit of 5 percent. In this way, the new credit should more than offset any limiting effects of the limitation on artificial accounting losses.

The tax simplification proposals.—The third aspect of our new proposals that I would like to mention involves our continuing effort to simplify the tax laws. These proposals represent a unique and exciting approach which I am confident will enable us to go a very long way, this year and continuing in the future, toward really eliminating complexity for millions of average individual taxpayers. In testimony before the Ways and Means Committee your distinguished chairman, Donald McDonald, emphasized the importance of simplification and pointed out the special committee of the Tax Section devoted to that and the work you are doing.

A major part of the simplification program is in form 1040-S, and the common sense sort of approach it represents—to look at the tax return, to find ways to simplify it, and then to try to amend the law to conform to that. The principle legislative changes to implement form 1040-S are the enactment of the miscellaneous deduction allowance, revision of the child care deduction, and the substitution of an age credit for the present complicated retirement income credit.

The other aspect of simplification, also of major importance, is the project we have underway in working with the staff of the Joint Committee on Internal Revenue Taxation to redraft and simplify a large number of other Code provisions which affect the average individual and which are more complicated than they need be. The Section of Taxation can be of great help in that effort.

It is easy to call for simplification, but to actually accomplish it is another thing. Through a cooperative effort by the Treasury and the Internal Revenue Service, we feel we have taken major steps to simplify the preparation of tax returns for the 75 million individuals who file them.

Conclusion

In conclusion, I would say that our new tax proposals are the result of careful analysis in our continuing effort to produce a tax structure that is more equitable and simpler while sustaining sound economic growth. In an environment where respect for all law seems to be decreasing, we have sought changes in the tax law which will strengthen its system of voluntary compliance. I feel our proposals will, if enacted, bring about fundamental and major improvement in the law. Obviously, they do not exhaust the possibilities for change and as Secretary Shultz has said, we stand ready to work with the Congress in other areas. I feel we have made great progress, and we will continue to reform our tax structure to make it more equitable and efficient and to make it more responsive to urgent social needs.

Thank you.

Exhibit 46.—Statement of Deputy Assistant Secretary Hall, June 13, 1973, before the General Subcommittee on Labor of the House Committee on Education and Labor, on proposals for a Government-sponsored system of insuring pension plan benefits against losses on plan termination

Mr. Chairman and members of this subcommittee, I am pleased to be with you today to discuss proposals for a Government-sponsored system of insuring pension plan benefits against losses on plan termination.

As you know, the administration is not recommending a plan of termination insurance at this time. We are sympathetic to the idea of termination insurance. We have done quite a good deal of work in attempting to frame a reasonable program and are continuing to study the area in hopes of developing a workable program. However, as President Nixon stated on April 11, 1973:

No insurance plan has yet been devised which is neither on the one hand so permissive as to make the Government liable for any agreement reached

between employees and employers, nor on the other hand so intrusive as to entail Government regulation of business practices and collective bargaining on a scale out of keeping with our free enterprise system.

This morning I would like to discuss with you some of the specific problems which underlie that conclusion.

First, a bit of history:

In December of 1971, President Nixon directed the Departments of Labor and Treasury to undertake a study to determine the extent of benefit losses arising from pension plan terminations. It was the purpose of the study to obtain information needed to determine what Federal policy should be on funding, the nature of the employer's liability, and termination insurance. To do this, it was necessary to determine both the extent of the problem of termination-connected benefit losses, what kind of insurance program would best correct the problem, and what new problems if any would be created in the course of solving the termination problem.

An interim report on this study was completed and released in February of this year. This study found in general that while individuals suffer significant losses on plan terminations, each representing serious hardship to those affected, these losses are small in relationship to the total benefits paid under the private retirement system. Specifically, during the first 7 months of 1972, 3,100 employees lost \$11 million of vested benefits as a result of termination of underfunded plans. This is a small fraction of the \$10 billion of benefits paid out in 1972. This is also a small fraction of the benefits lost through termination of employment without full vesting.

In connection with this study, the administration exerted considerable effort in analyzing the insurance systems which have been proposed and in attempting to devise the optimum program.

If we could be confident that the existence of the termination insurance program would not affect people's behavior in any way, the idea would be an excellent one. Because benefit losses from terminations are few, they could be insured against at a relatively small cost, and with relatively few administrative difficulties. As we studied the possibility, however, it became readily apparent that there is an inherent instability in the situation. The existence of the insurance program itself could lead to a variety of abuses and in fact increase the number of plan terminations, creating constantly rising costs for what would at the outset appear to be an inexpensive program. Let me illustrate this.

Under current law, it is to the advantage of unions and employees generally to see that plans are properly funded. An underfunded plan endangers the ultimate receipt of retirement benefits. With full termination insurance in effect, it is to the union's interest to have the barest minimum funding the law permits, with the employer dollars thus saved applied to increase other forms of compensation. However, with minimum funding, benefit losses would increase, and the insurance program could become very expensive.

Without termination insurance, an employer is less tempted to cause trust assets to be invested in risky securities in hopes of getting a better yield. With termination insurance, his employees have little to lose from such investment policies because, if the investments become worthless, the insurance system will pay their pensions. Here again, the existence of the insurance program could increase benefit losses.

Under present law, where there is no termination insurance, benefit increases are not lightly granted, particularly in declining industries where the plan's ability to make payment is problematical. If such increases are to be insured, however, the increased pensions will be paid even if the plan is underfunded and the employer is bankrupt. If worse comes to worse, the insurance will always take care of the unfunded benefits. With termination insurance, in fact, it would be possible—if you don't have proper safeguards—for an employer in a declining industry to substitute an unfunded promise of benefit increases (at the potential expense of the insurance fund) for a wage increase he would otherwise have to make.

Again, to keep highly paid people from receiving large amounts from the insurance fund, some limit on the size of benefit insured seems desirable. But then, in the absence of regulations saying who gets paid first out of the fund, plans could respond to such limits on termination insurance by providing that

uninsured benefits would be paid first with available trust funds. The insurance fund would then be left to pick up the balance.

As a result of these and other potential abuses, we concluded that abuse-prevention controls would be absolutely required for a sound termination insurance plan. Some form of maximum-insured benefit would be needed to keep stockholder-employees from lining their own pockets at the fund's expense. Some form of residual employer liability would be needed to prevent the premature or unnecessary termination at the insurance fund's expense of an underfunded plan. For instance, a new employer taking over the assets and employees of a predecessor could look at the predecessor's underfunded plan and, rather than funding it in order to keep his employees content, could just terminate it and let the insurance fund pick up the check. Some restriction on benefit increases or limitation on the insurance of such increases would be required to preclude a large benefit increase as a parting prebankruptcy gift at the insurance fund's expense by stockholders of an organization facing imminent insolvency, to the employees—and perhaps to themselves. It would be necessary to have some form of prescribed order of priority for use of available trust funds on termination.

Otherwise the available funds could be used first to pay the uninsured benefits, leaving the insurance fund holding the bag, and so forth. Actuarial assumptions would have to be controlled in order to avoid underfunding, and investment policy would have to be controlled in order to minimize investment losses.

In order to determine what kind of abuse controls could be devised, the staffs at Treasury and Labor, with assistance from Commerce and the OMB, went ahead and prepared discussion drafts. Because no decision had been reached on which Department could best administer such a program, the Department of Labor staff drafted a statute designed for administration by their department; the Treasury staff prepared a statute designed for Treasury administration. Having done this, we then stepped back and looked at what we had done.

We had bills which would not have eliminated all benefit losses. To prevent abuses, it was deemed necessary to exclude coverage of benefits beyond \$500 per month, to exclude coverage of benefits under new plans for several years, to exclude coverage of benefit increases for several years, and to exclude coverage of nonvested benefits. On the other hand, the bills would very significantly encroach upon the present flexibility of establishing plans. We had regulated the order of priority of payments; we had imposed a residual liability on the employer which he never bargained for when he established the plan and which might adversely affect his financial statements; to protect the fund, we had authorized an outside agency to come in and terminate a plan which appeared to the agency to be endangered; and we had created a system of regulations which would apply to all defined benefit plans although only a small minority are in jeopardy of termination. In fact, it appeared possible that the regulatory and other costs of the system to protect the insurance fund might actually outweigh the benefit payments themselves.

The result of our investigations, both into the scope of the problem and into the possibilities of termination insurance, led us finally to the reluctant conclusion that we could not justify the best termination insurance program we could devise, in the teeth of the great problems which would be created either by a program *without* adequate abuse controls on the one hand, or one *with* adequate abuse controls on the other.

We are only too well aware of the painful impact of termination losses on those who are affected. But we had to conclude reluctantly that the adverse impact of the kind of program we are talking about on the whole system of voluntary pension coverage might, in the aggregate, deprive more employees of benefits because their employers decided not to set up plans, than the number of employees who would receive insurance benefits.

We are still working on the problems, and we are openminded and hopeful that we may yet be able to devise a workable solution which steers between the Scylla of underprotection against abuse and the Charybdis of overregulation. To date, the best statutes we could come up with seem to us to impose social costs which outweigh their social benefits.

Now, in the light of our consideration of this problem, perhaps it would be helpful if I covered more specifically some of the issues our staff sought to deal with in preparing our study-drafts of termination insurance legislation.

Diversity of plans

In attempting to design a feasible pension plan termination insurance program, we found that there are many types of pension plans, with significantly differing characteristics. We initially concluded that termination insurance is inappropriate for about half of the retirement plans in the country. Such plans consist of money purchase pension plans, profit-sharing plans, and stock bonus plans. Under such plans, the employee recognizes that he is entitled to no more than the balance in his account, and makes his plans accordingly. Moreover, since the employee stands to gain by market gain, it is only fair that he should suffer any market loss.

Thus, the termination insurance concept makes sense only when applied to a defined benefit pension plan. However, even among defined benefit pension plans, there are wide variations. We quickly despaired of devising a separate system for each type of defined benefit pension plan. Nevertheless, we found it useful to make a distinction between two broad groups of plans—single-employer plans and multiemployer plans.

Single-employer plans may cover only employees in a single plant or office, or may cover substantially all of a company's employees and plants throughout the country. These plans may or may not be collectively bargained. Most single-employer plans call for a specific benefit amount payable at retirement, but do not specify a required employer contribution. They are generally administered by the employer, and the employer generally has the right to terminate the plan at any time with no further liability for pension contributions.

Multiemployer plans have significantly different characteristics. They generally require a specific employer contribution. They generally are administered by a joint employer-employee board of trustees which has the authority to set benefits. The employer's obligation is generally limited to making the specified contribution, and a particular employer cannot terminate the plan although he may withdraw from it. The withdrawal of any employer does not necessarily terminate the plan.

Because of these differences, it is difficult to draft one insurance program which applies to both types of plans. It has been suggested that multiemployer plans do not need the protection of termination insurance. However, significant losses have been incurred in multiemployer plans. Multiemployer plans do have a special problem because, from the employers' point of view, the plans are not defined benefit plans at all; they are somewhat like money purchase plans, since in general the employers have agreed upon a specific contribution rate, but have not agreed on a specific benefit level. Thus, one approach that might be followed is to treat single-employer plans and multiemployer plans separately under a termination insurance program, with different funding and employer liability requirements and, perhaps, even with separate risk pools.

Of course, devising separate provisions for different types of plans creates problems. Initially, there is a significant definitional problem, since some single-employer plans have many characteristics which are more commonly found in multiemployer plans, and vice versa. Furthermore, separate provisions create administrative complexity. Nevertheless, if termination insurance is adopted, some distinction must be drawn between single-employer plans and multiemployer plans.

Insured termination

A significant problem exists in deciding when an insurance system should step in to take over a plan. If the system takes over too early, losses can be created which would not otherwise exist. This is because the employer might have made significant contributions to the plan in the future. If the system takes over too late, losses can be incurred because payment of noninsured benefits may have depleted the fund, or because assets have been poorly managed.

There is an additional problem of coordinating a termination for insurance purposes, which may trigger an insurance payment, with a termination for the purpose of causing 100 percent vesting under the plan as required by the Internal Revenue Code. We have felt that these two "terminations" should occur at the same time to the extent possible. However, we have yet to develop a comprehensive definition which solves both problems. For instance, suppose an employer switches from a pension plan to a profit-sharing plan. Is that a plan termination?

Some proposals limit the types of terminations permitted or insured against. These provisions provide abuse control, but result in both overregulation and underprotection against benefit losses.

Employer liability

At present, under most pension plans, the employer has no obligation to make further payments into a terminated pension plan, although many employers make such payments in order to maintain employee good will. Under an insurance system, if there is no employer obligation to make payments, employers will tend to skimp on their funding requirements and to terminate their plans if the value of the fund assets drops significantly since they know their obligation will be met by the insurance system. Unfortunately, however, imposing a liability upon employers in such cases is unfair to employers with existing plans—particularly multiemployer plans—and may force an employer into bankruptcy, or adversely affect its credit rating or its ability to meet its day-to-day expenses.

In such a case, the termination insurance concept creates a situation which is worse than that which exists under the present system. If we are not careful, termination insurance, rather than increase retirement security, will jeopardize jobs by adding to the problems of marginal employers.

As an attempt to solve this problem, we considered a concept whereby an employer would be liable in the event of an insurance loss, but with liability limited to 25 percent of taxable income over the 20 years following termination. We excluded from liability multiemployers except in the case of a dominant employer.

This solution has its own problems. Employers can hold down profits by paying large salaries; 25 percent of taxable income may exceed the available cash; a subsequent reorganization of the business may substantially reduce (or increase) taxable income; raising fresh capital could be hampered, and so on. However, at present this solution appears to be preferable to other proposals we have seen.

Insurance limit

To be truly effective, an insurance system would have to insure all vested benefits without limitation. However, such a system without any control would be highly susceptible to abuse. As controls against abuse are built into an insurance system, the degree of coverage decreases and the degree of governmental interference increases.

We concluded that, for effective abuse control, new plans should not be insured at all for a short period, such as 3 years, and should not become fully insured for a longer period, e.g., 10 years. Benefit increases would be treated as a new plan for this purpose. We further concluded that large pensions should not be fully insured and that insurance should be limited to vested benefits. However, we were uncomfortable with these conclusions because the result is inadequate coverage. We never did figure out just how far we might wish to go in insuring benefits which are not pure retirement benefits—such as death benefits or widows' allowances.

In general, it would seem that, under termination insurance, plans would have to be amended to provide that insured benefits are paid first, in order to prevent the assets of the plan from being depleted. However, previously retired employees have a special status which suggests that they should be paid first even though they receive more than the insured limits. We found ourselves led to imposing a requirement that the assets of a terminated plan must be applied in a specific order required by statute until all insured losses are paid.

Unfortunately, the termination insurance concept forces us to impose requirements in these areas, thereby greatly reducing the flexibility of the private pension system.

Financing

One of the basic decisions which must be made in developing a termination insurance proposal is the means of financing the insurance payments. The simplest means of financing is out of general revenues. This would have the obvious advantage of no additional collection cost. The amount of estimated annual benefit losses, in the area of \$20 million to \$40 million, is small enough to make this means of financing feasible. However, financing out of general revenues can be criticized because substantially less than one-half of the work

force is covered by defined benefit pension plans, and this half is already receiving significant benefits through the tax system. It seems a little unfair to require the rest of the work force to contribute to the security of those who are already favored.

If financing is to be by means of a premium, a premium base must be chosen. Our first thought was that the premium should vary with the risk of loss. However, we soon realized that the risk varies with so many factors—such as the degree of funding, the composition of the portfolio, and the financial strength of the employer—that a completely risk-related premium would be practically impossible to administer. Moreover, a completely risk-related premium would put such a burden on a failing plan as to cause it to be terminated. Nevertheless, we felt that the premium should bear some relation to risk.

There are three basic alternative premium bases which we considered—contributions, number of participants, and unfunded vested liabilities. The base of contributions and the base of the number of participants have the advantage of simplicity, and since the premium should be quite small, it should not matter too much if the premium burden is not completely equitable. The contributions base is probably more risk-related than the number of participants base, since under a contributions base a rich plan will pay a higher premium than a meager plan covering the same number of participants. However, the contribution base has an unfortunate effect in that, while higher contributions would reduce the risk, they would also increase the premiums.

The base of unfunded vested liabilities may be the fairest of the three bases. However, it suffers from being the most difficult to compute. In fact, the cost of calculating the base may very well exceed the premium cost itself. In broad terms, unfunded vested liabilities relates to the insured risk. However, even plans which do not have unfunded vested liability still have significant risk of becoming underfunded due, for example, to a decline in portfolio values. Yet under this base there would be no premium.

The means of assessing the premium is another problem. Most termination insurance proposals simply impose a liability for the premium, and leave it to the administering agency to sue upon default. Some proposals cancel the insurance in the event of default. We have considered a concept whereby the premium is imposed as an excise tax, which would be collected by the Internal Revenue Service under normal tax procedures. An amount equivalent to the tax collected would then be paid into the insurance fund.

Of course, part of the insurance payments can be financed by employer liability, if employer liability is imposed. However, it is expected that collections from employer liability would be relatively small.

The financing of the administrative expenses is another problem. Some termination insurance proposals impose a flat charge on each insured plan equivalent to its pro rata share of administrative costs. We anticipate that the administrative costs of such a plan will be very substantial, perhaps even as high as the benefit losses. It does not seem equitable to have a plan covering 100 participants pay the same administrative charge as a plan covering 100,000 participants.

Administering agency

The selection of an administering agency is a difficult one. Any choice will involve the establishment of a large bureaucracy to solve a relatively small problem in the context of the entire private pension system. We tend to think that the administering agency should be either the Treasury Department or the Labor Department because both Departments have significant responsibilities regarding private pension plans. However, no final decision on this matter was ever reached.

The basic problem which creates the desire for termination insurance is that employees do not always receive the benefits they expect. In large part that problem can be alleviated through minimum funding requirements and through adequate disclosure. We must continue to work on the termination insurance problem, because it is an important one. But we must recognize that there are many other areas of pension reform where action is clearly called for because we know that what we do will result in a better pension system. We should act in those other areas now—before tackling the difficult termination insurance problem.

The establishment of a Government-sponsored termination insurance program would be a very significant step, and should not be taken lightly. We feel that,

on balance, the step is too large to be taken at this time, when we know so little of the consequences. There is a significant danger that an ill-advised insurance system could cause greater social costs than benefits by restricting pension coverage, limiting benefit improvements, delaying earlier vesting, and precipitating employer bankruptcies.

I hope that you have found this discussion helpful. I will be glad to respond to any questions which you may have.

International Financial and Monetary Developments

Exhibit 47.—Address by President Nixon, September 25, 1972, at the joint annual meetings of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates

It is customary in addressing such a significant international gathering to say that we are participating in a great moment in history. Great moments in history are easy to perceive—headlines blaze, and the world is riveted to television screens as world leaders meet.

But great movements in history are much harder to perceive while we are living through them. The action is slower, less dramatic, infinitely more complex, as changing circumstances and the new needs of people alter the behavior of nations.

I am convinced, on the basis of the evidence of the past year, that we are not only participating in a great moment of history but that we are witnessing and helping to create a profound movement in history.

That movement is away from the resolution of potential conflict by war, and toward its resolution through peaceful means.

The experienced people gathered in this room are not so naive as to expect the smoothing-out of all differences. We anticipate that the potential for conflict will exist as long as men and nations have different interests, different approaches to life, different ideals.

Therefore, we must come to grips with the paradoxes of peace:

As the danger of armed conflict between major powers is reduced, the potential for economic conflict is increased.

As the possibility of peace grows stronger, some of the original ties that first bound our postwar alliances grow weaker.

As nations around the world gain new economic strength, the points of commercial contact multiply along with the possibilities of disagreement.

There is another irony we should all recognize. With one exception, the nations gathered here whose domestic economies are growing so strongly today can trace much of their postwar growth to the expansion of international trade.

The one exception, of course, is the United States—the industrial nation with by far the smallest percentage of its gross national product in world trade.

Why, then, is the United States—seemingly with the least at stake—in the forefront of those working for prompt and thoroughgoing reform of the international monetary system, with all that will mean for the expansion of trade now and in the future?

One reason, of course, is our national self-interest. We want our workingmen and women and businessmen and women to have a fair chance to compete for their share of the expanding trade between nations. A generation ago, we deliberately set out to help our former enemies as well as our weakened allies so that they could gain the economic strength which would enable them to compete with us in world markets. Now we expect our trading partners to help bring about equal competition.

There is another reason, more far-reaching and fundamental, that motivates the United States in pressing for economic and monetary reform.

Working together, we must set in place an economic structure that will help and not hinder the world's historic movement toward peace.

We must make certain that international commerce becomes a source of stability and harmony rather than a cause of friction and animosity.

Potential conflict must be channeled into cooperative competition.

That is why the structure of the international monetary system and the future system of world trade are so central to our concerns today.

The time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future—all these not only injure our economies, they also create political tensions that subvert the cause of peace.

There must be a thoroughgoing reform of the world monetary system, to clear the path for the healthy competition of the future.

We must see monetary reform as one vital part of a total reform of international economic affairs, encompassing trade and investment opportunity as well.

We must create a realistic code of economic conduct to guide our mutual relations—a code which allows governments freedom to pursue legitimate domestic objectives but which also gives them good reason to abide by agreed principles of international behavior.

Each nation must exercise the power of its example in the realistic and orderly conduct of internal economic affairs, so that each nation exports its products and not its problems.

We can all agree that the health of the world economy and the stability of the international economic system rest largely on the successful management of domestic economies.

The United States recognizes the importance of a strong, noninflationary domestic economy, both in meeting the needs of our own citizens and in contributing to a healthy world economy. We are firmly committed to reaching our goals of strong growth, full employment, and price stability.

We are encouraged by the record of our current economic performance. We are now experiencing one of the lowest rates of inflation, and highest rates of real economic growth, of any industrial nation.

Recent gains in the productivity and the real income of American workers have been heartening. We intend to continue the policies that have produced these gains.

We also recognize that, over the longer term, domestic policies alone cannot solve all international problems. Even if all countries achieved a very large measure of success in managing their own economies, strains and tensions could arise at points of contact with other economies.

We cannot afford a system that almost every year presents a new invitation to a monetary crisis. That is why we face the need to develop procedures for prompt and orderly adjustment.

It is easy enough to say "prompt and orderly adjustment." But that phrase encompasses the real problems of workingmen and women, the fears and hopes of investors and managers of large and small businesses, and, consequently, the concern of the political leadership of every nation. No nation should be denied the opportunity to adjust, nor relieved of the obligation to adjust.

In the negotiations ahead, there will be differences of opinion and approach. Immediate interests may appear to conflict. There will be times when impassable develop that may seem impossible to resolve.

But the world has had some experience recently with long, hard negotiations—for example, the strategic arms limitation agreements signed by the Soviet Union and the United States.

That was bilateral negotiation, between two nations and not among 124. But its complexity seemed almost infinite; the obstacles had been hardening for 25 years; the issue of national security was as sensitive a matter as can exist between world powers.

We came to an agreement in Moscow this year because the issue that united us—seeking an end to the wasteful and dangerous arms race—was greater than the issues that divided us.

We reached agreement because we realized that it was impossible for either side to negotiate an advantage over the other. The only agreement worth making was one in which each side had a stake in keeping.

Those two principles can guide us in building the monetary system of the future.

We recognize that the issues that divide us are many and serious. But the impetus that will make this negotiation successful is the force that unites us:

A common need to establish a sound and abiding foundation for commerce, leading to a better way of life for all the citizens of the world.

That common need—let us call it the world interest—demands a new freedom of world trade and a new fairness in international economic conduct.

It is a mark of our maturity that we now see that an unfair advantage gained in an agreement today only sabotages that agreement tomorrow. The only system that can work is one that each nation has an active interest in making work.

The need is self-evident. The will to reform the monetary system is here in this room. And in a proverb that has its counterpart in almost every language: Where there is a will, there is a way.

We are gathered to create a responsive monetary system—responsive to the need for stability and openness, and responsive to the need of each country to reflect its unique character.

In this way we bring to bear one of the great lessons of federalism: That often the best way to enforce an agreed-upon discipline is to let each member take action to adhere to it in the way that is best suited to local character, stage of development, and economic structure.

For its part, the United States of America will continue to rise to its world responsibilities, joining with other nations to create and participate in a modern world economic order.

We are secure enough in our independence to freely assert our interdependence.

These are the principles I profoundly believe should and will guide the United States in its international economic conduct:

We shall press for a more equitable and open world of trade.

We shall meet competition rather than run away from it.

We shall be a stimulating trading partner and a straightforward bargainer.

We shall not turn inward and isolationist.

In turn we shall look to our friends for evidence of similar rejection of isolationism in economic and political affairs.

Let us all resolve to look at the ledgers of international commerce with new eyes—to see that there is no heroism in a temporary surplus nor villainy in a temporary deficit, but to see that progress is possible only in the framework of equilibrium. In this regard we must take bold action toward a more equitable and open world trading order.

Like every leader of the nations represented here, I want to see new jobs created all over the world, but I will not condone the export of jobs out of the United States caused by an unfairness built into the world's trading system.

Let all nations in the more advanced stages of industrial development share the responsibility of helping those countries whose major development lies ahead, and forego the temptation to use that help as an instrument of discrimination or rivalry.

Far more is at stake here than the mechanics of commerce and finance. At stake is the chance to add genuine opportunity to the lives of people in all nations, the chance to add stability and security to the savings and the earnings of hundreds of millions of people, and the chance to add economic muscle to the sinews of peace.

I have spoken this morning in general terms about how we can advance our economic interdependence. Later this week, Secretary Shultz will outline a number of proposals which represent the best thinking of my top economic advisers. I commend these to you for careful consideration.

The word "economics," traced to its Greek root, means "the laws of the house."

This house we live in—this community of nations—needs far better laws to guide our future economic conduct. Every nation can prosper and benefit working within a modern world economic order it has a stake in preserving.

Very little of what is done in these negotiations will be widely understood or generally appreciated.

But history will record the vital nature of the challenge before us. I am confident that the men and nations gathered here will seize the opportunity to create a monetary and trading system that will work for the coming generation—and will help to shape the years ahead into a generation of peace.

Exhibit 48.—Statement by Secretary Shultz as Governor for the United States, September 26, 1972, at the joint annual meetings of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates

Needed: A New Balance in International Economic Affairs

The nations gathered here have it in their power to strike a new balance in international economic affairs.

The new balance of which I speak does not confine itself to the concepts of a balance of trade or a balance of payments.

The world needs a new balance between flexibility and stability in its basic approach to doing business.

The world needs a new balance between a unity of purpose and a diversity of execution that will permit nations to cooperate closely without losing their individuality or sovereignty.

We lack that balance today. Success in the negotiations in which we are engaged will be measured in terms of how well we are able to achieve that balance in the future.

I anticipate working closely and intensively with you to that end, shaping and reshaping the best of our thinking as we proceed in full recognition that the legitimate requirements of each nation must be meshed into a harmonious whole.

In that spirit, President Nixon has asked me to put certain ideas before you.

In so doing, I must necessarily concentrate my remarks today on monetary matters. However, I am deeply conscious that, in approaching this great task of monetary reform, we cannot neglect the needs of economic development. I am also conscious that the success of our development efforts will ultimately rest, in large measure, on our ability to achieve and maintain a monetary and trading environment in which all nations can prosper and profit from the flows of goods, services, and investment among us.

The formation of the Committee of Twenty, representing the entire membership of the Fund, properly reflects and symbolizes the fact that we are dealing with issues of deep interest to all members, and in particular that the concerns of developing countries will be fully reflected in discussions of the reform of the monetary system.

As we enter into negotiations in that group, we have before us the useful report of the Executive Directors, identifying and clarifying some of the basic issues which need to be resolved.

We also look forward to participation by other international organizations, with each contributing where it is most qualified to help. The challenge before us calls for substantial modification of the institutions and practices over the entire range of international economic cooperation.

There have already been stimulating contributions to our thinking from a wide variety of other sources—public and private. I have examined with particular care the statements made over the past few months by other Governors individually and the eight points which emerged from the deliberations of the Finance Ministers of the European Community.

Drawing from this interchange of views, and building upon the Smithsonian agreement, we can now seek a firm consensus for new monetary arrangements that will serve us all in the decades ahead. Indeed, I believe certain principles underlying monetary reform already command widespread support.

First is our mutual interest in encouraging freer trade in goods and services and the flow of capital to the places where it can contribute most to economic growth. We must avoid a breakup of the world into antagonistic blocs. We must not seek a refuge from our problems behind walls of protectionism.

The pursuit of the common welfare through more open trade is threatened by an ancient and recurring fallacy. Surpluses in payments are too often regarded as a symbol of success and of good management rather than as a measure of the goods and services provided from a nation's output without current return.

We must recognize, of course, that freer trade must be reconciled with the need for each country to avoid abrupt change involving serious disruptions of production and employment. We must aim to expand productive employment in all countries—and not at one another's expense.

A second fundamental is the need to develop a common code of conduct to protect and strengthen the fabric of a free and open international economic order.

Such basic rules as "no competitive devaluation" and "most-favored-nation treatment" have served us well, but they and others need to be reaffirmed, supplemented, and made applicable to today's conditions. Without such rules to guide us, close and fruitful cooperation on a day-to-day basis would not be possible.

Third, in shaping these rules we must recognize the need for clear disciplines and standards of behavior to guide the international adjustment process—a crucial gap in the Bretton Woods system. Amid the debate about the contributing causes of past imbalances and the responsibility for initiative toward correction, sight has too often been lost of the fact that adjustment is inherently a two-sided process; that for the world as a whole, every surplus is matched by a deficit.

Resistance of surplus countries to loss of their surpluses defeats the objective of monetary order as surely as failure of deficit countries to attack the source of their deficits. Any effort to develop a balanced and equitable monetary system must recognize that simple fact; effective and symmetrical incentives for adjustment are essential to a lasting system.

Fourth, while insisting on the need for adjustment, we can and should leave considerable flexibility to national governments in their choice among adjustment instruments. In a diverse world, equal responsibility and equal opportunity need not mean rigid uniformity in particular practices. But they do mean a common commitment to agreed international objectives. The belief is widespread—and we share it—that the exchange rate system must be more flexible. However, important as they are, exchange rates are not the only instrument of adjustment policy available; nor, in specific instances, will they necessarily be the most desirable.

Fifth, our monetary and trading systems are an interrelated complex. As we seek to reform monetary rules, we must at the same time seek to build in incentives for trade liberalization. Certainly, as we look ahead, ways must be found to integrate better the work of the GATT and the IMF. Simultaneously we should ensure that there are pressures which move us toward adequate development assistance and away from controls which stifle the free flow of investment.

Finally, and perhaps most fundamental, any stable and well-functioning international monetary system must rest upon sound policies to promote domestic growth and price stability in the major countries. These are imperative national goals for my Government—and for yours. And no matter how well we design an international system, its prospects for survival will be doubtful without effective discharge of those responsibilities.

Today is not the occasion for presenting a detailed blueprint for monetary reform. However, I do want to supplement these general principles with certain specific and interrelated ideas as to how to embody these principles in a workable international agreement.

These suggestions are designed to provide stability without rigidity. They take as a point of departure that most countries will want to operate within the framework of specified exchange rates. They would encourage these rates to be maintained within specified ranges so long as this is accomplished without distorting the fabric of trade and payments or domestic economic management. We aim to encourage freer flows of trade and capital while minimizing distortions from destabilizing flows of mobile capital. We would strengthen the voice of the international community operating through the IMF.

I shall organize these ideas under six headings, recognizing that much work remains to be done to determine the best techniques in each area:

- The exchange rate regime.
- The reserve mechanism.
- The balance of payments adjustment process.
- Capital and other balance of payments controls.
- Related negotiations.
- Institutional implications.

The exchange rate regime

We recognize that most countries want to maintain a fixed point of reference for their currencies—in other words, a "central" or "par" value. The corollary is a willingness to maintain and support these values by assuring convertibility of their currencies into other international assets.

A margin for fluctuation for market exchange rates around such central values will need to be provided sufficiently wide to dampen incentives for short-term capital movements and, when changes in central values are desirable, to

ease the transition. The Smithsonian agreement took a major step in that direction. Building on that approach in the context of a symmetrical system, the permissible outer limits of these margins of fluctuation for all currencies—including the dollar—might be set in the same range as now permitted for nondollar currencies trading against each other.

We also visualize, for example, that countries in the process of forming a monetary union—with the higher degree of political and economic integration that that implies—may want to maintain narrower bands among themselves, and should be allowed to do so. In addition, an individual nation, particularly in the developing world, may wish to seek the agreement of a principal trading partner to maintain a narrower range of exchange rate fluctuation between them.

Provision needs also to be made for countries which decide to float their currencies. However, a country that refrains from setting a central value, particularly beyond a brief transitional period, should be required to observe more stringent standards of behavior in other respects to assure the consistency of its actions with the basic requirements of a cooperative order.

The reserve mechanism

We contemplate that the SDR would increase in importance and become the formal numeraire of the system. To facilitate its role, that instrument should be freed of those encumbrances of reconstitution obligations, designation procedures, and holding limits which would be unnecessary in a reformed system. Changes in the amount of SDR in the system as a whole will be required periodically to meet the aggregate need for reserves.

A "central value system" implies some fluctuation in official reserve holdings of individual countries to meet temporary disturbances in their balance of payments positions. In addition, countries should ordinarily remain free to borrow or lend, bilaterally or multilaterally, through the IMF or otherwise.

At the same time, official foreign currency holdings need be neither generally banned nor encouraged. Some countries may find holdings of foreign currencies provide a useful margin of flexibility in reserve management, and fluctuations in such holdings can provide some elasticity for the system as a whole in meeting sudden flows of volatile capital. However, careful study should be given to proposals for exchanging part of existing reserve currency holdings into a special issue of SDR, at the option of the holder.

The suggested provisions for central values and convertibility do not imply restoration of a gold-based system. The rigidities of such a system, subject to the uncertainties of gold production, speculation, and demand for industrial uses, cannot meet the needs of today.

I do not expect governmental holdings of gold to disappear overnight. I do believe orderly procedures are available to facilitate a diminishing role of gold in international monetary affairs in the future.

The balance of payments adjustment process

In a system of convertibility and central values, an effective balance of payments adjustment process is inextricably linked to appropriate criteria for changes in central values and the appropriate level, trend, and distribution of reserves. Agreement on these matters, and on other elements of an effective and timely adjustment process, is essential to make a system both practical and durable.

There is, of course, usually a very close relationship between imbalances in payments and fluctuations in reserve positions. Countries experiencing large deterioration in their reserve positions generally have had to devalue their currencies or take other measures to strengthen their balance of payments. Surplus countries with disproportionate reserve gains have, however, been under much less pressure to revalue their currencies upward or to take other policy actions with a similar balance of payments effect. If the adjustment process is to be more effective and efficient in a reformed system, this asymmetry will need to be corrected.

I believe the most promising approach would be to ensure that a surfeit of reserves indicates, and produces pressure for, adjustment on the surplus side as losses of reserves already do for the deficit side. Supplementary guides and several technical approaches may be feasible and should be examined. Important transitional difficulties will need to be overcome. But, in essence, I believe disproportionate gains or losses in reserves may be the most equitable and effective single indicator we have to guide the adjustment process.

As I have already indicated, a variety of policy responses to affect the balance of payments can be contemplated. An individual country finding its reserves falling disproportionately would be expected to initiate corrective actions. For example, small devaluations would be freely permitted such a country. Under appropriate international surveillance, at some point a country would have a *prima facie* case for a larger devaluation.

While we must frankly face up to limitation on the use of domestic monetary, fiscal, or other internal policies in promoting international adjustments in some circumstances, we should also recognize that the country in deficit might well prefer—and be in a position to apply—stricter internal financial disciplines rather than devalue its currency. Only in exceptional circumstances and for a limited period should a country be permitted direct restraints, and these should be general and nondiscriminatory. Persistent refusal to take fundamental adjustment measures could result in withdrawal of borrowing, SDR allocation, or other privileges.

Conversely, a country permitting its reserves to rise disproportionately could lose its right to demand conversion, unless it undertook at least limited revaluation or other acceptable measures of adjustment. If reserves nonetheless continued to rise and were maintained at those higher levels over an extended period, then more forceful adjustment measures would be indicated.

For a surplus as for a deficit country, a change in the exchange rate need not be the only measure contemplated. Increasing the provision of concessionary aid on an untied basis, reduction of tariffs and other trade barriers, and elimination of obstacles to outward investment could, in specific circumstances at the option of the nation concerned, provide supplementary or alternative means. But, in the absence of a truly effective combination of corrective measures, other countries should ultimately be free to protect their interests by a surcharge on the imports from the chronic surplus country.

For countries moving toward a monetary union, the guidelines might be applied on a collective basis, provided the countries were willing to speak with one voice and to be treated as a unit for purposes of applying the basic rules of the international monetary and trading system.

Capital and other balance of payments controls

It is implicit in what I have said that I believe that the adjustment process should be directed toward encouraging freer trade and open capital markets. If trade controls are permitted temporarily in extreme cases on balance of payments grounds, they should be in the form of surcharges or across-the-board taxes. Controls on capital flows should not be allowed to become a means of maintaining a chronically undervalued currency. No country should be forced to use controls in lieu of other, more basic, adjustment measures.

Related negotiations

We welcome the commitments which major nations have already made to start detailed trade negotiations under the GATT in the coming year. These negotiations, dealing with specific products and specific restraints, need not wait on monetary reform, nor need monetary reform await the results of specific trade negotiations.

Those negotiations, and the development of rules of good behavior in the strictly monetary area, need to be supplemented by negotiations to achieve greater equity and uniformity with respect to the use of subsidies, and fiscal or administrative pressures on trade and investment transactions. Improper practices in these areas distort trade and investment relationships as surely as do trade barriers and currency disequilibrium. In some instances, such as the use of tariff surcharges or capital controls for balance of payments purposes, the linkage is so close that the Committee of Twenty must deal with the matter directly. As a supplement to its work, that group can help launch serious efforts in other bodies to harmonize countries' practices with respect to the taxation of international trade and investment, the granting of export credit, and the subsidization of international investment flows.

Institutional implications

As I look to the future, it seems to me that there are several clear-cut institutional requirements of a sensible reform of the monetary and trading system.

Several times today, I have stressed the need for a comprehensive new set of monetary rules. Those rules will need to be placed under guardianship of the

IMF, which must be prepared to assume an even more critical role in the world economy. Given the interrelationships between trade and payments, that role will not be effectively discharged without harmonizing the rules of the IMF and the GATT and achieving a close working relationship.

Finally, we need to recognize that we are inevitably dealing with matters of essential and sensitive national interests to specific countries. International decisionmaking will not be credible or effective unless it is carried out by representatives who clearly carry a high stature and influence in the councils of their own governments. Our international institutions will need to reflect that reality, so that in the years ahead national governments will be intensively and continuously involved in their deliberations and processes. Without a commitment by national governments to make a new system work in this way, all our other labors may come to naught.

I am fully aware that the United States as well as other countries cannot leap into new monetary and trading arrangements without a transitional period. I can state, however, that after such transitional period the United States would be prepared to undertake an obligation to convert official foreign dollar holdings into other reserve assets as a part of a satisfactory system such as I have suggested—a system assuring effective and equitable operation of the adjustment process. That decision will, of course, need to rest on our reaching a demonstrated capacity during the transitional period to meet the obligation in terms of our reserve and balance of payments position.

We fully recognize that we have not yet reached the strength we need in our external accounts. In the end, there can be no substitute for such strength in providing the underpinning for a stable dollar and a stable monetary system.

An acceptable monetary system requires a willingness on the part of all of us to contribute to the common goal of full international equilibrium. Lacking such equilibrium no system will work. The equilibrium cannot be achieved by any one country acting alone.

We engage in discussions on trade and financial matters with a full realization of the necessity to continue our own efforts on a broad front to restore our balance of payments. I must add, in all candor, that our efforts to improve our position have, in more than one instance, been thwarted by the reluctance of others to give up an unjustified preferential and highly protected market position. Yet, without success in our endeavor, we cannot maintain our desired share in the provision of aid, and reduce our official debt to foreign monetary authorities.

We take considerable pride in our progress toward price stability, improved productivity, and more rapid growth during the past year. Sustained into the future, as it must be, that record will be the best possible medicine not only for our domestic prosperity but for the effective functioning of the international financial system.

My remarks today reflect the large agenda before us. I have raised difficult, complicated, and controversial issues. I did not shrink from so doing for a simple reason: I know that you, as we, want to move ahead on the great task before us. Let us see if, in Nairobi next year, we can say that a new balance is in prospect and that the main outlines of a new system are agreed. We owe ourselves and each other that effort.

Exhibit 49.—Statement by Secretary Shultz, December 21, 1972, on meat import policy for 1973

As part of the administration's continuing fight against inflation, the President has decided to suspend quotas on meat imports for 1973.

The vigorous growth of employment and income we foresee in 1973 will mean an increase in the demand for meat in this country, which, despite an increase in meat production, will put upward pressure on meat prices. Suspension of the quotas is designed to moderate those inflationary pressures by encouraging increased imports of meat into the United States.

This action demonstrates the President's firm determination to hold down the cost of food to the American consumer.

This is the second time the President has taken such action. In June of this year, the President directed the removal of all restrictions on meat imports for the balance of 1972. Since that time, some supplying countries have increased

their shipments of meat to the United States, and we expect this trend will continue.

We anticipate that this suspension of the quotas will continue throughout 1973. However, as required by law, the Secretary of Agriculture will review the situation every 3 months. Should marketing conditions change substantially, contrary to our present expectations, the suspension of the quotas will be reconsidered.

As the President stated in June, this action is not aimed at the American farmer. Cattle prices have been rising; they are presently about 7 percent above a year ago. Our purpose is to remedy a short-term shortage that is beyond the ability of our farmers to fill in 1973.

All meat imports, of course, will be subject to the same high standards of sanitation that apply to domestically produced meat.

Exhibit 50.—Excerpt from statement by Secretary Shultz, February 7, 1973, before the Joint Economic Committee

* * * * *

International developments

The focus of the administration's efforts with respect to the international economy is clear. First, we must continue our efforts to bring our external trade and payments position into a sustainable position. Second, we must press ahead with the urgent work of international monetary and trade reform to build an international economic order within which all nations are treated fairly and can grow and prosper.

These goals are interrelated. Without a stronger dollar and trade position, the prospects for monetary stability and an open trading order will dim. Without an agreed framework for the monetary and trading systems, unilateral defensive actions by one country or another can frustrate the restoration of an acceptable balance in our payments.

Last year the overall U.S. balance of payments position showed a reduced, but still very substantial, deficit. However, the improvement can be traced entirely to some lessening of speculative pressures and smaller capital outflows. Meanwhile, our trade deficit was larger in 1972 than in 1971, although the deteriorating trend was arrested in the second half of the year.

The larger trade deficit last year is explicable in terms of cyclical factors and the initial, inevitably perverse effects of the exchange rate realignment. Looking ahead, we can foresee some improvement.

Nevertheless, I must emphasize the hard fact that we have a long way to go to achieve the trade surplus we need to bring our overall payments into sustainable equilibrium. We have learned that process will take time. I believe the exchange rate realignment is beginning to help. So is our relatively good performance toward restoring price stability at home. Yet there can be no room for complacency. The stark fact of our large deficit is plain for all to see. Sporadic speculative disturbances in exchange markets reflect the underlying uncertainties. We must do what we can to speed the process of adjustment.

In particular, we need to recognize the favorable effects of exchange rate realignment will be undermined if we fail to manage our domestic economy effectively. Our domestic and international objectives coincide in demanding that we resist inflationary increases in costs and prices. Over the past 2 years, U.S. price performance has compared favorably with that of our competitors. We are resolved to do still better. The President's budget, the wage-price program, and full range of our economic policies reflect our determination to do so.

For the longer term, we seek a major strengthening of the international economy through further elimination of trade barriers and through thorough reform of the international economic system.

Negotiations on reform of the international monetary and trading system are already in full progress, mainly under the auspices of the Committee of Twenty created last year. The United States played a leading role in establishing that forum representative of worldwide interests, and has advanced a series of specific reform proposals to stimulate the discussions.

These discussions are dealing with fundamental issues of deep concern to individual nations. It is understandable—indeed it may be essential—that conclusions be deferred in one area of discussions until the pattern of the whole can

be more clearly foreseen. Moreover, seeming agreement on such broad generalities as an improved adjustment process or convertibility can hardly be meaningful until those generalities are fleshed out more with concrete approaches, incentives, and obligations. I believe the negotiation process has achieved a better understanding of these issues, and more specifically the proposals which we and others have submitted. In short, the Committee is laying the intellectual basis for ultimate decisionmaking.

We all recognize there are deep-seated and fundamental differences on many aspects of reform, and I have no illusions about an easy solution. But I am encouraged that there is at least a common view of the broad objectives and a general willingness to try to resolve our differences.

I continue to hope that the main outlines of a new system can be agreed by the next IMF meeting in Nairobi, and I assure you the United States will do its best to help meet that target.

Exhibit 51.—Statement by Secretary Shultz, February 12, 1973, on foreign economic policy

The United States, as do other nations, recognizes the need to reform and strengthen the framework for international trade and investment. That framework must support our basic objective of enhancing the living standards of all nations. It must encourage the peaceful competition that underlies economic progress and efficiency. It must provide scope for each nation—while sharing in the mutual benefits of trade—to respect its own institutions and its own particular needs. It must incorporate the fundamental truth that prosperity of one nation should not be sought at the expense of another.

This great task of reform is not for one country alone, nor can it be achieved in a single step. We can take satisfaction in what has been accomplished on a cooperative basis since the actions announced on August 15, 1971, clearly signaled our recognition of the need for decisive change:

Intense negotiations established an important fact in December 1971: Mutual agreement can be reached on changes in the pattern of world exchange rates, including the parity of the U.S. dollar, in order to promote the agreed goal of a better balance in international trade and payments.

Monetary negotiations have been started by the Committee of Twenty on the premise that better ways must be found to prevent large payments imbalances which distort national economies, disturb financial markets, and threaten the free flow of trade. The United States has made practical and specific proposals for international monetary reform.

The groundwork is being laid for comprehensive trade negotiations. Those negotiations should look beyond industrial tariffs to encompass also other barriers to the free flow of goods. They should assure fair competitive treatment of the products of all countries. They should also seek agreed ways of avoiding abrupt dislocations of workers and businesses.

In September 1972, the President told the financial leaders of the world that the time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future—all these not only injure our economies, they also create political tensions that subvert the cause of peace.

At the same meeting, I outlined the principles of a monetary system that would enable all nations, including the United States, to achieve and maintain overall balance in their international payments. Those principles would promote prompt adjustment and would provide equitable treatment for all nations—large and small, rich and poor.

Yet, in recent months we have seen disquieting signs. Our own trade has continued in serious deficit, weakening our external financial position. Other nations have been slow in eliminating their excessive surpluses, thereby contributing to uncertainty and instability. In recent days, currency disturbances have rocked world exchange markets. Under the pressure of events, some countries have responded with added restrictions, dangerously moving away from the basic objectives we seek.

Progress in the work of the Committee of Twenty has been too slow and should move with a greater sense of urgency. The time has come to give renewed impetus to our efforts in behalf of a stronger international economic order.

To that end, in consultation with our trading partners and in keeping with the basic principles of our proposals for monetary reform, we are taking a series of actions designed to achieve three interrelated purposes:

- (a) To speed improvement of our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system;
- (b) To lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and
- (c) To assure that American workers and American businessmen are treated equitably in our trading relationships.

For these purposes:

First, the President is requesting that the Congress authorize a further realignment of exchange rates. This objective will be sought by a formal 10-percent reduction in the par value of the dollar from 0.92106 SDR to the dollar to 0.82895 SDR to the dollar.

Although this action will, under the existing Articles of Agreement of the International Monetary Fund, result in a change in the official relationship of the dollar to gold, I should like to stress that this technical change has no practical significance. The market price of gold in recent years has diverged widely from the official price, and under these conditions gold has not been transferred to any significant degree among international monetary authorities. We remain strongly of the opinion that orderly arrangements must be negotiated to facilitate the continuing reduction of the role of gold in international monetary affairs.

Consultations with our leading trading partners in Europe assure me that the proposed change in the par value of the dollar is acceptable to them, and will, therefore, be effective immediately in exchange rates for the dollar in international markets. The dollar will decline in value by about 10 percent in terms of those currencies for which there is an effective par value, for example, the deutsche mark and the French franc.

Japanese authorities have indicated that the yen will be permitted to float. Our firm expectation is that the yen will float into a relationship vis-a-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention.

These changes are intended to supplement and work in the same direction as the changes accomplished in the Smithsonian agreement of December 1971. They take into account recent developments and are designed to speed improvement in our trade and payments position. In particular, they are designed together with appropriate trade liberalization, to correct the major payments imbalance between Japan and the United States which has persisted in the past year.

Other countries may also propose changes in their par values or central rates to the International Monetary Fund. We will support all changes that seem warranted on the basis of current and prospective payments imbalances, but plan to vote against any changes that are inappropriate.

We have learned that time must pass before new exchange relationships modify established patterns of trade and capital flows. However, there can be no doubt we have achieved a major improvement in the competitive position of American workers and American business.

The new exchange rates being established at this time represent a reasonable estimate of the relationships which, taken together with appropriate measures for the removal of existing trade and investment restraints, will in time move international economic relationships into sustainable equilibrium. We have, however, undertaken no obligations for the U.S. Government to intervene in foreign exchange markets.

Second, the President has decided to send shortly to the Congress proposals for comprehensive trade legislation. Prior to submitting that legislation, intensive consultations will be held with Members of Congress, labor, agriculture, and business to assure that the legislation reflects our needs as fully as possible. This legislation, among other things, should furnish the tools we need to—

Provide for lowering tariff and nontariff barriers to trade, assuming our trading partners are willing to participate fully with us in that process;

- Provide for raising tariffs when such action would contribute to arrangements assuring that American exports have fair access to foreign markets;
- Provide safeguards against the disruption of particular markets and production from rapid changes in foreign trade; and
- Protect our external position from large and persistent deficits.

In preparing this legislation, the President is particularly concerned that, however efficient our workers and businesses, and however exchange rates might be altered, American producers be treated fairly and that they have equitable access to foreign markets. Too often, we have been shut out by a web of administrative barriers and controls. Moreover, the rules governing trading relationships have, in many instances, become obsolete and, like our international monetary rules, need extensive reform.

We cannot be faced with insuperable barriers to our exports and yet simultaneously be expected to end our deficit.

At the same time, we must recognize that in some areas the United States, too, can be cited for its barriers to trade. The best way to deal with these barriers on both sides is to remove them. We shall bargain hard to that end. I am convinced the American workers and the American consumer will be the beneficiaries.

In proposing this legislation, the President recognizes that the choice we face will not lie between greater freedom and the status quo. Our trade position must be improved. If we cannot accomplish that objective in a framework of freer and fairer trade, the pressures to retreat inward will be intense.

We must avoid that risk, for it is the road to international recrimination, isolation, and autarky.

Third, in coordination with the Secretary of Commerce, we shall phase out the interest equalization tax and the controls of the Office of Foreign Direct Investment. Both controls will be terminated at the latest by December 31, 1974.

I am advised that the Federal Reserve Board will consider comparable steps for their voluntary foreign credit restraint program.

The phasing-out of these restraints is appropriate in view of the improvement which will be brought to our underlying payments position by the cumulative effect of the exchange rate changes, by continued success in curbing inflationary tendencies, and by the attractiveness of the U.S. economy for investors from abroad. The termination of the restraints on capital flows is appropriate in the light of our broad objective of reducing governmental controls on private transactions.

The measures I have announced today—the realignment of currency values, the proposed new trade legislation, and the termination of U.S. controls on capital movements—will serve to move our economy and the world economy closer to conditions of international equilibrium in a context of competitive freedom. They will accelerate the pace of successful monetary and trade reform.

They are not intended to, and cannot, substitute for effective management of our domestic economy. The discipline of budgetary and monetary restraint and effective wage-price stabilization must and will be pursued with full vigor. We have proposed a budget which will avoid a revival of inflationary pressure in the United States. We again call upon the Congress, because of our international financial requirement as well as for the sake of economic stability at home, to assist in keeping Federal expenditures within the limits of the President's budget. We are continuing a strong system of price and wage controls. Recent international economic developments reemphasize the need to administer these controls in a way that will further reduce the rate of inflation. We are determined to do that.

The cooperation of our principal trading and financial partners in developing a joint solution to the acute difficulties of the last few days has been heartening. We now call upon them to join with us in moving more rapidly to a more efficient international monetary system and to a more equitable and freer world trading system, so that we can make adjustments in the future without crises and so that all of our people can enjoy the maximum benefits of exchange among us.

Exhibit 52.—Letter of transmittal from Secretary Shultz to the Speaker of the House, February 19, 1973, proposing legislation to devalue the dollar by 10 percent by amending the Par Value Modification Act of 1972. (A similar letter was transmitted to the President of the Senate.)

DEAR MR. SPEAKER: There is transmitted herewith a draft bill, "To amend the Par Value Modification Act."

In a statement on behalf of the President on February 12, 1973, I announced our intention to propose legislation to implement a devaluation of the dollar by 10 percent. This step was proposed in combination with other actions taken in Europe and Japan to amend the structure of exchange rates agreed at the Smithsonian Institution in December 1971.

My statement, which is enclosed,¹ explains the reasons for these exchange rate changes and other steps being taken to strengthen the competitive position of our factories and farms in world markets. Also enclosed is a background paper which reviews the events leading up to the February currency crisis, the exchange rates resulting from the agreed realignment, and the relationship of the realignment to broader reform of the international monetary and trading system.

The legislation I am submitting today would give Congressional approval to the change in the dollar exchange rate. It amends the Par Value Modification Act, P.L. 92-268, approved on March 31, 1972, by providing for establishment of a new par value of \$1 equals 0.828948 Special Drawing Right or, in terms of gold, of \$1 equals 0.023684 of a fine troy ounce of gold. 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.

In the past, our par value has been expressed only in terms of gold. The proposed bill expresses our par value in terms of both Special Drawing Rights and gold in order to emphasize the importance we attach to the enhanced role of Special Drawing Rights in the future development of the international monetary system.

The change in the par value of the dollar will increase the value of the United States gold reserves, Special Drawing Rights and gold tranche automatic drawing rights in the International Monetary Fund. There will also be increases in the dollar value of subscriptions to the international financial institutions.

The par value change will also have the consequence of requiring the United States to add 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 is applicable to all members and is designed to assure that contributions from all countries maintain their relative value when relationships among currencies change. It also assures that we do not lose out through devaluation in our share of the assets and voting power of these institutions. Authority to maintain the value of our international financial institution subscriptions and an authorization of appropriations for this purpose are contained in the Par Value Modification Act.

In addition, certain costs reflecting foreign exchange obligations will result from the change in par value. The enclosed tables and explanatory notes contain full details on all aspects of the increases in assets and liabilities resulting from the change in par value as well as an estimate of the maximum amount of appropriations to be requested to maintain the value of international financial institution subscriptions.

I urge early and favorable consideration of this important legislation.

It would be appreciated if you would lay the draft bill before the House of Representatives. A similar draft bill has been transmitted to the President of the Senate.

The Department has been advised by the Office of Management and Budget that enactment of this proposed legislation would be in accord with the program of the President.

Sincerely yours,

(Signed) GEORGE P. SHULTZ.

THE HONORABLE CARL ALBERT,
Speaker of the House of Representatives
Washington, D.C. 20515

¹ See exhibit 51.

A BILL

To amend the Par Value Modification Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 2 of the Par Value Modification Act (Public Law 92-268) is amended by striking the words "one thirty-eighth of a fine troy ounce of gold" and inserting in lieu thereof the following: "0.828948 Special Drawing Right or, the equivalent in terms of gold, of \$1 equals 0.023684 of a fine troy ounce of gold".

SUMMARY TABLE

Financial effects of U.S. devaluation

	\$ mil- lions
I. On U.S. financial statements	
A. Increase in assets.....	2,518
B. Increase in liabilities.....	1,900
C. Net increase in assets.....	618
II. On records of contingent liabilities	
Increase in obligation to make additional capital subscription to the international lending institutions, if called.....	992
III. On maximum appropriation required	2,225
IV. On forecast budgetary expenditures	
Fiscal 1973.....	0
Fiscal 1974.....	12
Fiscal 1975-1985 (per annum).....	40

Financial effects of U.S. devaluation

[Explanatory notes follow]

	\$millions	Accruing to
I. On U.S. financial statements		
A. Increase in assets		
1. Increase in value of reserves		
Gold.....	1,165	Treasury General Fund
Special drawing rights (SDR).....	218	Exchange Stabilization Fund
Gold tranche automatic IMF drawing rights.....	52	Treasury General Fund
2. Increase in value of U.S. currency subscriptions in the International Monetary Fund (IMF).....	606	Treasury General Fund
3. Increase in value of U.S. participation in capital of international lending institutions.....	477	Treasury General Fund
Total assets.....	2,518	
B. Increase in liabilities		Financed from
1. Treasury debt in foreign currencies.....	193	Exchange Stabilization Fund
2. Federal Reserve obligations in foreign currencies.....	196	Federal Reserve resources
3. Increase in repayment of obligations to IMF		
For currency drawings.....	150	Appropriations or exchange of assets
For SDR allocations.....	278	Exchange Stabilization Fund
4. Required additional subscription to the IMF.....	606	Appropriations or exchange of assets
5. Obligation for additional capital subscription to international lending institutions.....	477	Appropriations
Total liabilities.....	1,900	
C. Net increase in assets.....	618	
II. On records of contingent obligations		
Increase in obligation to make additional capital subscription to the international lending institutions, if called.....	992	Appropriations
III. On maximum appropriation required.....	2,225	
IV. On forecast cash expenditures		
Fiscal 1973.....	0	
Fiscal 1974.....	12	
Fiscal 1975-1985 (per annum).....	40	

NOTES TO TABLE: "Financial effects of U.S. devaluation"

I. On U.S. financial statements

A. *Increase in assets*—Devaluation will result in increases in the dollar value of three types of assets: (1) reserve assets, (2) currency subscriptions in the International Monetary Fund, and (3) paid-in capital subscription to the international development lending institutions. The total increase in all three classes is \$2,518 million.

1. Reserve assets

Gold—U.S. holdings now total \$10,487 million. After devaluation the value of these holdings in current dollars will increase by 11.11 percent or \$1,165 million. The increment in value of gold will result in a direct cash inflow into the Treasury of \$1,165 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.

Special drawing rights (SDR)—SDR's are an international reserve asset that are created by the IMF and allocated among members. These assets have a gold value and U.S. holdings now totaling \$1,958 million will increase by 11.11 percent or \$218 million.

Gold tranche—The gold tranche is the amount of our automatic regular drawing rights on the International Monetary Fund. These rights can be used by the United States to purchase or draw foreign currencies from the Fund to meet a balance of payments need. These rights, which are included in U.S. reserves, now total \$469 million. They represent gold paid to the Fund in partial fulfillment of U.S. subscription obligations and will increase in value by 11.11 percent or \$52 million.

2. Increase in value of U.S. currency subscriptions in the International Monetary Fund

Seventy-five percent of our subscription to the IMF was paid in U.S. dollars but this subscription of \$5,456 million was denominated on the books of the Fund in dollars of a fixed weight and fineness of gold. Thus, the value of this subscription will increase in terms of current dollars after devaluation to a total of \$6,062 million—an increase of \$606 million. This increase in value allows us to increase our drawing rights, maintain our share of voting rights and allocations of special drawing rights.

3. Increase in value of U.S. participation in capital of development lending institutions

Paid-in investments in the World Bank, the International Development Association, the Inter-American Development Bank, and the Asian Development Bank are also denominated in dollars of a fixed weight and fineness of gold. U.S. investments in these institutions will increase in value by \$477 million. The increase for the Inter-American Development Bank will be \$233 million, for the World Bank—\$71 million, for the International Development Association—\$161 million, and for the Asian Development Bank—\$12 million.

B. *Increase in liabilities*

1. Treasury debt in foreign currencies

The Treasury has outstanding \$1,714 million in foreign currency borrowings—\$306 million in German marks and \$1.4 billion in Swiss francs. Repayment of these obligations at maturity under the new rates of exchange are estimated to result in approximately \$193 million additional expenditure of dollars. The actual amount of loss will vary depending upon the market rates at which the currencies are obtained for repayment. The liability for meeting this additional cost is borne by the Exchange Stabilization Fund. Thus, no appropriation or budgetary expenditures are involved.

2. Federal Reserve obligations under "swaps"

The Federal Reserve has outstanding mutual deposit arrangements or so-called "swaps" with foreign central banks totaling \$1,639 million. The cost of buying foreign currencies to repay these swap obligations is estimated to increase by about \$196 million over

what it would have been prior to devaluation. The actual amount of loss will vary depending upon the market rates at which the currencies are obtained for repayment. The Federal Reserve will bear this additional cost and no appropriation or budgetary expenditures are required.

3. Increase in repayment obligations to the IMF

For currency drawings—The United States now has a drawing outstanding, representing U.S. purchases of foreign exchange from the International Monetary Fund in the amount of \$1.4 billion. The International Monetary Fund Articles of Agreement require the United States to maintain the value of these dollars held by the Fund in terms of gold. The payments required, in the form of a letter of credit, will amount to \$150 million.

For SDR allocations—Special drawing rights allocated to the United States are also denominated in terms of gold. The United States has been allocated a total of \$2,491 million in special drawing rights and should the SDR scheme ever be liquidated, the United States would incur an increased liability of \$278 million.

4. Required additional subscriptions to the IMF

In addition to the currency drawing maintenance of value described under item 3 above, the United States has a maintenance of value obligation on its currency subscription in the Fund of \$5,455 million. Under Fund rules, this currency subscription must be maintained in gold value requiring a payment of \$606 million in the form of a letter of credit.

5. Obligations for additional capital subscriptions to international financial institutions

The United States will incur an increased paid-in capital obligation to the international development institutions totaling \$477 million. The amounts are: World Bank—\$71 million, Inter-American Bank—\$233 million, Asian Development Bank—\$12 million, and the International Development Association—\$161 million. These amounts will be financed from an appropriation requested of Congress.

This maintenance of value obligation stems from similar, but not identical, provisions in the agreements governing each of the international lending institutions providing that each member country that devalues its currency must maintain the value of its contributions as measured by a common yardstick, in this case 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. This provision has worked in favor of the United States by assuring that other countries that devalue their currencies do not diminish the value of their contributions. Thus, the burden-sharing principle is not adversely affected by currency devaluations. The maintenance of value provision also assures that our share in the assets and voting rights in these institutions is not impaired by our devaluation.

All other countries have fulfilled their maintenance of value obligations. In total, there have been over 200 par value modifications in the International Monetary Fund and in each case the country concerned has fulfilled its maintenance of value obligations in the international financial institutions. Moreover, most countries, especially the large industrial countries, have fulfilled these obligations promptly. For example, France devalued in 1957, 1958, and 1969. In the first instance, maintenance of value was made on the date of devaluation; in the second, 2 days after; and in the third, 3 days after. In the case of the United Kingdom's devaluation in 1967, maintenance of value was made 33 days after; and in the case of Canada in 1962, 28 days after.

C. *Net increase in assets*—Increases in assets total about \$2.5 billion; increases in liabilities total about \$1,900 million; the result is a net increase in assets of about \$618 million.

II. *On records of contingent obligations*

Increase in obligation to make additional capital subscription to the IFT's if called.

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 11.11 percent in our callable capital obligation. The U.S. callable capital obligation in the World Bank is \$703 million, in the IDB it is \$205 million, and in the ADB it is \$12 million. The total increase in the current dollar amount of these callable capital subscriptions amounts to \$920 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 \$920 million will be requested.

Of the total maintenance of value for the IDB-FSO of \$241 million, \$72 million is a contingent liability representing loans that have been made in dollars but are repayable in either dollars or other currencies. If repaid in other currencies (and this is the most likely prospect), the United States will have no maintenance of value obligations on this sum.

III. On maximum appropriation required

Appropriations will be required for the paid-in capital subscriptions to the international lending institutions and for the callable capital subscriptions to these institutions. Payments to the International Monetary Fund can be handled as either an appropriation or as an exchange of assets. The maximum appropriations to be requested are as follows:

	(\$ millions)
Paid-in capital.....	477
Callable capital.....	992
IMF.....	756
Total	2,225

The maximum amounts for each institution are as follows:

[In millions of dollars]

	Callable	To be paid in
IBRD.....	703	71
IDA.....		161
IDB.....	277	233
ADB.....	12	12
Subtotal.....	992	477
IMF.....	0	756
Total.....	992	1,233

These amounts are approximate. The exact amount of maintenance of value obligations can be determined only on the basis of holdings on the day of formal change in par value.

IV. On forecast budgetary expenditures

Budgetary expenditures are expected in the near future only from a portion of the obligations for increased capital to the international lending institutions. In most cases these obligations will be met, at least initially, not by cash expenditures but rather by the issue of letters of credit, which do not constitute budget expenditures. All of the paid-in capital subscriptions will be paid in letters of credit except for the Asian Development Bank. In the case of that institution, one-half of the paid-in subscription is required to be paid in cash. Moreover, the letter of credit portion is expected to be drawn during fiscal year 1974. Thus, the full maintenance of value amount of \$12 million is expected to be paid to the Asian Development Bank in cash during fiscal year 1974.

No drawdowns on the other letters of credit are expected in fiscal years 1973 and 1974. It is expected that drawdowns will begin in fiscal year 1975 and will

be spread out evenly over about an 11-year period resulting in drawdowns of \$40 million per annum.

Exhibit 53.—Background material on proposed modification of par value of the dollar

I. Introduction

The administration has proposed legislation authorizing and directing the Secretary of the Treasury to take the necessary steps to modify the par value of the dollar in the International Monetary Fund, by an amount corresponding to an increase of 11.11 percent in the value of one special drawing right in the IMF, or, in terms of gold, of 11.11 percent in the official value of an ounce of gold.¹ This modification is equivalent to a reduction of 10 percent in the value of the dollar stated in terms of special drawing rights per dollar, from 0.921053 SDR to 0.828948 SDR, or to the equivalent in terms of gold of one dollar equals 0.023684 fine troy ounces of gold. This corresponds to a value of \$42.22 per fine troy ounce of gold.

II. Relation of this proposal to foreign economic policy

The proposed change in par value is part of a program outlined in a Statement on Foreign Economic Policy made by Secretary of the Treasury George P. Shultz on February 12.² This program has three objectives: (a) To reinforce our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system; (b) to lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and (c) to assure that American workers and American businessmen are treated equitably in our trading relationships.

The legislation proposed is the first of three principal actions aimed at these objectives. It would authorize the United States to change the par value of the dollar in a manner that achieves a realignment of exchange rates.

As a second step, the President has decided shortly to send to Congress proposals for comprehensive trade legislation. This legislation is needed to provide the tools that will permit us to take part in a mutual lowering of tariff and non-tariff barriers to trade, assuming that our trading partners are willing to participate fully with us in that process. It should also provide necessary tools to help assure fair access to foreign markets for American exporters. It should, further, include means to safeguard particular markets and types of production from disruption that results from rapid changes in the impact of foreign trade, and to protect the U.S. external position from large and persistent deficits.

The Secretary of the Treasury also announced the intention to phase out the controls over the outflow of U.S. investment funds by December 31, 1974. The controls to be so phased out are the interest equalization tax, the limitations imposed by the Commerce Department's Office of Foreign Direct Investment, and the voluntary foreign credit restraint program of the Board of Governors of the Federal Reserve System.

Taken together, the actions proposed in the fields of money, trade, and investment, as well as actions taken by other countries, should help to direct the world economy toward conditions of international equilibrium, and to do so in a context of more competitive freedom for producers and investors both here and abroad.

In connection with the Secretary's announcement here, a number of other countries have stated that they will maintain their previous par or central values, so that the central rates or par values of their currencies will appreciate by 11.1 percent in terms of the dollar. Japan is permitting its currency to float for the time being, and the market rate has appreciated relative to the U.S. dollar by an amount substantially in excess of 11.1 percent. The United Kingdom and Italy also have floating currencies and their currencies have appreciated against the dollar by smaller amounts. There has been no significant appreciation thus far in the Canadian dollar. The new pattern of world exchange rates provides a basis for a thrust toward a viable equilibrium in world payments.

We believe the realignment, taking account of the floating of a number of important currencies, will produce a satisfactory and fair set of exchange rate relationships. While a major step forward, however, exchange rate changes cannot

¹ See exhibit 52.

² See exhibit 51.

substitute for long-term revisions in the monetary and trading system. We contemplate vigorous pursuit of international negotiations looking toward a more balanced economic order for the longer run, and for fairer treatment of American workers and producers. Moreover, the success of the action taken requires the effective management of the domestic economy of the United States. Budgetary restraint, appropriate monetary policy, and wage-price stabilization must be pursued with vigor to provide an essential foundation for achieving the stronger international competitive position necessary for our economy and for a stable monetary order.

III. *World payments in 1972 and the exchange crisis of early 1973*

Following the Smithsonian realignment in December 1971, there was a gradual return to a calmer situation in the exchange markets. However, this period of relative tranquility was punctuated in the middle of 1972 by speculation directed against the pound sterling. As a result of this pressure, the pound sterling was allowed to float and the market rate depreciated moderately below the central value fixed under the Smithsonian arrangement. During this period in the middle of the year nearly one-half of the overall 1972 deficit of about \$10 billion in our official reserve transactions account took place. Following this period of disruption in the markets, more orderly conditions were again restored.

For the year as a whole, this U.S. balance on official reserve transactions of just over \$10 billion was about one-third of the extremely large total of nearly \$30 billion in 1971. This was, however, still much larger than the highest deficit figure of about $3\frac{1}{2}$ billion dollars during the decade of the sixties. The net capital outflow, if we include in this category the large residual item not clearly identified, explains the smaller overall deficit in 1972.

On the other hand, the merchandise trade deficit, at \$6.8 billion for the year, was larger by \$4 billion than the 1971 figure. The bilateral trade deficit with Japan rose by nearly a billion dollars, to \$4 billion. The net trade position with Western Europe also worsened by $1\frac{1}{2}$ billion dollars, and an equal deterioration took place with the developing countries of Asia and Africa, a category that includes our growing petroleum imports.

To a considerable extent this result was not unexpected. In the initial months an exchange adjustment may not produce favorable results in terms of export volume, while imports continue to be acquired at higher dollar prices. The strong growth rate of the U.S. economy in 1972 stimulated a rising volume of imports, while other industrial economies showed more moderate year-to-year expansion, with a corresponding slower growth in their demand for our exports. Oil imports were also rising for reasons related to that commodity, though there were favorable developments in our exports to the Communist areas. Moreover, in the latter part of the year, the United States was able to report substantial progress in restraining inflation at a time when prices and costs were rising more rapidly in most other industrial countries.

Allowing for these factors, the trade deficit in the second half of 1972 appeared to show a leveling off from the sharp decline of 1971, and the prospect for 1973 could reasonably be one of some improvement. The question, however, was whether this improvement would come rapidly enough, and be large enough, to provide a firm basis for confidence in 1973. At the end of the year, it had become evident that there still remained a large disequilibrium in the current goods and services accounts. Our monthly trade figures in November and December failed to bear out earlier signs of gradual improvement. Moreover, the very large and persistent trade and current account surplus of Japan remained a prominent feature of the world disequilibrium in payments. It also appeared that for the year as a whole the enlarged European Community might have a current account surplus at about the same level as the Japanese, or about \$6 billion. For December, Germany reported a substantial bulge in its trade surplus, even though the German current accounts for the year as a whole did not show a large surplus.

These developments raised questions as to whether the Smithsonian exchange rate alignment, and other actions of the past 18 months (including our progress toward restoring price stability), even though beginning to show beneficial effects, could itself be adequate to bring sufficiently rapid and complete correction of the persistent underlying disequilibria in world trade and payments. Recognizing that the adjustment process might not be proceeding with sufficient vigor, the administration was actively in touch with our major trading partners, particu-

larly the Japanese, calling their attention to the need for their cooperation in dealing with the imbalances.

A period of renewed exchange speculation was touched off by the Italian decision, taken on the weekend of January 20, to establish a dual exchange market. The Italian reserve position had been weakening for some time through substantial capital movements. This outflow, which began in the middle of the year, appeared to have been related to political factors as well as uncertainty about the effect of rising costs in Italy on the Italian trade position—even though tourism and other invisible items gave Italy an extremely strong current account surplus.

This announcement was followed by a sizable bulge in the persistent movement of funds from Italy into Switzerland. On January 23, the Swiss authorities suspended intervention in the exchange market, and the Swiss franc appreciated against the dollar and dollar-pegged currencies. This action appears to have triggered very large and growing purchases of German DM and Japanese yen, totaling about \$7 billion, by February 9. The German authorities adopted emergency measures to tighten their restraints on inflows of funds during the week, but without appreciable effect in dampening the massive inward movements.

German authorities declared their intention not to revalue their rate by unilateral action, out of concern over their competitive position with respect to their closest trading partners. In these circumstances, market pressures were spreading to other currencies and security markets and money markets around the world were affected by the currency speculation and uncertainty. In these circumstances, temptations to resort to unilateral defensive action and reinforced controls were strong, but this course of events promised little progress toward dealing with the underlying imbalances in the payments of the United States and other countries.

Against this background, the United States undertook to explore with Japan and with several European countries the possibilities for a cooperative solution that would halt the crisis, establish a new pattern of exchange rates that would be appropriate, provide strong thrust toward correction of the underlying imbalances, and encourage fruitful negotiations in reshaping the structure of the monetary and trading system.

Under Secretary Volcker left Washington on Wednesday, February 7, for a series of meetings in Japan and in Europe. These conversations, among other points, considered whether the willingness of the United States to take overt action to devalue the dollar would produce an appropriate pattern of exchange rates. In the course of these discussions, it became apparent that this approach provided a means of achieving the needed results in a manner that met the needs of all major parties. There was a common and heartening recognition of the mutual need to reinforce the adjustment of payments imbalances and this cooperative spirit has been evident among many other members of the Fund, who have agreed to allow their exchange rates to reflect the appreciation of the dollar.

By taking such an initiative at this time and participating in such a cooperative solution, we were able to convert a crisis into an opportunity. The decisions taken posed difficulties for all the participants in the realignment. However, the consensus was clear that these decisions were required to achieve the needed and desired results, including particularly improvement in the competitive position of the United States.

In its main elements, the new structure of exchange rates and exchange policies can now be identified. Information is not yet available for all the members of the Fund, but the following table lists the actions taken by OECD countries. Broadly speaking, they fall into four categories—(a) countries which, by maintaining their existing par values, will permit 11.11 percent appreciation vis-a-vis the dollar; (b) a few countries fixing a new rate at a smaller appreciation against the dollar; (c) several developing countries in the OECD group that followed the depreciation of the dollar by the same amount; and (d) countries floating for the time being.

In the first category appear the Benelux countries, France, Germany, Austria, Australia, Denmark, Norway, and Spain. In the second group, Sweden, Finland, and Portugal appreciated by 5-7 percent. The third category includes Greece, Iceland, Turkey, and Yugoslavia. Finally, the floating group includes not only Canada and the United Kingdom, which were floating before February 1973, but also, for the present, Italy, Switzerland, and Japan. In the case of Japan, Secretary Shultz has indicated our firm expectation that the yen will float into a relationship vis-a-vis other currencies that is consistent with achieving a balance

of payments equilibrium not dependent upon significant government intervention. In the market to date, the Japanese yen has appreciated about 14 percent from the actual trading level on February 9, 1973.

Table 2 shows the average appreciation against the dollar for all OECD currencies, using February 16 market rates where no central rate or par value has been announced, together with the corresponding estimates for the Smithsonian realignment. The two results are quite similar. The cumulative effect of the two realignments taken together is an average appreciation against the dollar, calculated on the basis of U.S. cents per foreign currency unit, of 15.5 percent since April 30, 1971. If Canada is excluded, the average appreciation is about 23 percent. These results are derived as a weighted average of the rate changes, using as weights the trade of the United States with the country in question.

Important as it is, exchange rate realignment alone can be only one part of a successful effort to deal with payments imbalances and to lay the basis for a well-functioning international economic order. We must reinforce this action by appropriate domestic policies. In the international field there is still much to be done to establish fair and equitable competitive conditions in international trading arrangements and trade policies and practices.

To support the exchange rate action, American producers must have equitable access to foreign markets. Their opportunities have too frequently been closed or restricted by administrative barriers, controls, and preferences. The rules, standards, and procedures governing trading relationships in many instances no longer apply equitably or effectively, and need extensive reform, like those of the international monetary system. We propose to deal with foreign barriers to trade. In doing so, we must also recognize that the United States can be cited for such barriers in some areas. The trade legislation now under consideration will provide the tools essential for a concerted attack on these problems.

The decisions taken here and abroad as a result of the recent exchange crisis are entirely consistent with the major thrust of the U.S. proposals for the long-term reform of the international monetary system. More broadly, they underline our basic principle that any meaningful and stable international monetary system must rest on the determination of the major participant countries to seek and attain an equilibrium in their payments structures.

IV. *Financial aspects of the par value change*

The par value change will result in increases in the dollar value of U.S. reserve assets—gold, special drawing rights, and gold tranche automatic drawing rights in the International Monetary Fund—in the amount of \$1.4 billion. There will also be increases in the dollar value of subscriptions to the international financial institutions totaling about \$1.1 billion.

These increases in the value of assets are partially offset by increases in direct and contingent liabilities for international financial institutions totaling about \$2.5 billion as well as increases in repayment costs of obligations denominated in foreign currencies amounting to about \$389 million. A separate submission attached to the par value modification amendment contains the details of the effect of the par value change on U.S. assets and liabilities.¹

Only the maintenance of value liabilities to the international financial institutions will require appropriations. Authority to maintain the value of our international financial institutions subscriptions and an authorization of appropriations for this purpose are contained in the Par Value Modification Act. A maximum appropriation of \$2.3 billion will be requested.

This appropriation will have limited budgetary effect. This results from the fact that (a) \$1.8 billion of our liabilities to the international financial institutions represents monetary exchanges of assets, and contingent liabilities are not expected to be called, and (b) because in almost all cases payments to these institutions are made in letters of credit which are drawn down gradually. In fact, no expenditures are anticipated in fiscal 1973, \$12 million in 1974, and thereafter at a rate of about \$40 million a year over 10 years.

¹ See exhibit 52.

TABLE 1.—*Exchange rates and exchange rate changes against the dollar by OECD countries¹ as of February 16, 1973*

Country	Percent change against dollar ²	New exchange rate (foreign currency units per dollar)
Australia	11.11	0.71
Austria	11.11	20.97
Belgium	11.11	40.33
Canada	³ 0.7 (Float)	⁴ 1.007
Denmark	11.11	6.28
Finland	5.13	3.90
France	11.11	4.60
Germany	11.11	2.90
Greece	0	30.00
Iceland	0	98.56
Italy	³ 1.9 (Float)	⁴ 570.00
Japan	³ 14.3 (Float)	⁴ 263.50
Luxembourg	11.11	40.33
Netherlands	11.11	2.92
Norway	11.11	5.98
Portugal	6.86	25.50
Spain	11.11	58.03
Sweden	5.55	4.56
Switzerland	³ 5.7 (Float)	⁴ 3.37
Turkey	0	14.00
United Kingdom	³ 2.3 (Float)	⁴ 2.44
Yugoslavia	0	17.00

¹ Members of the Organization for Economic Cooperation and Development.² Expressed as percent change in U.S. cents per foreign currency unit compared with par value or central rates prevailing prior to Feb. 13, 1973.³ For currencies which are floating, percentage changes show changes in market rates between Feb. 9 and Feb. 16, 1973. For Switzerland, market rate has changed 5.7 percent since Feb. 9, or by 11.5 percent since the beginning of the Swiss franc float.⁴ For currencies which are floating, market rates as of Feb. 16 are shown.TABLE 2.—*Weighted average appreciation of foreign currencies against the dollar, as of Feb. 16, 1973*

[Percent change in U.S. cents per foreign currency unit; based on U.S. bilateral trade weights in 1970]

	Resulting from		
	Smithsonian realignment ¹	February 1973 rate changes to date ²	Combined changes, Smithsonian and February 1973 ³
OECD countries.....	8.0	7.3	15.5
OECD, excluding Canada.....	11.8	10.8	23.0

¹ Based on changes from Apr. 30, 1971. Dec. 21, 1971, market rate for Canada used.² Based on announced par values or central rates; or, where such rates have not been announced, on market rates as of Feb. 16, 1973. For all countries except Canada and the United Kingdom, these February rates are compared with the Smithsonian par values or central rates in deriving the percentage of appreciation in the middle column. For the United Kingdom, the February 1973 change is calculated by comparing the market rate on Feb. 16 with a base rate of \$2.35, which was roughly the average market rate prevailing in the weeks preceding the exchange disturbances.³ Also includes par value changes by Australia and Iceland in December 1972. These changes are not included in computing the middle column above. In all cases, the combined changes represent the percentage appreciation of the February rates used over the par values or market rates prevailing on Apr. 30, 1971.

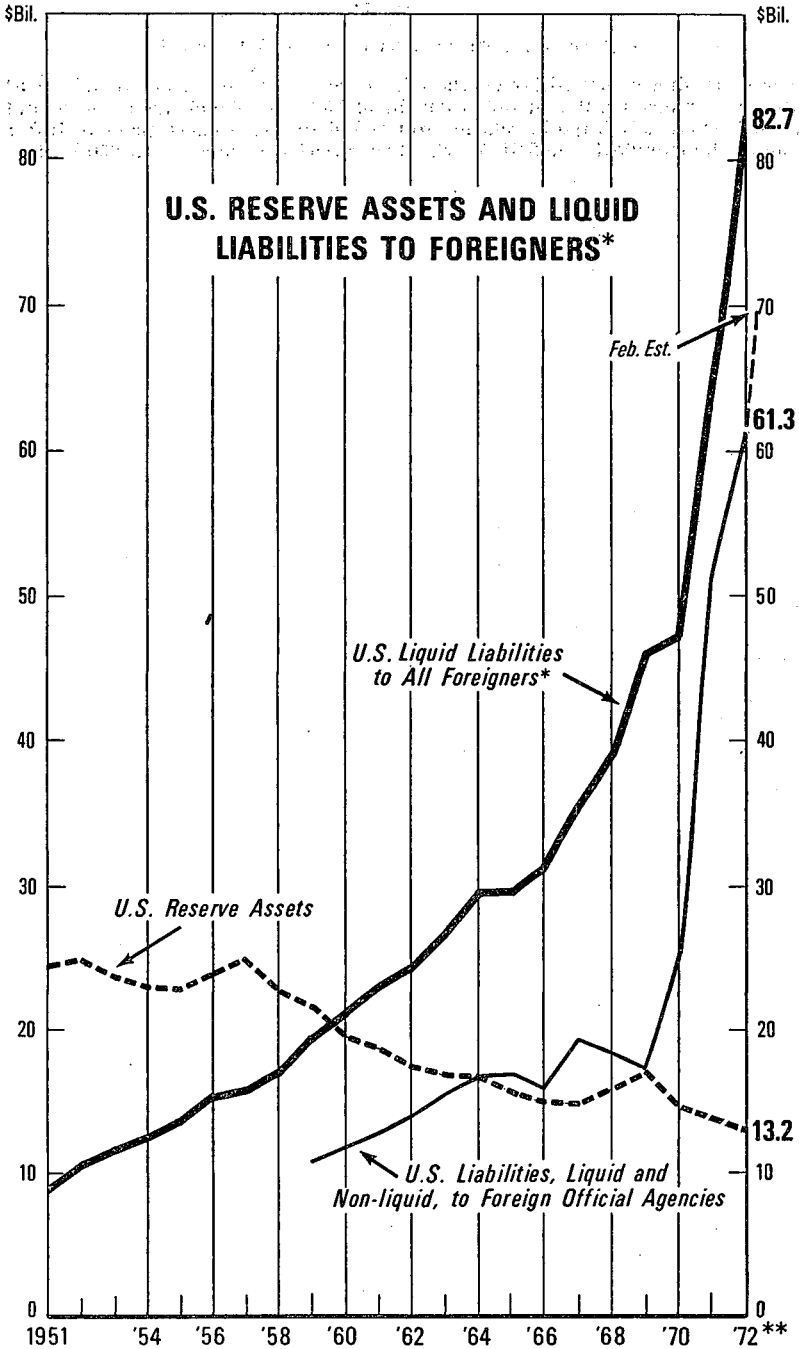
CHART I

U.S. RESERVE ASSETS AND LIQUID LIABILITIES TO FOREIGNERS

Chart I shows how our short-term liabilities to foreigners continued their dramatic increase in 1972, reaching a level more than six times our reserve assets by the end of the year with still further increases early in 1973.

Our liabilities to foreign monetary authorities, which are included in the figure for total liquid liabilities to foreigners, are currently estimated, including amounts purchased by a number of central banks during the recent period of speculation, to be nearly \$70 billion.

Since the suspension of the convertibility of the dollar into gold on August 15, 1971, there has been little change in U.S. reserve assets except for the adjustment in the value of our gold holdings from \$35 per fine ounce to \$38 per ounce and the allocation to the United States of special drawing rights of \$700 million in 1972.



* Including Non-liquid Liabilities to Foreign Official Agencies.

** Normal Release Date February 27, 1973.

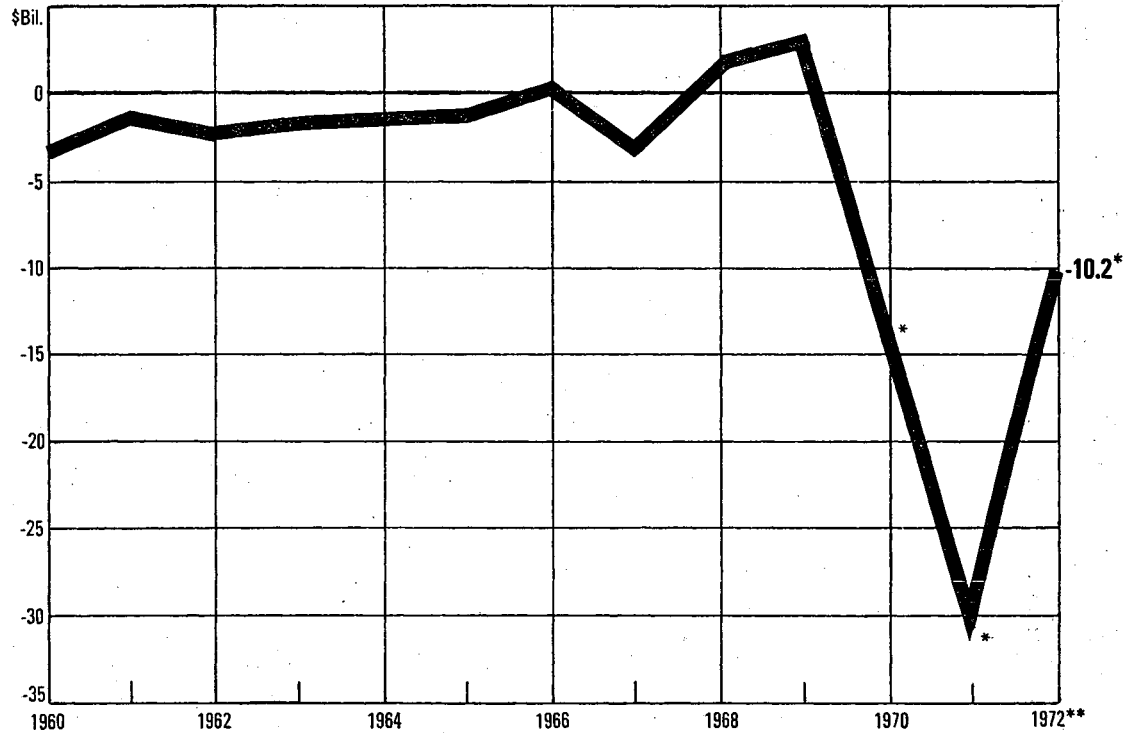
Source: TREASURY BULLETIN, January 1973.

CHART II

U.S. OFFICIAL RESERVE TRANSACTIONS BALANCE

Chart II shows that although the official reserve transactions deficit of \$10.2 billion was much smaller in 1972 than the \$29.5 billion deficit incurred in 1971, it was still extremely large in relation to the deficits experienced prior to 1970 and brought the cumulative deficit for the 3-year period to more than \$50 billion.

OFFICIAL RESERVE TRANSACTIONS BALANCE



* Includes SDR allocation of \$867 million in 1970, \$717 million in 1971 and \$710 million in 1972.

** Preliminary

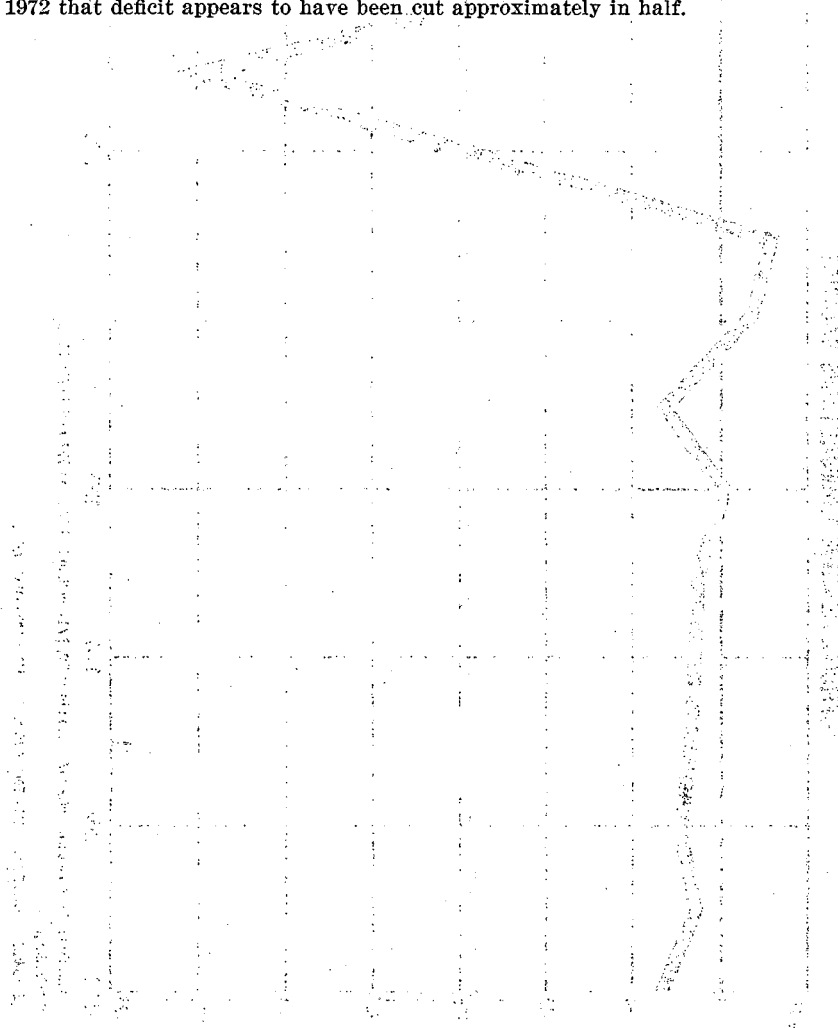
SOURCE: SURVEY OF CURRENT BUSINESS, JUNE AND DEC. 1972.

CHART III

COMPOSITION OF U.S. BALANCE OF PAYMENTS

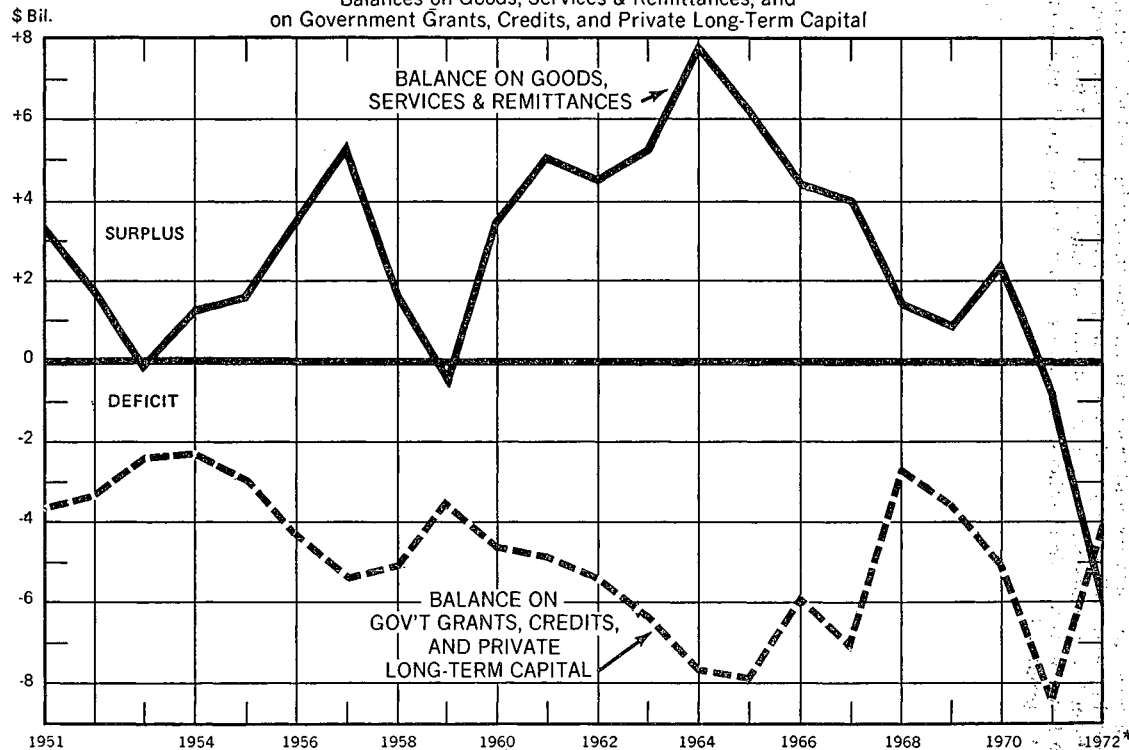
Chart III traces changes in the balance on goods, services, and private remittances, often called the current account excluding Government grants. The United States has experienced an almost uninterrupted deterioration in this balance since 1964, when there was a surplus of nearly \$8 billion, with the most serious deterioration occurring in 1972. The deficit in 1972 was about \$6 billion.

Chart III also traces trends in the balance of Government grants and credits and private long-term capital transactions. The movements of this balance are irregular. In 1971, the United States experienced a deficit of \$8.5 billion, but in 1972 that deficit appears to have been cut approximately in half.



COMPOSITION OF U.S. BALANCE OF PAYMENTS

Balances on Goods, Services & Remittances, and
on Government Grants, Credits, and Private Long-Term Capital



* Estimate

Source: SURVEY OF CURRENT BUSINESS

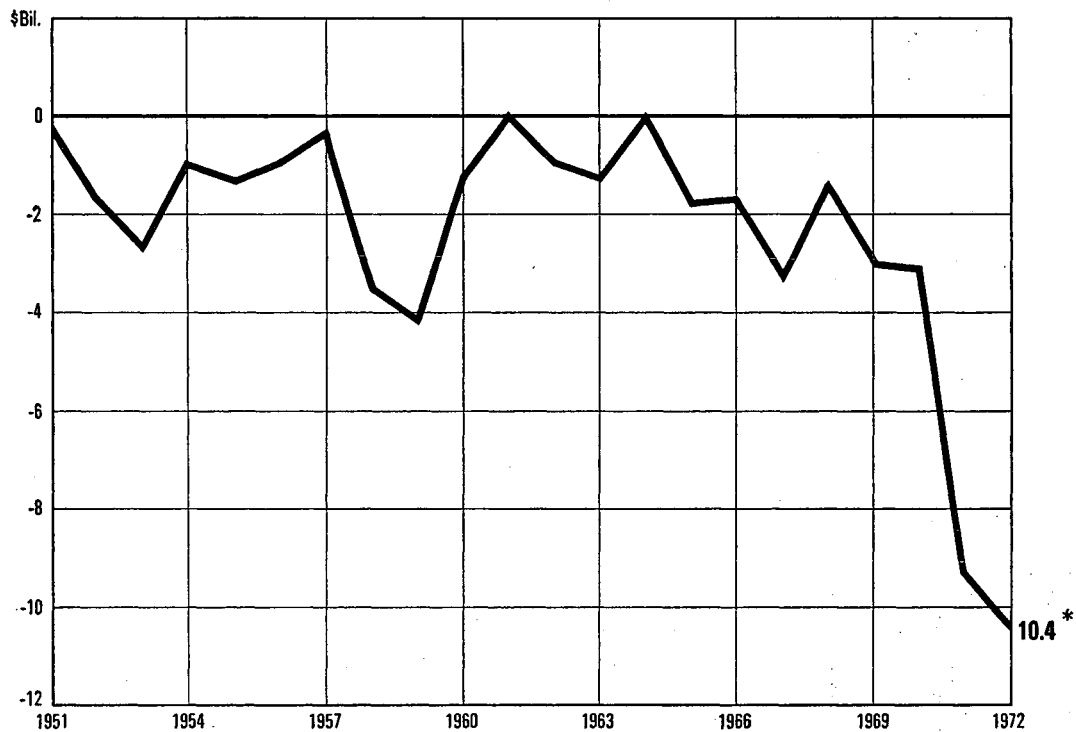
CHART IV

U.S. BALANCE OF PAYMENTS ON CURRENT AND LONG-TERM CAPITAL ACCOUNT

Chart IV illustrates the dramatic increase in the deficit on current and long-term capital account (sometimes called the basic balance) which has occurred in the last 2 years. In 1972, the deficit in these transactions appears to have been more than \$10 billion. The Nation has not received enough money from the sales of goods and services and from foreign investments in the United States to pay for imports, military expenditures abroad, aid to developing countries, and long-term investments made by U.S. industry outside the United States.

We have borrowed from others and have consumed more goods and services than we produced.

U.S. BALANCE OF PAYMENTS ON CURRENT AND LONG-TERM CAPITAL ACCOUNT



* Estimate

Source: SURVEY OF CURRENT BUSINESS

CHART V

U.S. MERCHANDISE TRADE

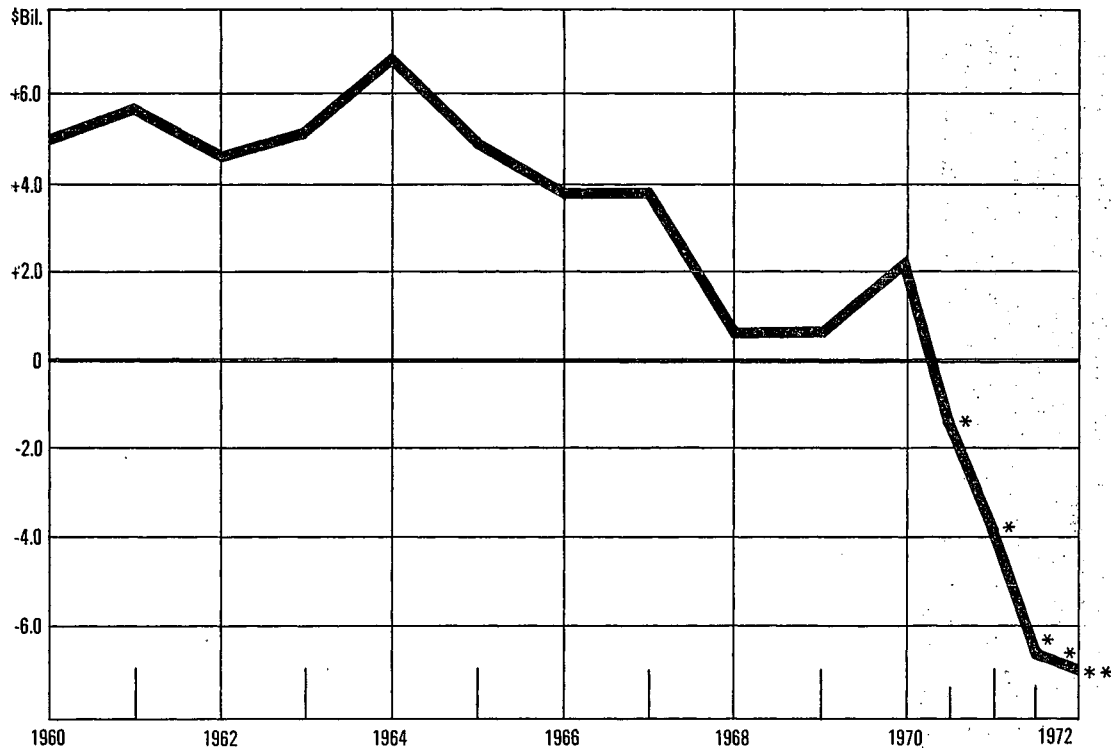
Chart V portrays the severe deterioration in our merchandise trade balance from 1964 to mid-1972 when a leveling off occurred.

Our position is best when foreign countries are operating at or near capacity levels and our own economy is operating with significant slack. 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, when the domestic economy is under inflationary strain our trade position tends to be weaker, particularly if some of our major trading partners are going through periods of relatively excess capacity. The very small trade surplus recorded in 1968 reflects these conditions.

Cyclical conditions had a highly favorable effect on our actual balance in 1971 and a much smaller but still favorable effect in 1972. The change in the cyclical conditions was one of the major reasons for the worsening of the balance between 1971 and 1972.

Other important factors were the rising demand for imports of fuel and the initial effects of the 1971 realignment of exchange rates which probably were somewhat adverse in 1972.

U.S. MERCHANDISE TRADE



SOURCE: SURVEY OF CURRENT BUSINESS: June and December 1972

* 1st half at annual rate

** Preliminary

CHART VI

NET INVESTMENT INCOME

Chart VI traces the trends in net investment income from 1960 through 1972. During this period there was a very substantial rise in receipts from U.S. investments overseas—from \$3.3 billion in 1960 to \$11.2 billion in 1972. Payments covering the earnings of foreign investment in the United States also increased dramatically during the period. They were about \$1.1 billion in 1960 and \$5.9 billion in 1972. Our net earnings on investment income have thus risen from \$2.2 billion in 1960 to \$5.3 billion in 1972. The greater part of this improvement in the net investment earnings occurred in the early part of the 1960's. Since 1967, payments have grown nearly as rapidly as receipts and the net has improved by less than \$1 billion. The reason is that our overall payments deficits are being financed by the buildup of liquid liabilities on which we must pay interest and these growing interest payments offset most of the increase in income from U.S. investments overseas.

NET INVESTMENT INCOME

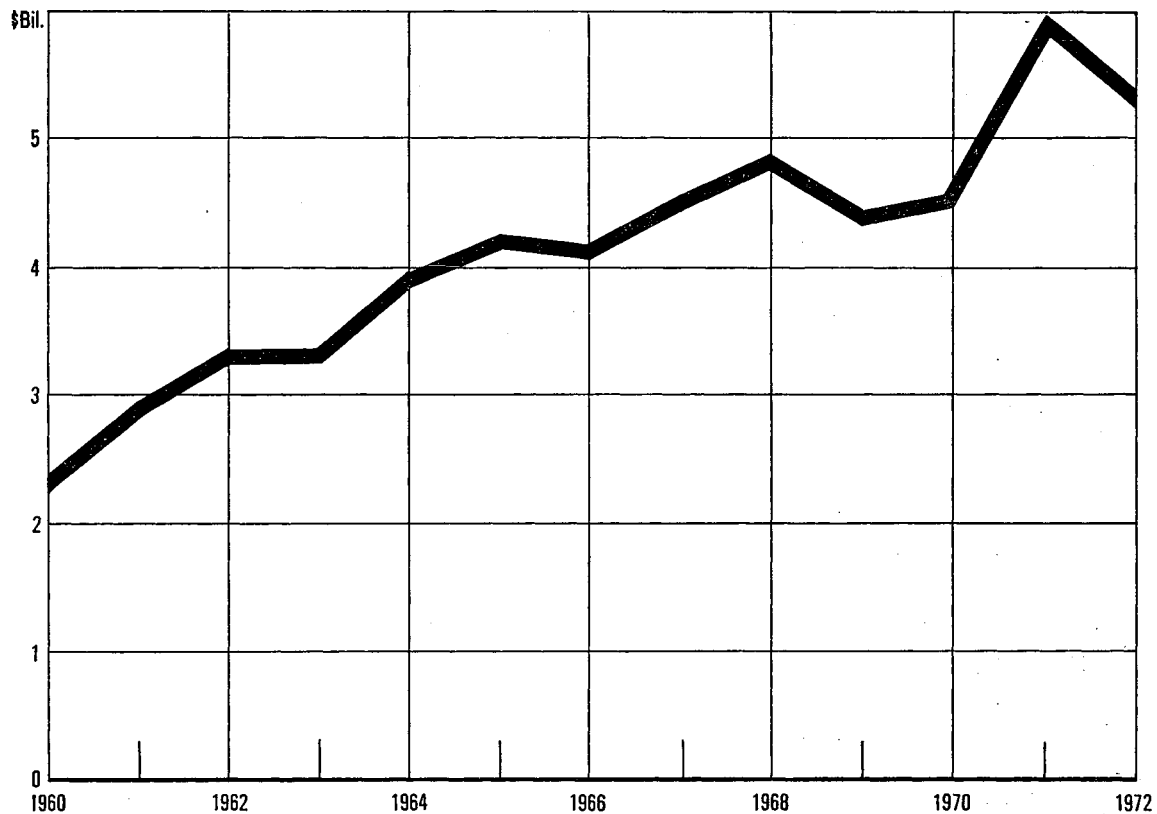


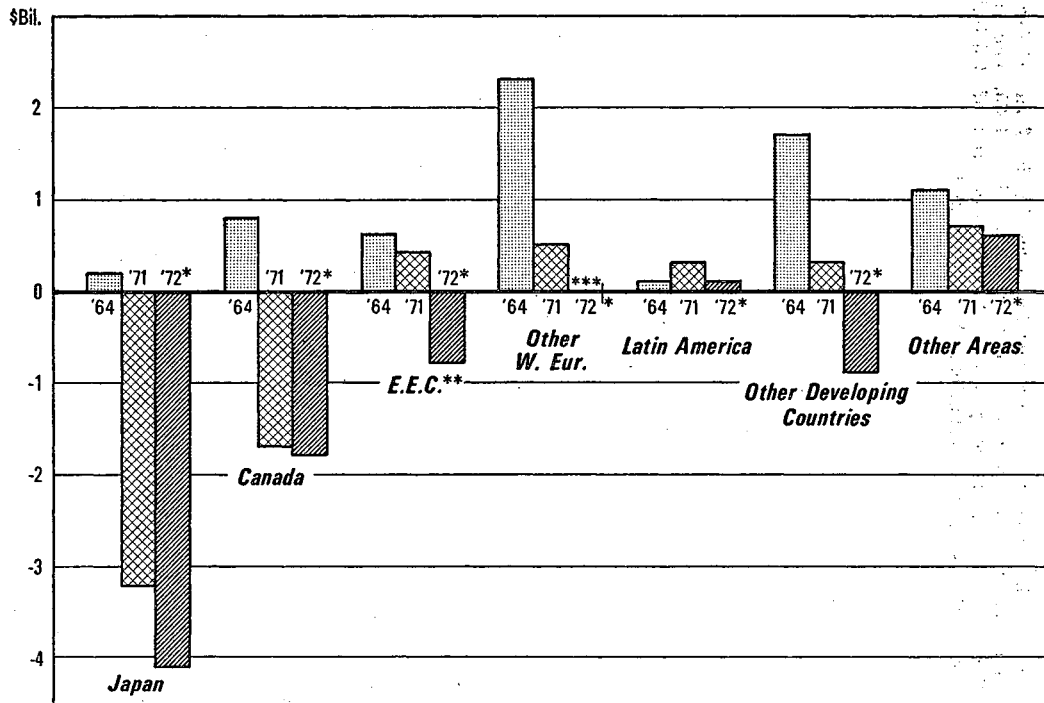
CHART VII

DETERIORATION OF U.S. MERCHANDISE TRADE BALANCE

Chart VII illustrates the shift in the U.S. trade balance with major areas of the world which has occurred since 1964, the year in which the United States had its largest trade surplus. The overall deterioration between 1964 and 1972 was nearly \$14 billion, of which \$4.3 billion was with Japan, \$2.6 billion with Canada, \$1.4 billion with the European Community (including United Kingdom), and \$2.3 billion with other countries in Western Europe.

The sharpest deterioration—some \$4 billion—occurred between 1971 and 1972. About two-thirds of this deterioration was in our trade with other industrial countries, primarily Japan and the European Community, but about one-third was with the developing countries.

DETERIORATION OF U.S. TRADE BALANCE SINCE 1964



* First three quarters at annual rate

** Expanded E.E.C.

*** Zero balance

Source: SURVEY OF CURRENT BUSINESS

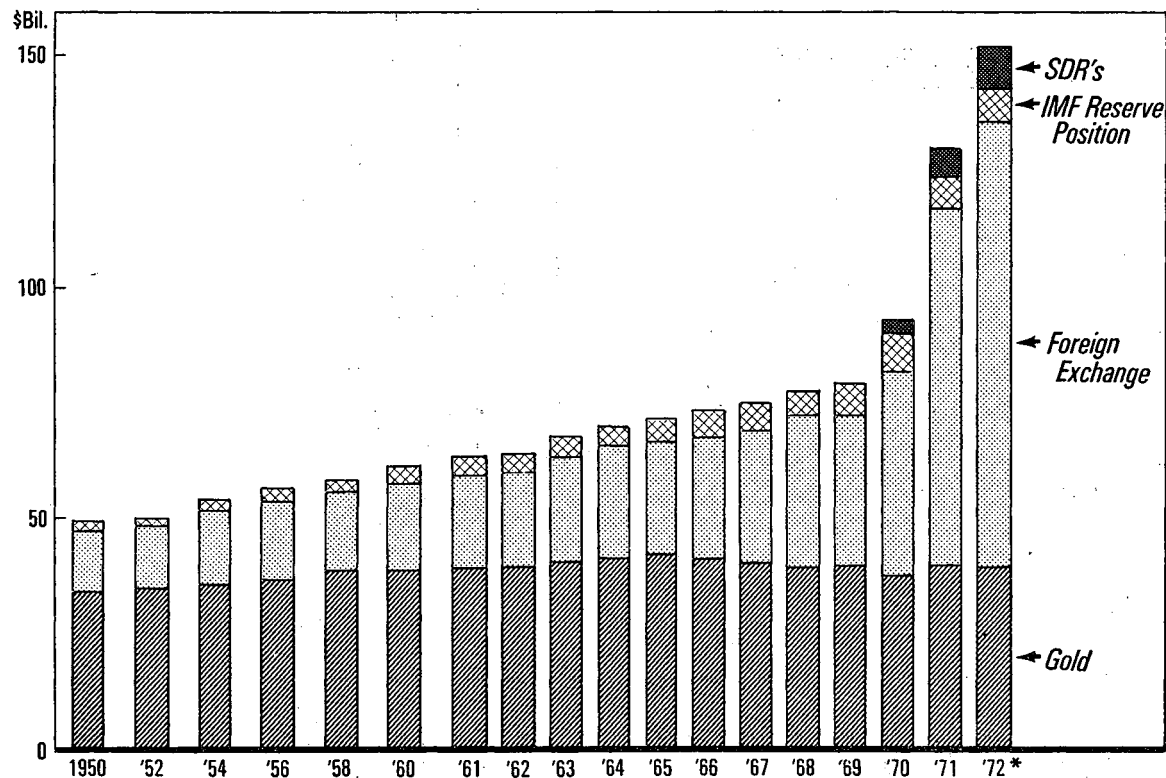
CHART VIII

COMPOSITION OF WORLD RESERVES

Chart VIII depicts the growth of world reserves over the period since 1950. By September 30, 1972, world reserves had reached \$152 billion, more than three times the level prevailing in 1950. Much of this increase has occurred since 1969. In 1970 the rise was more than \$14 billion; in 1971 the rise was \$37½ billion; and in the first 9 months of 1972 there was a further growth of \$22 billion.

The bulk of the increase in the reserves has been in the form of foreign exchange. Monetary gold holdings have been declining since 1965. The other major addition to reserves in recent years resulted from creation of \$9.5 billion in special drawing rights on the International Monetary Fund.

COMPOSITION OF WORLD RESERVES, 1950-1972



* End September 30

TABLE I.—*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
1950.....	24.3	8.9	n.a.
1951.....	24.3	8.8	n.a.
1952.....	24.7	10.4	n.a.
1953.....	23.5	11.4	n.a.
1954.....	23.0	12.5	n.a.
1955.....	22.8	13.5	n.a.
1956.....	23.7	15.3	n.a.
1957.....	24.8	15.8	n.a.
1958.....	22.5	16.8	n.a.
1959.....	21.5	19.4	(10.6)
1960.....	19.4	21.0	(11.9)
1961.....	18.8	22.9	(12.6)
1962.....	17.2	24.3	(13.7)
1963.....	16.8	26.4	(15.2)
1964.....	16.7	29.4	(16.6)
1965.....	15.5	29.6	(16.7)
1966.....	14.9	31.0	(15.9)
1967.....	14.8	35.7	(19.2)
1968.....	15.7	38.5	(18.4)
1969.....	17.0	45.9	(17.0)
1970.....	14.5	47.0	(24.3)
1971.....	12.2	67.8	(51.2)
1972.....	² 13.2	² 82.7	² (61.3)

n. a. Not available.

¹ Including nonliquid liabilities to foreign official agencies.² Normal release dates Feb. 27, 1973.

SOURCE: Treasury Bulletin, January 1973.

TABLE II.—*Measure of the U.S. balance of payments, official reserve transactions balance*

[In billions of dollars]

1960.....	-3.4	1967.....	-3.4
1961.....	-1.3	1968.....	1.6
1962.....	-2.7	1969.....	2.7
1963.....	-1.9	1970.....	¹ -10.7
1964.....	-1.5	1971.....	¹ -29.5
1965.....	-1.3	1972.....	^{1,2} -10.2
1966.....	0.2		

¹ Includes SDR allocation of \$867 million in 1970, \$717 million in 1971, and \$710 million in 1972.² Preliminary.

SOURCE: Survey of Current Business, June and December 1972.

TABLE III.—*Composition of U.S. balance of payments*

[In billions of dollars]

Year	Balance on goods, services, and remittances	Balance on Government grants, credits, and private long-term capital
1951.....	3.3	-3.6
1952.....	1.8	-3.4
1953.....	-1.1	-2.4
1954.....	1.3	-2.3
1955.....	1.6	-2.9
1956.....	3.5	-4.4
1957.....	5.2	-5.4
1958.....	1.6	-5.1
1959.....	-1.5	-3.6
1960.....	3.5	-4.7
1961.....	5.0	-4.9
1962.....	4.4	-5.4
1963.....	5.2	-6.4
1964.....	7.7	-7.7
1965.....	6.1	-7.9
1966.....	4.3	-5.9
1967.....	3.9	-7.1
1968.....	1.3	-2.7
1969.....	.7	-3.6
1970.....	2.2	-5.2
1971.....	-1.8	-8.5
1972.....	¹ -6.1	¹ -4.3

¹ Estimate.TABLE III-A.—*Balance on current account*¹

	Billion		Billion
1960.....	\$1.8	1967.....	\$2.1
1961.....	3.1	1968.....	-1.5
1962.....	2.5	1969.....	-1.0
1963.....	3.2	1970.....	-1.4
1964.....	5.8	1971.....	-2.8
1965.....	4.3	1972 ¹	² -8.3
1966.....	2.3		

¹ Including Government grants.² Preliminary.TABLE IV.—*U.S. balance of payments on current and long-term capital account*

[In billions of dollars]

1951.....	-0.3	1962.....	-1.0
1952.....	-1.7	1963.....	-1.3
1953.....	-2.6	1964.....	0
1954.....	-1.9	1965.....	-1.8
1955.....	-1.3	1966.....	-1.7
1956.....	-1.9	1967.....	-3.3
1957.....	-1.3	1968.....	-1.4
1958.....	-3.5	1969.....	-3.0
1959.....	-4.1	1970.....	-3.1
1960.....	-1.2	1971.....	-9.3
1961.....	0	1972.....	¹ -10.4

¹ Estimate.TABLE V.—*U.S. merchandise trade*

[In billions of dollars]

	Trade balance		Trade balance
1961.....	5.6	1968.....	.6
1962.....	4.6	1969.....	.6
1963.....	5.2	1970.....	2.2
1964.....	6.8	1971 1st half ¹	-1.4
1965.....	4.9	1971 2d half ¹	-3.9
1966.....	3.8	1972 1st half ¹	-6.7
1967.....	3.8	1972 2d half ²	¹ -7.0

¹ Annual rate.² Preliminary.

SOURCE: Survey of Current Business, June and December 1972.

TABLE VI.—*Investment income*

[In billions of dollars]

Year	Receipts	Payments	Balance
1960.....	3.3	-1.1	2.2
1961.....	3.9	-1.0	2.9
1962.....	4.4	-1.1	3.3
1963.....	4.6	-1.3	3.3
1964.....	5.4	-1.5	3.9
1965.....	5.9	-1.7	4.2
1966.....	6.3	-2.1	4.2
1967.....	6.9	-2.4	4.5
1968.....	7.7	-2.9	4.8
1969.....	8.9	-4.5	4.4
1970.....	9.5	-5.1	4.4
1971.....	10.7	-4.8	5.9
1972.....	11.2	-5.9	5.3

TABLE VII.—*Merchandise trade balance by area*

[In billions of dollars]

	1964	1971	1972*
Japan.....	.2	-3.2	-4.1
Canada.....	.8	-1.7	-1.8
EC**.....	.6	.4	-.8
Other Western Europe.....	2.3	.5	0
Latin America.....	.1	.3	.1
Other developing countries.....	1.7	.3	-.9
Other areas***.....	1.1	.7	.6

* First three quarters, annual rates.

** Expanded to include United Kingdom, Denmark, and Ireland.

*** Australia, New Zealand, South Africa, and Eastern Europe.

TABLE VIII.—*Composition of world reserves, 1950-1972*

[In millions of dollars]

End of year	Gold (all countries)	Foreign exchange	Reserve position in fund	SDR's	Total reserves
1950.....	33.8	13.3	1.7	-----	48.7
1951.....	33.9	13.7	1.7	-----	49.4
1952.....	33.9	14.2	1.8	-----	49.9
1953.....	34.3	15.6	1.9	-----	51.8
1954.....	35.0	16.7	1.8	-----	53.5
1955.....	35.4	17.0	1.8	-----	54.3
1956.....	36.0	17.8	2.3	-----	56.2
1957.....	37.3	17.0	2.3	-----	56.6
1958.....	38.0	17.1	2.6	-----	57.7
1959.....	37.9	16.4	3.3	-----	57.5
1960.....	38.0	19.0	3.6	-----	60.6
1961.....	38.9	19.6	4.2	-----	62.7
1962.....	39.3	20.0	3.8	-----	63.1
1963.....	40.2	22.5	3.9	-----	66.6
1964.....	40.8	24.0	4.2	-----	69.0
1965.....	41.9	23.8	5.4	-----	71.0
1966.....	40.9	25.4	6.3	-----	72.6
1967.....	39.5	29.0	5.7	-----	74.3
1968.....	38.9	31.9	6.5	-----	71.3
1969.....	39.1	32.3	6.7	-----	78.2
1970.....	37.2	44.5	7.7	3.1	92.5
1971.....	39.2	77.6	6.9	6.4	130.1
1972*.....	38.8	97.0	6.7	9.5	152.0

*3rd quarter.

SOURCE: International Financial Statistics, January 1972, February 1973, Supplement to 1966-67.

Exhibit 54.—Statement by Secretary Shultz as Governor for the United States, May 8, 1973, at the 14th annual meeting of the Board of Governors of the Inter-American Development Bank, Kingston, Jamaica

It is a pleasure for me to be attending the annual meeting of the Inter-American Development Bank for the first time. It is the first opportunity I have had to work with many of my fellow Governors. I have enjoyed this opportunity and have found the exchange of views most useful.

I wish to express to the people of Jamaica the sincere appreciation of the U.S. delegation for the gracious hospitality they have extended to us. President Nixon has asked me to convey his warmest personal regards to this meeting and his wishes for its success.

U.S. participation in the Inter-American Development Bank requires the agreement and cooperation of both the executive and legislative branches of the U.S. Government. Thus, it is most fitting that we have in the U.S. delegation Members of the U.S. Congress of great distinction. In his report to the Congress last week, President Nixon suggested that our legislators make such visits within the hemisphere at the same time he announced his own intention to travel to Latin America at least once this year.

We come together at a time when the international economy and the relations of all nations are undergoing fundamental change. This change brings new challenges—new opportunities to our nations, individually and collectively.

It is now widely recognized that economic relationships between the United States and other industrial nations have undergone a fundamental transformation—greater than almost any nation was willing to admit less than 2 years ago. After World War II, the unrivaled economic strength of the United States allowed us to make international economic commitments with little concern for their effect on our own economy.

Now, however, economic strength and power is more widely distributed among countries and, viewing the matter in global terms, this change has been for the better. Many industrial nations have per capita incomes approaching that of the United States. Many of the developing countries have broken out of their poverty cycles and made rapid strides in improving their standards of living. The less developed world, and Latin American nations in particular, are now conscious of their needs, their opportunities, and their ability to play a central role in the development process.

The reform of the international economic system in which we are now engaged must reflect these changes in underlying economic realities. Rather than resist needed change, we must reexamine our practices and reshape our economic roles and institutions. Our aim should be to assure that our common interest in economic prosperity and political harmony is served by change.

It is essential in this process for developed and developing nations to work together, for economic reform can and will benefit all our nations and—most importantly—provide the framework in which the development aspirations of the Latin American people can be most readily fulfilled. That is why the United States has welcomed the participation of the developing countries of Latin America as well as other continents in the work of the Committee of Twenty.

Two major realignments in the relationship of the dollar and the currencies of other nations have taken place. Present rates now reflect the basic economic realities and a major source of instability in the system has been removed. Realistic exchange rates bring direct benefits to Latin America.

Most Latin American countries chose to follow the dollar at the time of the realignments. Since Latin America is the most industrialized of the developing regions of the world, the region's competitive position in world trade has been improved considerably. The initial figures on trade and the increase in reserves seem to indicate that Latin America has seized and profited by this new opportunity.

There are other fundamental ways in which development is and will be affected by the success of reform of the monetary system. It is clearly disadvantageous, both to the developing countries and to the United States, to have a monetary system which permits large and persistent surpluses or deficits. Large persistent imbalances lead to a proliferation of controls on trade and capital which slow the growth of world production and affect the flow of development capital. Such imbalances also lead to large and disruptive exchange rate changes. The new system must assure that balance of payments adjustment takes place more

promptly and smoothly and in an outward-looking way—a system which provides for economic expansion, not contraction.

There is a certain nostalgia among some countries for the old fixed-rate system, where parities were supposed to change only rarely, and did so after great pressure had been built up as an extreme deficit or surplus developed. As a result, change tended to be large and disruptive. The fear exists that somehow more flexible rates will lead to greater uncertainty and instability in the system, with adverse effects on individual countries, especially those in the process of development. I think the evidence is heavily on the other side.

One must not confuse a more flexible system with disruptive large-scale changes in exchange rates which we have experienced in the past 2 years. The recent changes were needed because the old system was not flexible. It did not provide for adjustment to the major structural changes in the world economy which had evolved over many years, and a major realignment was required.

One central element of a more stable monetary system is, in our view, the use of some kind of objective indicator to signal the need for action to correct an emerging disequilibrium—to ensure that appropriate adjustment does take place and is consistent with open and cooperative world economic relations. Internationally agreed rules are very important in an economic system of more equally distributed power where the possibility of economic friction and disharmony is increased.

The use of objective indicators which the United States has proposed would place upon all countries, large and small, rich and poor, equal obligations to take adjustment actions when disproportionately large imbalances were experienced—unless it could be demonstrated that the imbalance was soon to be reversed without specific corrective steps. When action was clearly appropriate, each individual nation would have broad flexibility to make its own choice among internationally acceptable adjustment measures, and exchange rate modifications would represent but one possible choice out of a broad spectrum of possible domestic or international actions. For example, greater use of borrowing facilities could be undertaken if that were judged appropriate.

The challenge of monetary reform is one both developed and developing countries must meet quickly and decisively. Latin America and the United States share a common objective in successful reform. It is an opportunity and an important challenge for us, for if the system does not permit all nations, including the United States, to reach and stay in equilibrium, restrictions on the flows of development assistance, private capital, and trade will be inevitable.

To be fully effective, reform of a monetary system must be accompanied by reform of the trading system. There is now a great opportunity for progress in the reduction of tariffs and other barriers to international trade. Multilateral trade negotiations will begin in the GATT in September, in which I expect Latin American nations will take an active part. The great changes which have occurred in the structure of world economic and financial power require changes in trading rules which strike a fair balance between the legitimate interests of individual nations—including the developing nations and the need for a cooperative worldwide approach.

This is the spirit in which President Nixon has proposed broad new legislative authority for trade negotiations. The requested authority would include—and look toward—reductions in both tariff and nontariff barriers. The legislation has as its fundamental premise that every nation can and should benefit from expanding trade and open trading practices, within the basic framework of a competitive market system. But that openness, however, must also be combined with fairness for all nations.

It is in the elimination of nontariff barriers that the mutuality of objectives between the United States and Latin American nations is perhaps greatest. A reduction in the barriers to agricultural imports worldwide would bring major benefits to our economies. Benefits would also accrue from a negotiation which would reverse the trend toward inward-looking regionalism based on preferences for particular countries and groups of countries.

In some instances, open markets and free trade can bring change with disruptive speed. Our proposed legislation recognizes this. Like other countries, we need effective safeguards when excessive hardships are imposed on domestic workers and business by surges in imports. The aim of such safeguards is not to avoid adjustment, but to ease the burdens of adjustment for a transitional period

and thereby facilitate the process. Safeguards of the kind we have in mind can most effectively be worked out on a consistent multilateral basis.

Progress in reducing barriers to trade is sustainable for the United States only if it is clear that our own products receive fair and nondiscriminatory treatment. Our proposed legislation, therefore, would give the President broadened authority to respond effectively to restrictive or discriminatory practices of others. Under this authority, the President could, if necessary, restrict the access of others to the U.S. market.

The United States also realizes that developing countries face special difficulties in entering world markets, particularly when first attempting to diversify into nontraditional exports. For that reason, the trade bill would permit the United States to join with other industrialized countries in providing developing countries access to the markets of the industrialized nations. A broad range of manufactured products now regulated by tariffs would be accorded duty-free treatment in instances where countries in the early stages of industrialization are beginning to enter world markets.

Much progress toward economic reform has already been achieved. Much more is in the offing. I appreciated having the opportunity to discuss these matters at some length with many of you this week. It is important to continue this consultation. To this end, I have asked Under Secretary Paul Volcker to act as my special representative for consulting with Latin America on these matters, so that we may better understand our commonality of interests and work cooperatively together toward these important goals.

Turning specifically to the Inter-American Development Bank, I congratulate President Ortiz Mena on another successful year for the Bank, carried out in the face of an increasingly difficult funding problem. The Bank has been the engine—the driving force—of economic development in the region and must continue to play that role. It has shown the ability to provide a large flow of resources to member countries, and—equally important—it has been able to adapt itself to the times and go through the difficult process of self-improvement.

But the Bank must be adequately funded if it is to play its part in furthering the development process. Legitimate questions can be directed at the United States in that regard. I would like to state our position on the matter frankly and fully.

It is obvious that it is the overall economic and financial situation of the United States that determines our ability to support development finance institutions. The same is true of all nations. My country as well as yours must take budgetary priorities and balance of payments considerations into account. But priorities in my country are reviewed independently both by the executive and Congress, so that any funding requests must withstand a double scrutiny.

We have been restraining our total budget as a means of countering domestic inflationary pressures. Budgetary allocations for a number of domestic programs have been substantially cut back from earlier projections. The demands for more domestic spending are vast. We need to control pollution. We need to rebuild decaying cities. We need to assist poorer American citizens, whose number is still too large. We are not able to meet all these pressing demands.

It is also obvious, in the light of recurrent attacks on the dollar in world markets, that we must urgently restrain overseas spending to help deal with our balance of payments problem.

I want to underscore the fact that the President, after considering the budgetary and balance of payments constraints, still feels strongly that we must give priority to our past agreements to provide funds to the Inter-American Development Bank. The President's 1974 budget includes \$500 million in concessional funds for the Bank. In addition, there is before the Congress a \$193 million capital subscription request, mainly in the form of guarantee authority for additional Bank borrowings in capital markets.

We will press for appropriation of these amounts. But the Congress will independently examine priorities and, frankly speaking, I cannot describe the congressional prospects as other than uncertain. If we can clearly show that this Bank plays a crucial role in building stronger economies in Latin America, thereby contributing to economic stability and a peaceful world, there may be grounds for greater optimism.

In this regard, the Bank has a real record of accomplishment. Last year the total market rate and concessional lending reached \$800 million and the quality

of the Bank's programs continued to improve. A number of specific actions taken last year to make the Bank more effective also deserve special note.

Several years ago this Bank established the first independent evaluation mechanism of any of the international financial institutions. This was a healthy step. It was of particular concern to the U.S. Congress as a means of ensuring effective use of Bank funds.

This evaluation group carried out last year three more in-depth evaluations of Bank programs, resulting in major improvements in the Bank's operations, and additional evaluations are in process. The Bank's ability and willingness to profit from constructive, independent evaluation provide the best guarantee to donors and recipients that the institution will continue to evolve to changing conditions and meet the needs of its members.

The thrust for improved operating efficiency was also carried forward significantly by the implementation during the last 12 months of the reorganization recommendations that grew out of an independent consultant's study.

Another milestone in the Bank's process of changing in accordance with the progress of the region was passed last year. The Board of Executive Directors acted to implement the Board of Governors' decision that it was now appropriate to phase down soft loans to the richer countries, in order to increase the flow of these funds to the poorer nations of the region whose economies are not yet able to accept substantial amounts of loans on commercial terms. These relatively lesser developed nations will also need technical assistance in project identification and preparation. Much of this assistance could now be provided by the more advanced members of the region themselves. They have gained practical experience in overcoming many of the difficulties which lesser developed countries still face.

Also, the Bank is taking steps to increase its donor country membership. This will broaden the resource base of the institution, make it less dependent on the United States, and do so in a way which fully preserves the fundamental hemispheric nature of the Bank.

I must acknowledge that there remain policy problems which affect the Bank and the ability of the United States to provide financial support for it. The Bank has a useful role to play as an intermediary in helping to resolve investment disputes, a role best played out of the headlines and with quiet patience. These disputes continue to affect economic harmony and cooperation in the hemisphere. They are thus a matter of international concern, not just a bilateral issue. We would hope that such disputes could be swiftly resolved so that the important work of development can go forward unimpeded. But the position of both the executive branch and the Congress of my country is clear. U.S. taxpayers' funds should not be provided to nations which have expropriated property of U.S. firms without the prompt, adequate, and effective compensation contemplated both by international law and our domestic law.

This Bank was founded in a spirit of friendship and cooperation in the hemisphere. Its work has proven that different nations working harmoniously can accomplish much more together than they can separately. In recent years there has been a tendency to ignore this lesson. It is unquestionable that hemispheric relations are passing through a period of transition, and new approaches to regional cooperation, such as those being sought within the OAS framework, are appropriate and healthy. I would hope, however, that we do not lose sight of the common objectives that we share, and of the cooperation we need to accomplish these objectives and to achieve an equitable economic reform. This cooperation can form the basis of a continued and fruitful relationship among all our nations.

There are great opportunities which confront us. We must take full advantage of them. For my part, I will do everything possible to see that close cooperation continues between the United States and Latin America and that the Inter-American Development Bank continues to be able to play its vital role in achieving economic and social progress in Latin America.

Exhibit 55.—Statement by Secretary Shultz, May 9, 1973, before the House Ways and Means Committee

The world economy has changed greatly since this committee last considered comprehensive foreign trade legislation. This rapid change will continue whether or not we in the United States seek to influence its future course. But we must

play an active and constructive role in influencing the shape of a sensible world economy. Your approval of the Trade Reform Act of 1973 can be an initial step toward that end.

The Trade Reform Act provides the President with the authority he needs to negotiate effectively on behalf of American workers, businessmen, and consumers. It would provide:

(a) Authority to change customs duties up or down in the context of negotiated agreements;

(b) A congressional declaration favoring negotiations and agreements on nontariff barriers with an optional procedure for obtaining congressional approval of these agreements where appropriate;

(c) Authority to raise or lower import restrictions on a temporary basis to help correct deficits or surpluses in our payments position.

These authorities are necessary for meaningful trade negotiations and will provide for a more efficient and flexible management of American trade policy.

The Trade Reform Act and supplementary legislation will provide a second set of tools to deal with domestic problems that may arise in connection with international trade and to permit our export firms to compete equally in international markets:

(a) The Trade Reform Act would introduce a fairer and less stringent test for domestic industry to qualify for temporary import relief in order to give it time to adjust to import competition or to avoid serious injury.

(b) The act would improve procedures for protecting American workers and industry from unfair competition by amending the antidumping and countervailing duty statutes.

(c) It would help protect the interest of U.S. exporters by revising and simplifying the President's authority to raise import barriers against countries that unreasonably or unjustifiably restrict our exports.

(d) It would permit the temporary reduction of import barriers as necessary to combat inflation.

(e) Separate legislation to amend the Export Trade Act will make explicit the act's application to our export of services as well as exports of goods and will clarify the exemption of export associations from our domestic antitrust laws, while ensuring the protection of the public interest through clear information, disclosure, and regulatory requirements.

(f) Separate legislation will reform the pension and unemployment insurance systems to help all workers who lose their jobs, from whatever cause.

(g) Finally, the act will permit increased trade with nonmarket economies by granting the President authority to extend most-favored-nation treatment to these countries and will permit the United States to extend preferential duty-free treatment to certain imports from developing countries. Secretary Rogers will have more to say on these final two points.

The changed environment of international trade

We consider this legislation at a critical time. We have seen repeated and widespread monetary disturbances in recent years. Points of strain and tension have arisen in trading relationships among nations. These problems are part of that process of vast change in the world economy which has taken place since the basic monetary and trading institutions were established at the end of World War II, almost 30 years ago. In part, they are the consequences of the success of our postwar policies.

Since the end of World War II, the United States has worked to create a strong, free economy in a multilateral world with as few restrictions as possible on the free flow of trade and capital. We worked to create an economic framework in which all countries could grow and prosper. We gave of ourselves and of our substance to achieve those goals.

This was done for our own sake, as well as in the interest of others. We worked from a far-reaching vision of what would serve our own economic and security interests. But it was a broad vision conceived in the interest of all. Our own security and economic well-being depended on the ability of others to grow and prosper in freedom.

The world today is different from what it was when American planners decided to devote our wealth, influence, and energy to the achievement of a more secure and more prosperous world. Today economic power is not concentrated in the United States alone as it was 30 years ago. Great centers of wealth have grown

up in Europe and Japan. The European Community is now the world's largest trading bloc, with large and persistent trade surpluses. Japan has sustained a truly remarkable rate of growth, and the size of its trade and balance of payments surpluses constitutes a major problem in the world economy. Other countries, including many developing countries, have made notable strides forward.

However, along with this diffusion of economic power has gone a reluctance to remove restrictions that are contrary to the principles of an open world economy. At one time those restrictions could have been considered necessary to support weak economies in the face of overwhelming U.S. economic power or as temporary aids to promote political objectives such as regional integration. No longer is this true.

In this changed world of economic equals we need to deal with those restrictions, and we need new rules to assure equality of responsibility. There must be a reformed international monetary system—one that puts equal obligations for adjustment on surplus and deficit countries. There must be reform of international trade rules to eliminate growing discrimination, to assure that market access is not barred by nontariff barriers, and to develop procedures for resolving differences without political tension.

This new system will allow our industries, workers, and farmers to compete fairly in international trade and our consumers to benefit from the variety of goods the world has to offer. We have much to gain from this kind of a new world economic system, and much to lose from no system at all. Either we go forward to a new and higher level of international cooperation, or, I fear, we may go backward.

Negotiations are well underway to reform the international monetary system. We need the Trade Reform Act to begin to reform the trading system.

The need for trade reform

The existing system has been unable to deal with a variety of measures that have made fair competition in world markets much more difficult. Undervalued exchange rates, quotas, restrictions on agricultural trade, preferential trading arrangements, and the proliferation of nontariff barriers have served to hamper our exports, including some that we produce far more efficiently than anyone else. These barriers to trade exact a high cost for all nations of the world in higher consumer prices, inefficient use of resources, and heavy strains on the balance of payments.

Our trade position must be improved, and to do this we must secure the reduction of foreign barriers to trade in order to gain access to foreign markets and permit our goods to compete equally with those of other countries. It is in the interest of the United States, even more than other countries, to bring about a freer and fairer trading system.

To deal with these problems we seek to:

Free up agricultural trade;

Come to grips with the unreasonable aspects of regionalism;

Bring order to the maze of nontariff barriers preventing the expansion of world trade;

Work out new answers to the problems of buffering our industries against injury from sudden surges of imports, and to better enable our workers to adjust to changing competitive situations affecting employment.

Other countries have complaints against some of our trade practices. To move forward we must be prepared to strike a fair bargain, with a fair balancing of the interests involved. The Trade Reform Act will make these negotiations both possible and fruitful.

The need is urgent. But there are some things that can be done under existing authorities, and we have made a beginning.

The United States has taken several steps to improve its trade position and to stimulate reform. In February 1972, the United States and the European Community reached an agreement on future trade discussions. In this understanding the United States and the Community agreed to move rapidly to:

(1) Examine the impact of the enlargement of the Community on U.S. exports;

(2) Renegotiate the existing GATT concessions of the new members in order to compensate the United States for the loss of these rights or for any higher duties that might arise due to the enlargement; and

(3) Enter into multilateral trade negotiations this year.

We anticipate that the extension of the Community to the three new member countries—the United Kingdom, Ireland, and Denmark—will harm our trade in some products, particularly in agriculture. We expect the Community to recognize this damage and to compensate us. Negotiations began in Geneva in mid-March. We hope they will be concluded before the multilateral trade negotiations begin.

The link between trade and monetary reform

The upcoming trade negotiations are important not only in their own right but also in their implications for the monetary negotiations. We must have coordinated consideration of the two areas if we are to construct a workable economic system.

The two-stage realignment that was achieved at the Smithsonian Institution in February of this year provides exchange rates that lay the foundation for restoration of the external strength of the dollar. Overall, the major currencies of Europe and Japan have appreciated against the dollar by an average of about 25 percent. Japan, the world's third largest economy, and Germany, Europe's ranking industrial power, both appreciated by about 30 percent to 35 percent against the United States. Nevertheless, fundamental reform of the monetary system is urgently needed. Considerable progress has already been achieved, making it all the more imperative that we achieve rapid progress on the trade front as well.

The monetary and trade negotiations must lead to a consistency in rules that has been lacking in the past. We need, for example, to reach a new consensus on the relationships between nondiscrimination in monetary arrangements and most-favored-nation treatment in trade. The divergence between rules and practices in these two fields has grown unacceptably large. Trade rules cannot be allowed to shield large portions of national economies from the impact of balance of payments adjustment measures. And we need to build trade liberalization incentives into balance of payments adjustment rules.

To achieve a consistency in the rules in the monetary and trade fields does not require that detailed trade and monetary negotiations proceed in the same forum. Nor does it require that detailed trade negotiations wait on monetary reform, or vice versa. But it does require a coordinated consideration of the rules in the two areas.

The Trade Reform Act will further this coordination in several ways. The act will provide the President with special balance of payments authority to increase or reduce trade barriers. The act would specifically authorize the President to employ an import surcharge for the purpose of protecting our balance of payments and authorize him to reduce tariffs as one possible adjustment measure if we were to have a persistent surplus. This authority could also be used to protect U.S. interests vis-a-vis a chronic surplus country which had not taken effective adjustment measures.

Foreign investment and taxation

I would like to say a word about investment abroad by U.S. firms and the administration's proposals for modification in the tax treatment of foreign source income. The rapid growth of international investment in recent years—particularly the growth in investment undertaken by multinational corporations—has been a subject of great controversy at home and abroad.

On balance, we believe that this investment has been beneficial to the American economy. Government studies show that it has improved the U.S. balance of trade and the overall balance of payments, and has meant more jobs for the U.S. economy. We cannot assume that discouraging foreign investment will promote investment and prosperity in the United States. On the contrary, if investment opportunities exist abroad, foreign firms will take them if American firms do not, which will lessen the flow of American-made goods into foreign markets.

Our proposals for taxing foreign source income are shaped against that background. We believe our tax system should not be used as a club to inhibit foreign investment, because we believe that investment to be good on the whole. At the same time, we do not believe that our tax system or any other tax system should be permitted to induce American business to make foreign investments which they would not otherwise make.

Our existing system is designed to permit an American-controlled business operating in a foreign country to operate under the same tax rules applicable to

its foreign competitors in that same country. We believe that is a fundamentally sound system and that we should not devise new rules designed to disadvantage American business with respect to its foreign competitors.

Our data show that our American enterprises abroad pay substantial foreign income taxes. In the vast majority of cases, it is business factors and not income tax factors which lead to foreign investment. Income taxes are not the cause of our trade problem, and income tax changes will not solve that trade problem. For these reasons, we conclude that drastic surgery on our tax credit and deferral provisions relating to overseas investment is not justified.

The issues in this field are not new. In 1962, the Congress exhaustively reviewed this field and we believe the conclusions which it reached are fundamentally sound.

There are, however, three situations in which the existing tax system produces artificial distortions and incentives and which we ask that you change. The first two proposals relate to tax holidays and runaway plants, where we ask that you modify our tax system to neutralize tax inducements offered by other countries. The third proposal would eliminate the present ability of American firms to offset foreign losses against their U.S. income without ever paying U.S. tax on subsequent profits.

Tax holidays—A number of foreign countries presently attract U.S. investment by granting major tax incentives, such as extended tax holidays or cash grants that are not included in taxable income. To neutralize such practices, the administration is recommending amendment of our tax laws so that earnings from new or additional American investments which take advantage of those inducements will be taxed to their U.S. shareholders as earned, rather than at the time they are remitted to these shareholders. Exceptions could be made by treaty.

Runaway plants—Some American companies occasionally undertake foreign investment for the purpose of reexporting a substantial share of their production to the United States. To prevent income taxes from inducing such decisions, the administration recommends that in cases where new or additional foreign investment is made by a U.S.-controlled foreign corporation in a low-tax country, earnings will also be taxed on a current basis if exports to the U.S. market account for more than 25 percent of the corporation's total receipts. This rule would only apply when the effective rate of tax on the income of the controlled foreign corporation is less than 80 percent of the U.S. tax rate and exceptions would be permitted for particular situations if the President determines that it is in the public interest to do so.

Recovery of foreign losses—The administration also recommends amendment of our tax laws (a) to reduce the credit for foreign taxes where foreign taxes are excessive because the foreign country has not allowed prior losses to be offset against subsequent profits; and (b) to recapture benefits of loss deductions where the legal form or ownership of an enterprise changes in such a way that future profits are insulated from losses previously taken against U.S. tax. This provision would also reduce the advantage of drilling for oil abroad and increase the relative attractiveness of domestic drilling.

Conclusion

We have joined with our major trading partners in a commitment for a new round of comprehensive negotiations scheduled to begin this autumn. Our negotiators will face a challenge and an opportunity.

The world economy must be fair for all nations. It must permit each nation to compete equally without artificial restraints in the international market. It must be flexible enough to prevent recurring monetary crises that distort trade and capital flows, injure our national economies, and create political tensions that harm the cause of peace. Such a world economy will especially benefit the United States. We wish to achieve this objective not through confrontation, but through negotiation in a spirit of cooperation and progress with the other trading nations.

We ask Congress to join with us in this effort. We stand ready to work out a new cooperative relationship, and to utilize new institutional procedures to assure that the Congress and the executive work together to achieve our mutual objectives.

We must and we will approach the trade negotiations with a tough mind and a clear resolve that American interests will be properly looked after. We believe that the legislative program now before you will give us the tools to do the job. I urge its speedy enactment.

Exhibit 56.—Statement by Secretary Shultz, June 6, 1973, at the American Bankers Association International Monetary Conference, Paris, France

This annual conference has become a highlight in the yearly calendar of the international financial community. For me, the opportunity to participate in your discussions and to draw from the experience of this informed group, is especially welcome—not just because I am a first-timer, but because we are mid-stream in the great task of reshaping the monetary system for the needs of a new generation. We have the right setting in this magnificent world city, where we are constantly reminded of the great achievements of Western civilization and culture.

My memories of Paris as a site for constructive monetary work derive from a period as recent as March, when I attended two meetings with my colleagues of the Group of Ten and the European communities. By common consensus, we adopted new approaches for dealing cooperatively with what was then described as a crisis. Those decisions did not make up the long-term reform we seek. But they do provide a valid framework for dealing with this transitional period. And we will want to learn from this experience as we build for the future.

I look to that future with optimism. I say that because I believe there is greater understanding of the mutual problems and each other's positions by the officials concerned, and with that understanding we can begin to see a convergence of views on some of the major issues. Certainly, that was the sense of the 5-day meeting of C-20 Deputies in Washington 2 weeks ago and was my personal experience in Iceland last week.

Obviously, progress has not been instantaneous; it cannot be, for it is no mean task to devise a system that adequately deals with the immense shifts in the world economy since Bretton Woods. You, in your daily work, are conscious of the enormous integration of financial markets that has created the capacity for vast flows of funds across national borders. You are conscious of the rapid growth of Europe and the moves toward monetary unity on this continent. The spectacular growth of Japan has created a major center of economic power in the Pacific. In this world, neither the United States nor any single country or region can be dominant, and we face the task of changing from a system that implicitly assumed that dominance to one in which the responsibilities and benefits fairly reflect our individual capacities and respect our diversity.

Your deliberations can cast light on ways to achieve this goal, and in that respect I am an eager listener. But, in talking to you today, I want to approach this same problem—dealing with massive shifts in the world economy—from a different angle.

Over the past year, in attending a good many conferences with the financial officials of other governments, I found that these meetings usually had two agendas. There was the formal one—on SDR's, exchanges rates, intervention, and all that. Then there was the informal agenda where, in the corridors and across the dinner table, we reflected our mutual concern with developments in the field of energy.

Later this afternoon, I will attend a meeting in which energy has made it onto the formal agenda. The OECD Ministers are gathering here in Paris this afternoon, and energy properly is prominent among the topics for discussion.

The OECD has estimated that the consumption of energy, in all forms, by members of the Organization has risen more than 5 percent per year for the last 10 years. That growth will continue and, for the near future, the world has no choice but to depend primarily on oil and gas to meet its rising energy demand.

Nearly all of the developed countries share one common characteristic: They must look outside their own borders for the bulk of their energy supplies. The United States, itself, is not in that group. But in the years just ahead our dependence on foreign energy will unavoidably become more pronounced. Some projections suggest that oil imports of the OECD countries will double between 1970 and 1980. Meanwhile, production will tend to be concentrated in a few countries, some of which have very small populations. These producing countries will be exchanging assets from the ground for the assets in which you deal in vast quantities. And it will be in the interests of both producer and consumer to make that process work as smoothly as possible.

As awareness of these trends in the energy field has spread, scholars, banks, petroleum and other energy-producing companies, and governments have begun to pour out analytical studies and projections. Let us approach these projections as the flashing warning signals that they are, but also with a healthy realization that all projections must be based on times past. These projections usually depend upon the basic assumption that recent trends in world demand for energy, in the sources of energy, and in the form in which energy is supplied, will roll on largely unchanged into the distant future. Since demand for oil has been rising and production in major areas like the United States has been falling, extrapolation of these trends inevitably points, in time, to crises.

The projections do show, clearly and vividly, that we face far-reaching changes in our energy balances. We must accept—in a world of few miracles—that the rising demand for energy will lead to a substantial increase in real costs. We cannot be blind to the concentrated location of the existing resources which can be made available for years immediately ahead.

But, there is another side. With these projections showing us what needs to be done—and if we make the commitment of personal energy that is required—a potential crisis can be turned into a manageable problem. Action by consuming countries, with a long view of their best interest, is required now. Governments of producing countries—with the same long view—will, I am equally convinced, find cooperation on the problem in their own interest.

We in the United States—in our actions and in our planning—are participating in this process with a sense of urgency, precisely so that tomorrow's crisis can be converted into constructive achievement. In that process, it seems clear that energy is not an area where countries can safely "go it alone."

The United States is the largest energy consumer; we consume one-third of the world's energy.

On the other hand, consumption of energy in the United States is only rising now at about 4 percent per year—about in line with the longrun trend in the growth of real output. This is less than in many other countries. Moreover, we have been blessed with substantial indigenous supplies of oil and coal.

Less fortunately, domestic production of oil and gas in the United States has begun to decline. Between 1969 and 1972, U.S. imports of oil increased 52 percent. The dollar costs of our fuel imports rose from \$2.7 billion in 1969 to \$5.1 billion in 1972. Some projections suggest that this figure could rise to \$15 billion before 1980.

It has been estimated that imports of foreign oil will increase from 27 percent of total U.S. consumption of oil in 1972 to about 33 percent in 1973, to over 50 percent by 1980. Further, some estimate that by 1985, our oil imports will amount to 65 percent of our consumption. These estimates, however, assume that no action will be taken. This is not the case. On April 18, 1973, the President presented a broad and comprehensive energy message which I see as a blueprint for action that must and will be taken. The policy is aimed not only at assuring adequate supplies of energy in the short run, but also at reducing our dependence upon foreign supplies in the long run by fostering a vigorous domestic energy industry.

The President's program is designed—

- (1) To increase production of all forms of energy in the United States;
- (2) To conserve energy; and
- (3) To meet our energy needs at the lowest cost consistent with the protection of both national security and environment.

These objectives will be sought—

By reducing those numerous and insidious regulatory and administrative impediments which have delayed or prevented construction of energy-producing facilities;

By cooperating with other nations in energy research and in seeking ways to prevent shortages; and

By mobilizing both public and private scientific and technical skills to attack the energy problem—whether by increasing supply or utilizing it with greater efficiency.

Actions have already been initiated under this program. The most striking for the short run, of course, has been complete revision of our oil import program. But, for the longer run, the increase in expenditures on research will be more important. We are prepared to spend whatever reasonable amounts can be used effectively to increase supplies and to avoid unnecessary consumption. Some of

our proposals require congressional action, and we will press for their understanding and cooperation.

We mean to change those projections, both by changing the trend in the U.S. demand for energy and, more significantly, the trend of supply in the United States.

Nonetheless, for a number of years ahead, we will face a larger bill for imports of oil. So will other consuming countries, despite the relief of some from North Sea or other new fields. Moreover, there will be new investments to be paid for. Large sums—many billions of dollars—will be required to develop petroleum supplies in producing countries, as well as to provide new transportation and refining facilities. No doubt, a significant portion of the funds for these investments will be provided from the United States.

Energy is big money. But this is only one side of the ledger. We should not overlook the other side. Too often, when we add up the import bill, we seem to overlook the fact that, as production rises abroad, a return will be generated on the large investments which developed countries—in large part, U.S. companies—have made and are making in order to bring forth that production. Moreover, some of the new investment will take the form of capital equipment and technical services exported from the oil-consuming countries. In a competitive world—and we expect the United States to be competitive—we will get a good share of those exports.

Governmental and quasi-governmental entities in the producing countries will, of course, be receiving a large percentage of the monies paid for oil by the United States and the other importing countries. What those countries do with the sums they earn will be a major factor in determining the significance of the growing oil shortage for the U.S. balance of payments and for the world monetary system.

Plainly, many of these countries have large, unmet needs for manufactured goods—both consumer goods and capital equipment. Some feel they must obtain additional equipment for their defense forces. Countries such as Venezuela, Iran, Algeria, Nigeria, and Indonesia have traditionally used increases in oil revenues for immediate expenditures and investments to improve the living standards of their people. The money that these nations earn can be expected to be spent in the industrial nations, in large part, as payment for goods and services. Oil will be flowing from these countries to Europe, Japan, and the United States to help produce the goods which, in turn, go back to the people of the producing lands. This is the “meat and potatoes” of international trade, and we all learned long ago that all participants can benefit from trade. In its essentials, payments to these countries for oil are no different from the payments for any other product.

On the other hand, an important group of producers, including probably the Arabian Peninsula States of Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar, may be receiving oil revenues of \$10 billion annually by 1975, and up to \$20 billion or more annually by 1980. The combined population of these States is only about 7 million. Their foreign investments are already rising rapidly, because they are not spending currently all of the \$5 billion or so they are now receiving from oil exports. We cannot expect all the payments to these areas to be spent immediately for goods and services in the near future. A substantial proportion of this revenue will be invested.

It is this pool of wealth that has loomed large in much recent discussion. But let me give you some other figures to put it in perspective. The annual capital formation of industrialized countries by 1980 will probably approximate \$700 billion. *New* issues of stocks and bonds alone will probably be on the order of \$250 billion. It takes no stretch of the imagination—if one looks beyond the last few months in Wall Street—to suggest that the total market value of outstanding stocks and bonds in the world could exceed \$3 trillion by 1980. Obviously there will be many investment opportunities available for the savings of the oil-producing countries. And they are likely to have a strong interest in stable, secure, and profitable investment opportunities. They know that their reserves of oil will not last forever. Looking ahead, our research will pay off and new sources of energy, based on new technologies and with the incentives provided by high energy prices, can be expected to reduce the dependence of the industrialized world on imported oil.

So we have all the ingredients of a highly advantageous mutual bargain, worked out, as the best bargains usually are, largely in the marketplace. The consumers

will have enormous capital needs. The producers will have resources which will be large but will still represent only a small fraction of our needs. We have—not least in this room—middlemen to help make the market. What remains is to go about it with good sense and good judgment.

The prospect before us is often cast in different terms. The United States will bear a much heavier import load—so, it is alleged, there will be persistent pressure on the dollar. The prospect of exchange rate changes will be aggravated by billions of short-term “oil dollars” sloshing about in the market. Monetary instability will result.

But this specter, while perhaps useful to spur us to action, is not a necessary or even reasonable consequence of the current energy outlook.

The basic requirements of the producers are for stable, secure, and profitable investment opportunities—not for a year or two, but for long periods. What these nations will probably be seeking to do in the next 10 to 15 years is to protect their future by transforming their national heritage into new, and more permanent, forms. Some of these new assets will be new plants in their own countries. But, as they turn to world financial markets, there is no inherent reason to believe their assets preferences will not be subject to the same profit instincts that lead most investors to place a substantial portion of their funds in longer term form, provided the climate is favorable.

Their purchases of assets abroad should be the channel through which their balance of payments position and the payments positions of the United States and other major countries, as well, are brought into balance in the years ahead. And I frankly do not see why this process need lead to disturbing changes in the form of violent or disturbing adjustments in exchange rates.

Certainly, as we pointed out in presenting our monetary plans, the accumulation of large current surpluses by Arabian Peninsula States should not call for exchange rate adjustment actions on their part. While many of their external investments might loosely be considered reserves, certainly they are not comparable to the kind of monetary reserves that would suggest a need for monetary adjustment action on their part.

Nor should such accumulations result in devaluation pressures on those consuming countries which offer attractive export prices and attractive sites for investment.

In that connection, please remember that the United States is not the only country which will be a heavy importer of oil. A large part of the earnings of the producing States will derive from their sales to Europe and Japan. Indeed, most projections suggest that the absolute increase in oil imports into Europe from now through 1980 will be of the same order of magnitude as ours and that Japan, almost totally dependent on imports and rapidly growing, will experience an increase in imports equal to a large fraction of ours despite the fact it has a much smaller economy. Of course, the Europeans, the Japanese, and the United States will, in effect, be competing both for exports to producing countries and for their investments. In this competition the degree of our success will naturally have an important bearing on the value of our currency. It is saying no more than that success of our free economy will determine the value of our currency—and that is a test we are glad to meet. Certainly, the need of *all* the industrial countries to import more oil offers, in itself, no reason for the dollar to depreciate in value in relation to the currencies of Europe or Japan. The United States could well be the gainer.

Our judgment that the recent devaluations of the dollar have placed our currency in a fair and sustainable alignment is in no way affected by this situation. I am unabashed in feeling we can compete with any nation in investment opportunities.

That judgment is only reinforced by current developments. Despite growing energy imports and a domestic boom, our trade balance is improving. Obviously, we have had extraordinary agriculture exports, and I am realistic enough to know we shall have temporary relapses from the recent favorable trend. We still have a long way to go—but the evidence is strong that our underlying position is strengthening. And, as our competitive position is strengthened, so are the opportunities for foreign investment in the United States.

Some of you may still have the nagging feeling that the investment of the oil producers, however welcome at particular points in time, could be destabilizing through sudden shifts. Here certainly is an area for cooperation and planning among nations, and for leadership of the financial community.

The problem is not different in kind from those presented by the huge amounts of international short-term capital that already exist—and will surely grow. A degree of flexibility in exchange rate practices—dampening the prospects for large and sudden changes, and reducing the incentives for anticipating shifts—offers one approach. Adequate facilities for absorbing and financing short-term flows are another. In addition, we need to recognize fully the needs and aspirations of the oil countries, themselves, in seeking safe and attractive outlets for their national heritage. It is not beyond the ingenuity of the financial community—against the background of understanding attitudes by national governments—to help develop appropriate instruments for such investment.

In this process of developing constructive responses to the "energy challenge," it seems to me we have lacked a forum for bringing all the relevant considerations—financial and nonfinancial—together. I have been glad to see that a world energy conference is being planned for Detroit in September 1974. That conference can contribute meaningfully to the search for cooperative solutions to important aspects of the problems in the energy field. Nevertheless, some of the financial dimensions may not be adequately prepared without the wholehearted support of the financial community. To that end, I hope those here could join with others over the next year, before the conference, to address more fully the questions I have touched upon today:

The financial implications of the rising demand for energy imports;

The prospects for financing these imports and the investment required to bring them forth;

The means of furnishing investment instruments to the oil-producing States.

I recognize that the oil-producing countries could view the organization of such a meeting with some concern. These countries have justifiable concerns about the management of their precious assets. It seems to me important that the oil-producing countries, themselves, play a strong role in such a meeting, or meetings: for, after all, the assets involved are theirs. In appropriate circumstances, the U.S. Government would, itself, be prepared to participate in such deliberations in preparation for the world conference.

I have expressed confidence that we have the means of meeting the energy challenge. At the same time, I do not underestimate the problem. The real cost of energy will rise. We must bend our efforts to change the ominous trend lines. If we shirk from the fundamental task at home of developing our own energy sources—if we fail to face up to the research bill, if we fail to conserve, if we fail to remain competitive—then, of course, the external consequences on the balance of payments and on the monetary system would be disturbing.

Indeed, we have no real choice. The basic adjustments to new forms of energy—or to slower growth—will need to be made. The only issue is how: In a timely and orderly manner, or in a vacillating course which permits events to force the result in a painful way.

We do not intend to fail. With foresight and cooperation, the energy situation need not disturb our growth at home, nor disrupt our planning for a stronger payments and trading system which will be in the interests of every nation.

Exhibit 57.—Statement by Secretary Shultz, June 6, 1973, at the annual meeting of the Council at Ministerial Level of the Organization for Economic Cooperation and Development, Paris, France

I am pleased to have this opportunity to participate in the deliberations of the OECD Ministerial Conference. It is a particular pleasure to begin by extending my congratulations to you, Senor Lopez Bravo, on your selection as Chairman, and by welcoming New Zealand as the newest member of this organization.

I shall try to make good use of this opportunity to provide you with some perspective on the U.S. Government's approach to cooperation in international economic affairs in the year to come. I shall try to explain why I believe the OECD can make a unique contribution to that cooperation.

The theme of my remarks was well put by President Nixon in his most recent annual Economic Report in January. Speaking of the proposals of the U.S. Government for reform of the international economic system he said:

Our proposals have been, and will be, put forth in the U.S. national interest. But this is not contrary to the interest of other countries. Inter-

national competition is shifting from the military and political arenas to the economic. This is a great advantage, because in economic competition every participant can win—there need be no losers. The effort of each nation to produce and sell what it can do most efficiently will benefit others. This is the fundamental belief underlying our proposals for reform and the fundamental reason for thinking that a satisfactory agreement will be reached.

To me that statement is a recognition that this is a year for building. We have all benefited from postwar modes of cooperation and from institutions forged initially by a common perception of common need. But, as our economies have changed and as our very successes have brought new problems, the arrangements which worked well in the past become outmoded.

The high degree of economic cooperation among nations represented here has brought unprecedented progress to us all. But too often in history arrangements developed to meet one set of needs have been allowed to become irrelevant to changing requirements.

The postwar political landscape has been vastly transformed, both in the OECD area, as historic progress has been made toward European unity, and outside that area, as our nations have laid the base for new and constructive relationships with the Soviet Union, the People's Republic of China, and other nations, and as the developing world has become more articulate in its own interests.

The economic map of the world has also been dramatically redrawn. Relative positions have shifted as a result of the remarkable progress of Japan and Europe. Points of economic contact among us have multiplied, as economic interdependence has rapidly increased.

The challenge of today is whether we can build from the common goals we share to create a new order which will meet our needs during the remainder of this century.

The new order cannot be built just on generalities. We shall have to negotiate the practical details of new economic agreements. The negotiation of such details is likely to expose differences of opinion and approach and points of seeming conflict. It always has; it probably always will. But the vigor of the negotiations should not obscure the fact that significant benefits may be achieved from such negotiations by all the participants.

In the coming months we shall be engaged in such detailed negotiation—and arguments—on monetary reform, on trade, on investment, and on energy. From these negotiations we must create a realistic and durable system which assures the equitable, orderly, and mutually beneficial conduct of international economic affairs in an interdependent world in which no nation holds a dominant economic position. We must create a new order in harmony with the world of the future. We have a unique opportunity to do so. Indeed, failure to take advantage of this opportunity to reinvigorate our economic relationships, and to make them a force for mutual support, would risk the progress which has been achieved.

As we go forward with these negotiations, there will be differences which some will seek to call confrontations. Some will suggest that international economic relations have become a natural arena for international conflict and a threat to the cooperative political relationships among our free societies.

But that will be a false impression. The negotiations will be energetically pursued precisely because they offer potential benefits to all. Rather than a natural arena for deep-seated conflict, economic relations constitute a natural area for cooperation. We are not engaged in a zero-sum game; one nation's gain need not be at the expense of another. By working together we can make available greater benefits to be shared than if we each went our separate ways. We should not so concentrate on the division of the pie that we lose sight of the fact that the pie itself can be made larger. Now, as we are entering the negotiations, it is probably wise to remind ourselves that, while there will be differences over how to achieve and divide the net advantage accruing from international trade and investment, the important fact is that intelligent negotiations can achieve net advantage for all.

During this period of intense negotiations, the OECD can make an especially valuable contribution. Obviously, in important areas, the specifics will be discussed elsewhere, notably in the GATT and in the C-20. Meanwhile here in the OECD will be a forum where we can sit back in a non-negotiating atmosphere and say, "These are the overall objectives and here are some of the important

interrelations between the various negotiations. Let's look at the matter in full perspective and see that important aspects do not fall between the cracks. Most of all, let us not lose sight of the gains to be shared when these issues are resolved." In short, the OECD can help provide the understanding which will permit the specific negotiations to succeed elsewhere. It can remind us of the fruits of cooperation.

These fruits are reflected in the growth of world trade in recent years. In volume terms—adjusting for the estimated increase in the prices of internationally traded goods—world trade grew by about 9 percent per year over the past 5 years. This rapid growth has made international trade a prime mover for prosperity. International investment, too, has been a major force in economic prosperity, moving capital to areas of maximum productivity, and spreading the benefits of technological advance widely and rapidly.

For the years to come, we in the U.S. Government will seek international economic agreements which permit our citizens to continue to enjoy the fruits of such cooperation. First, we want for Americans, as other nations want for their citizens, the classical gains from trade. We want to be able to sell our products where they can get the highest price and buy goods and services wherever they may be cheapest. We want our citizens to be able to invest where it is most productive, and thus earn a maximum real income. This may sound at first like a pedestrian objective, but it is a fundamental objective of economic policy.

Second, we want an international monetary and trading system which will interfere as little as possible with continuity and freedom of international transactions conducted by our citizens, which will permit flexible and effective management of domestic economic policy, and which will accomplish these objectives in a context of reasonably stable exchange rates.

Third, we want to be able to discharge those responsibilities that fall upon us to assist the growth and stability of other nations, and to maintain our security as a part of the Western Alliance.

We believe that we can attain these goals for ourselves in a way which benefits others and the system as a whole. But we know we can achieve these goals only if others enter willingly into agreement with us because they realize the gains which will accrue to them from doing so. We know, too, that the agreements will not be durable unless the other participants recognize that the agreements are in their interest.

We know that harmony in economic relations depends in practice upon agreement in advance on well-understood and reasonable rules of conduct in the monetary, trade, and investment fields.

In the monetary field, we know that our negotiations are rendered more complex by the fact that we must shift from a system that implicitly assumed that one nation held a dominant economic position to a system which treats all countries evenhandedly. In practice, this means we now need a system which provides better means for assuring prompt and effective action by both surplus and deficit countries to correct emerging payments imbalances; a system which provides for multilateral reserve creation so that no one nation is called upon to provide the liquidity needs of an expanding world economy; a system which facilitates establishment of an economic environment conducive to resource transfers to developing countries. I can assure you that the United States has carefully thought through the implications of such a system for itself, and that we do not seek special privileges or rights for ourselves. Nor have we become so short-sighted as to overlook the prospect that the rule proposed for a surplus country today may apply to the United States tomorrow.

Against the background of a system which has developed strains and cracks, our overriding interest in a viable international monetary system has impressed upon us the need to achieve a code of conduct that insists upon a new consistency between the action—or nonaction—of each individual nation and the requirements of the overall operation of the system. By this we mean, for instance, the system's tolerance for payments imbalances must be consistent with the availability of reserves to finance such imbalances. By this we mean that if there is to be a certainty in settlement arrangements, for example by general convertibility, that must be balanced by a certainty in adjustment arrangements, assuring that imbalances are effectively eliminated by incentives for both surplus and deficit countries to act.

In the trade field we know that we also have a complex negotiation ahead. That negotiation must fulfill simultaneously a number of criteria:

The overriding objective of achieving and maintaining a freer movement of goods, services, and capital must be respected;

That goal, expressing our interdependence, must be achieved in a manner consistent with compelling national social, political, and economic priorities;

Those trading practices which depart most seriously from accepted principles should be subject to the greatest scrutiny;

An overall agreement can only be reached if it provides measurable benefits to each participant;

An optimum overall package can be achieved only by looking to the results of the whole and avoiding concentrating attention only on the direct benefits in each subsector.

These criteria, it seems to me, are broadly expressed in the understandings reached after the Smithsonian agreement among the United States, the European Community, and Japan to negotiate "on the basis of mutual advantage and mutual commitment with overall reciprocity."

With those criteria in mind when I was last in Europe in March, I discussed with a number of governments represented here our objectives for the multilateral trade negotiations scheduled to begin this fall. Subsequently, there have been further consultations on the goal of broad and flexible negotiating mandates.

The U.S. trade bill is now moving ahead. We have presented our testimony before the U.S. Congress, and we have received a favorable response both in Congress and throughout the United States. We expect to be in a position to move ahead with the scheduled negotiations this fall.

We hope that others will also obtain adequate mandates for the negotiations. And we hope—and expect—that the various negotiations now underway, such as those under Article 24-6 of GATT relating to EC enlargement, will be completed before we launch broader discussions on trade reform. These negotiations involve every country represented here, and success in dealing with those issues will help lay the groundwork for success in subsequent multilateral trade negotiations.

By September, when the GATT contracting parties meet in Tokyo, the negotiations on EC enlargement should be completed, and all parties to the multilateral trade negotiations should be ready to proceed with the complex and vital work that will still lie ahead. I am convinced that those negotiations should—and can—result in a major movement in the direction both of reduction and elimination of industrial and agricultural tariff and nontariff barriers.

In the area of international investment as in the trade area, we have too often tended to lose sight of the fact that international capital flow can also contribute to the welfare of both parties to the transaction. If we are to obtain the maximum benefit, however, we must be sure that the advantages are not reduced by distorting government policies seeking advantage at the expense of others.

Short-term capital flows are being examined in connection with monetary reform. Some aspects of long-term investment, direct and portfolio, are covered by the OECD capital movements code. The OECD has here set a precedent for establishing principles and machinery for an important area of investment. In some respects, however, particularly investment incentives and impediments, there does not now seem to be a really effective international means of examining and resolving issues.

International investment and trade flows can be distorted by policies and regulations which apply directly to transfers of capital across borders. They can also be distorted by domestic policies which affect the profitability of investment in particular industries or regions. We recognize that some of these policies have valid social objectives—but when those policies have consequences for others, they are as proper a matter for international concern as trade policies.

We need new principles, new mechanisms, new information systems; in short, international guidelines for investment which will alert us to conflicts of interest among government policies affecting investment, and which will provide standards by which these policies can be assessed and conflicts reduced.

I urge that we develop this new kind of international cooperation in the OECD. The Executive Committee in special session has made a beginning and provides a means for guiding the necessary technical work. I believe we should have a new OECD cooperative framework for reviewing international investment problems in place when the forthcoming trade negotiations have reached completion.

In the coming months we also face the challenge of bringing some real meaning into the concept of international cooperation in the energy area. Concern has

been expressed that the growing demands for energy, and the heavy concentration of supplies in a few countries, may pose a threat to the orderly advance of the world economy. Yet there seems to be some reluctance to accept the view that a cooperative approach is the best approach.

I believe that the energy outlook poses real and important problems for us all. But I also believe that governments and industry working together will find workable solutions. In the United States, the proposals put forward by the President represent strong action to improve our energy balance. Yet there is also scope for international cooperation. This is not, I recognize, an easy task, for we must not only devise understanding among ourselves as to how we will approach these problems, we must also ensure that cooperation among a group of consuming countries does not turn into confrontation with producing countries. Let us not, however, shirk the analysis because of awareness of the limits.

We have a useful precedent in the work the OECD had already undertaken as a focus and a forum for international effort to help the poorer parts of the world realize their full potential. When the Development Assistance Committee was formed there could also have been concern that such a grouping might appear as a "ganging-up" by the developed countries and thus as a cause for concern by the developing countries. In practice, cooperation within the DAC framework has enriched the relationships among the developed countries and with the developing countries.

More recently, the OECD has turned its attention to providing the thrust and the mechanism for an international sharing of experiences in dealing with environmental and other problems posed by rising populations and rising living standards and it has explored means of avoiding trade distortions arising therefrom. This interchange contributes to the well-being of all nations.

In sum, I suspect there can be substantial agreement on a number of central economic goals and propositions that can provide a reference point for the negotiations underway and planned.

We are committed to promoting the growth and internal stability of our economies in a manner which does not impede the ability of others to do likewise and which respects the diversity of our national institutions and character.

We seek an open and equitable monetary and trading system that recognizes equal rights and equal responsibilities for all nations. The international community must find better means to achieve effective discipline for ensuring prompt and effective adjustments of payments imbalances, the cooperative management of international reserves, and stable and orderly exchange markets.

We look toward progressive reduction of trade barriers to permit nations to participate more fully in the mutual gain from the interchange of our services, and on both industrial and agricultural goods. Similarly, capital should be permitted to flow on a secure basis to the areas of greatest need and greatest productivity on a basis of nondiscrimination.

In instances where international transactions bring internally disruptive changes, we should not respond by preventing adjustment but rather by seeking an agreed system of safeguards to cushion the impact and to facilitate smooth adjustment.

We want to make more effective efforts to help poorer nations to realize their full potential, whether by the provision of capital, or know-how, or improving their access to our markets on a nondiscriminatory basis.

We should seek to work with each other to develop more effective ways to protect the environment, develop our energy resources, and to meet the other challenges posed by rising populations and industrialization while holding to the cardinal principle that one nation not seek national benefit at the expense of another.

Finally, and essential to all the rest, we must not permit problems to arise or persist among us for want of understanding of one another's views, or because of inadequate institutional means of resolving them.

Here lies the special value of the OECD. Through the frequent and candid consultations it promotes, nations must consider the views of one another before

taking decisions which affect others. It can stimulate us to find solutions to problems as they arise, and not when they have reached the stage of crisis and conflict. It serves as a constant reminder to us all that we have much to gain from cooperation.

I urge the OECD to display continued vigor in this vital task.

Exhibit 58.—Statement by Under Secretary for Monetary Affairs Volcker, September 11, 1972, before the Subcommittee on International Exchange and Payments of the Joint Economic Committee

In these hearings the subcommittee is reviewing two issues of importance to U.S. international financial policy: First, the role of gold in the international monetary system, and second, recent actions by the United States to intervene in the foreign exchange markets. I would like to briefly comment on these subjects and then to respond to any questions you may have.

With respect to gold, the United States has repeatedly expressed the view that the role of that metal in the international monetary system should and must continue to diminish. Such an evolution is, of course, fully consistent with the trend of monetary history over a period of many years. Governments around the world long ago reached the inevitable judgment that domestic monetary systems and policies could not safely be hostage to vagaries in gold demand and supply—the cost in terms of economic stability was simply too high. Internationally, gold 25 years ago accounted for about 70 percent of total national monetary reserves. By 1972, the ratio had declined to some 27 percent.

There are irresistible geological, industrial, and economic facts behind these trends. The physical supply of gold is both limited and, in the Western World, virtually entirely under the control of one producing nation. The supply reaching the market is not only subject to the policies and circumstances of that country, but is also increasingly preempted by industrial, artistic, and dental uses. Gold is both an attractive and useful metal, but the residual supply is in no way related to the liquidity needs of the world community. Commodity uses inevitably compete increasingly with monetary uses as population and wealth rise.

Given these facts, I suppose there are some who would argue that additional liquidity in a gold-based system can be provided by increasing from time to time the price at which gold is traded among monetary authorities. But surely such an approach would make a mockery of any presumed "discipline" from a gold-centered monetary system—the virtue sometimes still attributed to the use of gold. A system relying on gold price increases to regulate liquidity would be both continuously destabilizing to the monetary system and capricious in whom it benefits and whom it hurts.

The inadequacy of gold as the basis for an international monetary system seems to me amply reflected in recent history. Throughout the "Bretton Woods era," countries quite naturally sought supplements and substitutes, and this process was necessary to meet the needs of an expanding and integrated world economy. The two-tier gold system has been one means of coming to grips with destabilizing speculation in gold markets. The adoption of the SDR gave explicit international acknowledgment to the fact that new means needed to be found to provide an orderly and satisfactory means of assuring appropriate growth in world reserves.

None of this is new or startling. It has been common ground among the vast majority of economists for years—there are few issues upon which the profession is so united.

But within the general concept of diminishing dependence on gold in the monetary system, there are, of course, a number of questions concerning the role of gold that must be resolved in the course of negotiations on international monetary reform. As the IMF Executive Directors recently reported, a consensus among nations on what remaining role gold should still play in a reformed system does not presently exist. I do not think it will be easy to resolve differences on what to do about the precise role of gold. More than one approach may be available within the general context of avoiding dependence on gold for monetary purposes, but I would emphasize our belief that the historical trend toward substitutes and supplements will and should continue.

Among the detailed questions concerning gold's role in the system are the use of gold as "numeraire" for currency values, the existing requirement for using gold in certain transactions with the IMF, the relationship of gold to the SDR and other reserve assets, and the proper functioning of the two-tier system. These questions are obviously related to other aspects of the system and other issues of monetary reform; they cannot, therefore, be entirely resolved without consideration of other questions concerning SDR's, the nature of the exchange rate regime, the nature and use of alternative reserve assets, and the like.

I would suggest that during this interim period, when broad issues of the role of gold and structure of the monetary system are under negotiation, it would not be the appropriate time to end our longstanding restrictions on gold purchases by private U.S. citizens, thereby possibly injecting further speculative elements into an already volatile and artificial gold market. Certainly it seems to me ironic that speculation in private markets whipped up by lingering hopes of an increase in the official price is itself cited by some as a reason to increase the official price. Such an approach would appear to abdicate all prospects for orderly control of international reserves. The time for sympathetic consideration to the elimination of our own restrictions is when the shape of the new monetary structure emerges and the monetary system is fully insulated from instability in private gold markets.

As I have suggested, it is our wish to deal with the official role of gold in the context of an agreed cooperative global arrangement. I hope and anticipate that other countries approach the negotiations in the same spirit.

Changes in the present two-tier system will naturally be considered in that framework. I would not preclude any action in that respect prior to full-fledged reform, but I do think it is desirable to keep the overall objective in mind and to approach the question in a cooperative framework.

Finally with respect to the gold issue, I would observe that a few voices are occasionally heard that an increase in the gold price can somehow substitute for needed far-reaching monetary reform; that somehow the difficult economic and political issues of exchange rate adjustment, problems of achieving and maintaining balance of payments equilibrium, and the management of reserves can somehow be washed away or escaped by manufacturing a sea of new liquidity through an arbitrary adjustment in the official gold price. Surely, this is an illusion. It is a particularly dangerous illusion, for it would instead divert us from the urgent need to face up to and attack these real and fundamental problems with vigor and imagination, so that the evident problems of the past do not become a recurrent and damaging feature of the international economic landscape.

The second subject of these hearings is the recent U.S. intervention in the exchange markets, in accordance with a decision in July. This action is closely coordinated between the Treasury and the Federal Reserve, under agreed guidelines, regardless of which agency at a particular time may actually engage in the operation. Chairman Burns, who I understand will appear at a later session, will undoubtedly also wish to comment on this subject.

This decision to intervene more actively in the exchange markets, at such time and in such amounts—large or small—as we deem desirable, was taken for the primary purpose of helping to deal with speculative forces. Naturally we do not like to see turbulence and strains in the money markets. It creates problems for businessmen, our trading partners, and for us.

As you will recall, following a period of calm the exchange rate realignment so arduously worked out in the Smithsonian agreement came under severe but unwarranted testing in early July in the wake of the British decision to float the pound. Speculative pressures growing out of this decision turned against the dollar. Foreign central banks intervened heavily in the exchange market to maintain their market rates, reaffirming their support of the Smithsonian agreement. It was our view that the speculation arising from the unique situation of the pound should not affect the basic exchange rate structure. To help make this point crystal clear, and to signal an intent to help deal with speculative pressures in the future, intervention was undertaken by the Federal Reserve on July 19, using initially certain currency balances held by the Treasury. This decision was not inconsistent with, and indicates no change in, our basic policy approach to monetary reform and our efforts to achieve sustainable equilibrium in our balance of payments.

We have not embarked on any effort to artificially prop up the dollar counter to any basic balance of payments trends in the longer run. In the end, the strength of the dollar will rest on other policies to improve our balance of payments—policies we are pursuing with great vigor.

While the intervention action to date has been quite limited in terms of numbers of currencies, amounts and periods of intervention, we must, of course, be prepared to acquire needed foreign exchange to finance such operations. The existing swap facilities, or mutual credit facilities, long maintained by the Federal Reserve, provide a convenient vehicle for obtaining currencies as needed.

In contrast to usual practices before August 15, the present operation is one in which, while full consultation and cooperation is maintained with the foreign country concerned, the basic initiative will lie with the United States. Foreign exchange will be drawn not in a passive manner after intervention by other countries, but for use in the exchange markets by the United States in such amounts and at such times as we believe the market impact will be favorable and help to curb unwarranted speculative forces. Thus, the United States maintains full control over the usage of the lines. Drawings would not be made or enlarged to deal with what would be fundamental misalignments in our payments position. In normal and foreseeable circumstances, repayment could be anticipated from a reversal of market flows.

Exhibit 59.—Remarks of Under Secretary for Monetary Affairs Volcker, October 27, 1972, at the annual meeting of the Minnesota Economic Association at the College of St. Thomas, St. Paul, Minn., on "International Monetary Reform: A Discussion of the Recent U.S. Proposals"

Last month, at the annual meeting of the International Monetary Fund, President Nixon and Secretary Shultz set forth broad principles and more concrete ideas for reshaping and modernizing the international monetary system. The timing of their remarks was not just an accident of a meeting calendar.

More than a year had passed since the "events of August 15" signaled the end of the Bretton Woods system, as it had developed earlier in the postwar period. The intervening period had been one of ferment—sometimes in exchange markets and more continuously in thinking.

But they could speak against the background of evident progress toward the objectives of the new economic policy. Our inflation had been reduced to a rate as low as any among important industrialized countries. Economic growth had been speeded. Together with the unprecedented exchange rate alignment negotiated last December, these laid the essential groundwork for urgently needed improvement in our balance of payments and more international monetary stability. Meanwhile, a degree of needed flexibility had been introduced into exchange rate practices through wider margins. Some of the groundwork had been laid for trade negotiations, and agreement reached on a proper forum for formal monetary negotiations.

But even more important as a setting for their remarks and for the future of monetary reform has been the less tangible evolution in attitudes and thinking over the past year. There is today general agreement and understanding that a thorough revamping of our international monetary system is necessary to meet the needs of this generation—that tinkering with technical features would not be enough. There is a fuller and sharper appreciation of an old lesson of political economy: If we are to live harmoniously with our neighbors and share the gains from expanding trade, individual nations must seek their prosperity in a context of prosperity for all. There is broad agreement that participation in an interdependent and open world requires a willingness to develop, and adhere to, basic rules of international conduct—a general code of good conduct to guide policymaking and day-to-day cooperation.

Moreover, I believe we can detect some areas of convergence of thinking on more specific elements in a new monetary order. There is greater recognition, for instance, that the problems of the adjustment process—the means by which imbalances in international payments can be reduced and eliminated in timely fashion—must be dealt with more effectively than in the past. There is acceptance of the proposition that, to assist this process, the exchange rate structure needs to be more flexible than in the past. The need for greater symmetry in the

responsibility for initiating adjustment policies between deficit and surplus countries is more fully recognized—as is the need to leave considerable flexibility to national governments in their choice among specific adjustment instruments. Finally, the need for a broad consistency among our monetary and trading arrangements is better established, even though the specifics of this interrelationship are still controversial and vague in many minds.

If these propositions sound self-evident and hardly worth repeating to an audience of economists, from my particular observation post they add up to a rather striking change in political and negotiating attitudes—in the “atmospherics” that can be so important in the success of negotiations. There seems to me an eagerness to proceed, not just in the abstract, but to deal in a realistic way with some enormously difficult questions—economic and political—that need to be resolved to square our monetary and trading institutions and conduct with today’s realities.

The U.S. initiative at the IMF meeting came on the eve of the formal start of detailed and intensive negotiations in the newly formed Committee of Twenty. The designation and composition of a properly representative and effective negotiating body, with a necessarily broad mandate, itself presented issues of importance and controversy. As those issues were resolved, and as both national governments and the IMF, itself, began to identify more clearly the substantive issues and to outline basic elements in their thinking, we had the conditions necessary for setting out more specific ideas in a comprehensive and integrated way. The President thought it important to do so for, if the United States is to play its proper role in helping to build a realistic and workable international monetary system, our purposes must be clearly perceived and our ideas fully understood.

We, as other governments, face a difficult problem in this respect. We are dealing with complex matters which even an informed citizen can sort out only with difficulty. Yet it is not enough that we debate our ideas with financial officials from other nations around a negotiating table. In the end, we are dealing with matters that affect the prosperity of our own Nation, the maintenance of a stable world economic order, and political harmony. National commitments will be involved, and legislative support will be required.

I know you, as economists, have a particular interest in the various reform issues. We frankly look to you for understanding and leadership in contributing to this necessary international dialogue.

In formulating our own proposals, we have tried to deal with the basic sources of instability and strain in the monetary system that have become so evident in recent years. In the broadest sense, the repeated crises and frictions reflect the fact that, for too long, the monetary system, rather than promoting equilibrium, tolerated disequilibrium. As sweeping and fundamental changes developed in the world economy, our monetary and trading arrangements failed to keep pace. For too long, the resulting imbalances were covered over with expedient measures; the improvisation was often brilliant, but in the end fundamental difficulties kept recurring in more virulent form.

Many of the economic changes in the more than 25 years since Bretton Woods have been desirable in themselves; but they have, nonetheless, eroded the underlying premises of the system then established. With the resurgence of Europe and Japan, a monetary structure which assumed and was based on a single predominant currency—the dollar—became untenable. The implicit assumption that a dominant United States with immense reserves and an impregnable competitive position could play a relatively passive role in the adjustment process, while in effect underwriting the stability of the system as a whole, simply no longer fits the elementary facts of the distribution of economic and political power in today’s world.

From our point of view, the system seemed to permit other countries, in seeking their own economic and payments objectives, to achieve results that left the United States with a more or less perpetual balance of payments deficit, without adequate capacity to take action to correct that deficit. From the point of view of others, the same system seemed to provide a special privilege for the United States, freeing us from normal pressures to adjust our balance of payments. From either point of view, the results were not satisfactory—practically continuous deficits for the United States and practically continuous surpluses for Europe and Japan in particular, ever greater foreign holdings of dollars, pressures on

our industry and competitive position, and an increasingly speculative atmosphere.

Having said that much, we are still a long way from agreeing on specific measures to achieve and maintain the needed equilibrium in the system. In developing our own proposals to that end, we have endeavored to build from certain principles that we believe command wide support.

Thus, the system must be, and must appear to be, equitable assuring that all nations are accorded fair and comparable treatment under an internationally accepted set of rules and principles. The system should be symmetrical, both in the sense of all nations having the same privileges and the same obligations, and in the sense that pressures for initiating adjustment to correct imbalances should be evenhanded, whether those imbalances are in the form of surpluses or deficits.

We have also sought to design a system which leaves needed freedom of action for national governments. The health of the whole requires that every country should have strong incentives to adjust when its economy is out of balance internationally, but there should be an adequate and realistic range of choice in selecting instruments and techniques of adjustment compatible with national institutions, national circumstances, and national objectives. There is, in other words, more than one "path to righteousness."

Our specific ideas embodying those principles can be listed under six major aspects of monetary reform.

First, the *exchange rate* regime. Most nations have made plain they want a fixed point of reference for the external value of their currency—a central or par value—and this value would be supported by convertibility of their currencies into other internationally agreed assets. We believe reasonably wide margins for fluctuation of market exchange rates around such central values should be permitted—for the dollar as well as other currencies—to dampen incentives for short-term capital flows and to ease transitional rate changes. Some countries—for example, developing countries wishing to maintain a particularly close relationship to a major trading partner or nations in the process of forming a monetary union—may wish to maintain a narrower margin against certain currencies and would be permitted to do so. Conversely, specific provision should be made for individual countries choosing to "float" their currencies. Rather than considering such countries outside or beyond the law, nations choosing to float, particularly for more than a brief transitional period, should be required to observe more stringent standards of behavior in other respects to assure the consistency of their actions with the basic requirements of a cooperative order.

These proposals would provide greater symmetry, in that the dollar would have the same technical possibilities for flexibility as other currencies. At the same time, they would not impose unnecessary rigidity in practice, for nations would be permitted certain options so long as their actions are compatible with established standards of international responsibility.

More broadly, the proposals are aimed at protecting the stability of the entire system by providing a reasonable degree of flexibility in exchange rate practice. The search for a greater stability through flexibility may sound like a contradiction in terms. Indeed, it poses extremely difficult practical issues, particularly in developing criteria for when central values might change—a subject to which I will shortly return. But we have learned from experience that rigidity is not synonymous with stability. Rigid exchange rates, in the end, are not consistent with the degree of freedom of action in monetary, fiscal, and other national policies which most governments regard as necessary; they can breed large imbalances and invite large speculative flows, unduly large exchange rate adjustments, and, thus, repeated monetary disturbances.

A system of central or par values with convertibility forces attention to a second range of issues concerning *the composition and volume of international reserves*. Consistent with much foreign thinking, the United States believes that special drawing rights should increase in importance, should become the yardstick for measuring currency values, and should be subject to periodic changes in amount to meet the aggregate need for reserves. We would neither generally ban nor encourage foreign currency holdings, but certainly they should not be required to play so central a role in the operation of a new system. Possibly the new system could be assisted by provision for exchanging part of existing reserve currency holdings, at the option of the holders, into a special issue of SDR; careful study will need to be given such proposals.

We of course continue to feel the role of gold will continue to diminish and orderly procedures can be developed to facilitate that development.

The third—and in many ways the most critical—area concerns the *adjustment process*. Failure to achieve prompt and effective adjustment has been a central defect in the monetary system—and an improved adjustment system lies at the heart of the U.S. reform proposals.

Under Bretton Woods, or any system of convertibility into reserve assets, there are more or less automatic pressures on deficit countries to adjust—those countries ultimately become unable or unwilling to continue to provide reserve assets to others. But in practice there were no comparable pressures on surplus countries. The system was asymmetrical in an important respect.

Our approach to deal with the adjustment problem is built on the assumption that currencies generally will be convertible into reserve assets and, therefore, subject to adjustment pressures from disproportionate loss of reserve assets when in deficit. Similarly, disproportionate increases in reserves would become an objective indicator of the need for surplus countries to adjust. These swings in reserves would, of course, reflect swings in balance of payments positions.

Such a system would require agreed statistical criteria for measuring reserves, and for appropriate benchmarks against which to measure the need for adjustment action. The aggregate supply of reserves, as determined in good part by SDR allocation, will in turn need to be consistent with the established adjustment criteria to assure the system works evenhandedly, without bias toward deficit or surplus countries.

Sufficient flexibility, possibly with the help of supplementary indicators, would need to be built into the application of the system to avoid reaction to false signals, such as from unwarranted speculative movements. Moreover, as indicated earlier, nations should be permitted flexibility in how they respond to the need to adjust—whether a surplus country, for instance, reduces trade barriers, increases aid, or appreciates its currency. In many instances, a deficit country might appropriately choose to restrain a domestic inflation. But in the end the international community should insist on adjustment, and that insistence will need to be reflected in some adequate combination of inducements and penalties lest we slip back into tolerating such prolonged imbalances that the system falls apart.

Fourth, in presenting our proposals, we also have given specific attention to *capital and other balance of payments controls*.

The U.S. view is that for reasons of practicality, as well as basic philosophy, freedom of trade and payments should be encouraged and reliance on controls minimized. Countries should not be required to use controls in lieu of other more basic adjustment measures, and should not be permitted, for example, to use capital controls to maintain a chronically undervalued currency. When trade controls are permitted temporarily in extreme cases of balance of payments difficulty, they should, in our view, be in the form of surcharges or across-the-board taxes.

A fifth feature of our ideas is the *relationship between negotiations on monetary reform and related negotiations* in trade and other fields. Our view has been and continues to be that monetary, trade, and investment activities must be viewed as parts of an integrated whole—and policies in each of these areas must be mutually consistent and reinforcing.

Accordingly, we have taken the view that negotiations about a new monetary system, now underway in the new Committee of Twenty, must embrace not only explicitly monetary rules but must also consider their compatibility with the broad rules of the trading system and those covering investment transactions. A comprehensive reform of all these interrelated aspects of the international economy is essential if we are to develop a system in which adjustment is brought about effectively and equitably, with a liberalizing thrust. Detailed trade negotiations over specific barriers, such as item-by-item changes in tariffs and nontariff barriers, as well as similar negotiations in the investment field, cannot and will not, of course, be dealt with effectively in the Committee of Twenty. But the Committee can help support serious efforts in other bodies to attack these specific problems; and, in its own deliberations, it cannot shy away from assuring the broad compatibility of our codes of conduct in the trade and monetary area.

A sixth and final feature of Secretary Shultz' presentation concerned the *international institutional arrangements* which should accompany reform of the trade and payments system.

Implicit in the proposals we have made is the need for modification of the institutions which monitor the trade and monetary rules. With a new monetary

structure, I would envisage an even more critical role for the IMF. Also, with increased emphasis on the interrelationships between trade and finance, there is need for closer harmony in the rules of the IMF and GATT and a closer working relationship between the two institutions. Further, the sensitive issues involved imply a greater need for intensive and continuous involvement of national governments in the deliberations of the international institutions, and those bodies must more fully engage national representatives of stature and influence in their own governments.

I would judge the initial response to the U.S. ideas as encouraging. Certainly the straightforward effort to present an integrated set of ideas has been welcomed as a means of providing a new thrust to the negotiations and moving the dialogue forward.

Nevertheless, we should not be misled into believing that points of difference in approach—in some cases major differences—have already been resolved. In presenting our ideas, Secretary Shultz carefully took into account the ideas and proposals of others and incorporated, where he could, areas of consensus. Therefore, it is hardly surprising that one element or another in his remarks struck a responsive chord. On the other hand, I would emphasize the ideas were presented as an integrated package. In our mind, one part is clearly dependent upon another. To put it plainly, the proposals should not be considered as some kind of smorgasbord—with the diner entirely free to pick and choose among the items he personally finds enticing. Rather, we visualize our proposals more in the tradition of a fine French chef, carefully constructing a meal with one course leading to another—with the final satisfaction of the diner dependent as much on the balance of the whole as on any particular course. Or, perhaps, as my mother used to tell me as a child, I could enjoy the dessert only if I also ate the liver—because it was the liver that was essential to a healthy growing boy.

Differences of approach, as well as controversy on technicalities, should, of course, be expected. Nations have different traditions, different economic philosophies, different circumstances, and different experiences. Contrasting views on how the international monetary system should operate, viewed from these different vantage points, are natural. The challenge is to reconcile these differences in a cohesive whole, serving to the maximum extent possible the particular interests of each partner, so long as those interests do not impinge upon the rights of others.

We hope that by the time of the IMF meeting in Nairobi next year, we will find that agreement on the main outlines of a new system can be accomplished. To achieve that result, you can anticipate intense and difficult negotiations.

I would suggest that those negotiations deserve your continuing interest and attention—for the outcome will be of great importance to the United States and to the American economy.

Sometimes the point is made in this country that foreign trade is a relatively picayune matter—after all, exports amount to less than 4 percent of our GNP. I would suggest this is a misleading measure. One hundred billion dollar trade—in and out—is hardly a picayune number, to say nothing of the vast amount of investment, tourism, defense expenditure, and other transactions across our boundaries. We need to do no more than look out the window into our streets, or walk through a department store, to see how much trade affects our daily lives.

Nowhere is this more apparent than in Minneapolis. As a center of trade in so elemental a commodity as grain and as a manufacturer of so sophisticated a product as computers—which happen to be two of the Nation's largest export items—its prosperity is closely tied to these seemingly abstract and arid matters of monetary and trade reform.

That is why we do not underestimate the urgency for moving ahead to reach agreement—not any agreement, but an agreement that will serve our basic interests as well as those of other nations. The challenge before us all is to reconcile those interests in a context of freer trade and open international competition, supported by durable and practical monetary arrangements. I am confident that with the informed support of the American people—but only with that support—that goal will be reached.

Exhibit 60.—Remarks of Under Secretary for Monetary Affairs Volcker, November 13, 1972, at the International Finance and Monetary Reform Session of the 59th National Foreign Trade Convention sponsored by the National Foreign Trade Council, Inc. at the Waldorf-Astoria Hotel, New York, N.Y.

In leading off this session on *money* at the National Foreign Trade Convention, a few preliminary comments on the relationship between international monetary reform and trade negotiations seem in order. I would then like to turn, rather abruptly, to a central question for monetary reform itself: How can we achieve a better process of balance of payments adjustment?

In the broadest terms, the need for a properly functioning international financial system is self-evident to those engaged in foreign trade. Conversely, in my experience international bankers seldom talk together for long without the debate broadening out into consideration of trading policies and practices.

These prosaic facts would hardly bear mention except in the light of two further observations, both of which have impressed themselves on my consciousness in recent years and months.

The first is a commentary on national and international bureaucracies, from which I do not exempt the "banks of the Potomac." The close linkage between trade and monetary questions have too often been obscured and neglected by the way the work is organized. Trade men do trade—GATT, tariff bindings, escape clauses, and all that. Monetary men do money—the IMF, SDR's, exchange rate "tunnels," "snakes," and "worms," and all that. They both have a job, necessary expertise, and a mandate—and they don't appreciate poachers on their preserves. When asked in philosophical terms, "Shouldn't our approach toward trade and money be linked?" the answer is usually, "Of course." When asked in operative terms, "Shouldn't we sit down internationally and deal with the broad problems together?" the answer has too often been, "Let's each mind our own business," or some equivalent expression.

My second observation is that the nations of the world, perhaps for the first time since the postwar planning at the end of World War II, have the strongest kind of incentive—and the plain responsibility—to take a fundamental new look at virtually the whole range of international economic arrangements. The incentive grows out of the simple fact that, however great our achievements in expanding trade and promoting prosperity over the past 25 years, our monetary and trading system and institutions have not been working so well. The vast economic changes of the postwar period have produced strains and tensions threatening the international economic equivalent of "law and order."

There is no doubt in my mind that, today, that challenge of updating our institutions and our practices is widely accepted. There is a will to approach the task in a cooperative spirit.

These are the absolutely essential ingredients for success. At the same time, our conviction is that success will also be dependent on approaching the problem in sufficiently large focus. President Nixon, in speaking recently to the IMF, put the problems of economic reform in the larger context of peaceful relations among nations. And, he emphasized, "We must see monetary reform as one vital part of a total reform of international economic affairs, encompassing trade and investment opportunity as well."

Painting on so large a canvas obviously presents problems. At the least, we will need to overcome the inertia—bureaucratic or otherwise—that would keep every problem in an insulated compartment and stifle imagination. As a practical matter, the negotiations will need to be broken down into manageable pieces. But, at the same time, we need to recognize the broader relationships between trade, money, investment, and development, and approach these problems with a common philosophy and a common view. When the United States has emphasized the need to recognize the link between trade and monetary reform, this is what we have had in mind.

Perhaps I can help clarify this approach by asserting several propositions on the substance and possible organizational implications of this link.

Our point of departure, in the words of Secretary Shultz, is that there is "mutual interest in encouraging freer trade in goods and services and the flow of capital to the places where it can contribute most to economic growth. We must avoid a breakup of the world into antagonistic blocs. We must not seek a refuge behind a wall of protectionism."

To achieve this general objective, we will need a stable monetary system and, particularly, better arrangements to promote timely and orderly international

balance of payments adjustments; without this, individual countries are propelled to protect their interests by controls and restrictions. At the same time, the objective requires a direct attack on existing trade and investment restrictions.

Both approaches to the problem are in hand. The newly established Committee of Twenty has started its work on monetary reform. Major nations have committed themselves to start detailed trade negotiations within the framework of GATT.

In their specifics, these negotiations can proceed in different forums. Discussion and resolution of a mass of detail on trade issues—which tariff is to be reduced and when, how particular nontariff barriers and other administrative barriers to trade can best be removed—require a special expertise, experience, and negotiating process. The same is true of monetary techniques—exchange rate mechanisms; the role of SDR's, gold, and the dollar; and all those other matters that so intrigue the financial experts but which make the eyes of a trade man glaze over. In this sense, the detailed trade negotiations should not and need not wait on discussions of monetary reform, nor need the discussions of monetary questions await the results of the detailed trade negotiations.

In the larger aspects, however, the negotiations will overlap. For instance, in pursuit of the goal of freer trade, we believe definite incentives could and should be built into the rules concerning the balance of payments adjustment process to encourage trade liberalization. Indeed, surplus countries may sometimes find it more desirable from their own point of view to reduce tariffs or eliminate other restrictions than, say, put the full weight of adjustment on exchange rates. In specific instances, such action could well be more desirable from the viewpoint of other nations as well.

Looking at the same problem from the opposite direction, the process of orderly balance of payments adjustment through exchange rates is made more difficult if large areas of our economies are insulated from foreign price competition. To the extent such restrictions remain, the adjustment process is less efficient: more of the burden is thrown on less insulated sectors of the economy, creating the temptation for still more controls.

Our approach toward monetary reform and reform of the trading system overlaps in another broad area. In the discussions at the IMF, the concern over the world breaking up into antagonistic blocs was echoed and reechoed. There seemed to be a wide consensus for what was termed a "one-world" solution—by which is presumably meant a nondiscriminatory, multilateral payments system. Of course, one prime characteristic of a "bloc world" would be widespread preferential tariffs and trade barriers. Thus, the logical counterpart of nondiscrimination in monetary arrangements is most-favored-nation treatment in trade. That principle is already enshrined in article I of the GATT. But we are forced to conclude from simple observation that the forcefulness with which that principle is applied in practice today does not match its prominence in the Articles. We need to reach a new consensus on nondiscrimination in money and trade alike.

A more specific example of the need to achieve consistency in the rules governing trade and money arises when we consider the circumstances, if any, under which trade restraints might legitimately be used to assist in the process of balance of payments adjustment. In our thinking, such action should be confined to extreme and temporary circumstances. The measures taken should be across-the-board and market oriented, such as a tariff surcharge or a general tax on imports. In any event, the trade men and the money men will need to reach agreement.

In his remarks to the IMF, Secretary Shultz also referred to certain other important areas for negotiation that sometimes seem in danger of falling between the stools of money and trade. Trading patterns and balance of payments adjustments are often distorted by the use of fiscal subsidies or penalties that affect the flow of goods or investment, by administrative pressures on investment decision-making, and by competition in the provision of official export credits. The international discussion that followed the introduction of the DISC provision in our own tax code, in an effort to provide tax treatment for our exporters more comparable to that commonly available abroad, points up the need for agreed and appropriate international standards. The growing practice of some countries in providing large subsidies for investment in particular areas often has the practical result of impinging on the trade of others. This has been a matter of some controversy within the European Community, but the problem is not limited to Europe and cries out for more general consideration.

Organizationally, the mandate of the Committee of Twenty plainly charges that group with the responsibility for considering the interrelationships of monetary reform to trade, investment, and development. Without itself becoming involved in specific trade negotiations, that body can do much to assure a consistency of approach, and provide stimulus for detailed negotiations in other bodies. The presence of the Secretaries General of the GATT and the OECD at its deliberations should help assist that process.

The Committee of Twenty was conceived as a temporary body. However, the need for better harmonization of our approaches toward monetary, trade, and investment problems will not cease once monetary reform is accomplished. This reform effort should also aim at finding more permanent organizational arrangements to assure that the problems of the international economy continue to be treated by governments and by our international institutions as parts of an interrelated whole. We should be willing to reshape our institutions and, if necessary, to realign their responsibilities, to achieve that result; at the very least, the rules and practices of the IMF and the GATT need to be fully consistent, and closer working relationships established among our international institutions.

In discussing the relationships between trade and money, I have already alluded several times to the importance of achieving improvement in the processes of balance of payments adjustment—the manner by which countries achieve and maintain an equilibrium in their economic relationship with other countries.

Amid all the controversy about monetary matters, there is a basic strand of agreement that failure of the adjustment process was a prime cause of the breakdown of the Bretton Woods system. Imbalances were permitted to continue for too long and in too large amounts, consistent with the stability of the whole. There were no agreed means for assigning responsibility for initiating adjustment measures. To the extent effective pressures did exist, they worked in a biased way. The lack of consensus on the adjustment process has provided fertile ground for speculation, for monetary instability, and even for political friction.

Meaningful monetary reform must deal with this central problem. Some have suggested that freely floating exchange rates would be a logical and straightforward approach, counting on the forces of the market to achieve a continuing equilibrium through shifting currency values. However, most leading countries have expressed the strong desire to work instead within the framework of officially established exchange rates—par or central values—supported by convertibility of national currencies into internationally agreed reserve assets. The ideas set forth by Secretary Shultz are based on that premise. Consequently, his proposals deal with adjustment problems in that context.

There is ample evidence that a convertibility system will not, in itself, solve the adjustment problem. To be sure, loss of reserves will eventually force a persistent deficit country to take action. But even on the deficit side, disequilibrium can be maintained for a considerable period through extensive borrowing and by measures distorting trade, investment, or the internal economy. On the surplus side, the disciplines are still less effective. Reserves can be accumulated more or less indefinitely.

This is a crucial asymmetry. For a variety of reasons, countries have felt little incentive to take overt action to eliminate surpluses. Revaluation, or action to liberalize imports, affects local domestic interests. A strong trading position can be a vehicle for domestic expansion. A strong currency and large reserves provide protection against the unknown and can be an element in national prestige; surpluses are often equated with virtue.

In the end, therefore, the necessary corollary of a system of established exchange rates supported by convertibility must be new arrangements to induce and maintain a satisfactory balance of payments equilibrium. Our suggestions are pointed in that direction. They are aimed at actively promoting timely measures of adjustments in a manner to support the basic objective of freer trade and payments. They would apply in an evenhanded manner to deficit and surplus countries. They would leave an appropriately wide area for national discretion. Without ruling out either transitional or more indefinite "floats" of a national currency, they would be fully integrated with, and support, the general desire to maintain established exchange rates and convertibility and to work toward freer trade.

There are two related elements in the approach to the adjustment problem sketched out by Secretary Shultz that deserve special emphasis: (1) the need

for objective criteria to help guide adjustment actions; and (2) the use of reserve movements as a primary criterion.

An effective international monetary system will need to have substantial flexibility for national governments to make adjustments in the manner suited to their own needs and circumstances. However, taken alone, experience shows national discretion cannot be counted on to produce either timely or equitable decisions. Similarly, the need for international consultation and review is evident—but full reliance on the discretion of international bodies alone can lead to long debate and indecision in a potentially politically charged atmosphere. These decisions can be disciplined by developing agreed objective criteria that signal the need for adjustment action. But these criteria will never be perfect. Taken alone, they cannot point unerringly to appropriate action, and they must be reconciled with national discretion.

What is needed is a blend of these approaches. The objective criteria would identify periods of serious balance of payments disequilibrium and create a strong presumption that effective adjustment policies should be implemented. But the country concerned should have and could have substantial discretion in determining the composition of its adjustment policies. International consultations would determine the applicability of the criteria to particular situations, or deal with the rare case where the criteria provided a "false signal."

The use of objective indicators recognizes that adjustment decisions are frequently difficult for any government. There is a natural tendency to postpone and avoid action until imbalances cumulate into a major problem for nations and a major opportunity for speculation. International groups may be equally reluctant to face promptly difficult and politically sensitive adjustment questions.

With objective indicators agreed in advance, contention over which country should initiate action should be reduced. The discipline to act—and to act in a timely way—will be stronger. In the context of such a system, countries should find it in their own interest to act early as imbalances are emerging, rather than simply waiting for imbalances to build up to the point that the indicator comes into play.

The criteria developed will need to be capable of being applied evenhandedly to all countries—large or small, developed or developing, reserve currency country or not—in support of the common objective of dealing with payments imbalance, whether surplus or deficit. In a convertibility system, there is already a direct relationship between balance of payments adjustment needs and reserve changes. Overall balance of payments movements are promptly reflected in changes in official reserve holdings. Sooner or later, reserve losses will force a deficit country to act in any event. Building on that natural, but one-sided relationship, use of reserve changes as the prime objective indicator to discipline the adjustment process for both surplus and deficit countries seems both straightforward and equitable.

This approach would require that certain standards be developed for individual countries, taking account of their needs and desires to hold and accumulate reserves over time. These standards for individual countries would, in turn, need to be consistent with the availability and growth of reserves in the system as a whole. Given these standards, countries experiencing disproportionate losses or gains of reserves would be expected to initiate corrective adjustment action. If the losses or gains continued to an excessive degree, certain disciplines would come into play.

At some point, for instance, a country piling up reserves should lose its right to demand conversion: for, through conversion, its excessive surplus would create unwarranted pressures on other countries. If reserves, nonetheless, continued to rise, an effective combination of adjustment measures would be expected. Ultimately, in the absence of effective adjustment measures, other countries should be permitted to protect their interests by such a measure as applying a special surcharge on imports from the chronic surplus country. Conversely, a deficit country persistently refusing to initiate adjustment measures might be refused credit, its SDR allocation, or other privileges.

A critical defect of the system in the past was that, while it required for its sustained operation a broad equilibrium both in the supply of and demand for reserves and in balances of payments, there was no adequate means for assuring either. An increasing portion of reserve holdings took the form of reserve currencies, and that portion became too large to support convertibility. Imbalances in payments were not only increasingly large, but they tended to fall into persistent

patterns—including a chronic U.S. deficit. The approach of using reserves as an objective indicator is aimed at both problems. On the one hand, it provides a basis for achieving greater consistency between the desire to hold reserves and the total supply of reserves. On the other hand, it can provide a needed discipline for guiding the adjustment process.

In sum, the logic of the approach is that: (a) there is a need for better balance of payments adjustment; (b) there is a need for better indicators to help guide balance of payments adjustment decisions; (c) there is a need for consistency between the availability of reserves in the system and the equilibrium demands; and (d) these needs can be brought together in the context of a system of established exchange rates supported by convertibility through a focus on reserve movements as an indicator of the need for adjustment.

If all this sounds highly technical and abstract, I would like to put the essence of the problem in a few simple propositions.

No country wishing to benefit from the enormous advantages of international trade and investment can be independent of external influence. Its actions affect others. Others' actions affect it.

Certainly, every country wants a maximum freedom of action for itself. Where it can have such freedom without impinging adversely on others, it should have it. We should not demand a particular course of action when that action is not essential to the whole. When a rule is unnecessary, let's get rid of it.

But some rules *are* necessary. In terms of international monetary reform, no nation has a right to run an indefinite surplus or deficit—when other countries are unwilling to provide the counterpart. No nation is entitled to acquire or manage reserves in a manner inconsistent with other nations meeting their objectives. Those two simple propositions are the core of the problem with which we must deal.

The theme of Mr. Shultz' remarks before the IMF was that we need a new balance in international economic affairs. In approaching the problems of monetary reform, balance and equilibrium have a special and precise meaning beyond the general connotation of stability and good order. We lack both kinds of balance today.

Our aim must be to regain balance in both senses of the word. That commitment will need to be expressed in our agreed codes of conduct and in our institutional arrangements.

I am under no illusion that the process of reform will be easy. Vital national interests are at stake. The real world is incredibly complex.

Yet, the heritage of the past provides the foundation for success. The real glory of Bretton Woods lay not in the particular form of the institutions it created or the specific agreements reached. Rather, it lay in the habit of economic cooperation which it fostered and which is ingrained in our consciousness.

This is a time of new testing. There have been enormous shifts in the global balance of power. The integration of markets for goods and capital that we sought so eagerly has brought immense new problems in its wake. However inevitable, institutional change—fundamental change—is always a painful and uncertain process.

But you know, and I know, all of that. What's important is that we approach the job in good spirit and with willing acceptance of the need to find common approaches to our problems. I can report I can see increasing evidence on all sides of a willingness to do just that.

Exhibit 61.—Statement by Under Secretary for Monetary Affairs Volcker, February 27, 1973, before the Senate Banking, Housing and Urban Affairs Committee

Two weeks ago, after intensive consultation and negotiation, we took action to achieve a needed realignment of international currency values. A key to this result was the announcement of our intention to propose to the Congress legislation to devalue the dollar. The bill before you, S. 929, would authorize a 10-percent reduction in the par value of the dollar to accomplish that change.

The realignment offers a highly constructive opportunity, both for the United States and for the world community. Augmenting the Smithsonian realignment

agreed earlier, it attacks directly and effectively the major imbalances that have plagued world payments for too long and undermined monetary stability. I am convinced the size of the adjustments is fully commensurate with the need. As part of this process, competitive opportunities in world markets for American workers, farmers, and businessmen have been substantially improved. By helping reestablish a more sustainable equilibrium in the world economy, the exchange rate actions also provide a stronger foundation for building a reformed international monetary and trading system.

Before discussing the realignment in more detail, I want to recognize and emphasize a part of the larger setting in which these actions must be placed. The substantial exchange rate changes involving the dollar over the past 18 months deal with imbalances that had been permitted to build up over a long period of time, stretching back for nearly two decades. Inevitably, the corrective process, however essential, has been painful and temporarily unsettling. It is not a process to repeat.

As we look ahead, the strength of the dollar internationally—indeed the stability of the monetary system, itself—must rest on the strength of our domestic economy and the stability of the dollar at home. That fundamental truth is reflected in the approach and policies of the administration. Amid all the debate about one aspect or another of Phase III and food prices, about the budget, and about monetary policy, let us not lose sight of the basic facts:

The inflation rate in the United States has been sharply reduced in the period since mid-1971, averaging an annual rate of 2.7 percent through the end of 1972, as measured by the comprehensive GNP deflator. In recent months when food prices have increased sharply, largely in response to forces at work worldwide, industrial prices have remained fairly level.

As shown in the table attached, this record in combating inflation has been better overall than that of any other major industrialized nation. Contributing to that result and promising to help maintain that relatively favorable comparison, we have in being at present a comprehensive wage-price stabilization program. The objectives of that program and its mode of operation are supported by both labor and business.

Price changes in the United States and other major industrial countries—Percentage change at annual rate

	Consumer prices August 1971 to November/ December 1972	Wholesale prices in manufacturing August 1971 to November/ December 1972	Gross national product deflator year 1971 to year 1972 ^a
United States.....	3.2	3.8	b 3
Canada.....	4.3	7.7	4½
Japan.....	6.5	3.8	4½
United Kingdom.....	7.2	6.3	6½
Germany.....	6.7	3.9	6½
France.....	6.3	6.8	5½

^a Partially estimated.

^b For period mid-1971 to end 1972, U.S. GNP deflator rose by 2.7 percent at annual rate. Comparable data not available for other countries.

SOURCES: Consumer prices: for United States, U.S. Department of Labor; for other countries, IMF *International Financial Statistics*. Wholesale prices in manufacturing: for United States, U.S. Department of Labor; for other countries, OECD, *Main Economic Indicators*. GNP deflators: for United States, U.S. Department of Commerce; for other countries, OECD, *Economic Outlook*.

We recognize the critical nature of the food price problem to the success of this effort. Vigorous action has been taken to get at the root of the problem. Restrictions on basic supply, in place for many years, have been removed. Some 40 million acres have been released for production from the "set aside" program, and set aside acreage may be used for grazing. Grains are being sold from CCC stockpile. Quotas are gone on meat imports. The Cost of Living Council and the new Food Advisory Committee will continue to examine other measures that may be desirable and necessary. Actions to increase supply can work only with a lag. But their effect can be powerful. The results will show this year.

The President is determined to hold budget expenditures to \$250 billion in fiscal 1973 and \$268.7 billion in fiscal 1974. Those levels can be managed without feeding inflation, and without requiring new taxes. Today, in sharp contrast to widespread skepticism a few months ago, these figures are accepted as both necessary and achievable.

Obviously, we must not and cannot be satisfied with our progress until price stability is fully restored. But, as we seek to do better, let us not lose sight of the fact that, comparing U.S. performance with that of other countries, basic price trends are reinforcing the effects of the exchange rate realignment.

I would also emphasize that changes in the monetary system must be—and I am confident will be—accompanied by reform of the trading system. Fair exchange rates and competitive prices are essential to stability. So are equitable trading arrangements and access to world markets. We are dedicated to achieving that objective. The Congress will shortly be considering legislation to provide the President with the tools he needs—tools that can help lead the world to more open trade, and tools that can also assure fairer treatment for American producers.

I would like to trace briefly the specific developments leading to the bill before you.

In the first year after the Smithsonian agreement, there was evidence of a healthier world payments situation. As I have indicated, the U.S. record on inflation improved sharply and compared favorably with that of our major competitors. Though there were notable periods of disturbance, exchange markets were generally calmer. With capital flows dramatically reduced, the U.S. official settlements deficit fell to \$10 billion in 1972 from \$30 billion a year earlier.

Nonetheless, serious imbalances in the world economy continued. The large trade and current account deficit of the United States, and the large trade and current account surplus of Japan, remained disquieting.

Our trade deficit reached more than \$6 billion in 1972, with the balance deteriorating with all major regions of the world. In considerable part, the worsening of the trade balance could be traced to cyclical developments—the U.S. economy was expanding more strongly than most of our trading partners. We also knew the initial effects of exchange rate changes may be perverse, until business has time to change established trading patterns in response to the changes in relative prices.

In early 1973, the prospects, as we saw them, were definitely for an improving trade balance, partly reflecting the 1971 exchange rate changes. But—given the size of the deficit—the anticipated improvement did not appear vigorous enough to restore overall balance in a reasonable period. There were equal or greater doubts that Japan's strong trade surplus would be reduced to a size compatible with international equilibrium.

Against this background, new and severe exchange market disturbances emerged in late January. These focused initially on capital flows out of Italy and into Switzerland. However, against the large and persistent imbalances in the United States, Japanese, and other payments positions, much larger flows of funds soon developed.

A solution was thus needed to several converging problems. There was an underlying need to add a strong, new thrust to the operation of the balance of payments adjustment process. There was an immediate need to restore order to the exchange markets—and to do so in a way that did not promise fresh disturbances in the future. From the point of view of the United States, we needed to find solutions which would be equitable to American workers and businessmen, which would help set the stage for outward-looking trade negotiations, and would speed and foster constructive reform of the world monetary and trading system.

We needed to act, forcefully and promptly, to achieve these objectives. We have done so.

We wanted first to consult fully with as many of our trading partners as we could in the time available, to see if we could decide with them on an agreed course. Our approach reflected the view that exchange rate questions cannot and should not be approached as unilateral actions—by the United States or by other nations. Indeed, they will fail unless others cooperate.

In the event, the interests of the United States coincided with those of others in the actions agreed to: A 10-percent reduction in the par value of the dollar; a cutting loose of the Japanese yen to allow it to float upward to a rate con-

sistent with Japanese balance of payments equilibrium; a continued float by the United Kingdom and Canada and initiation of a float by Italy; and agreement by others of our major trading partners to maintain then-existing par values.

In this common search for the best solution to our common problems, I found a spirit of realism and cooperation which is heartening for the future. The negotiations were not easy, for hard economic and political decisions were necessary for all. But, I believe, other nations welcomed the U.S. initiative as constructive and responsible. Our willingness to crystallize a needed exchange rate realignment through a devaluation of the dollar was seen as a way to achieve the needed adjustment most promptly and forcibly. In contrast to the compromise struck at the Smithsonian, there was a clear desire on all sides to achieve changes fully commensurate to the magnitude of the problem.

Accompanying the proposal to devalue, we announced two other important steps: First, that present U.S. capital controls will be phased out by the end of 1974; and second, that the President will shortly propose comprehensive trade legislation to enable us to negotiate a reduction of trade barriers. These two steps are closely related to and consistent with the proposed devaluation. I would note, in that connection, that the realignment of exchange rates, in improving our competitive position, should make the United States a more attractive place for investment by both United States and foreign companies.

All three moves—the elimination of capital controls, the proposed trade legislation, and the devaluation—are directed toward the same general objective: Balance in our trade and payments not supported by the crutch of controls, and within a world framework of freer and fairer trade.

We propose to devalue the dollar by 10 percent. However, the effective change in our exchange rate vis-a-vis Japan—our largest overseas trading partner—will be greater than 10 percent. The change is less than 10 percent against, for example, the lira, which has floated downward part way with the dollar.

Weighted average realignments are sometimes calculated, based on a country's trade pattern. On that basis, the constellation of exchange rates negotiated at the Smithsonian represented a realignment for the dollar of approximately 8 percent against all other OECD currencies; or, if the Canadian dollar were excluded, 12 percent.

A measure of the new realignment is more difficult, since a number of currencies are floating and may not remain at present market levels. Nonetheless, as a rough approximation, and using market rates for currencies which are floating, it would appear the new realignment will yield a weighted average realignment for the dollar in about the same range as the Smithsonian—about 7½ percent against all OECD currencies, or about 11 percent against all OECD currencies excluding the Canadian dollar.¹

The Smithsonian realignment has not yet had its full impact on trade flows, and it is appropriate to measure the combined effect of the two realignments. This shows an average realignment for the dollar of about 15½ percent against all OECD currencies, or about 23 percent if Canada is excluded. As between the dollar and the Japanese yen, the change has been much greater thus far—36 percent.

Changes of this magnitude obviously have a major competitive impact. Again, however, we cannot expect a quick turnaround in our trade position; there is simply no way to blink the fact that it takes time for trade flows to be redirected. The effects in the first months could be adverse because the same volume of imports costs more. The full benefits of the realignment will accrue only over a period of years. Nonetheless, it is plain the new realignment, building on and augmenting the Smithsonian, has greatly assisted the competitive position of U.S. producers, both in the United States and in overseas markets. The change will work strongly toward the restoration of a sizable trade surplus for the United States. That surplus is essential to a balance in our overall external payments, and thus to a stable monetary system.

I have indicated already that the need for this exchange rate change in no way reflected any falling behind internationally by the United States in the inflationary battle since the middle of 1971. Rather, with international disequilibria having persisted so long and having become so ingrained in the structure of the world economy—in particular the Japanese surpluses and U.S. deficits—

¹ Market rates of February 26 are used in this calculation.

the Smithsonian realignment was simply not in itself enough to promise the improvement we need within a reasonable time span.

The devaluation of the dollar reemphasizes the need to deal effectively with inflation at home. In that connection, the direct impact on the U.S. price level is slight overall. Obviously certain foreign goods will cost more in the U.S. market. The very purpose of the realignment is to make U.S. products cheaper abroad and foreign goods more expensive in the United States. The prices of selected import items may rise appreciably—we already see reports in the press—and this will provide better opportunities for American products to compete. But overall imports still represent only a very small share of our total GNP—less than 5 percent. A substantial fraction of those imports comes from countries where exchange rate changes vis-a-vis the dollar will be small or non-existent. Consequently, the impact on our general price level will be very small and will only come over a period of time.

The devaluation we propose would be effected by authorizing the establishment of a new par value of \$1 equals 0.828948 special drawing rights; or, in terms of gold, of \$1 equals 0.023684 fine troy ounce of gold. That is a reduction of 10 percent in the SDR and gold value of one dollar; it represents a devaluation of the dollar of 10 percent as calculated in terms of International Monetary Fund convention. Calculated alternatively, the change represents an increase of 11.1 percent in the dollar value of one SDR or one ounce of gold.

In the past, the dollar's par value has been expressed only in terms of gold. The bill before you, in expressing the par value in terms of SDR, as well as gold, emphasizes the importance we attach to the enhanced role of the SDR in the future development of the international monetary system. This move is consistent with proposals the United States has made for international monetary reform: We have proposed diminishing the monetary role of gold and we have favored use of SDR as the common unit of account in which all currency values would be measured.

It is perhaps not necessary to point out that the increase in the official dollar price of gold—to \$42.22 per ounce—in no way suggests that we consider a general change in the price of gold as an appropriate or useful device to increase international liquidity. The administration has stated repeatedly its firm conviction that a goal of monetary reform should be to continue to reduce the dependence of the international monetary system on that metal. The present market price of gold is well in excess of both the present and the proposed official price. The wild speculative fluctuations in the market price of gold seem to me to point to one of the grave deficiencies in the use of that metal as a centerpiece of the monetary system.

The proposed change in the dollar's par value entails consequent changes in the dollar value of certain assets and liabilities of the U.S. Government. With the draft bill, we have submitted to the Congress a detailed explanation of these changes and their effects on appropriations and on cash expenditures. Briefly, there are three categories of items which would be affected by the devaluation:

First, there are increases in U.S. assets amounting to \$2.5 billion. This represents a writeup of 11.1 percent in the dollar value of our reserve assets—gold, SDR, and IMF gold tranche—and in the dollar value of U.S. subscriptions to the IMF and the international lending institutions.

Second, there are increases in U.S. liabilities amounting to \$1.9 billion. The bulk of this consists of amounts needed to maintain the value, in terms of SDR or gold, of U.S. subscriptions to the IMF and to the international lending institutions. The remainder, estimated at less than \$400 million, represents operating losses to be absorbed by the Exchange Stabilization Fund of the Treasury and the Federal Reserve on certain liabilities denominated in foreign currencies whose exchange rates increased relative to the dollar.

Third, there are increases in U.S. contingent obligations amounting to \$992 million, to maintain the value, in terms of SDR or gold, of U.S. subscriptions of callable capital to the international lending institutions, largely representing the U.S. share in the guarantee of the banks' market borrowing. Conditions under which this capital could ever be called are extremely remote. No impact on actual expenditures has ever occurred or is expected.

The third category, and some—but not all—of the items in the second category, will require appropriations, and requests will be submitted to the appropriate committees. Actual cash expenditure under these appropriations is forecast at a much smaller amount—a maximum of \$47 million, spread over the 12 years.

fiscal 1974 to fiscal 1985. There will be no budget impact in fiscal 1973; only \$12 million in fiscal 1974, rising to an estimated \$40 million per year thereafter through 1985.

Mr. Chairman and members of the committee, in our view the bill before you is an important one—important for the present and for the future. The monetary system has recently passed through a serious crisis. A crisis spells both danger and opportunity. I believe we can turn this crisis into opportunity—not just for the monetary system, but for the world economy. The bill before you is a step to take advantage of that opportunity.

I am confident that the proposed legislation—reinforced by determined efforts to maintain a vigorous and inflation-free economy—can provide a firm basis for the restoration of monetary stability and international payments equilibrium. We have a better foundation from which to attack the more fundamental, and formidable, task of building a new trade and payments structure.

The two devaluations since 1971 have been an uncomfortable experience for us and for others. They were, however, needed to complete a major adjustment in the postwar economy. But they cannot and must not become a policy for the future.

We need a monetary system which does not depend on jet planes and secret missions and the kind of hurried negotiations which we were engaged in 2 weeks ago. We need a system which is less prone to the persistent imbalances and market turmoil and speculation which necessitated those hurried negotiations. We need to deal with our internal inflation, and with our international trading order.

We are working to those ends as hard as we can. We look forward to responsive positions by our trading partners. Meanwhile, I urge you to report this bill promptly and favorably, as an important step toward a better monetary order.

Exhibit 62.—Statement by Under Secretary for Monetary Affairs Volcker, February 28, 1973, before the House Foreign Affairs Committee on recent international monetary developments and their foreign policy implications

You have asked for some comment on the impact of recent monetary developments on the U.S. international position and programs. I shall endeavor to respond by describing the general background of these developments and the needs for the future.

The postwar world has brought profound changes in international economic relationships. The recent monetary developments reflect one adjustment to the changed circumstances. However, the monetary changes are only a part of a broader shift toward a new and different economic balance among nations. The economic changes—and the manner in which they are handled—interact with our international political and security affairs.

As President Nixon emphasized, in speaking to the assembled nations of the International Monetary Fund last September:

Working together, we must set in place an economic structure that will help and not hinder the world's historic movement toward peace.

We must make certain that international commerce becomes a source of stability and harmony rather than a cause of friction and animosity.

Potential conflict must be channeled into cooperative competition.

That is why the structure of the international monetary system and the future system of world trade are so central to our concerns today.

The United States emerged from World War II with its economy unscathed and with unparalleled economic dominance in the Western World. Today, 25 years later, the situation has changed fundamentally. While the United States is still the largest and strongest economy, we must compete on more equal terms with the efficient and large economies of Western Europe and Japan. At the same time, the trading capacities of the developing world are greatly—if unevenly—expanding. These fundamental shifts have called for equally fundamental changes in the institutional framework that was established on the basis of the old order.

In no area of international activity has this need been clearer than in the monetary sphere. The international trade and monetary framework which developed after the end of World War II implicitly assumed a United States of

predominating financial strength. We were expected to—and did—provide a preponderant share of the resources for defense, reconstruction, and overseas development. We accepted certain imbalances in trade and payments arrangements in order to spur economic recovery and the restoration of financial stability overseas. With too little concern for our eroding international financial position, we permitted our international payments to be in persistent deficit, counterbalancing the desired surpluses abroad.

The assumptions underlying those policies grew increasingly obsolete with the shift toward a world of a number of strong currencies and a number of strong economies competing vigorously and more or less as equals. The need for change and the need for reform was signaled dramatically on August 15, 1971. The new policies which President Nixon then introduced, and the new directions the administration took, pointed toward restoring a new equilibrium and balance in world economic affairs. I have no doubt that, in historical perspective, those moves at and since that time will be seen as a logical and necessary adaptation to the change in underlying economic circumstances.

We seek two related but different kinds of adjustment, both difficult, but both essential to lasting success:

First, in adapting to the new competitive world, we must correct the severely unbalanced world payments position that had been permitted to build up over a long period of time. The deficit in the U.S. balance of payments and the large persistent surpluses of other countries need to be brought to an end as promptly as possible.

Second, we must help build a new, equitable and sustainable world monetary and trading order. This requires a rethinking of basic precepts. We should discard principles and practices that are outmoded and rededicate ourselves to those which remain valid.

So far as the first of these needs is concerned, we have learned the persistent imbalances in world payments had become more thoroughly ingrained in the structure and fabric of the world economy than had been generally appreciated. Two sizable exchange rate realignments have been necessary to establish a new basis, in the monetary area, for restoring equilibrium. The Smithsonian realignment in December 1971 provided the first significant step toward improvement. Partly as a result of that move, we could see at the beginning of 1973 a strengthening U.S. trade position in the future. However, there were doubts that enough improvement would result within a reasonable time span. There were equal doubts that strong foreign surpluses, that of Japan in particular, were likely to decline adequately. This evidence of continued disequilibrium on both sides, together with renewed uncertainties in world financial markets and massive capital transfers, led in early February to the second major realignment, building on and augmenting the Smithsonian.

Mr. Chairman, the February realignment represented a very important step, and I would distribute to the committee material commenting on it in detail which has been submitted in connection with the par value legislation now before the Congress. I would emphasize two points in connection with the recent moves:

First, this realignment, together with the Smithsonian realignment, provides a major competitive thrust for the dollar and a major competitive opportunity for our industry. We measure the exchange rate change at some 23 percent against our major OECD competitors, excluding Canada. I believe these changes constitute a strong basis for restoring a sustainable equilibrium in world payments. Taken together with an effective fight on inflation at home—and that is crucial—I am confident these changes can do the job of repairing our competitive position in world markets.

Second, this process of correcting the serious postwar international maladjustment by realignments involving two major devaluations of the dollar within 14 months, while essential, has been painful and temporarily unsettling. This process is adequate warning that we must not again permit the development of large and persistent imbalances and, thus, the need for further disturbing adjustments.

The actions in the exchange rate field, by attacking the basic disequilibrium in payments, provide a framework for proceeding with the second and longer range task: Revising the monetary and trading system to fit today's conditions. The recent crisis provides new and timely evidence of the urgent need to develop a better system of adjustment, less crisis-prone and more conducive to a sustainable payments balance.

Secretary Shultz last September outlined major reforms which we believe would accomplish that purpose. We have elaborated our own ideas in greater detail in the special international body—the Committee of Twenty—charged with the task of reform. We must seize the opportunity provided by recent developments to press ahead with new determination to meet the challenge of monetary reform. We look to other nations to respond constructively.

In parallel with monetary reform, the administration will shortly propose trade legislation. This legislation should provide the President with the tools he needs to enter into broad and outward-looking trade negotiations and, in that context, assure fair and equitable treatment for American workers, consumers, and businessmen. Consultations are proceeding with Members of Congress, labor, agriculture, and business to assure that the legislation reflects our needs as fully as possible.

These efforts to create a new and viable trade and monetary system are central to bringing the world economic institutions, practices, and codes of conduct into conformity with the economic facts of the world in which we live. We must proceed through careful cooperative negotiations and decisions and not allow events to force a series of uncoordinated, ad hoc, and unilateral responses that, taken together, will not serve our basic objectives.

In speaking to the IMF, the President pointed out:

... we are witnessing and helping to create a profound movement in history.

That movement is away from the resolution of potential conflict by war, and toward its resolution through peaceful means.

The experienced people gathered in this room are not so naive as to expect the smoothing-out of all differences. We anticipate that the potential for conflict will exist as long as men and nations have different interests, different approaches to life, different ideals.

Therefore, we must come to grips with the paradoxes of peace:

As the danger of armed conflict between major powers is reduced, the potential for economic conflict is increased.

As the possibility of peace grows stronger, some of the original ties that first bound our postwar alliances grow weaker.

As nations around the world gain new economic strength, the points of commercial contact multiply along with the possibilities of disagreement.

Our challenge is to develop cooperative trade and monetary arrangements for directing nations' energies into constructive competition to the benefit of all. The cooperation demonstrated during the recent crisis augurs well for the success of our efforts.

We have seen historical instances in which a nation's ability to achieve its political and security objectives has been constrained by external financial weakness. The United States has been able to fulfill its responsibilities despite the external financial problems we have faced. The adjustments we seek, by strengthening the economic system, will help to ensure that both the United States and other nations will be able to meet their full share of their joint responsibilities.

Exhibit 63.—Statement by Under Secretary for Monetary Affairs Volcker, March 6, 1973, before the Subcommittee on International Finance of the House Banking and Currency Committee

One week ago, I appeared before the Senate Banking Committee in support of this bill (H.R. 4546), which is now before you, to authorize a 10-percent reduction in the par value of the dollar. I am attaching, for the record, the full text of my earlier statement, which gives the full background to the administration's request for favorable action on this legislation.¹ This morning, I intend to make a few supplementary comments to bring you up to date.

As you know, heavy speculative pressures developed in certain European foreign exchange markets over the past 2 weeks. In view of these pressures, those members of the European Community maintaining a fixed exchange rate have closed their markets, at least in the sense of ceasing official support for the exchange rate structure. The Japanese, who already had a floating rate, tempo-

¹ See exhibit 61.

rarily closed their market entirely. Several important European currencies—sterling, the Swiss franc, and the Italian lira—were floating before the latest disturbance. During the weekend, the Finance Ministers of the EEC have had discussions concerning recent developments and ways of concerting a response. We have been in contact with a number of leading countries during this period. Further meetings on an international level have been scheduled, including a meeting between the EEC countries and their Group of Ten partners on Friday.

There are several points I would like to reiterate with respect to the events of the past few days.

First, it remains our conviction that the basic realignment of exchange rates achieved in February is appropriate. That realignment provides—insofar as exchange rate changes can—a realistic base for restoring sustainable balance of payments equilibrium. The situation we face today is a consequence of a speculative outburst. We do not contemplate further devaluation of the dollar.

Second, we are prepared to work expeditiously with the European Community and our other trading partners toward achieving a speedy and satisfactory solution of this problem. We have been in close contact with them, and we will be meeting with them face to face in Paris later this week.

Third, recent developments reemphasize once again—if such emphasis is necessary—the need to intensify the pace of our efforts toward fundamental reform of the international monetary system. In that respect, I believe, with intelligence and good will on all sides, we can turn the events of recent weeks to constructive achievement. We have been faced with two separate, but related, problems. We need to correct the underlying imbalances in international payments—of the United States and of other countries—that lie behind the monetary unsettlement and disturbance. The exchange rate changes are responsive to that requirement. We also need lasting arrangements to assure that these imbalances do not recur; that necessary international adjustments are made more effectively, smoothly, and surely in the future; and that our monetary arrangements contribute to open trade and payments among nations. This latter need is the task of monetary reform. We must achieve both objectives to assure that the international monetary system—instead of intruding so frequently on our consciousness in an atmosphere of “crisis”—becomes the unobtrusive handmaiden of a growing and prosperous world economy.

Fourth, and last—but by no means least—I want to reiterate emphatically that the strength of the dollar abroad is, in the last analysis, dependent upon the strength of the dollar and the strength of our economy at home. The administration is deeply conscious of that simple truth. I believe our record reflects that concern. Indeed, in relative terms, our performance in restoring greater price stability stands out favorably among the major industrial countries. In absolute terms, we aim to do better. Budgetary, monetary, and wage-price policies are directed to that goal.

In concluding, I urge the committee to act soon and favorably on the legislation before you. In doing so, an important part of the process of ending uncertainty, restoring equilibrium, and working cooperatively with our trading partners toward a stronger monetary system will be completed. The realignment of exchange rates was necessary three weeks ago, and it remains necessary today. It required difficult decisions and action on the part of many other countries, as well as the United States. The legislation is essential to enable us to meet the legal and financial consequences of the exchange rate changes. More broadly, I hope you will agree the realignment of exchange rates will promote the best interests of American workers and producers, and passage of this legislation will help lay the base for further cooperation with other nations toward restoring balance in our payments and achieving needed monetary reform.

**Exhibit 64.—Statement by Under Secretary for Monetary Affairs Volcker,
March 19, 1973, before the Senate Committee on Appropriations**

I welcome this opportunity to appear before the Senate Appropriations Committee to explain the effect of the proposed 10-percent change in par value of the dollar on U.S. assets and liabilities, as well as the need for an appropriation to meet certain of these liabilities.

The details of these changes are quite complex. I believe it would be helpful in understanding this subject if you would follow the tables attached to my testimony as I proceed.

Devaluation has two purely financial effects: Certain assets and certain liabilities are increased in value. First, let me discuss the assets side.

Increase in value of assets

Devaluation increases the value of assets that are denominated in terms of gold. An ounce of gold at the official price is now worth \$38; after devaluation this same ounce of gold will be valued at \$42.22—an 11.1-percent increase. Thus assets that are denominated in terms of gold will be worth more in terms of dollars.

The United States has two classes of assets that are denominated in gold: (a) International reserves—gold, special drawing rights, and gold tranche drawing rights on the IMF; and (b) subscriptions to the international financial institutions.

First, the effect on our international reserve assets.

Gold.—The dollar value of our gold stock will increase by 11.1 percent from \$10,487 million to \$11,652 million, an increase of \$1,165 million. Under existing law, this increment in value is transferred to miscellaneous receipts of the Treasury. The Treasury can issue gold certificates to the Federal Reserve against this increased value of gold and receive from the Federal Reserve a cash deposit.

Special drawing rights.—The United States now holds \$1,958 million special drawing rights and these SDR's are denominated in terms of gold. The dollar value increase as a result of devaluation amounts to \$218 million. The SDR is a new international reserve asset created by the IMF and usable by member governments in a way comparable to gold to settle international imbalances. The United States wishes to see greater reliance on the use of this instrument in the international monetary system in the future.

IMF gold tranche.—Our remaining gold tranche automatic drawing rights on the International Monetary Fund, which represents gold which we have paid to the Fund, increases by \$52 million to a total of \$469 million. These are automatic rights to draw currencies from the IMF when needed to finance a balance of payments deficit. As of the present, we are using \$1.4 million of these drawing rights.

IMF subscription and paid-in capital subscriptions.—The devaluation also has the effect of increasing the value of another type of asset—our paid-in subscriptions to the International Monetary Fund and the international development lending institutions. These assets are denominated in terms of gold and therefore increase in dollar value—\$606 million for the Fund subscription and \$477 million for the paid-in capital subscriptions to the lending institutions. However, to realize this increase in value, we must pay-in additional dollars to these institutions, which I will mention in the discussion of the increase in our liabilities.

The total increase in assets amounts to \$2.5 billion—\$1.4 billion in liquid international reserve assets and \$1.1 billion in the value of international financial institutions subscriptions.

Increase in liabilities

On the liability side, there are increases in three general types of liabilities: Liabilities resulting from borrowing of foreign currencies and foreign exchange operations; increase in repayment obligations resulting from IMF drawings and SDR allocations; and maintenance of value obligations in the international financial institutions.

Some of these liabilities will be financed from Federal Reserve resources and from the Exchange Stabilization Fund without need of appropriations. The remainder—our increased payment obligations to the international financial institutions—will require an appropriation of up to \$2.25 billion. However, of this new obligational authority, only \$477 million will result in budgetary expenditures. I would now like to give you some of the details on each of these liability items.

Nonappropriation liabilities—Treasury borrowings, SDR's, and "swaps".—The portions of our liabilities not requiring appropriations are those derived from

Treasury borrowing in foreign currencies, from special drawing rights, and from Federal Reserve mutual credit "swap" arrangements.

The devaluation will make it more costly in terms of dollars to purchase the foreign currencies needed to repay the \$1,714 million of Treasury borrowing denominated in Swiss francs and German marks. The additional cost is estimated at \$193 million and would be financed from the Exchange Stabilization Fund—the organ of the Government established for dealing in foreign exchange and which is designed to absorb gains or losses involved in foreign exchange transactions.

Similarly, our increased repayment obligations to the IMF on allocations of special drawing rights do not require an appropriation. In accordance with established accounting procedures, we have not only written up by \$218 million the increase in value of our present holdings of SDR as an asset, as I have already described, but we have also increased on the books of the ESF our liability to the International Monetary Fund of \$278 million based on our allocations of special drawing rights. The net liability, amounting to \$60 million, would only be realized if the SDR scheme were liquidated or if the United States withdrew from it.

The last nonappropriation liability results from the additional cost of purchasing foreign currencies at the new exchange rates to repay Federal Reserve swap borrowing totaling \$1,639 million. The additional cost to the Federal Reserve of purchasing foreign currencies is an estimated \$196 million and this amount will be absorbed from the earnings of the Federal Reserve System.

Liabilities requiring appropriations.—I will now turn to the liabilities requiring appropriations. These, too, are of three different types: Maintenance of value on the International Monetary Fund's holdings of dollars; contingent obligations to the international development lending institutions; and paid-in capital subscriptions to these institutions.

As you can see, all of these liabilities are to the international financial institutions. They derive from a provision in their Articles of Agreement requiring member countries to maintain the value of their subscriptions in terms of a common denominator, in this case gold. In other words, a member that devalues its currency must pay-in additional amounts of that currency in order to maintain the same gold value, and thus the same proportionate contributions, as existed prior to devaluation. The provision is thus intended to guard against loss in the relative value of the contributions of all members despite alterations in exchange rates, thus assuring that the equitable burden-sharing that these institutions seek to achieve is not distorted and that voting rights are not diminished. In the past, there have been over 200 devaluations involving 60 countries. In every case, maintenance of value obligations have been fulfilled.

The first type of liability—maintenance of value on International Monetary Fund holdings of dollars—has two components. First, the IMF Articles require us to increase the value of our subscription of \$7.2 billion by 11.1 percent. In addition, the United States has paid \$1.4 billion to the Fund as a result of drawings of foreign currencies. This sum must also be maintained in value by the same percentage resulting in a payment of \$150 million.

Thus, total payments to the Fund will amount to \$756 million. This obligation—to be reflected in the form of a letter of credit—will have no budgetary impact. U.S. transactions with the Fund are excluded from the budget in accordance with a recommendation of the President's Commission on Budget Concepts which pointed out that subscriptions, drawings, and other transactions with the Fund were monetary exchanges of assets. Our subscription is akin to a deposit in a bank that can be used by the bank for lending to others and also to establish a line of credit for the depositor—in this case the United States.

The second category involves contingent obligations amounting to \$992 million. The largest part of this amount—\$920 million—derives from the U.S. subscriptions to the callable capital of the World Bank, the Inter-American Development Bank, and the Asian Development Bank. This callable subscription, together with the similar subscriptions of other members, stands as a guarantee behind the Banks' borrowing in private capital markets and is to be called only if these Banks cannot meet their obligations to bondholders.

The other element of contingent obligation, amounting to \$72 million, involves loans made in dollars by the Fund for Special Operations of the Inter-American Development Bank but repayable in dollars or local currencies. The United

States will have to maintain the value of the loan repayments only if made in dollars—a highly unlikely event.

I must emphasize the remote nature of these contingent liabilities. Our callable capital obligations have never, as yet, been called, and we do not expect calls in the future. We can make this prediction based on the sound financial condition of these institutions, their reserves, and the fact that this guarantee is backed not only by the United States but by other major countries as well.

Thus, we do not anticipate that these liabilities—while constituting a contingent call upon U.S. Government resources analogous to other government guarantees—will materialize.

The third category of obligations involves paid-in capital subscriptions. This will involve \$477 million flowing from certain present and planned future contributions to the three Banks mentioned above, plus the International Development Association.

It is only this \$477 million that will result in budgetary expenditures. There will be no expenditures in fiscal year 1973 and \$12 million in fiscal year 1974. The remaining amounts will be spread out in relatively small installments over a period of 12 years.

The total amount of obligations requiring appropriation resulting from the par value change now before you amounts to \$2,225 million consisting of (a) obligations to the IMF—\$756 million; (b) contingent obligations—\$992 million; and (c) paid-in capital subscriptions—\$477 million. Our appropriation request has been rounded to a maximum of \$2.25 billion because we cannot be precisely certain now of the exact amounts involved because maintenance of value is fixed only at the time that the United States communicates its formal par value change to the International Monetary Fund. It is my hope, in fact, the obligations will be less than \$2,225 million. This is borne out by our experience with the 1972 appropriation which, when the final data were compiled, involved obligations of \$1,578 million against a rounded appropriation of up to \$1.6 billion.

As this summary suggests, there is a rough offsetting between increases in assets and liabilities as a consequence of devaluation. Most of the liabilities involve either exchanges of assets with the IMF or remote contingent liabilities.

The increase in value of liquid international reserve assets totaling \$1.4 billion—which provides cash to the Treasury—is almost three times as large as the liabilities on paid-in capital to the international financial institutions of \$477 million—which will eventually become a cash drain. Moreover, the budgetary impact of those increased liabilities is spread out over a long period of time.

I would end by stressing that maintenance of value is a legal obligation flowing from the devaluation and our membership in the international financial institutions. I strongly feel that this obligation should be met in timely fashion as it has been honored by other countries. The amounts involved are quite substantial. However, the outline I have given you today makes it clear that our appropriation request cannot be looked at in isolation but as part of a pattern of increases in assets and liabilities that are the direct consequences of the change in par value that we have recommended to the Congress.

Estimated budgetary outlays for maintenance of value—fiscal years

[In millions of dollars]

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Total
1972 DEVALUATION																
IDA.....			4	8	8	9	9	16	16	16	17	17				120
IBRD.....		.12	.94								8	12	12	9	8	50.06
IDB (Ord. Cap.).....			2	2	2	2	2	2	2	2	5	5	5	5	5	41
IDB (FSO).....			12	12	12	12	12	12	12	12	7	6				109
ADB.....		4.30	4.30													8.60
Total (1972).....	4.42	23.24	22	22	23	23	30	30	30	37	40	17	14	13		328.66
1973 DEVALUATION																
IDA.....			4	14	14	14	14	20	20	20	20	21				161
IBRD.....			1.3								10	16	15	15	14	71.30
IDB (Ord. Cap.).....				3	3	3	3	3	3	3	9	9	10	9	9	64
IDB (FSO).....				18	18	18	18	18	18	18	10	11	11	11		169
ADB.....			12													12
Total (1973).....		12	23.3	35	35	35	35	41	41	49	56	57	35	23		477.30
Total (1972 and 1973).....	4.42	35.24	45.3	57	58	58	65	71	71	86	96	74	49	36		805.96

NOTE.—The above figures represent estimated budgetary outlays arising from payments to the international development lending institutions in fulfillment of U.S. maintenance of value obligations relating to the paid-in capital of these institutions. With minor exceptions, payment has been made or will be made by letters of credit. Budgetary expenditures only arise as these letters of credit are drawn down. Drawdowns are made by each institution as the need arises for cash funds to pay for goods and services furnished to borrowers of these institutions. It is anticipated that drawdowns relating to maintenance of value obligations on IBRD and IDB dollar loans outstanding at the time of change in par value of the dollar will be spread out over the period of repayment of these loans, i.e., through fiscal 1986. With regard to IDA, funds relating to maintenance of value obligations on first, second, and third replenishments, respectively, will only be drawn down after other funds from the particular replenishment have been exhausted.

Exhibit 65.—Statement by Under Secretary for Monetary Affairs Volcker March 21, 1973, before the Subcommittee on International Finance of the House Banking and Currency Committee

You have asked that I appear again before this subcommittee to review developments in the international monetary area in the past 2 weeks and their implications for the legislation before you concerning the par value of the dollar.

In that connection, I believe your record might usefully include three documents attached to this statement:

1. The Press Communiqué of the Ministerial Meeting of the Group of Ten and the European Economic Community, dated March 9, 1973, in Paris.

2. Statement by the Council of Ministers of the European Community, dated March 12, 1973, in Brussels.

3. Press Communiqué of the Ministerial Meeting of the Group of Ten and the European Economic Community, dated March 16, 1973, in Paris.

As these documents indicate, broad agreement has been reached among the leading industrial nations on a cooperative approach aimed at assuring an orderly exchange rate system, dealing with speculative disturbances, and helping to speed the task of fundamental monetary reform.

To these ends, at the meeting of the Group of Ten with the members of the European Economic Community on March 16, there was agreement "in principle that official intervention in exchange markets may be useful at appropriate time to facilitate the maintenance of orderly conditions. . . ." This does not imply an obligation to intervene generally to maintain given margins about par or central values. Instead, intervention, when considered necessary and desirable in the light of market conditions, will be handled in a flexible manner in close consultation with the authorities of the nation whose currency may be bought or sold.

Consistent with this overall framework, a number of European countries have decided to maintain a 2¼-percent margin among their own currencies.

In addition, some countries have taken additional steps to discourage speculative capital flows, and the United States is reviewing actions that may be appropriate to remove inhibitions on the flow of capital to this country. More generally, it was also agreed to study urgently approaches toward dealing with the volatility of the Euro-currency markets and with the funding or consolidation of official currency balances. These matters are on the agenda of the Committee of Twenty of the IMF.

Beyond these specific points, more general considerations were emphasized (1) The need to deal effectively with domestic inflation; and (2) the goal of the greatest possible freedom for international trade and investment, and the avoidance of competitive changes of exchange rates.

Those participating in the series of meetings over recent weeks could not help but be struck by a sense of cooperation and agreement toward a common approach. Obviously, much remains to be done to assure a smooth transition to a durable and satisfactory monetary system in the future. But I feel there are solid grounds for optimism. The pressures of recent weeks have, I believe, helped precipitate forward progress toward achieving that combination of flexibility and stability in our monetary arrangements that will serve the interests of all.

The actual exchange rates prevailing in the market have, for the most part, not moved over a large range in the past week. Indeed, on Monday and Tuesday the exchange rates of the dollar vis-à-vis other leading currencies remained within a margin of $\pm 2\frac{1}{4}$ percent around the par values or central rates established following the announcement of our intended devaluation (taking account of the further small revaluation subsequently announced by Germany). This market performance, in the absence of intervention in dollar markets by the leading countries maintaining par or central values, is consistent with our judgment and that of others, that the pattern of exchange rates established by our devaluation is broadly reasonable and realistic.

Certainly the events of the past 2 weeks in no way change our judgment as to the wisdom of the exchange rate realignment precipitating the proposed devaluation of the dollar. I hope the Congress will, with all deliberate speed, complete the necessary action on this legislation.

PRESS COMMUNIQUE OF THE MINISTERIAL MEETING OF THE GROUP OF TEN AND THE
EUROPEAN ECONOMIC COMMUNITY, 9TH MARCH, 1973, IN PARIS

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow* met in Paris on 9th March, 1973, under the Chairmanship of Mr. Valéry Giscard d'Estaing, the Minister of the Economy and of Finance of France. Mr. P.-P. Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Nello Celio, Head of the Federal Department of Finance of the Swiss Confederation, Mr. E. Stopper, President of the Swiss National Bank, Mr. Francois-Xavier Ortoli, President of the Commission of the European Economic Community, Mr. E. Van Lennep, Secretary-General of the Organization for Economic Co-operation and Development and Mr. René Larre, General Manager of the Bank for International Settlements.

Mr. Ali Wardhana, President of the Committee of Twenty of the International Monetary Fund was specially invited to participate in this meeting.

2. They examined the international monetary situation in the light of the present crisis and had a broad exchange of views both on the origins of the crisis and on ways of dealing with it in a spirit of co-operation.

3. They agreed that the crisis was due to speculative movements of funds. They also agreed that the existing relationships between parities and central rates, following the recent re-alignment, correspond, in their view, to the economic requirements and that these relationships will make an effective monetary contribution to a better balance of international payments. In these circumstances they unanimously expressed their determination to ensure jointly an orderly exchange rate system.

4. The Ministers and Governors are agreed that, for this purpose, a set of measures needs to be drawn up.

5. The formulation of these measures requires a technical study which they have instructed their Deputies to undertake forthwith.

6. The Ministers and Governors have decided to meet again on Friday, 16th March, to draw joint conclusions on the basis of this study and take the decisions which are called for, so as to make it possible for the E.E.C. countries and Sweden to re-open their exchange markets on Monday, 19th March.

7. Finally, the Ministers and Governors considered that the recent disturbances underline the urgent need for an effective reform of the international monetary system. They decided to take the necessary steps to accelerate the work of the Committee of Twenty of the International Monetary Fund.

UNOFFICIAL TRANSLATION OF THE MARCH 12 STATEMENT BY THE COUNCIL OF
MINISTERS

The Council of the Community met on March 11, 1973, to discuss measures to deal with the international monetary crisis in light of the meeting of the enlarged "Group of Ten" which took place in Paris on March 9.

The Council decided that—

The maximum margin at any one time between the German mark, the Danish kroner, the Dutch florin, the Belgian franc, the Luxembourg franc, and the French franc is maintained at 2.25 per cent. For the member states which are maintaining a two-tier system of exchange rates, this commitment applies only to the regulated market.

The central banks are no longer obligated to intervene in the fluctuation margins of the US dollar.

To protect the system against disruptive capital movements, the application of the March 21, 1972, directive will be reinforced and complementary instruments of control will be established to whatever degree is necessary.

The British, Irish, and Italian members declared that their governments intend to participate as soon as possible in the decision to maintain Community margins of fluctuation.

*The Group of Ten comprises six of the member countries of the European Economic Community (Belgium, France, Germany, Italy, the Netherlands and the United Kingdom), as well as four other countries (Canada, Japan, Sweden and the United States). The other three member countries of the E.E.C., Denmark, Ireland and Luxembourg, also participated in this meeting.

To this end, the Commission will present suggestions it considers adequate before June 30, 1973, when it is also due to report on preparation for short-term monetary support and conditions for the gradual pooling of reserves.

The Council agreed that, in the meantime, close and continuous cooperation in monetary matters will be maintained between the member states' authorities.

The representative of the German Government indicated his Government's intention to undertake before the exchange markets' reopening a limited adjustment in the central exchange rate of the mark to contribute to an orderly development in exchange relations.

The technical details of the matters mentioned above will be worked out in the next few days, taking into account the next meeting of the enlarged Group of Ten which will take place in Paris on March 16, so that they will become applicable on March 19, 1973, the scheduled date for the reopening of exchange markets.

TRANSLATION OF THE MARCH 12 DECLARATION BY THE COMMISSION'S SPOKESMAN

The Commission believes that the arrangements undertaken by the Council which will avoid a disjointed float, ward off the risk of speculation.

Nonetheless, the Commission regrets that the Council was unable to decide upon measures in which all Community member states could participate, as the Commission had proposed.

The Community must still work toward economic and monetary union. Therefore, the nine nations must return as soon as possible to a Community system of exchange rates, as agreed a year ago.

That is why the Commission attaches the greatest importance to the mandate it has received to make suggestions to this end. It ascribes equal importance to the proposals it must make on the pooling of reserves and short-term support.

PRESS COMMUNIQUE OF THE MINISTERIAL MEETING OF THE GROUP OF TEN AND THE EUROPEAN ECONOMIC COMMUNITY, 16TH MARCH, 1973, IN PARIS

1. The Ministers and Central Bank Governors of the ten countries participating in the General Arrangements to Borrow and the member countries of the European Economic Community met in Paris on 16th March, 1973, under the Chairmanship of Mr. Valéry Giscard d'Estaing, Minister of the Economy and Finance of France. Mr. P.-P. Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by Mr. Nell-Celio, Head of the Federal Department of Finance of the Swiss Confederation; Mr. E. Stopper, President of the Swiss National Bank; Mr. W. Haferkamp, Vice-President of the Commission of the European Economic Community; Mr. E. van Lennep, Secretary General of the Organization for Economic Co-operation and Development; Mr. René Larre, General Manager of the Bank for International Settlements and Mr. Jeremy Morse, Chairman of the Deputies of the Committee of Twenty of the I.M.F.

2. The Ministers and Governors heard a report by the Chairman of the Deputies, Mr. Rinaldo Ossola, on the results of the technical study which the Deputies have carried out in accordance with the instructions given to them.

3. The Ministers and Governors took note of the decisions of the members of the E.E.C. announced on Monday. Six members of the E.E.C. and certain other European countries, including Sweden, will maintain 2½ per cent margins between their currencies. The currencies of certain countries, such as Italy, the United Kingdom, Ireland, Japan and Canada remain, for the time being, floating. However, Italy, the United Kingdom and Ireland have expressed the intention of associating themselves as soon as possible with the decision to maintain E.E.C. exchange rates within margins of 2½ per cent and meanwhile of remaining in consultation with their E.E.C. partners.

4. The Ministers and Governors reiterated their determination to ensure jointly an orderly exchange rate system. To this end, they agreed on the basis for an operational approach towards the exchange markets in the near future and on certain further studies to be completed as a matter of urgency.

5. They agreed in principle that official intervention in exchange markets may be useful at appropriate times to facilitate the maintenance of orderly conditions, keeping in mind also the desirability of encouraging reflows of speculative movements of funds. Each nation stated that it will be prepared to intervene as

its initiative in its own market, when necessary and desirable, acting in a flexible manner in the light of market conditions and in close consultation with the authorities of the nation whose currency may be bought or sold. The countries which have decided to maintain 2¼ per cent margins between their currencies have made known their intention of concerting among themselves the application of these provisions. Such intervention will be financed, when necessary, through use of mutual credit facilities. To ensure fully adequate resources for such operations, it is envisaged that some of the existing "swap" facilities will be enlarged.

6. Some countries have announced additional measures to restrain capital inflows. The United States authorities emphasized that the phasing out of their controls on longer-term capital outflows by the end of 1974 was intended to coincide with strong improvement in the U.S. balance-of-payments position. Any steps taken during the interim period toward the elimination of these controls would take due account of exchange market conditions and the balance of payments trends. The U.S. authorities are also reviewing actions that may be appropriate to remove inhibitions on the inflow of capital into the United States. Countries in a strong payments position will review the possibility of removing or relaxing any restrictions on capital outflows, particularly long-term.

7. Ministers and Governors noted the importance of dampening speculative capital movements. They stated their intention to seek more complete understanding of the sources and nature of the large capital flows which have recently taken place. With respect to Euro-currency markets, they agreed that methods of reducing the volatility of these markets will be studied intensively, taking into account the implications for the longer run operation of the international monetary system. These studies will address themselves, among other factors, to limitations on placement of official reserves in that market by member nations of the IMF and to the possible need for reserve requirements comparable to those in national banking markets. With respect to the former, the Ministers and Governors confirmed that their authorities would be prepared to take the lead by implementing certain undertakings that their own placements would be gradually and prudently withdrawn. The United States will review possible action to encourage a flow of Euro-currency funds to the United States as market conditions permit.

8. In the context of discussions of monetary reform, the Ministers and Governors agreed that proposals for funding or consolidation of official currency balances deserved thorough and urgent attention. This matter is already on the agenda of the Committee of Twenty of the IMF.

9. Ministers and Governors reaffirmed their attachment to the basic principles which have governed international economic relations since the last war—the greatest possible freedom for international trade and investment and the avoidance of competitive changes of exchange rates. They stated their determination to continue to use the existing organisations of international economic co-operation to maintain these principles for the benefit of all their members.

10. Ministers and Governors expressed their unanimous conviction that international monetary stability rests, in the last analysis, on the success of national efforts to contain inflation. They are resolved to pursue fully appropriate policies to this end.

11. Ministers and Governors are confident that, taken together, these moves will launch an internationally responsible programme for dealing with the speculative pressures that have recently emerged and for maintaining orderly international monetary arrangements, while the work of reform of the international monetary system is pressed ahead. They reiterated their concern that this work be expedited and brought to an early conclusion in the framework of the Committee of Twenty of the IMF.

Exhibit 66.—Statement by Under Secretary for Monetary Affairs Volcker as Temporary Alternate Governor for the United States, April 26, 1973, before the sixth annual meeting of the Board of Governors of the Asian Development Bank, Manila, Philippines

I want to speak with you today primarily about some of the opportunities and problems we face together as we approach the future of this Bank, of this region, and of the millions of people who inhabit this vast and important area of the

globe. Before doing so, however, I first take special pleasure in officially greeting our new President, Shiro Inoue. I know all of us who have worked with him in other areas in the past share confidence in his leadership—a leadership essential to the success of our joint effort.

I also want to welcome the Solomon Islands as the 39th member of the Asian Development Bank and the prospective entry of Burma. In a real sense, their entry both marks the forward progress of our institution and represents the continuing challenge of economic development.

I would add the thanks of my Government to the people of the Philippines for their hospitality, and especially for the faith and confidence in the Bank they have demonstrated so tangibly. In a striking way, this impressive building symbolizes the coming of age of the Asian Development Bank and the important responsibility it has assumed as a permanent catalyst for Asian development.

I am also pleased that five Members of the American Congress have accompanied me to Manila as advisers. The participation of the United States in this institution is, and must be, a joint enterprise in which the Congress and the executive work together as partners. For that reason, I am glad that we also had the opportunity to pause in Korea together to view firsthand some of the early results of the Bank's efforts to finance development.

The Governor for the United States, Secretary of the Treasury George Shultz, regrets that he cannot be with you this week. On his behalf, I extend the best wishes of President Nixon, as well as his own, to the members and to the management of the Bank.

We meet at a critical time, not just for this Bank and for the development of Asia, but for the economic system of the world as a whole. We have seen repeated and widespread monetary disturbances in recent years. Points of strain and tension have arisen in trading relationships among nations. New questions have arisen about the development process and means of financing it.

Problems of this sort are never welcome. But let us recognize that they are a part—perhaps an inevitable part—of the process of vast change in the world economy since our basic trading and monetary institutions were shaped at the end of World War II, almost 30 years ago.

Certainly most of these changes—viewed in a world perspective—have been for the better. Economic strength and power is more widely distributed among the industrialized countries. Individually, more of the developing countries have made particularly rapid strides in improving their standards of living. As a group, they are more conscious of their needs and their opportunities and better prepared to play an effective role in the decisionmaking process.

The challenge is not to resist this process of change. Rather, we want to re-examine our practices and reconstruct our institutions in a manner that will ensure that change serves our common interest in economic prosperity and political harmony.

In this process, it is vital that the developed and developing nations work together. For that reason, we in the United States have welcomed the participation of the developing countries of Asia, as well as other continents, in the work of the Committee of Twenty. Similarly, we also recognize that constructive revision of our trading practices and rules must strike a fair balance between the legitimate interests of individual nations—including the developing nations—and the need for a common and cooperative approach.

It is in that spirit that President Nixon has proposed to the Congress broad new authority for trade negotiations. The fundamental premise of that legislation is that every nation can and should benefit from expanding trade and open trading practices within the basic framework of a competitive market system. But that "openness" must also be combined with fairness for all nations.

The President has requested authority of unprecedented scope to engage in multilateral trade negotiations. This authority would include—and look toward—reductions in both tariff and nontariff barriers.

At the same time, the legislation would recognize that open markets and free trade can, in some instances, bring change with disruptive speed. The United States, like other countries, needs effective safeguards when surges in imports bring excessive hardship to domestic workers and businesses. We believe such safeguards—designed not to avoid adjustment but to ease adjustment for a transitional period—can most effectively be worked out on a consistent multilateral basis.

Our proposed legislation also recognizes that progress in reducing trade barriers for the United States can be sustainable only in a context of a perception that our own products receive fair and nondiscriminatory treatment by others. For that reason, our proposed legislation would provide improved authority to respond effectively to restrictive and discriminatory practices of others—if necessary, by restricting their access to our markets.

Another significant provision of the bill would permit the United States to join with other industrialized countries to improve the access of developing countries to our markets. Duty-free treatment would be provided for a broad range of manufactured products now regulated by tariffs in instances where countries in the early stages of industrialization are beginning to seek out foreign markets.

As we start this sixth annual meeting and plan for the new year, a challenge for our development efforts—and particularly for the Asian Development Bank—is evident. The hopeful prospects for peace in Indochina should open the way to improvement in the lot of millions who have not known peace for decades. Here is constructive work, not only for the nations represented here, but for all countries and peoples ready to cooperate.

But the effort will not organize itself. We believe the Bank—founded by Asians with a mandate to help Asia—can and should play a key role in the needed international effort. We look to the Bank to work with other institutions and to involve diverse donor nations in the process of rebuilding the economies of those countries of Indochina who seek an end to hostilities.

The Bank, in fact, has already identified specific projects in Laos, the Khmer Republic, and the Republic of Vietnam and committed funds for them. Other projects are in the pipeline and should be ready for consideration later this year.

The study of Southeast Asian economies and the regional transportation survey sponsored by the Bank show the breadth of its field of activities. Its expertise should aid all who may become involved in the effort to build for peace.

Historically, the United States has long been involved in efforts to bring stability and economic progress to Asia. We have important political and economic relationships which tie us closely to this part of the globe and its energetic and proud people. We intend to maintain those ties, not least by cooperating in the efforts, symbolized by the Asian Development Bank, to build strong economies.

Having said that much, it is obvious that, if the Bank is to play its part in furthering the development process, it must be adequately funded. In that respect, pointed and legitimate questions can be directed at the United States. I owe you a full and frank exposition of our position.

Obviously, as with all nations, the ability of the United States to support development finance institutions at any point in time depends on our total economic and financial situation. Budgetary priorities and balance of payments considerations apply to my country as well as to yours. And, unlike many other countries, this question of priorities is subject to independent executive and congressional review—essentially, funding requests must pass a double hurdle.

At home, the total budget has been under rigorous restraint because of inflationary problems. We have made substantial cutbacks in budgetary allocations from earlier projections for a number of domestic programs. We are not able to meet all the vast demands for added expenditures for such purposes as controlling pollution, rebuilding decaying cities, or assisting the poorer American citizen—of whom there are still far too many.

At the same time, when the dollar has been under recurrent attack in world markets, the urgency of restraining overseas spending to help deal with our balance of payments problem is obvious.

Faced with this situation, I sometimes hear persons in less developed countries say that the United States is a big and strong country; it has had a balance of payments deficit for years; it should not worry about its balance of payments now. But we are concerned—and we must be. Weakness of the dollar and monetary instability is not in our interest or yours. The time has long since come to end the deficits that underlie that weakness. We have moved to do so primarily by achieving exchange rate and trading relationships that permit us to compete effectively. But, as part of the process, no foreign expenditure can expect to escape searching review.

I would emphasize that the President, in assessing these budgetary and balance of payments constraints, feels strongly that our past pledges of funds to the Asian Development Bank deserve priority. The appropriation from the Congress for the long-delayed \$100 million contribution to the Special Funds remains high on our agenda. We are also requesting from the Congress authority to provide \$362 million of Ordinary Capital over a 3-year period—an amount that would restore our previous relationship among the Bank's members.

We will continue to press for those funds. Nevertheless, I must tell you bluntly that the congressional prospects—as Congress independently examines the priorities—remain uncertain. We can be optimistic only by demonstrating effectively this Bank's crucial role in building stronger economies in Asia—and thus in contributing to a peaceful world.

In this connection, I am gratified by the evidence that, in the past year, the Bank has further increased its effectiveness—working with more member countries, providing more needed expert technical assistance, and, not least, financing more projects.

At the same time, I must be equally candid in saying that, as part of the process of defending budgetary priority for the Bank and assuring future support, we must look toward improvement in certain operational matters. In that connection, we have upon a number of occasions cited our concern about the low procurement share U.S. firms have received from ADB-financed projects—low in terms of absolute volume, low in terms of relative share, and low in trend.

Whatever the reason, this is a situation incompatible with strong legislative support. I do not say that the situation reflects either deliberate or inadvertent Bank policy: the evidence I have seen is to the contrary. Rather, it was partly a symptom of exchange rates that were out of line. Moreover, in many instances, U.S. business may not have been sufficiently aggressive in seeking out the opportunities across the broad Pacific. Perhaps we in government have not been active enough in assuring that information about projects and contracts is widely disseminated.

We have now taken steps to repair those deficiencies within our control. We hope and expect to see improved results. We must do so to end what has become a very difficult situation in obtaining legislative and public support.

In this same spirit of candor, allow me to urge that the time has come for the Bank to establish a capacity for independent evaluation of the efficiency and effectiveness with which its funds have been utilized. With eight projects finished—and others nearly so—we are in a position for the first time to raise—and to answer—legitimate questions about the fruits of the Bank's efforts.

After some hesitation, the World Bank and the Inter-American Development Bank have each adopted such "postaudit" mechanisms and procedures. This approach can go a long way toward maintaining the full confidence of donor governments. With experience, management, itself, has come to see the benefits from objective evaluation of their work. In the long run, I believe, recipient countries can only gain as well.

Finally, after 6 years of operations, a review of the Bank's organization and its procedures is timely. We hope the management and the Executive Board will initiate such an effort in the next year.

None of these comments in any sense call into question the excellent job the Bank management has done. It simply means that enough time has passed, and enough experience has been gained, to permit constructive review. Our procedures and methods should be changed to meet current needs in the most effective way.

The world economy has changed in many ways. Over the years since World War II, other industrialized nations have grown into economic strength and stability, able to carry a larger share of the responsibility for advancing the development of others. Some poorer countries have made enormous strides toward self-confidence—while others plainly require a lift from abroad to help break a vicious cycle of poverty, inefficiency, and dependence. Not least are the fresh opportunities and challenge provided by the prospect of peace in Indochina.

All these external changes find their reflection in the internal work of the Asian Development Bank. We press for change within the Bank in a constructive spirit as we press at home to provide an appropriate share of the resources the Bank requires. Let there be no doubt: We remain committed to the Bank and to the purposes for which it stands.

Exhibit 67.—Statement by Under Secretary for Monetary Affairs Volcker, May 11, 1973, before the Foreign Operations Subcommittee of the Senate Appropriations Committee on fiscal year 1974 appropriations for international financial institutions

I am here this morning to testify in favor of President Nixon's fiscal 1974 appropriations requests for the three principal multilateral development institutions. These requests cover:

The Asian Development Bank

The Inter-American Development Bank

The International Development Association, an affiliate of the World Bank.

These programs are an integral and important part of the President's overall foreign economic policy. The institutions concerned are a principal vehicle for assisting the economic and social progress of developing countries. They do so in a manner fully consistent with our broad conception of encouraging development in a context of free and market-oriented economies broadly aligned with Western political and economic traditions. Indeed, by virtue of their broad membership and international standing, these institutions can play a uniquely effective role in bringing this about. To help assure these results—as well as to maintain an appropriate level of influence in world affairs generally—we must maintain a meaningful presence in these institutions.

There are more specific reasons why it is in the U.S. interest for us to provide funds to the international financial institutions so that they can help developing countries.

1. Raw materials—increasingly provided by developing countries—are essential to the continuing vitality and noninflationary expansion of our domestic economy. By financing physical and social infrastructure in developing countries and helping to encourage their social and political stability, these institutions help assure access to needed supplies.

2. Developing countries are increasingly important potential markets for U.S. goods and services. They are already a balance of payments surplus area for us. Help from the international financial institutions permits the developing countries to expand these markets and improve their ability to repay us and others.

3. There is close to \$25 billion of U.S. investment in developing countries, yielding over \$4 billion annually in return flows. Assistance from these institutions helps build and keep a healthy environment for this important U.S. investment.

4. These institutions are useful intermediaries between developed countries (including the United States) and developing countries on a variety of issues, including encouraging fair treatment for private investment and open trading practices.

I would like to support a number of points by inserting into the record letters from Secretary of State Rogers and AID Administrator Hannah.¹ These communications make clear the fact that U.S. backing for the international financial institutions is indeed seen by the administration in terms of our broadest international political and economic interests.

We believe the funds requested for our participation in these institutions represent the minimum required to do the job. The President, after careful review of our national priorities, has determined that the amounts we are asking for are:

Within our budgetary capabilities. The total expenditure flowing from our request will be made over many years and is about one-third of 1 percent of the fiscal year 1974 budget; significant cuts, stretchouts, and deferrals have already been applied to the total, and most of the outlays of a billion dollars will be stretched out over as much as 10 years. In fiscal year 1974, the budgetary outlay is limited to \$15 million.

Within our balance of payments capability. The short-term balance of payments impact is almost nil; as I have just indicated, actual disbursements will be spread over a considerable period of time. As the exchange rate changes and other actions we have taken toward rectifying our balance of payments problems take full effect, our concern in this area should ease.

¹ Omitted from this exhibit.

Justified in relation to domestic problems. Expansion in many domestic programs has been cut back, but we have continued to fund those programs essential for domestic objectives. We have applied the same scale of priorities to the international institutions requests. They are what is necessary to meet essential national objectives overseas.

And essential in relation to other international negotiations. We are engaged in intensive negotiations on international trade and monetary issues, the successful resolution of which involves attention to the problems of international development as well. Our contribution to the international financial institutions represents an important part of our share of the responsibilities in that area.

Let me outline briefly the specific requests we are making today. I will start with the Asian Bank, whose resource position for further lending is most critical, and which is seeking to position itself to play an important role in the reconstruction of Southeast Asia.

The first Asian Development Bank request is for \$100 million for Special Funds for concessional lending. It was deleted entirely for fiscal 1973 under the terms of the continuing resolution. Thus far, the United States has not been able to make any funds available to the Bank for this program, although proposals to do so have been before the Congress for several years. Other developed nations—the United Kingdom, Canada, Australia, New Zealand, the Netherlands, Norway, Germany, Italy, Belgium, Finland, and Japan—have gone ahead to make more than \$240 million available to the Bank on an ad hoc bilateral basis. As of December 31, 1972, \$201.5 million had been committed on Special Funds loans, and the balance of the Bank's Special Fund resources is expected to be fully committed by September of this year.

Under the terms of authorizing legislation passed by the Congress in February 1972, the funds in this request are to be tied to the purpose of U.S. goods and services and priority is to be given to projects and programs in Southeast Asia. Until we contribute, U.S. suppliers will remain ineligible for procurement from the contributed Special Fund resources of the Bank. This item has been delayed. I urge its prompt passage.

In this connection, I also want to seek the counsel of this committee on a proposal now being discussed to restructure and replenish the soft loan resources of the Asian Development Bank with agreed shares and standardized operating terms. Success in this effort will require U.S. participation.

It appears possible that other contributor countries might regard our original \$100 million contribution (which would remain tied) as a major part of our share of such future replenishment, while the other industrial members would make substantial new contributions. This would result—in practical effect—in a substantial reduction of our share over time in the financing of this institution. In contrast, the Japanese share would sharply increase. This strikes me as a promising and indeed unique opportunity to maximize the leverage—in terms of development impact and burden-sharing—of our long-delayed contribution. I believe this approach needs to be further explored. We have made no commitments in this regard, and I solicit and welcome the reaction of this committee to what seems to me a highly promising development.

The other portion of our ADB request relates to the increase in the Ordinary Capital resources of the Bank. The Governors of the Bank, with the U.S. Governor abstaining, passed a resolution in November 1971 authorizing a 150-percent increase in the capital stock. This was done in order to permit an orderly 10-percent-per-annum increase in the Ordinary Capital lending of the Bank over the years 1973-75. By November 1972, enough members had taken up their shares to permit the increase in resources formally to come into effect. When this happened, the voting power of the United States was automatically reduced from 16 percent to 8 percent, while that of other countries rose proportionally in the absence of U.S. participation.

Authorizing legislation for U.S. participation will be submitted to the Congress shortly. We are thus testifying today on an appropriation request that will be for formal transmittal later. Assuming approval of the proposed legislation on the change of par value, the total authorization would be for \$362 million. Of this amount, 80 percent, or \$289 million, would be callable guarantee capital and would not constitute an actual budgetary outlay. The remaining 20 percent \$72.4 million, would be paid-in over a 3-year period. This paid-in portion would be paid 40 percent in cash and 60 percent in non-interest-bearing letters of credit to be drawn down later as needed for loan disbursements. New budget author-

ity for this is being requested for fiscal 1974 in the amount of \$121 million. However the fiscal year 1974 budgetary impact is limited to \$9.6 million. When this appropriation goes forward, the United States will be permitted to regain its original equity position in the Bank as well as its original voting strength.

The \$193 million that we are seeking for the Inter-American Development Bank's Ordinary Capital is part of the third and final tranche of the current increase in those resources. One hundred and sixty-eight million of this amount represents callable guarantee capital and does not constitute a budgetary outlay. Twenty-five million dollars is to be paid-in. This portion will be paid in the form of non-interest-bearing letters of credit and will not constitute a budgetary outlay in fiscal 1974. These two amounts, as well as the \$193 million appropriated by the Congress in fiscal 1973's continuing resolution, will be due under terms of the original agreement on June 30, 1973.

The \$500 million requested for FSO resources represents further funding toward our past agreement to make a \$1 billion contribution to the concessional lending resources of the IDB. All of these funds will also be provided in non-interest-bearing letter of credit form to be drawn down later. As a result, there will be no budgetary impact in fiscal year 1974. Under the original understanding between the United States and Latin countries reached in April 1970, the United States was to have completed the final installment of the \$1 billion contribution by the end of fiscal 1973. Although the \$1 billion was fully authorized in 1972, Congress reduced the first two appropriation requests by half. Last year, as you will recall, the Senate approved the full \$450 million requested, but the House approved \$225 million. A conference was not held, and a continuing resolution was passed, set at the lower level. Provision of the \$500 million requested this year will thus still represent a considerable stretchout of the U.S. contribution to the FSO replenishment.

In fact, the failure of the United States to provide funds on the originally agreed schedule has forced cutbacks in the soft lending programs from both planned and past levels. For example, in 1970, the Bank lent \$443 million, and last year it lent \$344 million in concessional funds.

On January 1 of this year, uncommitted hard currency resources available to the FSO were \$353 million. This included \$20 million from the Canadian contribution, \$275 million which we made available on December 21, 1972, under the continuing resolution and prior appropriation, and \$56 million in residual resources. These funds, however, are now expected to be exhausted in the final quarter of this year. Action on your part is needed if IDB concessional lending activity is to continue through this calendar year.

Finally, the IDA contribution of \$320 million that we are asking for is for the second of three tranches of the third replenishment—"IDA III." IDA III formally came into effect in September 1972 when the United States agreed to make available its share of \$960 million. This was done after full consultation with the Congress and in the light of the May 1972 conference committee report indicating that the Appropriations Committees had "no intention of denying each of the three annual installments of \$320 million in the next 3 fiscal years. . . ."

As members of the committee know, IDA is the concessional lending affiliate of the International Bank for Reconstruction and Development. Its funds are used to finance development projects and programs on concessional terms in the poorest of the developing countries, i.e., those countries with annual per capita incomes of \$375 or below. Its terms are 40 years maturity, after 10 years grace, and a service charge of three-fourths of 1 percent per annum. As of 31 December 1972, it had made total cumulative commitments of \$4,608 million, mainly in agriculture and transportation. In recent years, it has placed an increasing emphasis on education, population, and related areas.

These funds are needed by IDA and will be well used. I urge this subcommittee to act promptly in the spirit of the conference committee statement.

I would like to bring to your attention several important ways in which we are moving to improve our participation in the international financial institutions. First, we have pressed the World Bank and the Asian Bank toward establishing independent program audit mechanisms. We are making progress on this front. We have also laid a specific requirement on our embassies and aid missions abroad to report periodically on international financial lending plans in their countries, and specifically on implementation of projects already approved. In addition, we have begun an expanded system of direct onsite inspections of

international financial institution-financed projects. Through these inspections we expect to learn of any implementation problems which may arise, of the quality of work being done, and of the extent of the supervision being maintained by the Banks. Without superseding any of the responsibilities of either the Bank or the borrowers, we intend to use this additional means to assure ourselves of the effectiveness and efficiency of use of the resources we are providing to the IFIs. So far this year, inspection visits have been made to projects in Indonesia, Korea, the Philippines, Jamaica, and Haiti.

I strongly believe that the executive branch has a fully functioning and effective system for management of our participation in the international financial institutions. The General Accounting Office has made three detailed reviews of our participation in the Banks. Their principal recommendations cover areas in which we have already moved to strengthen our capabilities. I am submitting our separate report on their reviews in an annex to this statement.¹

Another matter for brief mention is that of maintenance of value on our subscriptions and contributions. As this subcommittee knows, separate appropriations are being sought to cover our various maintenance of value obligations in the international financial institutions relating to the par value change of the U.S. dollar which is now pending before the Congress. I want to emphasize that these are legal obligations which other countries have, in similar circumstances, observed meticulously in literally hundreds of instances amounting to \$1.4 billion. Maintenance of value resources are intended to protect against erosion of the real value of international financial institution resources, and I anticipate that the Congress—as in the previous par value change—will again want to recognize promptly their obligation. At the same time, we are exploring in the various institutions the appropriate application in today's circumstances for maintenance of value provisions to future contributions.

We have significant opportunities to shape policies and operations of the international institutions at an early stage; and my observation is that when we set out to achieve a given objective, we have a high prospect for ultimate success. Indeed, I believe our influence in these institutions often exceeds the relative share of our contributions or our voting power. But this influence will inevitably and quickly erode if we are not willing to put up our fair share of resources. Obviously, we cannot and do not exert the same complete control over the operations of the multilateral institutions that we do over U.S. bilateral programs. However, in many instances, I am convinced that our ultimate influence and effectiveness, in terms of results, is maximized by working through an institution with broad membership. In that connection, and as I mentioned at the start, the operations and policies of these institutions have been very much in accord with the basic foreign policy interests of the United States.

I have been concerned, as you have, about the relatively low procurement share U.S. firms have been receiving of some international institution-financed business, and more specifically that of the Asian Development Bank. In this connection, procurement performance in all the institutions has been influenced by our declining competitiveness in recent years. The exchange rate realignments of recent years have been designed to restore that competitiveness. For example, the realignment against Japan has been 35 percent, while that against Germany has been 29 percent. This should be a very significant help. In addition, we have taken steps to assure that much more information is given—and goes promptly—to our firms on procurement opportunities from international institution borrowers. In my own recent travels, I have seen some informal but not yet conclusive signs that potential American bidders are now indeed in a more favorable position. On the basis of independent examination, we see no evidence of deliberate discrimination against the United States. However, we shall continue to work to assure the procedures of the institutions and their borrowers provide ample and fair competitive opportunities for U.S. business. As a result, I look forward with some confidence to an increasing share of procurement in this country.

I would now like to summarize where we stand with regard to the fourth replenishment of IDA—the so-called IDA IV. As indicated in our letters to you, meetings of part I countries were held on March 13, in London, and in Tokyo on May 1-2. Other developed nations are now clearly ready to go ahead with a new round of

¹ See exhibits 71 and 75.

contributions to permit IDA lending to continue in fiscal 1975 and beyond. Thus far, the United States has played a passive role in these discussions, informing others that until consultations were held with our Congress, we would not be in a position to discuss amounts. However, we have made it clear that a substantial reduction in our percentage share is necessary for our participation in view of our serious balance of payments situation.

The next meeting of the negotiating group will be held in Washington, July 11-12. The general expectation and intention is that negotiations be completed in time for submission to legislatures by the end of 1973. To meet this timetable, decisions will need to be reached at the time of the annual meeting of the World Bank in September. As in the case of Asian Bank Special Funds, I welcome the reactions and guidance of this committee on this matter either now or in informal consultations over the next month.

Exhibit 68.—Résumé of remarks by Under Secretary for Monetary Affairs Volcker, June 7, 1973, at a session on "Issues of International Monetary Reform" at the 1973 International Monetary Conference of the American Bankers Association, Paris, France

Monetary reform is as much a political as it is an economic problem, and this is a point of which we must be conscious in developing reform plans. We must deal with the issues in a political perspective.

We must keep in mind that one country's actions impinge on other countries. Thus, we need a sense of system, a set of rules or a code of conduct. Without such rules, not only are economic conflicts likely to arise but, more importantly, there will be political squabbling and international tension.

Another political reality that must be taken into account is that countries don't like other people telling them what to do. This point is very neatly crystallized in the phrase "national sovereignty." Thus, one of the main problems of monetary reform is to resolve the conflict between the interests of the community as a whole and the interests of individual member countries.

Our objective in reform should be to work towards international financial equilibrium, which we prefer to disequilibrium. Unfortunately, the temptation is to say that we prefer surpluses to equilibrium, but this approach is not workable. Moreover, we need "discipline." Now this statement may sound "French," but if it does, so be it. We agree.

The question is how to make these principles operational. We have accumulated a certain number of slogans—stable but adjustable rates, the necessity of controlling the creation of international liquidity, and various views about the degree of stability or flexibility in the system. The problem is how to define these concepts and make them operational and meaningful. In other words, how do we make discipline operational?

This is the sense that people attach to a convertible system. Why do they want such a system? The reason is that it is a tool to enforce discipline. It enforces discipline on deficit countries, and thus works in one direction. It is a simple concept. The deficit country loses reserves and therefore has to adjust. It is politically palatable in that it is understandable to the population at large. The loss of reserves is a clear public signal that something needs to be done. And this feature is contained in the U.S. proposals. However, it is not a sufficient mechanism in that it is one-sided. So the question is how to enforce discipline on countries moving in the opposite direction—that is, surplus countries.

Now the logic of this situation is to apply the reserve criterion symmetrically. In other words, when a surplus country registers reserve increases, it should also be required to adjust. This would mean an evenhanded application of discipline. However, we run into reluctance on the part of many people to accept this logic. Discipline is fine for others, but not for them. And this is a natural reaction. So, if we can understand the reluctance of surplus countries to accept the logic of the discipline that would be involved in evenhanded reliance on reserve indicators, we should also be able to understand the reaction of deficit countries if they get the feeling that the system is not symmetrical and equitable. Our objective is to try to deal with both problems.

There are distinct political advantages in a reserve indicator mechanism that operates in both directions. It is fair and equitable. It operates alike on coun-

tries of different size and in different positions. It is a code of conduct that can be readily understood by politicians and informed public opinion in the countries required to take action.

Now a classic convertibility system requires a deficit country to adjust, but does not tell the country specifically what to do. The country must do something, but it is left with discretion as to the type of action it takes. The U.S. proposals also envisage leaving the widest possible discretion to countries that are required to adjust. While some actions would be ruled out, countries would be left more or less to choose their own medicine. This is a political necessity for a system whose members are national, sovereign governments. Thus, the principal rule would be to maintain equilibrium, but with maximum freedom of choice for the country concerned in the instruments used to do so.

The problem of adjustment arises, whether we have a fixed or a floating rate system. In a system of established rates with convertibility, there is a need for reserves. The type of adjustment process has a direct bearing on the size of that need. How quickly will countries be required to adjust? How much scope will be allowed for imbalances? We must be consistent in our judgment on this point and on the amount of reserves created. If we leave a lot of scope for countries to adjust, but insist on a tight reserve situation, then there will not be enough reserves to finance the amount of play in the adjustment process. The less reserves we are willing to provide, the stronger the adjustment process must be. If we do not want to be too harsh on surplus countries, if we are going to allow surplus countries to pile up reserves, then there must be sufficient reserves to enable this process to go on. The need for consistency between the reserve system and the adjustment system is a point that is sometimes overlooked. The advantage of the U.S. reserve indicator proposal is that this consistency is automatically obtainable.

The sum of individual reserve needs must be equal to global need. Otherwise, we will be in disequilibrium from the start. We have had a system where the amount of primary reserves available was far less than what people wanted to hold as total reserves. This was the element that gave rise to the widespread holding of national currencies as reserves and related instability.

In a convertible system, the certainty of the settlement mechanism must be matched by equal certainty in the adjustment process. Otherwise, inconsistencies will arise, but this is a requirement which it is hard to satisfy, particularly on the surplus country side of the equation. Merely to say that at a certain point the surplus country would be required to enter into discussions and consultations is vague. Here we are confronted with the certainty of the settlement mechanism compared to the uncertainty of the adjustment process. In our minds, these two elements must be consistent. If adjustment is to be consultative, then convertibility could be consultative as well, but not automatic.

The proposed U.S. system contains no easy political choices for any country. It is always easy to applaud principles, but the root question is how to apply them. It is natural to squirm when we see the principles applied to ourselves. Looking at this fundamental point is a good thing. We cannot evade it. We must take a commitment here; otherwise, the reformed system will break down.

Mr. Volcker answered the following questions from the floor.

Q. In his remarks, Dr. Emminger stressed that evolutionary influences were having an important effect in shaping the future monetary system. Why does Mr. Volcker think that the work of the Committee of Twenty, in looking for agreed rules, is so important if evolution is to be the determining force?

A. I agree with the point made by Dr. Emminger and see no inconsistency between his remarks and mine. There are two parallel lines of influence shaping the future monetary system—the formal negotiations on structure and market evolution. What is important is to bring these two lines into convergence. The market evolution does not provide any sense of system or rules.

Q. Doesn't the existence of large-scale international credit facilities reduce the need for reserves?

A. Yes, but it does not eliminate the need for reserves. Attention to the reserve aspects of the matter is crucial. I sense that countries are now much quicker to change their exchange rates than in the past and show a greater reluctance to go into debt. In the operation of the adjustment process, credit and reserves are not full substitutes for one another.

Q. Why should surplus countries that have followed good policies and managed their affairs well be expected to "help" deficit countries get out of trouble?

A. The question is formulated in a prejudicial way. One might equally ask why surplus countries shouldn't help themselves to have a higher standard of living. The fundamental point is whether we are going to have international payments equilibrium or not. Surpluses somewhere in the system inevitably mean deficits elsewhere. It has often been said that this preoccupation with the problem of the surplus countries represents nothing more than a bias of the United States. On this topic, I would make the following points:

1. Is there a tendency to prefer surpluses to deficits? The answer is probably yes, but this conflicts with the general equilibrium hypothesis. The problem is of some concern to the United States in that the United States tends to be the residual country in the system. Thus, other people's desire for surpluses tends to force the United States into deficit.

2. Do we consider it possible that the United States would accept the discipline of the U.S. proposals if it were to become a surplus country? After all, the United States was a surplus country within my lifetime. Thus, in formulating the U.S. proposals, we looked hard at this question. I can categorically affirm that the United States would accept the discipline.

Q. Why does the United States persist in its negative attitude towards the role of gold in the system?

A. Recent developments reinforce us in our view regarding the undesirability of relying on gold as a key instrument in international monetary affairs. A commodity like gold, which is subject to rising industrial demand and heavy speculative influence, is becoming less and less suitable as a reserve instrument.

Q. When you described your views on the adjustment process, you said that countries required to adjust should have maximum freedom to select the means for accomplishing adjustment. Does that mean that you would allow them to impose import quotas, import surcharges, and the like?

A. Maximum freedom does not mean complete freedom. What I had in mind was maximum freedom consistent with the general interest. We accept the general presumption against the use of trade measures as an adjustment tool. Thus, they are the last on our list, but we would not want to see an absolute prohibition against their use if they are used in a general, nondiscriminatory way.

Mr. Volcker answered the following questions at the press briefing after the session on international monetary reform on June 7:

Q. What role do you see for the IMF in the new system? Would it be an independent power?

A. That depends on what the phrase "independent power" means. We have a strong sense of the need for rules of behavior. However, we are skeptical about a system that would place a high degree of discretionary authority in the Fund, whatever the word "Fund" is taken to mean—the Managing Director, the staff, the Executive Directors, etc. In such a system, countries would feel that decisions were being made in a context outside of their sovereignty. Therefore, we should be as explicit as we can be in advance about rules of behavior. This does not mean there would be no consultation. There would be a great deal of consultation, but we would not remand all problems to the "Fund" for discretionary decision.

People say convertibility has merit because it is automatic. It is a crude mechanism, but they would say it works. The U.S. proposals build on this technique. They are symmetrical and fair. The basic rule of the system is to maintain equilibrium. At the same time, we must avoid a degree of detail of external instruction that no country would want to live with. Our proposals try to reconcile discipline with the need to leave maximum freedom for countries to choose their own tools of adjustment.

Q. What is the effect of market developments on the timing of reform?

A. These are two parallel processes. Market evolution teaches us something about the operation of the system, and we should learn from it. However, it does not provide us with agreed rules, and this is important. This is a topic that falls in the negotiating track. In other words, the negotiators should learn from what is going on in the market, and ad hoc decisions taken to deal with market developments should be consistent with long-term objectives. Of course, we do not want to make an agreement merely for agreement's sake. We want

to think this problem through and have a system people have conviction about. In the light of recent developments, I am hopeful on the prospects for agreement.

Q. Mr. Laird stated yesterday that measures would be developed regarding a speculation against the dollar. What does he have in mind?

A. I only read the newspaper reports on Mr. Laird's statement, so that it would not be appropriate for me to comment on it. I would merely reiterate that the behavior of the chief currency and country is important for the system. This depends on how that country does at home. Domestic stability is important both for the United States and for other countries. I am confident that we will be able to maintain reasonable domestic stability in the United States.

Exhibit 69.—Statement by Under Secretary for Monetary Affairs Volcker, June 26, 1973, before the Subcommittee on International Economics of the Joint Economic Committee

The question before the subcommittee—"how well are fluctuating exchange rates working?"—is of particular interest at present, both in connection with recent exchange market developments, and because of the implications for negotiations on monetary reform. At the same time, we have to recognize that conclusive answers are not yet possible for we are, to a large extent, operating in a new and not fully tested area.

At the present time, most of the major industrial countries are allowing their currencies in some sense to float—jointly in the case of certain EC and certain other European nations, and individually in other instances. This situation developed out of a broad consensus reached among the major nations last March that, in the light of short-term capital flows of unprecedented magnitude, greater scope for floating exchange rates would be appropriate pending more thoroughgoing reform of the international monetary system. This decision did not reflect any feeling that, following the February realignment, the existing structure of exchange rate relationships was inappropriate to foreseeable economic requirements. Rather, it was recognition that, in all the circumstances and given the time necessary to achieve equilibrium in underlying payments positions, recurrent speculative pressures could best be dealt with, and orderly monetary arrangements thus best assured, by permitting market exchange rates to respond more flexibly to the ebb and flow of funds through the exchange markets.

At a joint meeting of the Group of Ten and the European Community in March, those governments assumed no general obligation to intervene in exchange markets to maintain specified exchange rate margins, but agreed intervention could be useful at appropriate times and in particular situations in the interest of orderly conditions. In the event, there has been relatively little official intervention during the 3 months since that agreement, apart from the intervention by the participants in the joint EC float designed to maintain the exchange rate relationships among those countries. One exception has been sales of dollars recurrently by the Japanese authorities, with the yen-dollar rate remaining rather steady since mid-March. There have been sizable movements in some other market exchange rates, particularly between the European currencies and the dollar.

The EC currencies floating jointly have risen on the average by about 9 percent relative to the dollar. Changes between the dollar and other currencies have generally been much smaller; weighted by our trade, the dollar since mid-March has declined in the market vis-a-vis all currencies by something in the order of 2 to 3 percent. Similarly, the trade weighted appreciation of EC joint float currencies against all their trading partners has been on the order of 3 percent or less, with the exception of Germany.

I continue to believe that the general structure of exchange rates established by the February realignment is broadly correct in the sense that it provides a valid basis for the elimination of the longstanding U.S. deficit and restoration of international payments equilibrium. Indeed, developments in recent months with respect to our trade position reinforce the view that our competitive position has benefited in a major way from the two realignments of December 1971 and February 1973, and further important gains in our balance of payments can be expected. Plainly, the speed and extent of our success will, as always, be dependent upon our ability to restrain inflation at home and to maintain a

sound domestic economy. The new domestic measures announced by the President are obviously relevant in this connection.

At the same time, we have to recognize that during this transitional period, an unusual degree of uncertainty has been present. Our payments have been in deficit for so long, and the imbalance in our trade had become so large, that some tendency to await more complete and "conclusive" evidence of change is perhaps natural. While economic analysis and econometrics certainly point strongly to a conclusion that the February realignment should provide a powerful thrust toward equilibrium, those forecasting techniques cannot provide certain "proof" of achieving that result. The process of change, after decades in which the international stability of the dollar was taken for granted, has itself unsettled market expectations for a time. In the best of circumstances, the process of adjustment works only with substantial lags. Finally, and perhaps most fundamentally, the strong inflationary currents running throughout the world, together with shifting judgments as to the ability of one country or another to deal effectively with those pressures, have contributed to an unsettled atmosphere.

Against this background, I would suggest three broad conclusions may be drawn from recent experience, recognizing that in each area we still have much to learn.

1. *Present arrangements in the exchange markets are appropriate to the present period of transition to a more satisfactory balance of payments equilibrium and to a reformed monetary system.* This view is, I believe, shared by the governments of virtually all major nations.

The validity of this conclusion does not rest upon an endorsement of either the size or direction of recent changes in market exchange rates. Indeed, as I have suggested, in my view and that of most governments, the exchange rate levels established in February are more nearly appropriate to the outlook over time, and the day-to-day movements in rates in recent weeks have often been larger than I would like to see. However, in present circumstances, the practicable alternatives to present arrangements are unsatisfactory. An attempt to fix now a rigid structure of exchange rates would risk a return to massive capital flows, increased restrictions, and intermittent closing of markets—precisely the conditions we want to avoid, and have avoided.

In contrast, present arrangements have permitted countries to deal with internal inflationary problems more freely, with less concern over triggering fresh flows of international capital, while maintaining viable international markets. In the process, European-dollar exchange rates have fluctuated over a broader range than heretofore. I have already suggested that, in my judgment, the exchange rates established in February and March were broadly appropriate to adjustment needs. In that light, the further appreciation of most European currencies in recent weeks—while temporarily tending to reinforce the competitive adjustments—seems overdone and reversible. However, the basic point is that after a period of change and uncertainty, businessmen, traders, and financiers need to become solidly convinced that the structure of rates is fully appropriate to present and foreseeable economic circumstances and has not been artificially contrived. I believe we must look to the performance of the market itself to help establish and reinforce such judgment.

We have not ruled out official intervention during this period. You have asked what guidelines might be established to govern such intervention. In testifying before the subcommittee last September, Chairman Burns and I described the administration's general policy with respect to official intervention at a time prior to the more widespread use of currency floats. I made clear that it was not our intention to prop up the dollar artificially counter to any basic balance of payments trends. We recognized that, in the end, the strength of the dollar must rest on other, more fundamental policies to improve our balance of payments. Any active intervention on our part would be under our own control; would be undertaken at such times and in such amounts—large or small—as we deemed desirable in light of market conditions; and would be for the purpose of helping to deal with speculative forces, which can admittedly bring excessive and unnecessary turbulence and strains to money markets.

I believe that basic policy should continue to govern our approach in the new conditions of widespread floating. This policy is fully consistent with the agreements reached in Paris last March, which envisaged a cooperative international effort aimed at assuring an orderly system, while leaving intervention decisions to be worked out by each individual nation or group, flexibly and in close con-

sultation with the authorities of the nation whose currencies may be bought and sold. I doubt that it would be possible or useful to establish more explicit international guidelines at present, although more thought needs to be given to this in the context of longer range reform. For now, we want to maintain a flexible instrument that we can use in the interests of orderly markets, taking into account particular market circumstances at the time.

2. *Such evidence as is available, while not conclusive for the longer run, suggests the present transitional arrangements have not seriously affected, in one direction or another, the volume of trade and long-term investment. Massive flows of short-term capital, which have been part of the pathology of earlier arrangements, have been dampened, partly by controls as well as by exchange rate arrangements.*

In reaching this tentative conclusion, it is worth recalling that international trade has continued to grow over the past decade through thick and thin, crisis and calm, pegged rates and floats, at rates which are quite high by historical standards. Indeed, trade in most recent years has grown substantially faster than real GNP—a trend that sooner or later will presumably have to come to an end.

We know now that during the period of widespread floating in 1971, trade did not grow at appreciably lower rates than would have been expected, given the somewhat depressed rate of growth of business activity in the major industrial countries at that time. Comprehensive data are not yet available for analysis of the volume of trade flows during the present period of floating rates. However, the information we have is consistent with projections by international bodies that the volume of world trade is increasing by about 12 percent per year. I would emphasize here that the general absence of new controls on trade is an important factor encouraging the growth of trade—probably far more important than any influence from exchange rate practices.

A comprehensive current picture of changes in the flow of international investment is still more difficult. Examination of the data on U.S. capital flows, however, does not indicate that any noticeable fall in the level of long-term capital transactions during the period of floating rates in 1971 or more recently.

The subcommittee has already received testimony from business and banking spokesmen about the impact of floating rates on their operations. I can add little to their remarks, other than to report to you my strong impression that the exchange markets have been generally able to handle business transactions expeditiously. A particularly large transaction may take longer to accomplish fully, and some transactions for a period a long time ahead might prove more time consuming. But such difficulties—particularly of the latter type—were encountered under a nominally fixed rate regime as well.

There is some evidence that the transactions costs of purchasing forward cover—that is, the “brokerage charge” or the spreads between buying and selling rates—is now somewhat higher than in earlier years. However, these spreads, after widening during specific crisis periods, appear to have returned to levels that are relatively inconsequential in terms of the profitability of trade transactions—typically on the order of .1–.2 percent for 3-month forward transactions. As experience is gained, some narrowing of these spreads would seem probable.

Similarly, in times of exchange market uncertainty, spot and forward rates have sometimes deviated quite widely, and the differences have departed from amounts justifiable solely in terms of interest rate differentials. However, forward discounts and premiums vis-a-vis the dollar for most major currencies have narrowed appreciably in recent months and generally have moved in line with interest rate differences.

Businessmen and bankers have certainly become more aware of exchange rate risks and practices in recent years. In this connection, we cannot reasonably compare a system of floating rates to a system—an idealized system—in which exchange rates never change. Obviously, every businessman would prefer certainty to uncertainty, no change to change. But that is a false choice—a permanently fixed rate system is not really available. In a dynamic world economy, with nations differing in rates of growth, productivity, and price stability, changes in the terms on which international business is conducted—including exchange rate changes—will be necessary and will occur. The choice is not *whether* there should be changes but *what kind* of change. I find few businessmen, for instance, that would prefer greater use of controls to changes in exchange rates. I also find few businessmen who, in making longer run investment or marketing deci-

sions, will not find it necessary to consider the possibility of changes in exchange rates, whether in a nominally floating or fixed-exchange rate environment.

3. *Present arrangements are not a substitute for agreed long-range reform.* The issues involved in long-range monetary reform go far beyond the question of exchange rate practices. At the most general and fundamental level, the question is one of developing those agreed codes of conduct necessary for governing behavior in an interdependent world. Each nation naturally likes to retain for itself as much freedom of action as possible. But where its actions impinge on others, we must face up to the need to assure that those actions are consistent with the requirements of the system as a whole.

International cooperation—fostered by the habits of the past, by recognition of the common interest, and by close consultation currently—has, I believe, met the present challenge. But for the long run, cooperation will flourish not in a context of ad hoc decisions, but only in a framework of agreed rules, specified with some clarity and broadly perceived to be in the common interest. Such rules are now lacking. That is the basic task of our reform efforts.

In this effort, no consensus has yet been reached on specific exchange rate provisions. However, I think it is fair to say that recent experience has tended to increase support for the view that substantially greater flexibility in exchange rate practices than characterized the Bretton Woods system will be necessary and desirable. At the same time, the view is widely held that international cooperation and surveillance of exchange rate practices is facilitated by retaining the concept of established exchange rates—par or central values. The question should not be posed as one between “stability” and “instability,” but rather as the best means for achieving the highest degree of stability in the market, consistent with other goals and international cooperation.

The members of the Group of Twenty in their March meeting expressed the highest common denominator of official opinion in this matter by suggesting the exchange rate regime should be based on “stable but adjustable par values,” while recognizing “floating rates could provide a useful technique in particular situations.” This formulation plainly leaves a great deal of room for differences in emphasis, and for means of making the concepts operational.

The views of the United States on this matter have been spelled out in considerable detail. The proposals put forward by Secretary Shultz last September took as a point of departure that most countries will want to maintain a fixed point of reference for their currencies—a central or par value. We recommended that around such central value there should be a margin for fluctuation—symmetrical for the dollar and for other currencies—sufficiently wide to dampen incentives for short-term capital movements and to ease the transition when a change in a central value is desirable. While changes in par values would remain subject to the initiative of individual countries, they would be a part of, and subject to, the rules governing the entire balance of payments adjustment process.

While in Secretary Shultz’ words this framework of central or par values would provide a “center of gravity” for the system, in our view countries should also be permitted an option to float their currencies. However, a country floating beyond a brief transitional period should be required to observe agreed standards of behavior in other respects—including intervention—to assure the consistency of its action with the basic requirements of the adjustment process and of a cooperative order.

I believe we and others can learn much from current experience. I am not at all happy about what seems to me an unnecessary depreciation of the dollar in recent weeks, or about the size of some of the fluctuations in exchange rates from day to day. But I am satisfied that, during a period of great uncertainty in financial markets, exchange market pressures have been absorbed and diffused in a manner consistent with our basic goals and requirements, and those of other nations. Specifically, economic policies at home and abroad have not been distorted by the need to deal with massive flows of speculative capital in an atmosphere of crisis. International business has not been impaired. The basic processes of international adjustment are at work.

But we are also reminded by recent experience of certain fundamental facts. No international monetary arrangements can produce great stability if our national economies are themselves unstable and inflation prone. International confidence must grow out of sustained performance at home. Our monetary techniques will be effective and durable only as they grow out of a broader international consensus and cooperation.

In sum, present arrangements are no panacea for our problems, or the end of the road of monetary reform. But they do seem to be working for the present, and provide lessons and experience that must not be lost in our planning for the future.

Exhibit 70.—Statement by Deputy Under Secretary Bennett, June 5, 1973, before the Subcommittee on International Finance and Resources, Senate Committee on Finance

Mr. Chairman, I am flattered by your invitation for me to present the administration's thinking on current international monetary developments. I shall present a viewpoint which differs substantially from those of several of the witnesses who appeared before you last week. They spoke—as does the blue briefing book prepared by your staff—of an international monetary crisis. There are changes underway in the world, but in my view it is a considerable overstatement to refer to them as a crisis.

Current developments indicate that we have great responsibilities before us in the management of our domestic economic affairs and great opportunities for negotiating further improvements in international monetary arrangements. But, while recognizing these responsibilities and opportunities, we should recognize that existing international monetary arrangements have performed well in recent weeks, far better than would have been likely if earlier arrangements were still in place. It is my judgment that current monetary arrangements are capable of—and indeed are—absorbing and diffusing new pressures and speculative influences without impairing domestic economic policies or the fabric of trade.

The price of gold has moved in large jumps in the private markets not only against the dollar but also against all other currencies as well. That experience has, in our view, further underlined the unsuitability of gold as the base for a reformed monetary system. But despite the continuing formal links between gold and the international monetary system, the instability of the private gold price has not brought crisis to the currency markets.

We have been living through a difficult period in terms of an unexpected and unacceptable rate of price inflation and in terms of foreign questions about the reliability of our governmental processes; but the outlook is strong for the basic determinants of our international payments position. There has been no faltering in the economic policy procedures of our Government. Prices will be rising at a lower rate in the coming months. Our trade balance has been moving strongly in the right direction, and foreigners have increasingly recognized the opportunities for attractive investment in the U.S. economy.

Looking backward a few years it may be helpful to recall that the dollar and our balance of payments weakened sharply in the 1950's and 1960's, not because of a poor relative record on inflation—the United States performed better than most countries—but because of abnormally rapid increases in productivity elsewhere as Japan and Europe were “catching up” with us after World War II. This major structural change in the world economy was not matched by comparable changes in exchange rates—under the Bretton Woods system there was a certain inertia if not rigidity in exchange rates. The result was a progressively growing upward pressure on certain currencies of Europe and Japan and downward pressure on the dollar.

By 1971, it was apparent that a fundamental malalignment of exchange rates had been allowed to develop. The actions taken since the President's initiatives in August 1971 have now removed that fundamental malalignment from the system. It took a year and a half to accomplish the necessary changes. In the process a natural resistance to change had to be overcome, and uncertainties arose as established beliefs were broken. But a difficult adjustment needed to be made and now has been made insofar as exchange rates are concerned.

As a result, adjustment toward elimination of our payments deficit is well underway.

The question is sometimes asked, “Why was the United States so anxious to put an end to its payments deficits?” “Since the United States was receiving more goods in import than it was having to export, wasn't this helping us to combat inflation in the United States?” The answer is that the United States fight against inflation probably was strengthened in the short run by the import surplus. And the U.S. Government wasn't borrowing any more just because some foreign governments were buying U.S. Treasury bills; in effect some U.S. citi-

zens were finding it more attractive to sell than to hold U.S. Treasury obligations at the prices the foreigners were offering. Yet these factors were more than offset by other considerations. For one thing unreasonable exchange rates were unfair to large segments of our economy forced to compete under a significant handicap with goods produced abroad. The United States could—and was—providing an adequate level of total demand in the United States, but that was not adequate consolation for those whose livelihood was lost or threatened by foreign competitors benefiting from an unfair rate of exchange. Moreover, we could not reasonably expect foreign countries to continue forever to ship more to us than they received. We could not reasonably expect their governments to continue indefinitely accumulating low-interest U.S. Treasury bills. Sooner—rather than later—this imbalance was sure to be brought to a halt, probably with great re-criminations, probably with new forms of government trade and investment controls abroad, probably with a suddenness which would cause larger economic dislocations the longer the correction was delayed.

It was for these reasons that in December 1971 we entered into the Smithsonian agreement. It was for the same reasons, but on the basis of the further need for change indicated by the experience in 1972, that we entered into another agreement in February of this year. Again, as at the Smithsonian, the United States agreed to propose a change in the par value of the dollar in terms of gold—a change sometimes referred to as a change in the price at which we were not trading in gold. But again, as at the Smithsonian, the real implementation of the agreement took place by the action of other governments moving the points at which they would intervene in the private exchange markets, thus permitting a decline in the value of the dollar relative to other currencies in the market.

In the weeks subsequent to the February agreement the markets effectively expressed their disbelief in the newly declared intervention points. Foreigners continued to acquire assets expressed in the currencies of some of the intervening countries, particularly Germany. And after a few weeks the authorities in these countries abandoned the practice of regular intervention in the market at announced points in the relationship between their currencies and the dollar. In replacement of earlier arrangements in mid-March an agreement in principle was announced in Paris among the principal countries and the United States that in the future "official intervention in exchange markets may be useful at appropriate times to facilitate the maintenance of orderly conditions. . . ."

Since that time, as you can see in the illustrative chart which I have provided, market rates have varied, but no large-scale intervention has been necessary. The rates are now free to move but there is a difference from the situation for the year and a half after mid-1971. During that period there was a large accumulated need for rate adjustment—and the signs pointed all in the same direction. Now there may be changes, but they are likely to be largely as a result of any new developments which may occur in the future. To the best of our judgment the accumulated need for rate adjustment has been accommodated, and I see no justification for the statement in your blue book that the present situation is "inherently unstable."

A little later I would like to mention some of the reasons why I suspect the dollar will be worth more on the exchange markets relative to other currencies 3 months and 12 months from now; but whatever the change, I would expect it to be brought about gradually by changes in the marketplace. I am convinced that, when the Congress completes action shortly on the Par Value Modification Act now before it, there will not be another occasion when the Congress will be asked to devalue the dollar by lowering the official price in terms of gold.

Many questions have been asked about who were the speculators who brought about the exchange rate changes in February and March. And we are sometimes asked what can be done about such destabilizing speculations. Before commenting on what facts we do have at this time, however, I would like to add to the list of questions. Has there been an irrational degree of emphasis on the word speculation? Is there really any point in attempting to delve into an individual's motives to try to determine whether he was hedging or speculating; that is, whether his lack of belief in some government's official line was expressed through changing the timing of a foreign exchange transaction which would have been made in any event at some time or was expressed through a transaction which would not have taken place if there had not been the lack of belief? Is there any reason to consider it unpatriotic for an American to doubt that a

foreign government would be successful in its effort to hold down the value of its currency relative to the dollar?

These questions should be borne in mind, I think, when studying the chart attached to the statement.¹ Certainly a case can be made that those movements of funds which led to the change in the dollar value of the mark and the Swiss franc from the basic level of early January to the new level of late March were not irrational and destabilizing. They could be considered a final part of the suppressed need for rate adjustment which had built up over quite a few years.

The further changes in the last few weeks are probably different. They are, for one thing, not the sudden result of breaking through a level of governmental opposition to change. The rates have been free to move on a daily basis since mid-March. I can understand that there have been some developments which private traders and investors might judge to be adverse for the foreign exchange value of the dollar. I wouldn't be surprised, however, if it turns out that the market has given undue weight to these adverse factors. I mention them to help explain a somewhat confusing picture. Probably there have been some irrational elements, but our rate of price inflation in the first quarter was higher than expected, and this was not a favorable development for our future trade balance. Germany did introduce severe anti-inflationary measures and did increase its interest rates. The Senate did approve legislation to permit private U.S. citizens to hold gold for investment and speculative purposes starting at the end of this year; and such permission, if finally enacted into law, could well not only increase the cost of our substantial level of imports of gold for industrial and artistic purposes, but also lead to a large additional import burden. It is for that reason that it is my hope that the Senate-House conference committee on this legislation will adopt the House version, which defers the move to private ownership until such time as the President determines that sufficient reform of the monetary system and sufficient demonstrated improvement of our payments position have been accomplished to permit the change to be made in an orderly fashion.

I mention these considerations in part to explain my belief that the exchange rate changes in recent weeks were not the result simply of some inherent instability in current exchange arrangements. But I do believe, as I shall explain later, that the market may temporarily be overlooking some contrary and more fundamental considerations.

In recent weeks, as you know, the exchange rates rather than the levels of exchange reserves have reflected the market's changing viewpoints on various currencies. One can never be sure, but my own guess is that in present circumstances if we had tried the reverse, if governments had consistently intervened to attempt to hold the exchange rates unchanged while absorbing the currency flows in reserve changes, then we could well have generated greater uncertainty and a crisis atmosphere.

That, of course, was what happened in February and March. During that period the reserve holdings of dollar assets of the foreign countries increased by about \$10 billion. From reports which have been made public already, it appears that about a half of the accumulation was reflected in transactions reported by banks in the United States including branches and agencies of foreign banks. Some of the transactions took the form of reductions in privately held deposits in the United States. Some took the form of new loans from the offices in the United States either in the form of newly approved credits or—in most cases probably—drawdowns on already existing lines of credit. What we don't know in any precise numerical way is to what extent the initiative for the transactions came from within the United States and to what extent from instructions received from abroad. In a qualitative way the banks have reported that the preponderance of the initiatives came from abroad.

Apart from the reported bank transactions there were probably about \$5 billion of other transactions which increased the dollar asset holdings of the foreign central banks. Later this month we'll get our first statistical reports for the first quarter showing a breakdown of this outflow among the current accounts, the direct investment flows of U.S. corporations, the credits of U.S. nonbank corporations, and the errors and omissions. The company reports from which the Government's statistical reports of the investments and credits are prepared were received in recent weeks by the Treasury and the Commerce Departments

¹ Omitted from this exhibit.

and are now being compiled and analyzed. To ensure the accuracy and comprehensive coverage of these reports to the Government, a joint letter was sent by the Secretary of Commerce and the Secretary of the Treasury to the heads of over 1,400 reporting companies asking these men to give their personal attention to ensuring the quality of the reports submitted.¹ More recently the two Secretaries have sent another letter to about 20 selected companies in various parts of the country requesting the companies to receive a joint Commerce, Federal Reserve, Treasury team of experts which hopes to discuss these companies' transactions in detail to ensure that present forms and procedures are not missing any significant types of transactions involving the U.S. companies.

As you can see, there is still a great deal we do not know about the transactions in the first quarter. The lack of the knowledge was not a handicap at the time, since for any operations we might have wished to undertake there was ample prompt knowledge of the magnitude and direction of the flows taking place even though the purpose of the flows was not known. Later this month we will know more, but to the extent that the movements were originated by foreigners, for example, by foreign trading companies and foreign central banks reducing their deposits in the United States, we will never know the full story. As a point of interest to you, however, I should mention that we have had reports from a number of important oil-producing countries indicating that they had not originated large movements during the first quarter.

However it was that the new interim monetary arrangements were put in place, they have provided a favorable climate in which the negotiations on longer term international monetary reform can proceed.

I believe that the present monetary arrangements represent a substantial improvement over the recent past, and that with international cooperation, these arrangements are serviceable and sustainable for the period required to negotiate and introduce needed further reforms. But the present system is far from perfect, and the United States is committed to the effort to build a better permanent system. We helped launch the Committee of Twenty, and last September the President and Secretary Shultz presented a comprehensive outline of U.S. views on reform.²

In essence, our proposals are for an open and equitable international economy, free from continual reliance on controls but with effective means to prevent development of large and persistent payments disequilibria whether surplus or deficit.

At this level of generality there is little disagreement. But we have not yet reached agreement on specifics—for example, on the rules and procedures which should be introduced to assure that countries do eliminate their balance of payments surpluses and deficits, on the means for determining the amounts and types of reserve assets in the system, on the way in which gold will be phased out of its central position in the system. On that last point there is a wide measure of agreement on the objective, but there is not yet agreement on the most practical route to the objective.

In addition to these questions, your subcommittee has asked two other specific questions on the reform: First, should the short-term liabilities of the United States be funded? And second, is a new monetary conference similar to Bretton Woods needed to reshape the international economic order?

The first question, on the possible desirability for funding or consolidating some or all of the \$70 billion held by foreign official institutions, has been the subject of much discussion. The large dollar holdings of foreign central banks are the result of past instabilities in the system. For the major holders they are not particularly volatile. Therefore, funding of that balance would not necessarily make an important contribution to short-term monetary stability. Over the longer term, our preference is to deal with these balances by earning back a maximum number of the dollars through balance of payments surpluses. In a reformed system it would be useless to fund or otherwise tie up these dollar balances without at the same time changing other elements of the system so that instabilities and inadequacies in the system would not simply lead to new accumulations of currency balances replacing those which were funded. With effective adjustment arrangements and other elements of a reformed system, possibilities for funding or exchanging part of existing dollar holdings into SDR obligations warrant careful consideration. I must point out that it would

¹ See exhibit 78.

² See exhibits 47 and 48.

be no mean task to find terms that would be agreeable to both debtors and creditors, but we have stated our willingness to give careful consideration to the possibilities.

The second question, the possible need for a Bretton Woods conference, has been considered more than once. Our feeling is that such a move would not be helpful. At the time of Bretton Woods, conditions were quite different from today—a wartime period, when travel was difficult and communications limited, and relatively few voices were involved in the major negotiations. Also we did not have, as we now have, annual meetings of the IMF Governors, where the financial leaders of 125 member states can regularly convene. It has seemed to us that a better way to proceed was with periodic meetings of the Committee of Twenty, and regular meetings of the IMF, without the fanfare and potential for market disturbances of a special conference like a new Bretton Woods.

Several meetings of the C-20 have been held, at both Ministers and Deputies levels, with considerable progress toward understanding of respective positions and definition of critical issues. Another meeting of the Deputies is scheduled for early next month. There is the possibility of another meeting of the Ministers before they are scheduled to meet again at the time of the annual meeting of the IMF Governors in Nairobi, Kenya, in September. We and others have expressed the hope that the main outlines of a new monetary system can be agreed upon by the time of the meeting in Nairobi. The United States will do all it can to meet that goal.

Meanwhile, of course, as these reform discussions continue, international business goes on and you have asked three basic questions about the period just ahead. What steps can be taken to strengthen the dollar? How can the U.S. deficit be cut? And how can speculation be reduced? In practice I suspect those three questions are just three ways of asking the same question. At any rate, it seems to me that the right answer and the basic answer is the same to all three questions: Take care of the fundamentals. We must ensure that we follow the appropriate budgetary and monetary policies, that we remove impediments to the full productivity of the U.S. economy, and that our businessmen are not handicapped by unfair international conditions of trade.

With respect to the budget, you have, of course, just received the midsession review indicating that on a full-employment basis there will be a surplus of \$5 billion in the fiscal year starting at the end of this month. In fact, I would guess that the economy has already moved into a posture of surplus. With respect to monetary policy, Governor Daane has already reviewed for you in detail the gradual and persistent tightening which the Federal Reserve System has introduced over the past year.

For the release of the full productivity of the U.S. economy, you have had reports of the shortrun measures which have been taken and those that have been proposed, including the release of nearly 50 million acres of land into production and the planned reduction of the Government's material stockpiles to more appropriate levels. For the long run, you are aware, for example, of the decisions that have been taken to amend the oil import program to make it possible in the future to build oil refineries in this country rather than to have to rely on new construction abroad; and you have received the President's recommendations for the deregulation of newly produced gas to encourage expanded exploration and production in this country.

Such basic measures are the proper response to inflation at home. It is true that since August of 1971 the increase in our cost of living has been less than that of any other one of the 20 members of the OECD. But the performance of our Wholesale Price Index, which is more relevant to our international trade, was not equally good and, of course, we were greatly disappointed by the increases in our price indices during the first quarter of this year. Yet I think there is justifiable confidence that the basic measures which I have outlined will increasingly be reflected in lower rates of price increase. Moreover, I have seen no evidence of hesitation within the administration to take additional basic measures if it should become clear that they are needed. It is, of course, necessary to bear in mind that there is a timelag between decision and results, and there would be no wisdom in overturning the boat in the other direction.

In our international trade the improving trend is apparent to all. Over the first part of this year, the improvement was in large part a reflection of our higher level of agricultural sales. It is quite possible these sales will not be at the same high level in the coming quarters. Yet the marked improvement which

provided a \$196 million trade surplus last month in contrast to the deficit of the previous month depended only in small part on an increase in agricultural sales. It seems to me that, as a result of the basic improvement of our competitive position, there is a strong likelihood that in the first half of next year our trade balance will be markedly stronger than in the first half of this year—stronger even if agricultural sales are not quite so high, and stronger despite the forecast of continuing growth in our oil imports.

The real cost of a barrel of imported oil is rising and will probably continue to rise, and we shall be importing more barrels. The total dollar costs rose from \$2.7 billion in 1969 to \$5.1 billion last year. And there are many projections that the figure will reach \$15 billion per year well before 1980. Yet no confidence can be placed in precision of such long-range forecasts. Necessarily they tend to be based primarily on extrapolation of past trends and cannot yet have taken adequately into account the results to be achieved from the President's new energy program designed to increase production of all forms of energy in the United States and designed to use that energy with greater care and efficiency.

I realize that there have been concerns expressed that the large income of some small producing countries will endanger international monetary stability in the future. On the other hand, I am also aware that these countries will have large needs for imports to meet their developmental and their defense needs. They will be seeking secure and productive investments to replace their assets from the ground. They know that their reserves of oil will not last forever and that an important part of their income must be invested wisely in order that it may provide income for the time when their production is declining and newly developed alternative sources of energy have reduced the dependence of the industrialized world on their supplies. Furthermore, large as their assets may be compared to their holdings today, their combined assets will not comprise any large fraction of the capital assets of the world as a whole.

The large income of these countries will represent a real cost to the importers, but they represent no reason to forecast a weakening of the dollar relative to the currencies of Europe and Japan. These countries taken together will be increasing their imports in absolute terms by far more than the United States. They too will be competing with us to provide exports to the oil producers and to offer them attractive investment opportunities. In such competition we expect the United States to be competitive, and the dollar could well come out ahead.

In the short run, of course, we are all familiar with the recent declines in the value of the dollar in the foreign exchange markets. We have watched the decline in the value of shares on the U.S. stock exchanges. Fears have been expressed that these developments will drive away prospective foreign investors, and it is true that, at any moment in time, a prospective investor may choose to wait so long as he expects those trends to continue. On the other hand, the prospective buyer must be careful not to hold out too long when a bargain is available but not guaranteed to last. There are large sums in the hands today of foreigners who are definitely prospective buyers, and I expect they will not fail to notice that the value of the dollar has been increasing in terms of U.S. shares. I do not have any reports on net trading in the last few weeks. There was probably no great inflow. But I do know that in the first quarter of this year the net flow of foreign private portfolio investment into the United States was at an alltime record rate. I would expect it to be at an even higher rate in the coming months.

I do not have the skill—or the temerity—to attempt to predict exchange rates precisely in the coming weeks. My own judgment is, however, that the foreign exchange market has probably misjudged the extent to which basic fundamentals will be reinforcing in the near future the improvement in our trade balance and enhancing the attractiveness of investment in U.S. dollar assets. On balance, therefore, I would expect the dollar to strengthen. Fundamentally, however, I think what is important is not what changes may take place from day to day in the market valuation of the dollar. What is important is that we appear now to have in place a system which can accommodate changes without disrupting the fabric of international trade, investment, and cooperation. Meanwhile, work on long-term reform continues.

Exhibit 71.—Statement by Assistant Secretary Hennessy, September 21, 1972, before the Latin American Subcommittee of the House Foreign Affairs Committee

I am happy to have this opportunity to testify today and to respond fully and specifically to any comments or questions you may have on the recently submitted report by the General Accounting Office on U.S. participation in the Inter-American Development Bank. Several of the issues presented in the body of the report are very familiar to members of this committee. My predecessor, John R. Petty, reviewed them with you in some depth during his testimony in January and in July of 1971.

I would like, first of all, to highlight four main points:

(1) The Treasury Department accepts the three recommendations made to it in the GAO report. Action has already been taken or is now in the process of being taken on all of them.

(2) The Treasury Department strongly disagrees with the overall highly critical tone of the report. We fully recognize the need for additional improvements in the operations of the Bank. We do not think, however, that the Bank's record of improvement—in both policy and procedures—has been placed in proper perspective.

(3) We also fundamentally disagree with the concept contained in the GAO report of how the United States should manage its participation in a multilateral institution. Obviously, there is a difference in the way we approach bilateral aid problems and the way we approach multilateral aid problems. Over the long term, however, I believe we have developed a system which takes account of our interests.

(4) The Inter-American Development Bank's successful record of development activity is either minimized or ignored in the GAO report. We believe this particular point needs more emphasis as well as the increasing level of the Latin American contribution to their own economic development and growth.

With regard to the specific recommendations of the GAO report, the first one is that the United States should sort out the recommendations made by the IDB's Group of Controllers, decide which it wishes to support, and vigorously pursue their acceptance and implementation. This is being done. The Group of Controllers has completed three reports: One on loans to Venezuela, another on loans to Paraguay, and a third on education loans. Three others are in final stages and close to completion. Aside from recommendations aimed at individual projects, each report contains a large number of specific recommendations relating to the general operations of the Bank. Some of these we can support. Others we do not agree with. For example, the report on Venezuela suggests expansion of the intra-regional export financing program to include consumer durables as well as capital goods. This we would oppose. The same report also recommends improvements in the current use of the Bank's regional offices. This we would support.

The report on Paraguay contains recommendations relating to ascertaining the qualifications of contractors and consultants and to the desirability of improving the performance of intermediate credit institutions. We have supported these two recommendations within the Bank's Board of Directors and they have been adopted. New controls on cost overruns, a problem area also covered in the Paraguayan report, were given to the Bank's staff on August 4 as a result of a special report on this matter submitted to the Board of Directors.

The Controller Group's report on educational loans has been intensively reviewed by a special working group of the National Advisory Council. A proposed U.S. position on its recommendations is now pending before the Council. We expect to have completed action on all the recommendations contained in the three reports within the next few weeks.

The report of the GAO also recommends that specific instructions and guidelines be developed for U.S. officials involved in appraising loan proposals. As a matter of fact, these instructions and guidelines already exist. What does not exist is a formalized codification. In our judgment, the process of loan appraisals has not been hampered by this lack of codification. However, we are agreeable to implementing this recommendation with the understanding that the exercise of judgment by senior Government officials and the introduction of broad policy considerations will affect the ultimate U.S. position in given cases. This matter is now

being reviewed by a special NAC working group which will make concrete recommendations by October 15 on how this codification can be carried out.

The third GAO recommendation is that firm lending criteria be developed which take into account a recipient country's economic performance as a major criterion and which provide for limiting access to the Fund for Special Operations. Annual economic reviews are conducted each year under the aegis of the CIAP with the participation of representatives from the IMF, the IBRD, and USAID as well as IDB officials and technicians. It was as a result of the application of the country criterion and a finding that performance was not adequate that lending activity was halted in one country for an extended period of time. Lending activity was also stopped in another country following the failure of the government to implement promised fiscal reform. No new loans were made to that country as a result. These two examples show, I believe, the commitment of the Bank to the country criterion as an important factor in the conduct of its lending operations. I do not claim that the application of lending criteria is perfect, but I do believe it has been effective and that actions have been taken which promise to make it more effective in the future.

In summary, the three recommendations made in the GAO report are fully consistent with steps Treasury has taken in the past and other steps we plan to take in the future. I also recognize constructive aspects of criticisms of our efforts that are made in the report. Both we and the Bank have been engaged in meeting new demands and requirements for some time in these areas. In the long run, the Latin American countries will be the final losers if our multilateral assistance work within the Inter-American Development Bank is not carefully planned, aggressively carried out, and thoughtfully evaluated.

I spoke earlier, Mr. Chairman, of my strong disagreement with the overall highly critical tone of the GAO report. Let me substantiate with some examples, at this point, my assertion that there has been a long-term trend of improvement within the Bank and that much of it has been at the stimulus of the United States.

With regard to operational procedures:

(a) The Bank has refined its own internal review procedures, apart from those of the Controller Group, to improve its evaluation of completed projects.

(b) It established in January 1972 a loan evaluation committee, chaired by the Executive Vice President of the Bank whose competence is well-known to this committee. This committee now regularly screens out weak loan proposals at the time when initial applications are submitted. It also reviews projects before their consideration by the Board and bounces back those not ready for action.

(c) The Bank has initiated a study of its data processing requirements with a view toward setting up a master plan for computer use.

(d) The Board of Directors is taking a more direct and active role in the implementation phase of the Bank's lending activity by instituting on a regular basis a review of loans already in progress.

(e) The Bank is reorganizing its basic structure and making fundamental procedural changes to further improve the quality of its operations. The reorganization, announced on September 15, will take effect on December 1. It involves, among other steps, the removal of the function of project preparation and appraisal from country loan offices, to provide even greater independence of assessment of projects.

With regard to changes in operational policy:

(a) It has been agreed that all lending out of new resources for the Fund for Special Operations will be repaid in the currencies lent rather than in local currencies—a significant hardening of the lending terms.

(b) The relative share of FSO loans by the four largest recipient countries will be reduced from 46 percent in 1971 to approximately 20 percent in 1975.

(c) As I already mentioned, the Bank has placed greater emphasis than ever before on a borrowing country's overall economic performance as a major criterion for lending. Pertinent portions of the annual CIAP review are required to appear now in all individual loan documents of the Bank, so the United States and the Board can test the individual project against country performance and development priorities.

With regard to mobilization of resources, we have also seen progress. For example:

(a) Non-Latin membership in the Bank, in addition to that of the United States, was achieved when Canada became the 24th member earlier this year.

(b) The special committee of the Board of Governors established at U.S. initiative, reached general agreement last May on a formula for allowing nonhemispheric industrial nations (Japan and major European countries) to become members of the Bank.

(c) Latin American member countries, as part of the current replenishment negotiation, agreed to increase their contribution to the Fund for Special Operations from \$250 million to \$500 million and to raise its ratio with the U.S. contribution from 1 to 3 to 1 to 2.

These last three actions reduced the U.S. share of the overall assistance burden in Latin America. The first of these—Canadian membership—reflects a positive endorsement of the Bank by a new creditor country member taken only after a most careful review by that country.

In my view, Mr. Chairman, the most disturbing part of the report relates to the issue of how the United States should manage its participation in the Bank. Throughout the report, despite statements to the contrary, a viewpoint is vigorously pressed, much different from that of my Department and the executive branch, of how the United States should operate in a multilateral institution. It implies that one has to have a tough take-it-or-leave-it attitude—maintain a “high profile” in order to be effective. I very strongly disagree. Although the United States is the major contributor, it is only 1 of 24 contributors. We do not want and should not want to unilaterally dictate policy to other Directors of the Bank or to the management of the Bank. This does not mean, of course, that we should not stand up and fight for policies or changes we think are fundamental to the Bank's future. But it does mean the United States cannot act in an international institution exactly the same as in a bilateral one. This misconception—applying a bilateral standard to a multilateral institution—is, in my judgment, the single greatest shortcoming of the report.

It should be recognized that in using multilateral channels of development finance, the United States gives up the 100-percent control we have in a bilateral organization. In return, we obtain other benefits which we do not get through bilateralism. I will not list them all here, but they include, among others, a more equitable sharing of the burden of providing resources, the availability of multilateral expertise, and the encouragement of self-help.

In taking the position that it has, the GAO report attacks what is, to us, a central theme of multilateralism: The idea that each developing country should assume a greater responsibility for establishing its own development priorities, for raising resources, and completing the projects which will contribute to its development and growth. It is very clear that the idea of a more equal relationship between donor and recipient countries does not fit at all with the view pressed in the GAO report of how we should manage our participation in the affairs of the Inter-American Development Bank.

On the last of my four points, I believe it would be useful to emphasize, for the record, the substantial impact which the Inter-American Development Bank has had on the economic development of Latin America. Since its establishment in 1959, it has made approximately 700 different loan commitments, including those from the Ordinary Capital, the Fund for Special Operations, and the Social Progress Trust Fund, which have totaled nearly \$5 billion. Cumulative disbursements have been made on these commitments which exceed \$2.2 billion. The Bank has an excellent record of receiving loan repayments. The two defaults—a very minor part of the Bank's portfolio—were on loans made in its early years, and corrective action was taken to avoid any recurrence. Much of the Bank's effort has been concentrated in agriculture, transportation, and electric power, with the social services, including education, housing, and water supply and sewerage, receiving emphasis. Many of these efforts were pioneering ones in fields not previously covered by this kind of institution. Through its program of loans through intermediate credit institutions, the Bank has been innovative and pioneered in providing loans to small farmers and entrepreneurs. An appendix attached to my statement gives specific detail on the lending of the Bank.¹ At the same time, the Bank has established a high credit rating in the world's private capital markets and is assured of continuing access to funds of this type which substantially augment the direct contributions of the United States and other members. As of June 30, 1972, it had a funded debt of more than \$1 billion outstanding in the United States and 15 other markets. In other words, the private market here and abroad has a good opinion of the value of the IDB portfolio.

I will be happy to answer any specific questions you have at this point.

¹ Omitted from this exhibit.

Exhibit 72.—Statement of Assistant Secretary Hennessy, October 10, 1972, before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations

Mr. Chairman and members of the subcommittee, I am glad to review again with you our progress since the last hearing in the reporting and collecting of overdue foreign debts owed to the U.S. Government. The chairman's letter to the Department of the Treasury indicates that today's debt review will be concentrated mainly on the countries which may be visited by the subcommittee in an inspection mission to several U.S. Embassies in Europe, North Africa, and the Near East later this year. We have already made some preliminary material available to the subcommittee staff concerning the debt arrearages of these countries, and I will be glad to comment on the arrearages in more detail.

With the chairman's permission, I would like to take this opportunity to discuss first some of the recent developments in the debt area in order to bring up to date the discussion of these matters.

As you all know well, the subcommittee has been asking since its initial hearing in 1970 for a statement of the total debt—long- and short-term—owed to the U.S. Government by foreigners. On previous occasions we have had to reply that we lacked complete information on the short-term portion of this debt. During the hearing last February, I was able to give you only preliminary and incomplete figures, because at that time we had not yet received complete reports on the short-term foreign debts and accounts receivable of the military departments.

I am glad to say that we are now able to give you the figures you have requested on total foreign debt to the U.S. Government. We have obtained reports as of June 30, 1972, from the Government agencies of their short-term foreign credits and accounts receivable from foreigners, and I am now able to give you a preliminary total figure. As of June 30, 1972, the preliminary grand total of foreign indebtedness to the U.S. Government was \$30.6 billion; of this amount \$660 million was reported to be in arrears.* The figures are summarized in the following table:

Foreign credits and accounts receivable reported by U.S. Government agencies as of June 30, 1972

[In millions of dollars]

	Principal outstanding	Amount in arrears
Long-term credits-----	30, 117	374
Short-term credits-----	82	6
Accounts receivable-----	356	280
Grand total-----	30, 555	660

I would like to offer a few general comments on these figures. The total of short-term credits and accounts receivable outstanding—over \$435 million for June 30, 1972—considerably exceeds the approximately \$200 million we reported in February on a preliminary and incomplete basis for June 30, 1971. The 1971 figure did not include complete reports by the military agencies. During my testimony in February, I estimated that the amounts remaining to be reported by the military could amount to as much as several hundred million dollars. The amounts reported this year by the military were \$285 million, of which about \$245 million was in arrears.

The largest portion of the arrearages reported by the military agencies, about \$200 million, represents amounts on their books arising from logistical support provided to allied military forces during the operations conducted under U.N. auspices—in Korea and in the Congo.

The military arrearages have been under careful review by the National Advisory Council. Only last month, the NAC held a meeting with representatives of the various services to discuss the problems connected with debts owed the military agencies. The Council will continue to keep these matters under careful

*This excludes the World War I indebtedness, of which \$19.9 billion is due and unpaid.

and energetic review, and it is expected that recommendations concerning the disposition of these claims will be developed shortly.

Our ability to provide you with a figure on total debt owed to the U.S. Government rests on the fact that our reporting system for short-term credits and accounts receivable has been completed and is operating satisfactorily. We believe that our present reporting regulations are adequate to produce these figures regularly in the future at 6-month intervals, as of June 30 and December 31 of each year. Therefore, we will provide these data to the Congress regularly in the future. I should like to add that on the basis of these reports the National Advisory Council will subject arrearages on short-term credits and accounts receivable to the same full scrutiny as we give to the arrearages on long-term debt.

Turning now to the debt status of the countries included in your inspection mission, most of the arrearages owed by these 10 countries are of the type which have for the first time been reported to Treasury under our new reporting requirements. As the table below shows, nearly all of the official arrearages of these countries are either accounts receivable or short-term credits owed to the various agencies, mostly the military services.

Indebtedness of selected countries to U.S. Government agencies—Amounts reported as of June 30, 1972

[In thousands of dollars or dollar equivalents]

Country and type of obligor	Total outstanding	Amounts due and unpaid 90 days or more			
		Total	Long-term credits	Short-term credits	Accounts receivable
Cyprus.....	3,876	202	202		(*)
Official.....	NA	(*)			(*)
Private.....	NA	202	202		
France.....	313,911	192		39	153
Official.....	NA	188		39	149
Private.....	NA	4			4
Germany.....	36,042	328		129	199
Official.....	NA	328		129	199
Private.....	NA				
Greece.....	208,407	18,440	(*)	40	18,400
Official.....	NA	18,440	(*)	40	18,400
Private.....	NA	(*)			(*)
Iran.....	768,478	36,664	35,624	51	989
Official.....	NA	36,664	35,624	51	989
Private.....	NA				
Italy.....	242,227	14,622		45	14,577
Official.....	NA	14,622		45	14,577
Private.....	NA	(*)			(*)
Morocco.....	465,885	207		3	204
Official.....	NA	206		3	203
Private.....	NA	1			1
Spain.....	541,392	5,032	(*)	26	5,006
Official.....	NA	5,032		26	5,006
Private.....	NA	(*)	(*)		(*)
Tunisia.....	308,349	61	60		1
Official.....	NA	53	52		1
Private.....	NA	8	8		
Turkey.....	1,259,495	87,729	257		87,472
Official.....	NA	87,472			87,472
Private.....	NA	257	257		
Total, 10 countries.....	4,148,062	163,477	36,143	333	127,001

NA Not available.

*Less than \$500.

The largest portion of the amounts due the military represents logistic support expenses going back to the Korean operations, the status of which is presently being examined. The remainder of the military accounts represents mostly short-term credit sales. In this category, Italy is the major debtor—about \$14.5 million. The other more significant arrearages, which range from about \$100,000 to \$1 million, are owed by France, Greece, Iran, and Turkey. The rest of the short-term arrearages in these countries relate to current programs of the various U.S. agencies, including the Departments of State, Commerce, and Justice, the AID, and the Federal Aviation Administration.

The only major long-term item in arrears is the lend-lease and surplus property debt of Iran which arose from World War II.

This, Mr. Chairman, concludes my prepared statement. I will be glad to answer any questions you may have.

Exhibit 73.—Statement by Assistant Secretary Hennessy, March 1, 1973, before the Foreign Operations and Government Information Subcommittee of the House Committee on Government Operations

Mr. Chairman and members of the subcommittee, I am pleased to have the opportunity to review with you once again the progress and problems connected with the collection of delinquent foreign debt owed to the United States. As you indicated in your letter to Secretary Shultz, today's review will focus primarily on debt matters pertaining to the eight countries you and your staff visited at the end of last year. The hearings you held abroad in these selected countries have, in my opinion, further emphasized the degree of congressional concern with foreign debt arrearages and demonstrated the determination of our Government to find ways which will assure that the obligations of foreign governments to us will be paid promptly and fully.

As you said in your letter, Mr. Chairman, the hearings abroad have indicated that, at least in these particular countries, the military arrearages represent a major percentage of the delinquencies. Consequently, you have asked that we focus this morning on any problems and suggestions we might have to improve the collection of such debts.

The Treasury Department's collection of information on military debt arrearages, other than long-term military sales, is of comparatively recent origin. The arrearages we are discussing here represent principally accounts receivable from foreigners by the military, the systematic reporting of which was only begun less than a year ago. Prior to that time our reporting system only included foreign debt obligations with a maturity of longer than 1 year. As you well know, it was pursuant to your subcommittee's suggestion that we broadened our reporting requirements to include, in addition, all foreign accounts receivable and short-term credits of U.S. Government agencies.

Since we first learned of the magnitude of the military debt arrearages which had previously not been reported to Treasury, we have established close contact with the military departments for the purpose of ascertaining the nature of these arrearages. Last fall, for example, the National Advisory Council held a meeting with the participation of all interested agencies, where the military arrearages were discussed in considerable detail. In addition, both in connection with our reporting functions and our responsibilities to provide current information on country debts to the National Advisory Council, we are in contact with the military on staff level concerning the arrearages.

We have compiled a table on the arrearages of the eight countries that the subcommittee visited, broken down between military and other debts. I would like to submit this table for the record.

Since representatives of the Defense Department and the military agencies appearing before you today are far better qualified than I am to comment on the specific problems pertaining to the collection of debts owed to them, I will limit myself here to some general observations. As I mentioned when I last testified before the subcommittee, by far the largest portion of military debt arrearages arose from logistical support provided by the United States to other nations during the Korean conflict and the U.N. operations in the Congo. At the end of 1972, these accounts amounted to approximately \$204 million of the \$250 million total due and unpaid military arrearages. Indeed, two of the largest amounts set forth in the attached table, namely amounts listed for Turkey and

Arrearages on debts of selected countries to the U.S. Government, as of June 30 and December 31, 1972

[In dollars or dollar equivalents]

Country and type of arrearage	June 30, 1972	December 31, 1972
France.....	169,364	441,140
Military.....	163,194	437,611
Other.....	6,170	3,529
Germany, Federal Republic of.....	202,911	187,862
Military.....	173,945	171,288
Other.....	28,966	16,564
Greece.....	18,400,033	18,264,066
Military ¹	18,398,691	18,217,617
Other.....	1,342	46,449
Iran.....	36,807,419	37,057,763
Military.....	949,838	1,345,866
Other ²	35,857,581	35,711,897
Italy.....	14,577,169	16,245,484
Military.....	14,576,023	16,244,661
Other.....	1,146	823
Morocco.....	206,503	8,579
Military.....	205,762	8,474
Other.....	741	105
Spain.....	5,036,399	388,347
Military.....	4,112,547	366,616
Other.....	923,852	21,731
Turkey.....	87,728,496	87,903,384
Military ³	87,471,394	87,559,643
Other.....	257,102	343,741

¹ Includes \$17,440,122 representing logistic support provided during the Korean conflict.² Includes arrearages on World War II accounts (\$35,603,711 as of Dec. 31, 1972).³ Includes \$86,792,033 representing logistic support provided during the Korean conflict.

Greece, represent such logistical support costs. These logistical support claims, as you noted, Mr. Chairman, during one of the hearings in Europe, are very controversial and difficult to resolve, with political as well as financial implications.

Of the remainder of the military debt arrearages on December 31, 1972, military sales on short-term credit accounted for \$38 million; long-term credit sales, \$4 million; unpaid military mission costs, \$3 million; and other logistical support expenses, \$1 million.

I understand that the specific problems which have given rise to these arrearages will be discussed by representatives of the military departments. Let me just say that we consider it essential that the creditor agencies review their billing and collection procedures to assure timely payments by foreign debtors. If payments are not received on time, consideration should be given to imposing penalty charges on the unpaid balances.

It is important, however, that arrearage data reported by the military agencies do in fact represent overdue obligations of the foreign governments. Because of the nature of the billing process, some of the amounts recorded as outstanding on the books of U.S. agencies may not be recorded as firm obligations on the books of the foreign debtor. For example, some of the amounts may be contested by the foreign government because of discrepancies in quantity or condition of the items delivered. During the time when these accounts are being reconciled

with the foreign governments, there is a question whether they should be characterized by the creditor agencies as delinquent. Consequently, it may be desirable to set up a new category in agency reporting which would distinguish between amounts clearly delinquent and those which are outstanding but under discussion with the foreign governments. This would be an additional step in the accurate reporting of foreign debt arrearages.

Turning to the role of our diplomatic representatives in debt collection, you have noted, Mr. Chairman, that some of our embassy personnel had little or no knowledge of the debt arrearages of the countries you visited last year. We could provide comprehensive tabulations of arrearages to our diplomatic missions on the basis of the agency reports submitted to Treasury. However, considerable explanatory material on each debt problem would have to be furnished by each creditor agency at the same time if the data were to be meaningful. This would require a very substantial effort on the part of the Government. I question whether providing such detailed information on the whole range of debt arrearages to our posts abroad would justify the very substantial cost since diplomatic intervention in the debt collection process is required only in a relatively few specific cases.

In my view, each creditor agency should collect the obligations resulting from its programs and should request assistance from the State Department only after its own procedures have been fully exhausted. In my opinion, it would be an error to shift the responsibility for debt collection to our diplomatic posts. Although their assistance has certainly been utilized in the past and should continue to be relied on in the future, the shifting of responsibility would inevitably result in a duplication of efforts, added costs and, conceivably, in the relaxation of collection efforts by the responsible agencies. Nevertheless, I understand that the Department of State, when a claim is fully documented and is ripe for diplomatic intervention, does not hesitate to use the full range of its diplomatic mechanism to settle overdue accounts.

Finally, Mr. Chairman, you have asked for our views on the possible acceleration of payments, particularly by countries with strong reserve positions. It must be stressed that the foreign debts are contractual in nature and thus their repayment terms can be altered only by mutual agreement. In a number of cases we have had considerable success in reaching such agreements. For example, most of the Western European countries, particularly Germany, France, Italy, and the Netherlands, have already prepaid a substantial portion of their war accounts and Marshall plan debt to the U.S. Government. Specifically, since the late 1950's we have received approximately \$2.2 billion of prepayments from these European countries on lend-lease, surplus property, and other war account loans and the Marshall plan loans. The remaining obligations on such loans are relatively small for some of these countries. For example, as of June 30 last year, Germany owed \$1.8 million and Italy only \$1.2 million on these loans.

We are constantly alert to opportunities to maximize Government receipts. One recent occasion on which we were particularly successful was the repayment of the \$355 million U.S. capital contribution to the European Monetary Agreement at the beginning of the year. We felt that the purposes of the EMA, which was originally founded by grant from our Economic Cooperation Administration in 1948, namely, to facilitate full convertibility of the currencies of European members, had been achieved. After several years of discussions, it was decided last December to terminate the Agreement and return to the United States its contribution and earnings thereon. The United States has received a total of \$355 million, which represents the initial U.S. contribution of over \$270 million and accumulated interest of \$84 million. The funds returned by EMA consist of a cash payment of \$118 million, a release of \$123.5 million which had been held by Treasury in a trust account in the name of the OECD, and the assignment of a long-term claim on Turkey of \$114 million. We believe this was a very constructive step by members of the EMA.

In addition, we have been discussing with the Japanese Government the possibility of prepayment of their obligation stemming from our economic assistance to that country after World War II. These discussions have been concluded, and the Japanese Government has agreed in principle to make payment in the near future, which will extinguish this obligation.

This, Mr. Chairman, concludes my prepared statement. I will be glad to answer any questions you may have.

Exhibit 74.—Statement by Assistant Secretary Hennessy, March 28, 1973, before the Subcommittee on Multinational Corporations of the Senate Foreign Relations Committee

You have asked us to review the record of lending to Chile by the international development institutions since November 1970, when Salvador Allende was elected President of Chile. You have also asked me to comment on the contacts between the Treasury Department and the International Telephone and Telegraph Corp. and any role that company may have played in influencing Treasury Department views in this area.

There are three international development lending institutions from which Chile or Chilean nationals are eligible to borrow. These are the World Bank, the International Finance Corporation (IFC), and the Inter-American Development Bank (IDB). Chile is not eligible to borrow from the International Development Association, since lending by this institution is limited to the poorest of the developing countries.

The record of international institution lending is as follows:

In the World Bank, just before the close of its fiscal year in June 1970, three loans were made to Chile totaling \$18.9 million. Subsequently, monthly reports of projects under consideration circulated to the Executive Board of the World Bank and IFC show that at various times a total of eight projects involving possible loans to Chile or its nationals were under review. These reports to the Executive Board also disclose that no loans have been made since the election by either institution and no loans are now under active consideration.

In the IDB, operations reports to the Board of Directors indicate that two loans were under consideration by the staff in the pre-November 1970 period. Both loans were for educational development—one of \$7 million to the Universidad Catolica de Chile, and another of \$4.6 million to the Universidad Austral de Chile. These loans were brought before the Executive Board of the Bank and were approved on January 14, 1971. No loans have been made by IDB to Chile since that time. The Bank staff now has a number of investment proposals under technical review.

In years prior to 1971, Chile had been a major recipient of development assistance provided through the multilateral lending institutions. Since their inception Chile has received over \$270 million in loans from the World Bank Group and \$312 million from the IDB. The major decline in lending is explained by a number of factors.

Initially, with a new government coming to power in Chile on a platform calling for far-reaching changes in the economic structure of the country, it was appropriate for the development banks to wait until the new administration's development program had been formulated before commencing new lending programs. The banks place great emphasis on the economic and financial condition of the borrower in making loans, and had to be concerned about how the proposed structural changes would affect the Chilean economy, and its ability to utilize and repay foreign borrowings. Their charters make the assurance of repayment an explicit requirement.

In point of fact, over the past 2 years, the performance of the Chilean economy has been poor and a major reason for the present lack of new lending by the international development institutions. This was brought into sharp focus by World Bank President Robert McNamara at the meeting of the United Nations Economic and Social Council in October of 1972. McNamara stated that a primary condition for bank lending which Chile had failed to meet was a soundly managed economy with a clear potential for utilizing additional funds effectively.

McNamara indicated that rampant inflation, a balance of payments deficit of \$370 million for 1972, and successive annual losses in net foreign exchange reserves, even after Chile had suspended most payments on its external debts, were grounds for the Bank's decision not to initiate new projects in Chile. He made the further point that no amount of external financial assistance could substitute for needed internal measures and under present conditions it was simply impossible for Bank funds to be used productively for the benefit of the Chilean people and with reasonable possibility of repayment which the Bank's Articles of Agreement required.

Thus, if for no other reason, the international development banks have not been lending to Chile because of problems of creditworthiness. But there are two other factors—debt repayment record and fulfillment of international obligations—which also apply to this situation.

In the case of Chile, there is a general debt repayment problem and particular problems of debt repudiation. In November 1971, Chile declared a unilateral

moratorium on its external public debt, due to its precarious balance of payments situation. Although a multilateral agreement was reached in April 1972 on rescheduling of 1971-72 maturities, Chile is again in default on repayments due in 1973 and is behind schedule on repayments to certain of the international institutions.

In addition, there are two cases of actual debt repudiation. Chile has repudiated a \$153 million debt owed to the Anaconda Copper Corp. It has unilaterally disallowed \$8 million of a government-guaranteed debt to the Kennecott Copper Co., and it has defaulted on payments on the remaining debt to Kennecott that was recently assumed by the Overseas Private Investment Corporation.

Any bank—whether for development or other purposes—must take importantly into account a country's situation on paying existing international obligations when considering the granting of new loans. When the most recent repayment record is questionable, commonsense alone would dictate a go-slow policy in approving loans.

Chile's eligibility for new loans has also been adversely affected by its expropriation without compensation of the Kennecott Copper Co. and the Anaconda Copper Corp., as well as the intervention of the International Telephone and Telegraph Corp. with the subsequently announced intention of expropriating that company. Adequate compensation is being effectively denied through the unprecedented and illegal deduction of alleged excess profits. Moreover, Chile has failed to provide the companies with any genuine mode of appeal of the government's decisions—a clear denial of justice under international law. These actions are in violation of international law.

Because of the importance of these two factors—debt repayment record and fulfillment of international obligations, especially those concerning compensation for expropriation—the World Bank has developed a formal policy position on these two questions. The World Bank will not lend to countries that have defaulted on private debt obligations or expropriated foreign private investments without compensation unless there is evidence that satisfactory progress is being made toward settlement of the dispute. This policy came about originally because of the Bank's concern over defaults on external bond issues held by foreign private investors. The Bank felt that it had a direct stake in the principle of repayment on international bonds in view of its heavy reliance on private capital markets as a source of its own funds. The Bank's policy has evolved to include—for similar underlying reasons—situations where expropriation of direct investments takes place.

The United States has a policy similar to that of the World Bank. On January 19, 1972, in a statement on "Economic Assistance and Investment Security in Developing Nations," the President took the position that when a country expropriates a significant U.S. interest without making reasonable provision for compensation to U.S. citizens, there will be a presumption that the United States will not extend 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. The same presumption applies to the multilateral institutions. In the face of expropriation without compensation, the United States will withhold its support from loans to the expropriating country under consideration in the multilateral development banks.

Congressional policy has also dictated U.S. position in opposition to lending by the international financial institutions to countries that expropriate American-owned property without compensation. This is not a new concern but has run through the history of the U.S. foreign assistance program. You are all aware of the Hickenlooper amendment.

More recently, Congress has provided even more specific instructions affecting U.S. voting in international development banks in the form of the Gonzalez amendment, adopted in March 1972. That amendment requires a negative vote against loans to countries that expropriate American property without compensation unless compensation has been made, or good-faith negotiations are in progress leading to prompt, adequate, and effective compensation under international law, or the dispute has been submitted to arbitration.

The formalization, through a policy statement, of the President's position on expropriation without compensation, as well as the expression of congressional policy contained in the Gonzalez amendment, can be explained in part by the expropriations that have occurred in recent years, including the Chilean

expropriations. In dealing with this problem, it is necessary for the executive branch to follow the situation closely and to obtain current information both from the American companies and the country involved. This is, in fact, required by the President's investment security statement and is inherent in the Gonzalez amendment which calls upon the President to make an assessment of whether good-faith negotiations aimed at providing compensation are in progress. Information comes to the United States from various sources—from foreign embassies and from our embassies abroad, among others. It also comes to the United States from direct contacts with American businessmen.

A procedure has been developed for dealing with the facts and opinions obtained from these information sources. An interagency group under the chairmanship of the State Department has been established under the Council on International Economic Policy to review expropriation cases and to recommend courses of action for the U.S. Government. In matters concerning votes in the international financial institutions, the advice of the CIEP group, as well as the National Advisory Council on International Financial Policies, is conveyed to the Secretary of the Treasury, to whom the President has delegated responsibility for instructing the U.S. Executive Directors on voting where Gonzalez amendment questions are involved. In the case of the Chilean expropriations, we have attempted to stay on top of factual developments, and this has included contacts with all the American companies involved, including ITT.

In closing, I must emphasize that the decisions on U.S. Government policy in expropriation matters are strictly determined by the overall national interests of the United States. More specifically, as applied to the multilateral development banks, U.S. Government policy has been formulated on the basis of the long-standing policies of the institutions themselves, as well as by Presidential policies and congressional directives.

Exhibit 75.—Statement by Assistant Secretary Hennessy, April 5, 1973, before the Foreign Operations Subcommittee of the House Appropriations Committee

I am here this morning to testify in favor of President Nixon's fiscal 1974 appropriations requests totaling \$1.2 billion for the international lending institutions. I strongly urge that you and the Congress act promptly and appropriate the full amounts which are being requested.

My statement addresses itself to the broader issues of U.S. Government participation in the three institutions since the Secretary of the Treasury has overall responsibility. The U.S. representative in each of the institutions will accompany me and provide you with a statement on the details of operations in his respective bank.

Before providing information on the specific requests and on the operations of the institutions, I would like to raise two questions which I consider important. The first question is: Why should you appropriate this amount of money for foreign economic assistance at a time of extreme budgetary stringency and serious balance of payments and trade problems? This year the entire budget has been subject to extremely close scrutiny in terms of our national interests. The President has assigned a high priority to the international lending institutions and for very practical reasons.

It is clear, Mr. Chairman, that our first concern must be for the welfare of the American people. It is also clear that as a Nation, we have important interests in the developing areas of the world. Their economic growth and stability are in actual fact important to us for economic as well as general foreign policy reasons. Our economic interdependence with all nations, and particularly these, has grown. Today they provide raw materials, as well as manufactured and semimanufactured products, which are vital to the continued vitality and noninflationary expansion of our economy. A little-known fact is that year after year the United States has had a positive trade balance with the less developed countries (including a modest surplus last year when we ran a large deficit with the rest of the world). The truth is that they are good customers and it is in our interest to provide them with capital to expand their economies and their ability to repay us.

A second little-known fact is that we get one-third of our raw materials imports from them now, and this figure is almost certain to rise in the future. A third little-known fact is the importance of how our investment earnings in these countries contribute to our balance of payments and to the welfare of our people. The United States has close to \$25 billion in private direct investments

in less developed countries. Multilateral bank loans help provide the infrastructure to complement the activity of private capital. In 1972, the gross inflow of repatriated earnings, dividends, interest, royalties, and fees to this country from LDC's amounted to \$4.2 billion. Even after allowing for investment outflows, there was still a net inflow of \$2.6 billion.

Aside from the economic reasons I have just outlined, there is a second reason why the foreign assistance that we provide through the international lending institutions has been included in this year's budget. Such assistance fits in with the President's overall foreign policy. Moreover, we are now engaged in negotiations on important matters of international trade and international finance. The question of development assistance is closely related to and even interdependent with these other two questions. All three are "legs of the same stool." We cannot, in my view, expect to achieve our objectives in trade and finance unless we are willing to provide our fair share for economic development.

After why, the second major question, Mr. Chairman, is how to provide foreign economic assistance. Why use multilateral institutions? The answer is that the international institutions are efficient and effective. They have been organized and operated as responsible financial institutions. They sell their bonds in the marketplace and they are disciplined by the demands of the marketplace. This discipline is reflected in good organization, management, and staffing and high quality of analysis. In my judgment, there is a place for them just as there is an important place for bilateral aid programs. The multilateral and bilateral programs complement each other.

There is also the financial advantage of burden-sharing. U.S. Government paid-in contributions—an important element of what we are asking you to appropriate today—are greatly increased by paid-in contributions of other developed countries. Since the inception of the institutions, these other developed countries have provided a total of \$4.8 billion. Their share is steadily increasing and smaller industrial countries who could not mount their own bilateral programs can contribute through the Banks. Thus, we get a greater degree of burden-sharing than we would otherwise get.

The paid-in capital contributions of the U.S. Government are also leveraged to a great extent by the Banks' borrowings in the world's private capital markets. Since the establishment of the Banks, 77 percent of capital funds, or a total of \$14 billion, has come from private markets and has been relent at market or near-market rates. This represents an enormous mobilization of private capital for economic development purposes at no cost to the U.S. taxpayer. Furthermore, in recent years a large and growing percentage of these borrowings have been made in Western Europe and Japan. In fact, during the past 2 years, borrowings by the international institutions have taken place almost exclusively outside the United States. As a Treasury official, I consider these budgetary and foreign exchange factors important ones to keep in mind.

Against this background, let me turn now to the specific proposals before you which are summarized in this table by institution.

Fiscal year 1974 budgetary requests for the international financial institutions

[In millions of dollars]

International Development Association-----	\$320
Inter-American Development Bank:	
Callable Ordinary Capital-----	168
Paid-In Ordinary Capital-----	25
	193
Fund for Special Operations-----	500
Asian Development Bank:	
Special Funds-----	100
Callable Ordinary Capital-----	96.8
Paid-In Ordinary Capital-----	24.2
	121
	1,234

New budget authority sought this year amounts to \$1.2 billion: \$320 million for the International Development Association; \$500 million for the Fund for Special Operations of the Inter-American Development Bank and \$193 million to its Ordinary Capital resources; \$100 million to the Special Funds of the Asian Development Bank and \$121 million to its Ordinary Capital.

A large portion of this total relates to programs for which funding was sought but not received in fiscal 1973. The amounts not funded under the fiscal 1973 continuing resolution are: \$193 million for the Ordinary Capital of the Inter-American Development Bank, \$225 million for the Fund for Special Operations, and \$100 million for the Special Funds of the Asian Development Bank. Projected budgetary outlays for fiscal 1974 amount to \$548 million, practically all of which stems from prior-year appropriation.

The IDA contribution of \$320 million is the second tranche of the third replenishment. The third replenishment formally came into effect in September 1972 when the United States agreed to make available its share of \$960 million. Shortly thereafter the United States paid its first tranche of \$320 million under the continuing resolution of October 26, 1972. Under terms of the original agreement, the second tranche was due on November 15, 1972.

As members of the committee know, IDA is the concessional lending affiliate of the International Bank for Reconstruction and Development. Its funds are used to finance development projects and programs on concessional terms, in the poorest of the developing countries, i.e., those countries with annual per capita incomes of \$300 or below. Its terms are 50 years maturity, including 10 years grace, and a service charge of three-fourths of 1 percent per annum. As of 31 December 1972, it had made total cumulative commitments of \$4,608 million mainly in agriculture and transportation. In recent years, it has placed an increasing emphasis on education, housing, and related areas.

In its report of May 11, 1972, the committee of conference on supplemental appropriations said: "The managers agree that there is no intention of denying each of the three annual installments of \$320 million in the next 3 fiscal years and that the first installment will be provided in the fiscal year beginning July 1, 1972." I urge this subcommittee to act promptly in the spirit of that joint explanatory statement.

The \$193 million for the Inter-American Development Bank's Ordinary Capital is part of the third and final tranche of the current increase in those resources. \$168 million of this amount represents callable guarantee capital and does not constitute a budgetary outlay. \$25 million is to be paid-in. It will, however, be paid in the form of non-interest-bearing letters of credit and not constitute a budgetary outlay in fiscal 1974. These two amounts, as well as the \$193 million appropriated by the Congress in fiscal 1973's continuing resolution, will be due under terms of the original agreement on June 30, 1973.

The \$500 million for FSO resources represents further funding toward our \$1 billion contribution to the concessional lending resources of the IDB. All of these funds will also be provided in letter of credit form to be drawn down later. As a result, there will be no budgetary impact in fiscal 1974. Under the original understanding between the United States and Latin countries, the United States would have completed the final installment of the \$1 billion contribution by the end of fiscal 1973. Assuming full appropriation of this year's request, \$775 million will have been provided before the end of fiscal 1974. Provision of the requested \$500 million will thus still represent a considerable stretchout of the U.S. contribution to the FSO replenishment.

On January 1 of this year, uncommitted hard currency resources available to the FSO were \$353 million. This included \$20 million from the Canadian contribution, \$275 million which we made available on December 21, 1972, under the continuing resolution and prior appropriation, and \$56 million in residual resources. These funds, however, are now expected to be exhausted in the final quarter of this year. Action on your part is needed if IDB concessional lending activity is to continue through this calendar year.

The first Asian Development Bank request is for \$100 million for Special Funds for concessional lending. It was deleted entirely for fiscal 1973 under the terms of the continuing resolution. Thus far, the United States has not been able to make any funds available to the Bank for this program, although proposals to do so have been before the Congress for several years. Other developed nations—the United Kingdom, Canada, Australia, New Zealand, the Netherlands,

Norway, Germany, Italy, Belgium, Finland, and Japan—have gone ahead to make more than \$240 million available to the Bank on an ad hoc bilateral basis. As of December 31, 1972, \$201.5 million had been committed on Special Funds loans, and the balance of the Bank's Special Funds resources is expected to be fully committed by September of this year.

Under the terms of authorizing legislation passed by the Congress in February 1972, the funds in this request are to be tied to the purchase of goods and services and priority is to be given to projects and programs in Southeast Asia. Until we contribute, U.S. suppliers will remain ineligible for procurement from the contributed Special Funds resources of the Bank. This item has been long delayed. I urge its prompt passage.

The other portion of our ADB request relates to the increase in the Ordinary Capital resources of the Bank. The Governors of the Bank, with the U.S. Governor abstaining, passed a resolution in November 1971 authorizing a 150-percent increase in the capital stock. This was done in order to permit an orderly 10-percent per annum increase in the Ordinary Capital lending of the Bank over the years 1973-75. By November 1972, enough members had taken up their shares to permit the increase in resources formally to come into effect. When this happened, the voting power of the United States was automatically reduced from 16 percent to 8 percent while that of other countries rose proportionally in the absence of U.S. participation.

Authorizing legislation for U.S. participation will be submitted to the Congress shortly. We are thus testifying today on an appropriation request that will be for later transmittal. Assuming approval of the proposed legislation on change of par value, the total authorization would be for \$362 million. Of this amount, 80 percent, or \$289 million, would be callable guarantee capital and not constitute an actual budgetary outlay. The remaining 20 percent, \$72.4 million, would be paid-in over a 3-year period, 40 percent in cash and 60 percent in non-interest-bearing letters of credit to be drawn down later as needed for disbursement. New budget authority being requested for fiscal 1974 would be \$121 million. Fiscal 1974 budgetary impact is limited to \$9.6 million. This appropriation should go forward in order to permit the United States to regain its original equity position in the Bank.

That completes my review of the specific amounts being requested. I would like to turn now to some matters that may result in future appropriations requests. Over the past year, Treasury has sought to find better ways of consulting with the Congress in advance of formal appropriations requests so that, as specifically requested by this committee, no new international commitments are entered into without your full prior knowledge. It is in this spirit that we have kept the Congress and your committee, Mr. Chairman, informed by letter and by informal briefings. Now I want to summarize, formally and for the record, where we stand on two important issues: A fourth replenishment of IDA and the restructuring and replenishment of ADB Special Funds.

First, with regard to IDA IV, as I indicated in my letter to you of March 6, a meeting of part I countries was held on March 13, in London. Other developed nations are now clearly ready to go ahead with a new round of contributions to permit IDA lending to continue in fiscal 1975 and beyond. Thus far, the United States has played a passive role, informing others that until consultations were held with our Congress, we would not be in a position to discuss amounts. Nonetheless, a broad consensus has developed among the other developed nations on a 3-year pay-in program at an annual rate of \$1.5 billion. On the basis of our existing percentage rate, this would mean an annual U.S. contribution of \$600 million for 3 years beginning in fiscal 1976. However, we have also made it clear that a very large reduction in our percentage share is necessary for our participation in view of our serious balance of payments situation.

Mr. Chairman, you yourself have pointed out the necessity for consultations on these matters with the Appropriations Committees. The Treasury Department wants to have the benefit of your committee's general views on amounts before continuing further with the negotiations.

The next meeting on this matter will be held in Tokyo in May. We would welcome, Mr. Chairman, the participation of members of this subcommittee as members of the U.S. delegation to that meeting.

As we have explained in the past, because of the number of nations involved, we need quite a long leadtime. We would hope that negotiations could go forward in time for submission to legislatures by the end of the year.

A meeting was also held in March on a proposal to restructure and replenish the Special Funds resources of the Asian Development Bank. As I indicated in my letter, this was a follow-on to a preliminary meeting of ADB developed member countries held on this subject in September 1972, at the time of the IMF/IBRD annual meetings. The proposal would create a pool of funds, on the IDA model but smaller, to replace the present system of bilateral contributions made on an unscheduled basis. At both meetings, the U.S. position was the same. We could not now move beyond acceptance in principle of the concept of the Fund; that is, that ideally funds should be made available on a multilaterally negotiated basis and be available for use under common terms and conditions. In taking this position, it was emphasized that the United States was experiencing serious trade and balance of payments problems which would affect our ability to provide funds on an untied basis.

In order to accommodate to the fact that we have not yet made our initial contribution of \$100 million to Special Funds, other developed members are now considering the possibility of launching and contributing to this new fund structure in two stages, representing two-thirds and one-third of the total, respectively. Under this approach, the \$100 million contribution, presently authorized but not appropriated, could serve as our share of the first stage and could be tied to procurement of U.S. goods and services. This approach would also imply, in the second stage, a further U.S. contribution of \$50 million. Since the overall amount being discussed is \$525 million, our share under the two-stage arrangement would be approximately 28 percent of the total. As you recall, others have already paid in more than \$240 million, which would not count as part of the new proposal although our initial contribution would. I also need an expression of your views before we can proceed further along this line.

The final part of my statement, Mr. Chairman, deals with two reports released by the General Accounting Office: The first on Treasury's management of U.S. participation in the Inter-American Development Bank, dated August 22, 1972; the second on our participation in the World Bank and IDA, dated February 14, 1973.

As indicated, both in the annex of the report, itself, and in my testimony before Mr. Fasel last fall, Treasury has accepted and implemented the recommendations of the IDB report. However, we very strongly disagreed with its overall highly critical tone. We think that Treasury has a good and improving system for managing U.S. participation in the Bank. In my judgment, the GAO report did not take adequate account of progress achieved by Treasury and the Bank itself. The details of our implementation of the recommendations are contained in a separate report I am now submitting for the record.

The GAO report on our participation in the World Bank and IDA has a number of recommendations which are identical to those in the IDB report. We are now completing our formal response to the Government Operations Committees of the House and the Senate. We will also report to this committee on our progress in implementing these recommendations as well.

SUMMARY OF TREASURY DEPARTMENT ACTIONS TO IMPLEMENT GAO RECOMMENDATIONS

U.S. SYSTEM FOR APPRAISING AND EVALUATING INTER-AMERICAN DEVELOPMENT BANK PROJECTS AND ACTIVITIES

The Treasury Department's complete response to the report is contained in an annex of the report itself, and in Assistant Secretary Hennessy's testimony before a subcommittee of the House Foreign Affairs Committee on September 21, 1972. Although the Department has accepted all of the recommendations which were made, we very strongly disagree with the overall highly critical tone of the report. We continue to think that we have developed a good and improving system for managing U.S. participation in the Bank. In our judgment, the GAO report has not taken adequate account of progress achieved by the Treasury Department and the Bank itself.

The GAO's major recommendations were:

1. *Recommendation:* The United States should sort out the recommendations of the Group of Controllers it wishes to support and vigorously pursue their acceptance and recommendation.

Action: The U.S. Government has adopted and supported firm positions on all the recommendations in the three Controller Group reports acted upon by the

IDB Board of Executive Directors. The Board, with the support of the United States, has taken action on all the recommendations in those reports. Implementation of the Board's decisions is being pressed. At the initiative of the United States, a deadline has been established for receipt of the Bank management's comments on reports submitted by the Group, and a system of semiannual reports on progress made toward implementation of recommendations has been set up. The first of these reports is due on June 30, 1973.

Two other Controller Group reports have been released very recently and are under study and review within the U.S. Government. These two reports are: "Reporting Systems" (December 1972) and "Preinvestment Studies" (January 1973).

2. Recommendation: The United States should arrange for the development of instructions that stipulate the desired depth and parameters of the U.S. process for appraising proposed projects to guide U.S. officials and technicians in making their appraisals. These instructions should include a clear statement of policy regarding the appraisal of the economic and technical aspects of the projects.

Action: Instructions and guidelines for appraisal of loan proposals have always existed within the U.S. Government. What has not heretofore existed is their formal codification. A preliminary edition of this formal codification has, however, been issued this month. It is available to officials and technicians in the five NAC agencies. It now contains nearly 50 pages of detailed information relating to loan proposal documentation, project criteria, special policy criteria, and country performance criteria. It can be expanded and modified to accommodate additional requirements or changes in policy.

3. Recommendation: The United States should arrange for followup on the U.S. positions with respect to specific loan proposals to determine the extent to which they have been accepted in the implementation of the project. Provision also should be made for the feedback of results to those officials and technicians participating in the appraisal process for use in subsequent appraisals.

Action: Followup action has always been taken on U.S. positions on specific loan proposals. It is now being done on a formalized basis. The U.S. Executive Director's Office at the IDB reports regularly both verbally and in writing to members of the NAC Staff Committee on points they have raised. These reports are now incorporated into the minutes of meetings. In addition, a new reporting requirement has been added to the combined economic reporting program (CERP). It requires reports from U.S. personnel in the field on IFI-financed projects and on project proposals which may be submitted to the IFI's in the future. Revision of this requirement will be made as necessary to assure an adequate flow of information back to Washington.

4. Recommendation: The United States should take the necessary steps to develop, and get agreement among member countries on, firm and sustainable criteria for eligibility for IDB lending. Such criteria, although based predominantly on the economic performance of recipient countries, should also provide for such things as guidelines on access to resources of FSO by more developed countries and recognize the need for value judgments in certain individual cases.

Action: Economic performance of recipient countries has always been considered by the Bank. This is done through annual economic reviews conducted under the aegis of the CIAP. Reviews are attended by representatives from the IMF, IBRD, IDB, and USAID. In two instances, the IDB has halted lending activity for extended periods of time because of inadequate economic performance.

In July 1972, the Board of Directors of the IDB received a management plan to phase down access to FSO resources by relatively more advanced recipient countries. This phasedown will take place over a 3-year period in 1972-75 and reduce the share of the four largest countries from 40 percent to 20 percent. This was a course of action earlier urged by the U.S. Government.

Exhibit 76.—Remarks by Assistant Secretary Hennessy, May 15, 1973, before the Propeller Club of Port of Charleston, Charleston, S.C.

It is a double pleasure for me to be here in Charleston. First, I look forward to the chance to address such a distinguished group and to exchange ideas on the important subject of trade. Secondly, it is a great personal pleasure, since this city is home to a large part of my family, and a number of very happy years of my own childhood was spent here.

Trade is a topic of widespread concern today. It is no longer the exclusive interest of a relatively small group of businessmen and government officials. Its impact on the well-being of all of us—industry, workers, and jobs in general—is now well and viscerally recognized.

Trade was first taken off the financial pages and put on the front page in 1971 when the United States had the first trade deficit in 90 years. The concern increased in 1972 when the trade deficit became even larger.

The most visible effect—at least to one working in Washington—has been growing pressure for restrictions of all kinds, on imports, on corporations, on capital.

Fundamental questions have been raised about the United States ability to compete, in what seemed to be an increasingly discriminatory world trading system; about an appropriate U.S. response to a changed world economic situation, one in which our country no longer is the dominant economic power; and about how the rules of the game must be modified to reflect the modern realities, not those of a postwar era.

The administration's response to these problems has been several, both in the domestic and international area, dating back to the measures first instituted on August 15, 1971. I would like to mention two sets of actions. The first, of a short-run nature, would reflect the changes in the relative position of economies, which had taken place over the preceding 25 years and thus allow us to compete on a fair price basis. Two general exchange rate realignments have taken place and the present rates reflect basic underlying economic realities—no further change in the value of the dollar is needed or will be taken.

The second set of actions—longer term but equally important actions—is reform of the international rules of the game both in the monetary and trading system.

While I will speak briefly on monetary reform and its relevance to trade, I want to focus the majority of my talk on trade and the trade bill, submitted to Congress by President Nixon on April 10 of this year.

The title—The Trade Reform Act of 1973—was carefully chosen, for the bill represents a major American initiative, an effort by President Nixon to bring about reform in the rules and practices of world trade so that the United States and other nations can compete fairly and freely. It is designed to provide a new direction to world trade. Its thrust is outward looking and expansionary, but—and this is a large but—it also provides new tools and new authorities to be able not only to bargain hard for freer and fairer trade but also to be able to look after our own vital interests—as and when this is needed.

Some of the specific provisions of this bill and its objectives are worth mentioning because they demonstrate a package or balanced approach, which best ensures the type of world trading system which will be beneficial to our country. First of all, the bill does ask for rather broad authorities for the President. These include:

1. An authority to move tariffs up, as well as down, during the negotiations.
2. A congressional declaration in favor of negotiations and agreements on *nontariff barriers* with an optional procedure for obtaining congressional approval of these agreements, where appropriate.
3. A more flexible and effective authority for the President to protect American workers and industry against countries that unreasonably or unjustifiably restrict U.S. exports.
4. The authority to raise or lower import restrictions on a transitory basis, when our balance of payments situation requires such action.

The bill was written with the conviction that the United States must have a strong bargaining position in order to bring about needed changes—in order to reform the international trading order, and, in point of fact, the authorities which the President is requesting would, in most cases, provide us with no more powers than other industrial nations customarily bring to the negotiating table.

While the message of the bill is quite clear in favoring an expansion of world trade, it also recognizes that, in the past, we had inadequate tools to deal with the domestic aspects of problems arising from international trade. The proposed trade bill would provide more flexible and effective safeguards for both our workers and our industries, for it is clear that in a world of rapid change and open markets our Nation cannot and should not expect its domestic workers and business to bear excessive hardships caused by surges in imports.

The aim of such safeguards is not to avoid adjustment, but to ease the burdens of adjustment for a transitional period. The safeguard provisions of the bill would:

A. Introduce a fairer and less stringent test for domestic industry to qualify for import relief. Restrictions of a transitory nature would be permitted in order to provide the industry with time to adjust, increase competition from imports, or to avoid serious injury.

B. Provide more accessible and rapid adjustment assistance to workers who are displaced due to import competition. At the same time, separate legislation will be submitted to reform the pension and unemployment insurance systems in order to provide assistance to any worker who loses his job irrespective of whether the cause is domestic or international.

C. Embody a considerable improvement in the procedures of the antidumping and countervailing duty statutes in order that our workers in industry are adequately protected from unfair foreign competition.

These are major aspects of the proposed bill, and I believe they indicate a balanced approach—one which is designed to move the system toward greater openness, greater fairness and yet at the same time provide us with the bargaining power and protection we need.

Specifically, what does the United States hope to achieve in the negotiations, which will begin in September? There are three general objectives:

Free up agricultural trade,

Reverse the trend of inward-looking regionalism and the erosion of the most-favored-nation principle,

Attempt to rationalize nontariff barriers, which now affect a large part of world trade.

Let me say a brief word about each of these three:

Agriculture

While the Trade Reform Act does not request specific negotiating authority for agriculture, since the general authorities on tariffs and nontariff barriers are fully applicable, agriculture is one of the most important issues in the upcoming negotiations. Our farm sector is a very efficient producer of many products—particularly grains.

We are fortunate in having the greatest contiguous land area that can be found anywhere, blessed by nature for abundant grain production, with a favorable climate and water supply.

For many years we have held much of this land out of production, at considerable cost. This is no longer a viable proposition. Farm exports have made a substantial positive contribution to our balance of trade since 1960 and last year farm exports helped reduce our overall trade deficit by \$2.9 billion. The potential for expansion is even greater. The paramount U.S. objective in these negotiations, therefore, will be to broaden the role of market forces at the international level by reducing and removing barriers to trade farm products.

Regionalism

U.S. support for European unity has been a consistent American postwar policy. We have been strong in our encouragement of it.

However, in its economic relations, the European Community has developed a regional character that has become increasingly inward looking and based upon special preferential arrangements which involve real trade losses to us and others. By 1975, these arrangements will involve some 80 countries. This is not a healthy situation for any of us, and we must find a solution which reconciles the legitimate aspirations of regionalism with the imperatives of a balanced and fair international trade and monetary system. Abandonment of the most-favored-nation concept, in our judgment, is not in anyone's interest, and certainly not in the interest of the United States. This trend can be reversed. One way to do this with a minimum of friction would be the mutual elimination of tariffs.

Nontariff barriers (NTB's)

This is a very complex area. Partly because of the difficulty of coming to grips with NTB's, past multilateral trade negotiations have concentrated on tariffs. Tariffs are not without importance, but with their progressive lowering NTB's have assumed even greater importance as barriers to trade. They cannot be given a back seat any longer.

Not every barrier can be considered a target for reduction. Many of them, such as those for the protection of health and safety, are legitimate. But some are not,

and these we must cope with, in spite of the difficulty involved. Progress has already been made bilaterally with the Japanese, and, although we do not underestimate the problems, our experience is that if we are right and bargain hard for what we want we will be successful.

The reaction abroad to the President's trade bill has been generally constructive, although it causes more concern to certain countries than to others. In the negotiations there will be give and take—other nations have complaints against some of our trade practices. We will have to be ready to strike a fair bargain ourselves, although I believe it fair to say, if we are to reach a balanced international trading order, the United States will be more of a taker than a giver this time.

We do have a large stake in trade. Although trade as a percentage of our gross national product is smaller than any other industrial nation in the free world, we cannot live just as well without the \$100 billion of exports and imports we now trade yearly. I would urge we all recognize that imports are good; that they increase the welfare of the American people, its workers, and its industries. They help keep cost inflation down, provide variety and a competitive force that is beneficial to us. Exports are, of course, vital to our economic well-being, and we must make sure these obtain fairer treatment than in the past.

In assessing the problems facing us in the trade field, let me just say one word about the ability of our business to take advantage of new opportunities to compete internationally.

In the past, no matter how hard our exporters tried or our domestic industry worked, many could just not compete. Other major currencies were undervalued and reluctant to give up the competitive edge that gave them. Today we have a far different world in which the relative price of the dollar versus, for example, the deutsche mark and the Japanese yen has changed around 30 and 35 percent, respectively. This removes a major impediment to our exports and provides many new opportunities, but at the same time there is concern that we may have forgotten how to export—how to compete internationally—during the last 10 years.

I recently took a trip to the Far East, where, as you know, the Japanese trading presence is even more strongly felt than here. In places like Korea, the Philippines, and Taiwan, I heard many stories that, even with the incentives provided by the new prices, U.S. exporters are not bidding on many major projects where we do have an advantage. Officials and businessmen expressed dismay to me about this and asked what must be done. I personally believe this will be a short-lived phenomenon. It is due partly to the size of the U.S. domestic market and the strong growth in internal demand which we have experienced during the last 2 years, which makes exporting less attractive. Partly, however, I believe the failure may be due to our having lost the knack of exporting, and some of my friends in business tell me the export manager in many medium and even large firms has passed into history, not unlike the dinosaur. I am optimistic that there will be a renewed and major effort by our industries to overcome quickly the years we could not actively participate in export business. Our economy has always been responsive to price incentives and I am sure it will be in this case, but in my talks around the country I do like to urge you in the private sector to take a good look at foreign markets you once wrote off. Here the example of South Carolina and Charleston provides a tangible evidence of what dedicated effort can do.

I am sure there are many questions which I would be happy to address on our overall trade objectives and the specifics of the proposed bill now before the Congress. Before getting to those I would like to close by making a few remarks on other parts of international economic reform. Change in the prevailing exchange rate patterns was only one step in the process of reform. It is equally clear, however, that our efforts to reform the rules and structure of the international monetary system are more urgent now than ever. In a system of more equally distributed economic power, countries amassing huge surpluses which throw the entire system into disequilibrium cannot be tolerated. The United States has presented proposals for a reformed system with much more flexible exchange rates and a system of rules, based on the use of objective indicators, to ensure that adjustment does take place—that countries do take action to correct their emerging balance of payments problems quickly and effectively, without the postponement and subsequent disruption we have experienced in recent years. Progress is being achieved in the monetary negotiations, which began last September, and

is equally critical to our success in trade for it is obvious that if we do have an international monetary system which produces recurrent crises, then we shall end up in a world of controls and restrictions not only on capital but on trade as well.

The monetary and trade negotiations must lead to a consistency in rules that has been lacking in the past. For perhaps the first time, in the present negotiations countries are having to coordinate the reform of monetary and trade policies. While no businessman could afford the luxury of treating the sale of the goods as independent from the currency and manner of paying for them, until very recently, trade and finance ministers did not speak to each other too frequently. It is now recognized that these two areas are intimately linked and rules will be written accordingly. Nondiscrimination in monetary arrangements must be balanced by a return to most-favored-nation treatment in trade.

The success in our forthcoming trade negotiations and the effort to expand world markets on a fair and equitable basis is of vital concern to all of us. South Carolina and Charleston, in particular, represent an important case study of how an enlightened industrial and trade policy can lead to expanded trade and employment. Last year, I understand, close to \$1 billion of imports and exports passed through the Port of Charleston, representing an increase of more than 60 percent over the previous year. At the same time, there is a concerted effort by both State authorities and private industry to assure facilities of the Port of Charleston are updated in order to attract new and diversified industry to the State and \$40 million of State-backed funding will be provided for the expansion of the port. Moreover, foreign investment has been attracted to the State. According to figures I have seen, some 40 plants from foreign countries are now operating in South Carolina. I applaud your fine work in this area and I hope and trust you will support our efforts to create a new reformed trading system which will allow the United States, South Carolina, and Charleston to enjoy the just fruits of its hard work and its expanding competitive ability.

Exhibit 77.—Communique of the Ministerial Meeting of the Committee of Twenty, March 26-27, 1973, Washington, D.C.

1. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of Twenty) held their second meeting in Washington on March 26 and 27, 1973, under the chairmanship of Mr. Ali Wardhana, Minister of Finance for Indonesia. By the courtesy of the Organisation of American States the meeting was held in the Pan American Union Building. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting which was also attended by Mr. Wilhelm Haferkamp, Vice-President of the E.E.C., Mr. René Larre, General Manager of the B.I.S., Mr. Emile van Lennep, Secretary-General of the O.E.C.D., Mr. Olivier Long, Director-General of the G.A.T.T., Mr. Manuel Pérez-Guerrero, Secretary-General of the U.N.C.T.A.D., and Sir Denis Rickett, Vice-President of the I.B.R.D.

2. The Committee received a report in which the Chairman of their Deputies, Mr. Jeremy Morse, summarised the Deputies' discussions to date on the adjustment process and exchange rate mechanism, reserve assets and convertibility, and capital flows.

3. The Members of the Committee reaffirmed the need for a world monetary order, based on cooperation and consultation within the framework of a strengthened International Monetary Fund, that will encourage growth of world trade and employment as well as economic development and will support the domestic efforts of monetary authorities throughout the world to counteract inflation.

4. The Members of the Committee exchanged views on the substance of international monetary reform in the light of recent developments in exchange markets and of countries' policy reactions to these developments, and instructed their Deputies to take account of these events and their implications in their continuing work. The Members of the Committee recognised that the various elements of reform are interlinked. Their discussion of a reformed system centered on the following points:

(a) There should be a better working of the adjustment process, in which adequate methods to assure timely and effective balance of payments adjust-

ment by both surplus and deficit countries would be assisted by improved international consultation in the Fund including the use of objective indicators. It was noted that the Deputies are establishing a technical group on indicators. The importance of effective domestic policies for balance of payments adjustment was underlined. Members of the Committee recognised that exchange rates must be a matter for international concern and consultation and that in the reformed system the exchange rate regime should remain based on stable but adjustable par values. It was also recognized that floating rates could provide a useful technique in particular situations. There was also general agreement on the need for exchange market stability and on the importance of Fund surveillance of exchange rate policies.

(b) There should be better international management of global liquidity. The role of reserve currencies should be reduced and the SDR should become the principal reserve asset of the reform system. The Deputies were asked to study further the conditions for a resumption of general convertibility, including questions relating to consolidation of excess reserve currency balances and to methods of settlement.

(c) An intensive study should be made of effective means to deal with the problem of disequilibrating capital flows by a variety of measures, including controls, to influence them and by arrangements to finance and offset them. It was noted that the Deputies are establishing a technical group on disequilibrating capital flows, including those associated with Euro-currency markets.

(d) There should be a strong presumption against the use of trade controls for balance of payments purposes. Developing countries would, however, be exempt wherever possible from trade and capital controls imposed by other countries and their particular circumstances would be taken into account in assessing controls that they themselves felt it necessary to apply.

5. The Members of the Committee recognized the concerns of developing countries under current conditions and their interests in a reformed system. They affirmed the desirability on the occasion of the reform of promoting economic development and the flow of real resources from developed to developing countries.

6. The Committee approved their Deputies' program of future work. In directing the attention of the Deputies to those aspects of reform which have an important bearing on the current situation, they recognized that procedures are already established for coordinating the work of the Executive Directors of the Fund with that of the Deputies. They noted that the Deputies' plan to expand their meeting schedule and to intensify their work between meetings, and they instructed the Deputies to proceed urgently with the preparation of a draft outline of the reform, in which the major issues would be presented to the Committee for decision.

7. The Committee will meet again at a time to be proposed by the Chairman in the light of the progress of the Deputies' work.

Exhibit 78.—Press release, April 25, 1973, announcing joint letter from Secretary of the Treasury Shultz and Secretary of Commerce Dent to presidents of firms in the United States which file regular statistical reports to one or both Departments

Attached is a letter from the Secretary of the Treasury and the Secretary of Commerce to presidents of business firms in the United States which file regular statistical reports to one or both Departments for the purpose of compiling statistics on international capital transactions in the U.S. balance of payments.

The request is specifically designed to ensure that data reported within the existing statistical reporting system are as complete and accurate as possible, particularly for the first quarter of 1973.

It is hoped that the request will lead to a better understanding of the sources and nature of the unusual capital flows of recent months.

APRIL 23, 1973

The recent period of international monetary disturbances was accompanied by large movements of funds out of the United States and from the dollar into foreign currencies. While these flows of funds have aroused widespread public interest in this country and abroad, neither the United States Government nor the governments of countries which were the major recipients of these funds have adequate information concerning the nature of these movements. The 14-nation monetary meeting in Paris last month, in which the United States participated,

announced the need to seek more complete understanding of the sources and nature of these large capital flows.

The established statistical reporting systems operated by the Department of the Treasury and the Bureau of Economic Analysis of the Department of Commerce are designed to obtain comprehensive data on international capital transactions in the U.S. balance of payments, and together provide reasonably adequate information under normal conditions. However, the extent of transactions in the balance of payments for which no data have been recorded—the so-called “errors and omissions”—indicates that many transactions escape the statistical system in periods when unusual flows take place. Because of the importance of an adequate explanation of the recent events, we are convinced that a major effort must be made to ensure that responses to the present reporting forms are thorough and accurate, and that the reporting system is properly designed.

We are asking you, therefore, to undertake a policy level review within your firm to ensure that the statistical data which are reported on the Treasury and Commerce forms for the first three months of this year are complete, consistent and accurate. They should reflect all of your financial relationships with foreigners, including those with your own foreign branches and subsidiaries or foreign parent or head office, except to the extent that the reporting exemptions apply. Please see the enclosed material for details.

Our primary objective is to ensure that the data reported for December 31, 1972 and the first quarter of 1973 in both the Treasury and Commerce data systems are as accurate and complete as possible, to enable us to analyze the movements which occurred during the first quarter. We believe the interests of the business community coincide with our own in establishing accurate information on recent flows. In addition, the review should, of course, produce continuing improvements in reporting. We would also like to be advised of any types of international capital transactions of your firm which do not fit into the categories provided in these forms, and which therefore are not reported.

We will appreciate it very much if you will give this matter your personal attention. We are sure you recognize the importance to the U.S. Government and to the business community of an objective and factual understanding of these capital movements.

Sincerely yours,

(Signed) GEORGE P. SHULTZ,
Secretary of the Treasury.
(Signed) FREDERICK B. DENT,
Secretary of Commerce.

ENCLOSURE

REVIEW OF REPORTING ON THE TREASURY FOREIGN EXCHANGE FORMS AND THE COMMERCE DIRECT INVESTMENT FORMS

Firms in the United States whose transactions with foreigners result in financial liabilities to or claims on foreigners or investment positions in foreign affiliates above specified exemption levels are required to report on the Treasury Foreign Exchange forms or the direct investment forms of the Bureau of Economic Analysis of the Commerce Department, or both. The relevant Treasury Foreign Exchange forms cover liabilities to and claims on non-affiliated foreigners (Forms C-1/2 and C-3) and securities transactions directly with foreigners (Form S-1). The Treasury reports are filed with the Federal Reserve Bank of New York, as fiscal agent of the Treasury. The Commerce direct investment forms cover the accounts of business firms in the United States with their overseas subsidiaries and branches (BE-577 and 578) or their overseas parents or head offices (BE-605 and 606). These two reporting systems are designed to cover, without duplication, all of the capital transactions between firms in the United States and non-resident firms and individuals. They are part of a standard statistical system providing data for the balance of payments, and are separate from the reporting requirements of the Office of Foreign Direct Investment of the Commerce Department.

We are asking firms reporting on these forms to undertake a searching review of their procedures to ensure that data reported on the Treasury and Commerce forms are complete, consistent and accurate. If your firm is filing reports in only one of these statistical systems, or is not currently filing in either of them, please check carefully to be sure that your firm is in fact exempt from the filing requirements. If you file reports on both the Treasury and Commerce forms and they are prepared in different parts of your firm's organization, please have them reviewed together to be sure they are properly coordinated within your firm.

The initial objective of this review is to ensure that the data reported for December 31, 1972 through March 31, 1973 in the Treasury system, and for the first quarter of 1973 in the Commerce system, are as accurate and complete as possible. We expect, of course, that any improvements which result from your review will continue in future reports.

Please complete the review of your reporting procedures as soon as possible, but do not delay sending your Treasury reports for March 31, 1973 or your Commerce reports for the first quarter 1973 on schedule. If you revise the basis of your March 31 Treasury reports as a result of your review, your March reports must be accompanied by comparable revised reports for December 31, 1972 and succeeding months. If you cannot provide comparable revised reports for the earlier months at the same time, please submit your March 31 Treasury reports on the unrevised basis, and provide revised reports for December 31, 1972 through March 31, 1973, marked "Revised Report," as soon as possible, but no later than June 30, 1973. If you revise the basis of your first quarter 1973 Commerce report as a result of the review, please so indicate in your letter of transmittal. If you complete the review after your first quarter Commerce report is submitted, and the basis of your reporting changes, please submit a revised Commerce report for the first quarter, marked "Revised Report," as soon as possible, but no later than June 30, 1973.

Revisions of the Treasury reports should be sent to the Balance of Payments Division, International Research Department, Room 929, Federal Reserve Bank of New York, New York, New York 10045; revisions of the Commerce reports should be sent to the Bureau of Economic Analysis, International Investment Division, BE-50, Department of Commerce, Washington, D.C. 20230. Copies of blank forms can be obtained from these offices if needed.

If your review shows that all required data are being properly reported in both reporting systems, or that you are exempt from one or both reporting requirements, please send statements to that effect to the offices specified above.

* * * * *

Exhibit 79.—U.S. paper entitled "Quantitative Indicators from the Point of View of the Overall Operation of the System," made available to the Deputies of the Committee of Twenty at their meeting in Washington, D.C., in May 1973

The attached paper, entitled "Quantitative Indicators from the Point of View of the Overall Operation of the System," was made available to the Deputies of the Committee of Twenty at their meeting in Washington in May 1973. It is a further elaboration of the U.S. proposal for establishing a system in which nations' reserve movement would serve as a quantitative indicator to guide the balance of payments adjustment process. The basic U.S. proposal was contained in an address by Treasury Secretary Shultz at the IMF/World Bank annual meetings September 26, 1972.¹

This paper supplements one entitled "The U.S. Proposals for Using Reserves as an Indicator of the Need for Balance-of-Payments Adjustment," circulated to the Deputies of the Committee of Twenty in November 1972 and published as a supplement to chapter 5 of the Economic Report of the President, January 1973.

QUANTITATIVE INDICATORS FROM THE POINT OF VIEW OF THE OVERALL OPERATION OF THE SYSTEM

The discussion of quantitative indicators has seemed to proceed mainly from a "national" point of view—with each individual nation thinking of indicators in terms of application to and effects on itself. There has been comparatively little consideration from an overall point of view—that is, how indicators would relate to the operation of the system as a whole. But a fundamental purpose of an indicator mechanism is to assure that the system is workable in its entirety. In the U.S. proposal, indicators enforce the viability of the system in two related ways—one, assuring consistency between the settlement mechanism and the adjustment mechanism; two, assuring consistency between the tolerance for imbalance in the system and the availability of reserves to finance such imbalance. The U.S. would welcome, and indeed would regard as necessary, an assessment of indicators which takes account of such questions of the overall operation of the system.

¹ See exhibit 48.

A. Consistency between the settlement mechanism and the adjustment mechanism

An understandable first reaction to indicator proposals is concern that one's own government might be called upon to take adjustment actions at a time when it does not want to undertake such actions—and accordingly to favor indicators only for "initiating consultations," but not for "inducing policy actions" or "inducing graduated pressures by the international community." But while there might be widespread support for the relatively noncontroversial move of using indicators to initiate consultations, such a move would in the U.S. view be insufficient. It would leave the monetary system without one of its indispensable requirements—the assurance of an effective and equitable adjustment mechanism.

The international monetary system cannot in the U.S. view function on a sustained basis with a *settlement* mechanism and obligations which are certain and definite, and an *adjustment* mechanism which is uncertain and indefinite. Such a system would be inherently unbalanced in its application to surplus and deficit countries; and, as experience has shown, would provide no assurance that disequilibria in the system could be kept within reasonable bounds. Such a system would break down, inevitably and probably quickly. A presumption of certainty in settlement must be balanced by a presumption of certainty in adjustment.

To make this point more vivid, in logic if the adjustment mechanism were to be *uncertain*—for example, if indicators were used to initiate consultation without a strong presumption that adjustment action would be undertaken, one would be forced to conclude that the settlement mechanism should be *uncertain*—for example, countries might initiate consultations on the extent to which imbalances might be settled with primary assets without any strong presumption of general convertibility.

The U.S. proposals envisage certainty in settlement obligations: deficit countries must promptly meet conversion requests in primary assets, except where a persistent surplus country has avoided adjustment and has reached its convertibility point—i.e., has made excessive claims on the world's stock of primary reserve assets. In our view, quantitative indicators would play a central role in assuring that the adjustment mechanism contained an equivalent degree of certainty ("certainty" in the sense that there needs to be a strong presumption that adjustment actions will be taken by surplus and deficit countries alike, though not "automaticity" in the sense that a particular country must undertake a particular exchange rate or other adjustment action when a particular indicator point is reached).

Indicators would—

- Call attention to emerging disequilibria,
- Suggest which nation or nations should adjust to correct such disequilibria,
- Assure that prompt and effective adjustment actions are taken,
- Induce international pressures on countries refusing to correct large and persistent disequilibria.

Using indicators only to initiate consultations assures consultations but not adjustment. For countries in *deficit*, adjustment may eventually follow consultation—since deficit countries may eventually become unable or unwilling to continue to finance their deficits—though the adjustment might well come later and have to be larger than would have been called for under an indicator system which "induced action" at an earlier stage. But for countries in *surplus*, the end result of consultation may be nonadjustment. The asymmetry in disciplines and inducements has been a serious flaw in the monetary system of the past, and its elimination constitutes one of the generally acknowledged reform needs.

We cannot have an equitably balanced system if deficit countries are presumed to have to adjust until proven otherwise, and surplus countries presumed *not* to have to adjust until proven otherwise. The system would lack harmony and balance. It would be subject to the same strains as in the past, the same competitive, if self-defeating, interest by all countries in running surpluses. Without a country to absorb these pressures for surplus by running an offsetting deficit—as the U.S. did in the past—protectionist pressures become a much greater danger.

It is not the U.S. aim in proposing presumptive indicators to have a system in which countries would be frequently passing through deficit and surplus indicator points and directly subjected to international pressures to adjust. We would regard it a failure if the system operated in that manner. The broad purposes of the indicators are to show when adjustment is essential from the standpoint

of the system as a whole; and to create built-in incentives for adjustment to eliminate deficits and surpluses *without* hitting indicator points and calling international pressures directly into play. Such built-in incentives for correction would not exist if indicators only initiated consultations.

The U.S. proposal for indicators is designed to apply the same adjustment incentives to all nations, large or small, deficit or surplus. But limiting use of indicators to initiation of consultation might also result in undesirable frictions and a somewhat arbitrary distribution of adjustment burdens. Lacking an objective standard against which to measure adjustment need, it is hard to prevent some countries—the strong or the stubborn—from being able to hold out against recommendations for adjustment actions, while others cannot hold out. Not only effectiveness but equity would be missing.

B. Consistency between tolerance for imbalance and the availability of reserves to finance imbalance

When considering the placement of base levels of reserves and indicator points in an indicator system, it is natural for a country to want to preserve substantial freedom of action from the system's adjustment pressures—and accordingly, assuming an exchange rate regime of central or par values, to want a relatively high base level and wide bands before indicator points are reached. That is a reasonable approach for any single nation to take from its "national" point of view—provided it accepts the consequences for the overall operation of the system. A primary consequence is that the system must be able to provide the possibly substantial amounts of reserves needed for the tolerance of relatively large and persistent surpluses and deficits in the system. If, on the other hand, the international community does not want to see the creation of substantial amounts of reserves, nations must accept the consequences of that decision and be willing to live within the constraints of a system requiring the introduction of effective adjustment measures after what might appear to be relatively small surpluses or deficits. The tolerance for surpluses and deficits must be keyed to the availability of reserves—it would be dangerous to build into the system demands for reserves which are not matched by the availability of reserves.

In the U.S. proposals, the reserve indicator mechanism acts to ensure the consistency of international reserves with the need and action of individual countries. There has been much talk in the reform discussions of the importance of "international control" over the level of world liquidity—but little specific comment on how the control should be exercised or what the level of world reserves should be. The U.S. reserve indicator mechanism represents our attempt to provide a rigorous framework for an equilibrium system based on such international decisions and control.

The reserve indicator system is aimed at ensuring the needed consistency between the supply of international reserves and national behavior in several ways.

(a) It would assure that the initial demand for primary reserves is balanced by the availability of primary reserves, by the establishment of a generally acceptable system of *base levels*, which each nation would accept as its primary reserve target, and by creating a world-wide supply of primary reserves equal to the aggregate base levels.

(b) It would provide a framework for determining periodic SDR allocations by collective decisions on the appropriate *trend* of base levels over time, and the consequent decision to allocate new SDR's equal to the increase in base levels.

(c) Irrespective of other adjustment pressures or inducements, it prevents the strain on the system which would result from excessive accumulation of primary reserves by one or more countries beyond the level justified on the basis of the total primary reserves in the system, through a *convertibility point* for each country where its right to accumulate additional primary reserves would be suspended.

(d) It provides safeguards against excessive permanent primary reserve creation or inappropriate adjustment pressures by permitting currency holdings to act as a safety-valve while preventing excessive reliance on currencies by the requirement that currency holdings must be at the agreement of both the issuer and the holder and by the placement of indicator points, based on total reserves, which strongly presume effective adjustment action.

Exhibit 80.—Remarks by General Counsel Pierce, September 28, 1972, at the sixth annual meeting of the International Centre for Settlement of Investment Disputes, Washington, D.C.

The past year has been an important one for the International Centre for Settlement of Investment Disputes (ICSID). Two more developing countries—Jordan and the Arab Republic of Egypt—have acceded to the Convention, bringing the total number of signatories to the Convention to 68. Progress has been made toward publication of a compendium of national laws and international agreements relating to foreign investment. Most significantly, for the first time parties have submitted a dispute to ICSID for settlement by arbitration.

The decision in the case between Morocco, Holiday Inns, S.A., and Occidental Petroleum can become a milestone in the history of ICSID, and in the settlement of international investment disputes. The decision could generate increased confidence in ICSID, making resort to it more familiar, and alleviating the concerns of foreign investors and host countries which have thus far not used ICSID facilities. The decision may be the first step away from the period of inactivity so frequently found in the early years of international tribunals. Hopefully it will mark ICSID's evolution into an increasingly important international organ for dispute settlement. More importantly, the decision could demonstrate the flexibility, utility, and impartiality of the Centre—attributes which make its arbitral tribunals ideal fora to pass on new problems which have arisen in expropriation disputes.

The need for ICSID has clearly not diminished. Over the past year, we have seen several large expropriation disputes. Some of these have proved susceptible to successful resolution through negotiation, but other disputes have raised new issues that make settlements more difficult. For example, in some cases the fact of expropriation has become less than clear due to the use of techniques for "intervention"—usually without compensation—in foreign-owned enterprises. In other cases the compensation due an expropriated foreign investor has been reduced by claims for "excess profits" or "back taxes," or by refusal to pay for mineral rights. ICSID arbitral tribunals are well-suited to test the validity of these claims under international law—claims which countries have asserted despite their novelty in international practice. For our part, we believe that these claims do not have any legal merit whatsoever.

The benefits of utilizing ICSID, of course, extend beyond decision on the claims of parties to a particular investment dispute. ICSID enables host countries to avoid the detrimental long-term effects of expropriation without compensation, such effects as the diminishing flow of private funds and technology vital to development, the erosion of donor country support in both bilateral programs and the multilateral institutions, the unwillingness of other foreign investors in the host country to reinvest their earnings, and the loss of much-needed managerial assistance. Under the Convention, a "cooling off" period will occur as arbitral or conciliatory proceedings get underway. More importantly, a dispute can be removed from the tension of the political arena to the order of well-defined arbitral and conciliatory procedures, where decisions about contentious issues can be made impartially, by men of recognized character, expertise, and competence, and in accordance with international law.

It was these advantages of ICSID that led President Nixon, in his expropriation policy statement of January 19, 1972, to reaffirm U.S. support for ICSID. The President noted that one method of making reasonable provision for just compensation in an expropriation dispute is to refer the dispute to international arbitration under the auspices of ICSID.

The Gonzalez amendment to the U.S. multilateral financial institution legislation adopts a similar rationale. That amendment requires that, in certain circumstances, the United States vote against loans by the international development banks to an expropriating country. However, there is an exception which applies when investment disputes are submitted to ICSID for arbitration. Submitting a dispute to ICSID is viewed as equivalent to good faith negotiations being in progress aimed at providing prompt, adequate, and effective compensation.

Although ICSID is the international institution most likely to resolve the impasse between the need for security of investment on the part of foreign investors, and the demand by developing countries for control over their resources, its advantages are as yet potential, and are not fully realized. We therefore reiterate our recommendation of last year that the Secretary General undertake a study of practical measures which would make for greater effectiveness of the Centre.

Organization and Procedure

Exhibit 81.—Secretaries, Deputy Secretary, Under Secretaries, General Counsels, Assistant Secretaries and Deputy Under Secretaries for Monetary Affairs serving in the Treasury Department from September 11, 1789, to January 20, 1973, and the Presidents under whom they served

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
<i>Secretaries of the Treasury</i>				
Sept. 11, 1789	Jan. 31, 1795	Alexander Hamilton, New York.....		Washington.
Feb. 3, 1795	Dec. 31, 1800	Oliver Wolcott, Connecticut.....		Washington, Adams.
Jan. 1, 1801	May 13, 1801	Samuel Dexter, Massachusetts.....		Adams, Jefferson.
May 14, 1801	Feb. 9, 1814	Albert Gallatin, Pennsylvania ¹		Jefferson, Madison.
Feb. 9, 1814	Oct. 5, 1814	George W. Campbell, Tennessee.....		Madison.
Oct. 6, 1814	Oct. 21, 1816	Alexander J. Dallas, Pennsylvania.....		Madison.
Oct. 22, 1816	Mar. 6, 1825	Wm. H. Crawford, Georgia.....		Madison, Monroe.
Mar. 7, 1825	Mar. 5, 1829	Richard Rush, Pennsylvania ²		Adams, J. Q.
Mar. 6, 1829	June 20, 1831	Samuel D. Ingham, Pennsylvania ³		Jackson.
Aug. 8, 1831	May 28, 1833	Louis McLane, Delaware.....		Jackson.
May 29, 1833	Sept. 22, 1833	Wm. J. Duane, Pennsylvania.....		Jackson.
Sept. 23, 1833	June 25, 1834	Roger B. Taney, Maryland.....		Jackson.
July 1, 1834	Mar. 3, 1841	Levi Woodbury, New Hampshire.....		Jackson, Van Buren.
Mar. 6, 1841	Sept. 11, 1841	Thomas Ewing, Ohio.....		Harrison, Tyler.
Sept. 13, 1841	Mar. 1, 1843	Walter Forward, Pennsylvania.....		Tyler.
Mar. 8, 1843	May 2, 1844	John C. Spencer, New York ⁴		Tyler.
July 4, 1844	Mar. 7, 1845	Geo. M. Bibb, Kentucky.....		Tyler, Polk.
Mar. 8, 1845	Mar. 5, 1849	Robt. J. Walker, Mississippi.....		Polk.
Mar. 8, 1849	July 22, 1850	Wm. M. Meredith, Pennsylvania.....		Taylor, Fillmore.
July 23, 1850	Mar. 6, 1853	Thos. Corwin, Ohio.....		Fillmore.
Mar. 7, 1853	Mar. 6, 1857	James Guthrie, Kentucky.....		Pierce.
Mar. 7, 1857	Dec. 8, 1860	Howell Cobb, Georgia.....		Buchanan.

Dec. 12, 1860	Jan. 14, 1861	Philip F. Thomas, Maryland	Buchanan.
Jan. 15, 1861	Mar. 6, 1861	John A. Dix, New York	Buchanan.
Mar. 7, 1861	June 30, 1864	Salmon P. Chase, Ohio	Lincoln.
July 5, 1864	Mar. 3, 1865	Wm. P. Fessenden, Maine	Lincoln.
Mar. 9, 1865	Mar. 3, 1869	Hugh McCulloch, Indiana ⁵	Lincoln, Johnson.
Mar. 12, 1869	Mar. 16, 1873	Geo. S. Boutwell, Massachusetts	Grant.
Mar. 17, 1873	June 3, 1874	Wm. A. Richardson, Massachusetts	Grant.
June 4, 1874	June 20, 1876	Benj. H. Bristow, Kentucky	Grant.
July 7, 1876	Mar. 9, 1877	Lot M. Morrill, Maine	Grant, Hayes.
Mar. 10, 1877	Mar. 3, 1881	John Sherman, Ohio	Hayes.
Mar. 8, 1881	Nov. 13, 1881	Wm. Windom, Minnesota ⁶	Garfield, Arthur.
Nov. 14, 1881	Sept. 4, 1884	Chas. J. Folger, New York	Arthur.
Sept. 25, 1884	Oct. 30, 1884	Walter Q. Gresham, Indiana	Arthur.
Oct. 31, 1884	Mar. 7, 1885	Hugh McCulloch, Indiana ⁵	Arthur, Cleveland.
Mar. 8, 1885	Mar. 31, 1887	Daniel Manning, New York	Cleveland.
Apr. 1, 1887	Mar. 6, 1889	Chas. S. Fairchild, New York	Cleveland, Harrison.
Mar. 7, 1889	Jan. 29, 1891	Wm. Windom, Minnesota ⁶	Harrison.
Feb. 25, 1891	Mar. 6, 1893	Chas. Foster, Ohio	Harrison, Cleveland.
Mar. 7, 1893	Mar. 5, 1897	John G. Carlisle, Kentucky	Cleveland, McKinley.
Mar. 6, 1897	Jan. 31, 1902	Lyman J. Gage, Illinois	McKinley, Roosevelt.
Feb. 1, 1902	Mar. 3, 1907	L. M. Shaw, Iowa	Roosevelt.
Mar. 4, 1907	Mar. 7, 1909	George B. Cortelyou, New York	Roosevelt.
Mar. 8, 1909	Mar. 5, 1913	Franklin MacVeagh, Illinois	Taft.
Mar. 6, 1913	Dec. 15, 1918	W. G. McAdoo, New York	Wilson.
Dec. 16, 1918	Feb. 1, 1920	Carter Glass, Virginia	Wilson.
Feb. 2, 1920	Mar. 3, 1921	David F. Houston, Missouri	Wilson.
Mar. 4, 1921	Feb. 12, 1932	Andrew W. Mellon, Pennsylvania	Harding, Coolidge, Hoover.
Feb. 13, 1932	Mar. 3, 1933	Ogden L. Mills, New York	Hoover.
Mar. 4, 1933	Dec. 31, 1933	William H. Woodin, New York	Roosevelt.
Jan. 1, 1934	July 22, 1945	Henry Morgenthau, Jr., New York	Roosevelt, Truman.
July 23, 1945	June 23, 1946	Fred M. Vinson, Kentucky	Truman.
June 25, 1946	Jan. 20, 1953	John W. Snyder, Missouri	Truman.
Jan. 21, 1953	July 28, 1957	George M. Humphrey, Ohio	Eisenhower.
July 29, 1957	Jan. 20, 1961	Robert B. Anderson, Connecticut	Eisenhower.
Jan. 21, 1961	Apr. 1, 1965	Douglas Dillon, New Jersey	Kennedy, Johnson.

Footnotes at end of table.

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
Secretaries of the Treasury—Continued				
Apr. 1, 1965	Dec. 20, 1968	Henry H. Fowler, Virginia.....		Johnson.
Dec. 21, 1968	Jan. 20, 1969	Joseph W. Barr, Indiana.....		Johnson.
Jan. 22, 1969	Feb. 10, 1971	David M. Kennedy, Utah.....		Nixon.
Feb. 11, 1971	June 12, 1972	John B. Connally, Texas.....		Nixon.
June 12, 1972		George P. Shultz, Illinois.....		Nixon.
Deputy Secretary ¹				
June 12, 1972	Jan. 17, 1973	Charls E. Walker, Texas.....	Shultz.....	Nixon.
Under Secretaries ²				
July 1, 1921	Nov. 17, 1923	S. Parker Gilbert, Jr., New Jersey.....	Mellon.....	Harding, Coolidge.
Nov. 20, 1923	Feb. 1, 1927	Garrard B. Winston, Illinois.....	Mellon.....	Coolidge.
Mar. 4, 1927	Feb. 12, 1932	Ogden L. Mills, New York ³	Mellon.....	Coolidge, Hoover.
Feb. 13, 1932	May 15, 1933	Arthur A. Ballantine, New York.....	Mills, Woodin.....	Hoover, Roosevelt.
May 19, 1933	Nov. 16, 1933	Dean G. Acheson, Maryland.....	Woodin.....	Roosevelt.
Nov. 17, 1933	Dec. 31, 1933	Henry Morgenthau, Jr., New York ⁴	Woodin.....	Roosevelt.
May 2, 1934	Feb. 15, 1936	Thomas Jefferson Coolidge, Massachusetts.....	Morgenthau.....	Roosevelt.
Jan. 29, 1937	Sept. 15, 1938	Roswell Magill, New York.....	Morgenthau.....	Roosevelt.
Nov. 1, 1938	Dec. 31, 1939	John W. Hanes, North Carolina.....	Morgenthau.....	Roosevelt.
Jan. 18, 1940	Dec. 31, 1945	Daniel W. Bell, Illinois.....	Morgenthau, Vinson.....	Roosevelt, Truman.
Mar. 4, 1946	Jan. 14, 1947	O. Max Gardner, North Carolina.....	Vinson, Snyder.....	Truman.
Jan. 23, 1947	July 14, 1948	A. L. M. Wiggins, South Carolina.....	Snyder.....	Truman.
July 15, 1948	Jan. 20, 1953	Edward H. Foley, New York.....	Snyder.....	Truman.
Jan. 28, 1953	July 31, 1955	Marion B. Folsom, New York.....	Humphrey.....	Eisenhower.
Aug. 3, 1955	Jan. 31, 1956	H. Chapman Rose, Ohio.....	Humphrey.....	Eisenhower.

Aug. 9, 1957	Jan. 20, 1961	Fred C. Scribner, Jr., Maine.....	Anderson.....	Eisenhower.
Feb. 3, 1961	Apr. 10, 1964	Henry H. Fowler, Virginia ⁹	Dillon.....	Kennedy, Johnson.
Apr. 29, 1965	Dec. 20, 1968	Joseph W. Barr, Indiana ⁹	Fowler.....	Johnson.
Jan. 27, 1969	June 12, 1972	Charles E. Walker, Texas ¹⁰	Kennedy, Connally.....	Nixon.

Under Secretaries for Monetary Affairs ¹¹

Aug. 3, 1954	Sept. 25, 1957	W. Randolph Burgess, Maryland.....	Humphrey, Anderson..	Eisenhower.
Sept. 30, 1957	Jan. 20, 1961	Julian B. Baird, Minnesota.....	Anderson.....	Eisenhower.
Jan. 31, 1961	Dec. 31, 1964	Robert V. Roosa, New York.....	Dillon.....	Kennedy, Johnson.
Feb. 1, 1965	Jan. 20, 1969	Frederick L. Deming, Minnesota.....	Fowler, Barr.....	Johnson.
Jan. 27, 1969	-----	Paul A. Volcker, New Jersey.....	Kennedy, Connally, Shultz.	Nixon.

Under Secretary (Counselor) ¹²

June 12, 1972	-----	Edwin S. Cohen, Virginia.....	Shultz.....	Nixon.
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General Counsels ¹³

June 20, 1934	Jan. 11, 1939	Herman Oliphant, Maryland.....	Morgenthau.....	Roosevelt.
May 19, 1939	July 24, 1942	Edward H. Foley, Jr., New York ¹⁴	Morgenthau.....	Roosevelt.
Aug. 7, 1942	Mar. 22, 1944	Randolph E. Paul, New York.....	Morgenthau.....	Roosevelt.
May 10, 1944	Aug. 11, 1947	Joseph J. O'Connell, Jr., New York.....	Morgenthau, Vinson, Snyder.	Roosevelt, Truman.
June 10, 1948	Jan. 20, 1953	Thomas J. Lynch, Ohio.....	Snyder.....	Truman.
Jan. 30, 1953	Sept. 1, 1954	Elbert P. Tuttle, Georgia.....	Humphrey.....	Eisenhower.
Jan. 26, 1955	Aug. 2, 1955	David W. Kendall, Michigan ¹⁵	Humphrey.....	Eisenhower.
Sept. 22, 1955	Apr. 17, 1957	Fred C. Scribner, Jr., Maine ¹⁴	Humphrey.....	Eisenhower.
Jan. 28, 1958	Oct. 1, 1959	Nelson P. Rose, Ohio.....	Anderson.....	Eisenhower.
Oct. 2, 1959	Jan. 20, 1961	David A. Lindsay, New York.....	Anderson.....	Eisenhower.
Apr. 5, 1961	Oct. 6, 1962	Robert H. Knight, Virginia.....	Dillon.....	Kennedy.
Nov. 16, 1962	Jan. 31, 1965	G. d'Anselot Belin, Massachusetts.....	Dillon.....	Kennedy, Johnson.
Apr. 12, 1966	Jan. 20, 1969	Fred B. Smith, Maryland.....	Fowler, Barr.....	Johnson.
Apr. 1, 1969	Mar. 20, 1970	Paul W. Eggers, Texas.....	Kennedy.....	Nixon.
July 1, 1970	-----	Samuel R. Pierce, Jr., New York.....	Kennedy, Connally, Shultz.	Nixon.

Footnotes at end of table.

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
<i>Assistant Secretaries</i> ¹⁶				
Mar. 12, 1849	Oct. 9, 1849	Charles B. Penrose, Pennsylvania.....	Meredith.....	Taylor.
Oct. 10, 1849	Nov. 15, 1850	Allen A. Hall, Pennsylvania.....	Meredith, Corwin.....	Taylor, Fillmore.
Nov. 16, 1850	Mar. 13, 1853	William L. Hodge, Tennessee.....	Corwin, Guthrie.....	Fillmore, Pierce.
Mar. 14, 1853	Mar. 12, 1857	Peter G. Washington, District of Columbia.....	Guthrie, Cobb.....	Pierce, Buchanan.
Mar. 13, 1857	Jan. 16, 1861	Philip Clayton, Georgia.....	Cobb, Thomas, Dix.....	Buchanan.
Mar. 13, 1861	July 11, 1865	George Harrington, District of Columbia ¹⁷	Chase, Fessenden, McCulloch.....	Lincoln, Johnson.
Mar. 18, 1864	June 15, 1865	Maunsell B. Field, New York.....	Chase, Fessenden, McCulloch.....	Lincoln, Johnson.
Jan. 5, 1865	Nov. 30, 1867	William E. Chandler, New Hampshire.....	Fessenden, McCulloch.....	Lincoln, Johnson.
July 11, 1865	May 4, 1875	John F. Hartley, Maine.....	McCulloch, Boutwell, Richardson, Bristow.....	Johnson, Grant.
Dec. 2, 1867	May 31, 1868	Edmund Cooper, Tennessee.....	McCulloch.....	Johnson.
Mar. 20, 1869	Mar. 17, 1873	William A. Richardson, Massachusetts.....	Boutwell.....	Grant.
Mar. 8, 1873	June 11, 1874	Frederick A. Sawyer, South Carolina.....	Richardson, Bristow.....	Grant.
July 1, 1874	Apr. 3, 1877	Charles F. Conant, New Hampshire.....	Bristow, Morrill, Sherman.....	Grant, Hayes.
Mar. 4, 1875	June 30, 1876	Curtis F. Burnam, Kentucky.....	Bristow.....	Grant.
Aug. 12, 1876	Mar. 9, 1885	Henry F. French, Massachusetts.....	Morrill, Sherman, Windom, Folger, Gresham, McCul- loch, Manning.....	Grant, Hayes, Gar- field, Arthur, Cleveland.
Apr. 3, 1877	Dec. 8, 1877	Richard C. McCormick, Arizona.....	Sherman.....	Hayes.
Dec. 9, 1877	Mar. 31, 1880	John B. Hawley, Illinois.....	Sherman.....	Hayes.
Apr. 10, 1880	Dec. 31, 1881	J. Kendrick Upton, New Hampshire.....	Sherman, Windom, Folger.....	Hayes, Garfield, Arthur.

Feb. 28, 1882	Apr. 16, 1884	John C. New, Indiana	Folger	Arthur.
Apr. 17, 1884	Nov. 10, 1885	Charles E. Coon, New York	Folger, Gresham, McCulloch, Man- ning.	Arthur, Cleveland.
Mar. 14, 1885	Apr. 1, 1887	Charles S. Fairchild, New York ⁹	Manning	Cleveland.
Nov. 10, 1885	June 30, 1886	William E. Smith, New York	Manning	Cleveland.
July 12, 1886	Mar. 12, 1889	Hugh S. Thompson, South Carolina	Manning, Fairchild, Windom.	Cleveland, Harrison.
Apr. 6, 1887	Mar. 11, 1889	Isaac N. Maynard, New York	Fairchild, Windom	Cleveland, Harrison.
Apr. 1, 1889	July 20, 1890	George H. Tichner, Illinois	Windom	Harrison.
Apr. 1, 1889	Oct. 31, 1890	George T. Batchelder, New York ¹⁸	Windom	Harrison.
July 22, 1890	Dec. 1, 1892	A. B. Nettleton, Minnesota	Windom, Foster	Harrison.
July 23, 1890	June 30, 1893	Oliver L. Spaulding, Michigan	Windom, Foster, Car- lisle.	Harrison, Cleveland.
Apr. 27, 1891	Oct. 31, 1892	Lorenzo Crounse, Nebraska	Foster	Harrison.
Nov. 22, 1892	Mar. 3, 1893	John H. Gear, Iowa	Foster	Harrison.
Dec. 23, 1892	Apr. 3, 1893	Genio M. Lambertson, Nebraska	Foster, Carlisle	Harrison, Cleveland.
Apr. 12, 1893	Apr. 7, 1897	Charles S. Hamlin, Massachusetts	Carlisle, Gage	Cleveland, McKinley.
Apr. 13, 1893	Mar. 31, 1897	William E. Curtis, New York	Carlisle, Gage	Cleveland, McKinley.
July 1, 1893	May 4, 1897	Scott Wike, Illinois	Carlisle, Gage	Cleveland, McKinley.
Apr. 7, 1897	Mar. 10, 1899	William B. Howell, New Jersey	Gage	McKinley.
Apr. 7, 1897	Mar. 4, 1903	Oliver L. Spaulding, Michigan	Gage, Shaw	McKinley, Roosevelt.
June 1, 1897	Mar. 5, 1901	Frank A. Vanderlip, Illinois	Gage	McKinley.
Mar. 13, 1899	June 3, 1906	Horace A. Taylor, Wisconsin	Gage, Shaw	McKinley, Roosevelt.
Mar. 6, 1901	Apr. 15, 1903	Milton E. Ailes, Ohio	Gage, Shaw	McKinley, Roosevelt.
Mar. 5, 1903	Mar. 5, 1905	Robert B. Armstrong, Iowa	Shaw	Roosevelt.
May 27, 1903	Jan. 21, 1907	Charles H. Keep, New York	Shaw	Roosevelt.
Mar. 6, 1905	Nov. 1, 1909	James B. Reynolds, Massachusetts	Shaw, Cortelyou, MacVeagh.	Roosevelt, Taft.
July 1, 1906	Mar. 15, 1908	John H. Edwards, Ohio	Shaw, Cortelyou	Roosevelt.
Jan. 22, 1907	Feb. 28, 1907	Arthur F. Statter, Oregon	Shaw	Roosevelt.
Apr. 23, 1907	Mar. 6, 1909	Beckman Winthrop, New York	Cortelyou	Roosevelt.
Mar. 17, 1908	Apr. 10, 1909	Louis A. Coolidge, Massachusetts	Cortelyou, Mac- Veagh.	Roosevelt, Taft.
Apr. 5, 1909	June 8, 1910	Charles D. Norton, Illinois	MacVeagh	Taft.
Apr. 19, 1909	Apr. 3, 1911	Charles D. Hilles, New York	MacVeagh	Taft.

Footnotes at end of table.

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
Assistant Secretaries ¹⁶ —Continued				
Nov. 27, 1909	July 31, 1913	James F. Curtis, Massachusetts	MacVeagh, McAdoo	Taft, Wilson.
June 8, 1910	July 3, 1912	A. Piatt Andrews, Massachusetts	MacVeagh	Taft.
Apr. 4, 1911	Mar. 3, 1913	Robert O. Bailey, Illinois	MacVeagh	Taft.
July 20, 1912	Sept. 30, 1913	Sherman P. Allen, Vermont	MacVeagh, McAdoo	Taft, Wilson.
Mar. 24, 1913	Feb. 2, 1914	John Skelton Williams, Virginia	McAdoo	Wilson.
Aug. 1, 1913	Aug. 9, 1914	Charles S. Hamlin, Massachusetts	McAdoo	Wilson.
Oct. 1, 1913	Sept. 30, 1917	Byron R. Newton, New York	McAdoo	Wilson.
Mar. 24, 1914	Jan. 26, 1917	William P. Malburn, Colorado	McAdoo	Wilson.
Aug. 17, 1914	Mar. 15, 1917	Andrew J. Peters, Massachusetts	McAdoo	Wilson.
Apr. 17, 1917	Aug. 28, 1918	Oscar T. Crosby, Virginia	McAdoo	Wilson.
June 22, 1917	Nov. 20, 1919	Leo S. Rowe, Pennsylvania	McAdoo, Glass	Wilson.
Oct. 5, 1917	Aug. 26, 1921	James H. Moyle, Utah	McAdoo, Glass, Houston, Mellon.	Wilson, Harding.
Oct. 30, 1917	July 5, 1920	Russell C. Leffingwell, New York ¹⁹	McAdoo, Glass, Houston.	Wilson.
Dec. 15, 1917	Jan. 31, 1919	Thomas B. Love, Texas	McAdoo, Glass	Wilson.
Sept. 4, 1918	June 30, 1920	Albert Rathbone, New York	McAdoo, Glass, Houston.	Wilson.
Mar. 5, 1919	Nov. 15, 1920	Jouett Shouse, Kansas	Glass, Houston	Wilson.
Nov. 21, 1919	June 14, 1920	Norman H. Davis, Tennessee	Glass, Houston	Wilson.
June 15, 1920	Apr. 14, 1921	Nicholas Kelley, New York	Houston, Mellon	Wilson, Harding.
July 6, 1920	June 30, 1921	S. Parker Gilbert, Jr., New Jersey ²⁰	Houston, Mellon	Wilson, Harding.
Dec. 4, 1920	May 31, 1921	Ewing Laporte, Missouri	Houston, Mellon	Wilson, Harding.
Dec. 4, 1920	Mar. 4, 1921	Angus W. McLean, North Carolina	Houston	Wilson.
Mar. 16, 1921	Mar. 31, 1925	Eliot Wadsworth, Massachusetts	Mellon	Harding, Coolidge.
May 4, 1921	July 9, 1923	Edward Clifford, Illinois	Mellon	Harding.

Dec. 23, 1921	July 25, 1922	Elmer Dover, Washington.....	Mellon.....	Harding.
Mar. 3, 1923	June 13, 1926	McKenzie Moss, Kentucky.....	Mellon.....	Harding, Coolidge.
July 9, 1923	Nov. 19, 1923	Garrard B. Winston, Illinois ²⁰	Mellon.....	Harding, Coolidge.
July 1, 1924	Nov. 5, 1927	Charles S. Dewey, Illinois.....	Mellon.....	Coolidge.
Apr. 1, 1925	July 31, 1927	Lincoln C. Andrews, New York.....	Mellon.....	Coolidge.
Dec. 28, 1926	June 25, 1929	Carl T. Schuneman, Minnesota.....	Mellon.....	Coolidge, Hoover.
Aug. 1, 1927	Mar. 15, 1933	Seymour Lowman, New York.....	Mellon.....	Coolidge, Hoover.
Nov. 7, 1927	Sept. 1, 1929	Henry Herrick Bond, Massachusetts.....	Mellon.....	Coolidge, Hoover.
June 26, 1929	Apr. 17, 1933	Ferry K. Heath, Michigan.....	Mellon.....	Hoover.
Nov. 21, 1929	Mar. 15, 1931	Walter Ewing Hope, New York.....	Mellon.....	Hoover.
Mar. 16, 1931	Feb. 12, 1932	Arthur A. Ballantine, New York ²⁰	Mellon.....	Hoover.
Mar. 9, 1932	June 11, 1933	James H. Douglas, Jr., Illinois.....	Mills.....	Hoover.
Apr. 18, 1933	Feb. 15, 1936	Lawrence W. Robert, Jr., Georgia.....	Woodin, Morgenthau.....	Roosevelt.
June 6, 1933	Sept. 30, 1939	Stephen B. Gibbons, New York.....	Woodin, Morgenthau.....	Roosevelt.
June 12, 1933	Dec. 12, 1933	Thomas Hewes, Connecticut.....	Woodin.....	Roosevelt.
Dec. 1, 1934	Nov. 1, 1937	Josephine Roche, Colorado.....	Morgenthau.....	Roosevelt.
Feb. 19, 1936	Feb. 28, 1939	Wayne C. Taylor, Illinois.....	Morgenthau.....	Roosevelt.
July 1, 1938	Oct. 31, 1938	John W. Hanes, North Carolina ²⁰	Morgenthau.....	Roosevelt.
June 23, 1939	Dec. 2, 1945	Herbert E. Gaston, New York.....	Morgenthau, Vinson.....	Roosevelt, Truman.
Jan. 18, 1940	Nov. 30, 1944	John L. Sullivan, New Hampshire.....	Morgenthau.....	Roosevelt.
Jan. 24, 1945	May 1, 1946	Harry D. White, Maryland.....	Morgenthau, Vinson.....	Roosevelt, Truman.
Apr. 15, 1946	July 14, 1948	Edward H. Foley, New York ¹⁴	Vinson, Snyder.....	Truman.
July 16, 1948	Jan. 20, 1953	John S. Graham, North Carolina.....	Snyder.....	Truman.
Feb. 8, 1949	Mar. 31, 1951	William McChesney Martin, Jr., New York.....	Snyder.....	Truman.
Jan. 24, 1952	Feb. 28, 1957	Andrew N. Overby, District of Columbia.....	Snyder, Humphrey.....	Truman, Eisenhower.
Jan. 28, 1953	Aug. 2, 1955	H. Chapman Rose, Ohio ²⁰	Humphrey.....	Eisenhower.
Sept. 20, 1954	Jan. 20, 1961	Laurence B. Robbins, Illinois ²¹	Humphrey, Anderson.....	Eisenhower.
Aug. 3, 1955	Dec. 15, 1957	David W. Kendall, Michigan.....	Humphrey, Anderson.....	Eisenhower.
Apr. 18, 1957	Aug. 8, 1957	Fred C. Scribner, Jr., Maine ¹⁴	Humphrey, Anderson.....	Eisenhower.
Dec. 4, 1957	Dec. 15, 1958	Tom B. Coughran, California.....	Anderson.....	Eisenhower.
Dec. 16, 1957	Dec. 19, 1961	A. Gilmore Flues, Ohio.....	Anderson, Dillon.....	Eisenhower, Kennedy.
Dec. 17, 1958	Dec. 18, 1960	T. Graydon Upton, Pennsylvania.....	Anderson.....	Eisenhower.
Dec. 20, 1960	Jan. 20, 1961	John P. Weitzel, Rhode Island.....	Anderson.....	Eisenhower.
Apr. 5, 1961	Oct. 31, 1962	John M. Leddy, Virginia.....	Dillon.....	Kennedy.
Apr. 24, 1961	Jan. 20, 1969	Stanley S. Surrey, Massachusetts.....	Dillon, Fowler, Barr.....	Kennedy, Johnson.
Dec. 20, 1961	Sept. 1, 1965	James A. Reed, Massachusetts.....	Dillon, Fowler.....	Kennedy, Johnson.

Footnotes at end of table.

Term of service		Official	Served under—	
From—	To—		Secretary of the Treasury	President
<i>Assistant Secretaries</i> ¹⁶ —Continued				
Dec. 18, 1962	Oct. 15, 1964	John C. Bullitt, New Jersey	Dillon	Kennedy, Johnson.
Sept. 18, 1963	Jan. 20, 1969	Robert A. Wallace, Illinois ²²	Dillon, Fowler, Barr	Kennedy, Johnson.
Apr. 29, 1965	June 10, 1966	Merlyn N. Trued, New Jersey	Fowler	Johnson.
Sept. 14, 1965	Jan. 15, 1968	W. True Davis, Jr., Missouri	Fowler	Johnson.
Aug. 2, 1966	Jan. 31, 1968	Winthrop Knowlton, New York	Fowler	Johnson.
Mar. 19, 1968	Jan. 20, 1969	Joseph M. Bowman, Georgia	Fowler, Barr	Johnson.
May 15, 1968	Feb. 25, 1972	John R. Petty, New York	Fowler, Barr, Kennedy, Connally.	Johnson, Nixon.
Mar. 11, 1969	June 12, 1972	Edwin S. Cohen, Virginia ²⁰	Kennedy, Connally	Nixon.
Apr. 1, 1969		Eugene T. Rossides, New York	Kennedy, Connally, Shultz.	Nixon.
June 23, 1969	Aug. 13, 1971	Murray L. Weidenbaum, Missouri	Kennedy, Connally	Nixon.
Dec. 12, 1971		Edgar R. Fiedler, Maryland	Connally, Shultz	Nixon.
June 12, 1972		John M. Hennessy, Massachusetts	Shultz	Nixon.
Aug. 18, 1972		Frederic W. Hickman, Illinois	Shultz	Nixon.
<i>Deputy Under Secretaries for Monetary Affairs</i>				
Dec. 21, 1961	Nov. 28, 1963	J. Dewey Daane, District of Columbia	Dillon	Kennedy, Johnson.
Dec. 3, 1963	Nov. 23, 1965	Paul A. Volcker, New Jersey	Dillon, Fowler	Johnson.
Nov. 24, 1965	Nov. 11, 1967	Peter D. Sternlight, New York	Fowler	Johnson.
Feb. 12, 1968	Mar. 31, 1969	Frank W. Schiff, New York	Fowler, Barr, Kennedy.	Johnson, Nixon.
Apr. 1, 1969	June 30, 1971	Bruce K. MacLaury, New York	Kennedy, Connally	Nixon.
Sept. 23, 1971		Jack F. Bennett, Connecticut	Connally, Shultz	Nixon.

*Fiscal Assistant Secretaries*²³

Mar. 16, 1945	June 17, 1955	Edward F. Bartelt, Illinois-----	Morgenthau, Vinson, Snyder, Humphrey.	Roosevelt, Truman, Eisenhower.
June 19, 1955	Mar. 31, 1962	William T. Heffelfinger, District of Columbia-----	Humphrey, Anderson, Dillon.	Eisenhower, Kennedy.
June 15, 1962	-----	John K. Carlock, Arizona-----	Dillon, Fowler, Barr, Kennedy, Connally, Shultz.	Kennedy, Johnson, Nixon.

*Assistant Secretaries for Administration*²⁴

Aug. 2, 1950	Aug. 31, 1959	William W. Parsons, California-----	Snyder, Humphrey, Anderson.	Truman, Eisenhower.
Sept. 14, 1959	Oct. 25, 1970	A. E. Weatherbee, Maine-----	Anderson, Dillon, Fowler, Barr, Kennedy.	Eisenhower, Kennedy, Johnson, Nixon.
Oct. 25, 1970	Jan. 7, 1972	Ernest C. Betts, Jr., Wisconsin-----	Kennedy, Connally-----	Nixon.
Apr. 11, 1972	-----	Warren F. Brecht, Michigan-----	Connally, Shultz-----	Nixon.

¹ While holding the office of Secretary of the Treasury, Mr. Gallatin was commissioned envoy extraordinary and minister plenipotentiary Apr. 17, 1813, with John Quincy Adams and James A. Bayard, to negotiate peace with Great Britain. On Feb. 9, 1814, his seat as Secretary of the Treasury was declared vacant because of his absence in Europe. William Jones, of Pennsylvania (Secretary of the Navy), acted as ad interim Secretary of the Treasury from Apr. 21, 1813, to Feb. 9, 1814.

² Rush was nominated Mar. 5, 1825, confirmed and commissioned Mar. 7, 1825, but did not enter on duty until Aug. 1, 1825. Samuel L. Southard, of New Jersey (Secretary of the Navy), served as ad interim Secretary of the Treasury from Mar. 7 to July 31, 1825.

³ Asbury Dickens (Chief Clerk), ad interim Secretary of the Treasury from June 21 to Aug. 7, 1831.

⁴ Spencer resigned as Secretary of the Treasury May 2, 1844; McClin-
tock Young (Chief Clerk), was ad interim Secretary of the Treasury from May 2 to July 3, 1844.

⁵ McCulloch was Secretary from Mar. 9, 1865, to Mar. 3, 1869, and from Oct. 31, 1884, to Mar. 7, 1885.

⁶ Windom was Secretary from Mar. 8, 1881, to Nov. 13, 1881, and also from Mar. 7, 1889, to Jan. 29, 1891.

⁷ Office established by act of May 18, 1972; appointed by the President.

⁸ Office established by act of June 16, 1921; appointed by the President.

⁹ Later became Secretary.

¹⁰ Later became Deputy Secretary.

¹¹ Office established by act of July 22, 1954; appointed by the President.

¹² Act of May 18, 1972, which established the Deputy Secretary position permitted the Under Secretary position to be used as a counselor to the

Secretary and so designated by the President as desired.

¹³ Office established by act of May 10, 1934 (31 U.S.C. 1009); appointed by the President.

¹⁴ Later became Assistant Secretary and subsequently Under Secretary.

¹⁵ Later became Assistant Secretary.

¹⁶ Office established by act of Mar. 3, 1849; appointed by the Secretary.

¹⁷ Act of Mar. 3, 1857, made the office subject to presidential appointment.

¹⁸ Act of Mar. 14, 1864, provided for an additional Assistant Secretary.

¹⁹ Act of July 11, 1890, provided for an additional Assistant Secretary.

²⁰ Act of Oct. 6, 1917, provided for two additional Assistant Secretaries for the duration of war and 6 months thereafter.

²¹ Later became Under Secretary.

²² Act of July 22, 1954, provided for an additional Assistant Secretary.

²³ Act of July 8, 1963, provided for a fourth Assistant Secretary.

²⁴ Office established by Reorganization Plan No. 3 of 1940.

²⁵ Office established by Reorganization Plan No. 26, of 1950. Title changed from "Administrative Assistant Secretary" to "Assistant Secretary for Administration" by Public Law 88-426, approved Aug. 14, 1964; appointed by the Secretary with the approval of the President. Act of May 18, 1972, provided for appointment by the President.

NOTE.—Robert Morris, the first financial officer of the Government, was Superintendent of Finance from 1781 to 1784. Upon the resignation of Morris, the powers conferred upon him were transferred to the "Board of the Treasury." Those who finally accepted positions on this Board were John Lewis Gervais, Samuel Osgood, and Walter Livingston. The Board served until Alexander Hamilton assumed office in 1789.

Exhibit 82.—Treasury Department orders relating to organization and procedure.

No. 190, REVISION 8, SEPTEMBER 1, 1972.—SUPERVISION OF BUREAUS, DELEGATION OF AUTHORITY, AND ORDER OF SUCCESSION IN THE TREASURY DEPARTMENT

1. The following officials shall be under the direct supervision of the Secretary :

The Deputy Secretary
 The Under Secretary for Monetary Affairs
 The Under Secretary
 The Executive Assistant to the Secretary
 Deputy Assistant and Director, Executive Secretariat

2. The following officials shall be under the supervision of the Secretary, shall report to him through the Deputy Secretary, and shall exercise supervision over those organizational units indicated thereunder :

General Counsel
 Legal Division
 Office of Director of Practice
 Office of Equal Opportunity Program
 Deputy Under Secretary (Congressional Relations)
 Special Assistant to the Secretary (National Security Affairs)
 Office of Foreign Assets Control
 Special Assistant to the Secretary (Public Affairs)

3. The following officials shall be under the direct supervision of the Deputy Secretary and shall exercise supervision over those offices, bureaus, and other organizational units indicated thereunder :

Assistants to the Deputy Secretary
 Assistant Secretary (Tax Policy)
 Office of Tax Analysis
 Office of Tax Legislative Counsel
 Office of International Tax Counsel
 Assistant Secretary (Enforcement, Tariff & Trade Affairs, & Operations)
 Office of Law Enforcement
 Office of Operations
 Office of Tariff and Trade Affairs
 Bureau of Alcohol, Tobacco and Firearms
 Bureau of Customs
 Bureau of Engraving and Printing
 Bureau of the Mint
 Consolidated Federal Law Enforcement Training Center
 United States Secret Service
 Assistant Secretary for Administration
 Office of Administrative Programs
 Office of Audit
 Office of Budget and Finance
 Office of Central Services
 Office of Management and Organization
 Office of Personnel
 Commissioner of Internal Revenue
 Comptroller of the Currency

4. The following officials will be under the direct supervision of the Under Secretary for Monetary Affairs and shall exercise supervision over those offices, bureaus, and other organizational units indicated thereunder :

Deputy Under Secretary for Monetary Affairs
 Special Assistant to the Secretary (Debt Management)
 Office of Debt Analysis
 Assistant Secretary (International Affairs)
 Deputy Assistant Secretary for Industrial Nations Finance
 Deputy Assistant Secretary for Development Finance
 Deputy Assistant Secretary for Trade and Investment Policy
 Deputy Assistant Secretary for Research
 Assistant Secretary (Economic Policy)
 Office of Domestic Gold and Silver Operations
 Office of Financial Analysis

Fiscal Assistant Secretary
 Bureau of Accounts
 Bureau of the Public Debt
 Office of the Treasurer of the United States
 United States Savings Bonds Division

5. The Deputy Secretary, the Under Secretary for Monetary Affairs, the Under Secretary, the General Counsel, the Deputy Under Secretaries, and the Assistant Secretaries are authorized to perform any functions the Secretary is authorized to perform. Each of these officials shall perform functions under this authority in his own capacity and under his own title, and shall be responsible for referring to the Secretary any matter on which actions should appropriately be taken by the Secretary. Each of these officials will ordinarily perform under this authority only functions which arise out of, relate to, or concern the activities or functions of or the laws administered by or relating to the bureaus, offices, or other organizational units over which he has supervision. Any action heretofore taken by any of these officials in his own capacity and under his own title is hereby affirmed and ratified as the action of the Secretary.

6. The following officers shall, in the order of succession indicated, act as Secretary of the Treasury in case of the death, resignation, absence, or sickness of the Secretary and other officers succeeding him, until a successor is appointed or until the absence or sickness shall cease:

- A. Deputy Secretary
 - B. Under Secretary for Monetary Affairs
 - C. Under Secretary
 - D. General Counsel
 - E. Commissioner of Internal Revenue
 - F. Deputy Under Secretaries, appointed by the President with Senate confirmation, in the order in which they took the oath of office as Deputy Under Secretary
 - G. Assistant Secretaries, appointed by the President with Senate confirmation, in the order in which they took the oath of office as Assistant Secretary
 - H. Other Executive Pay Act Officials in the Office of the Secretary, first in the order of Executive Pay Act levels, then in the order in which they took the oath of office in their present positions
 - I. Executive Pay Act Officials in Treasury Bureaus, first in the order of Executive Pay Act levels, then in the order in which they took the oath of office in their present positions
7. Treasury Department Order 190 (Revision 7) and Treasury Department Order 183 (Revision 5) are rescinded, effective this date.

GEORGE P. SHULTZ,
Secretary of the Treasury.

NO. 150-79, SEPTEMBER 5, 1972.—DELEGATION OF EXCEPTION AUTHORITY AND AUTHORITY TO CHALLENGE, REVIEW AND DECIDE CERTAIN CATEGORY III PAY ADJUSTMENT CASES

By virtue of the authority delegated to me as Secretary of the Treasury by Pay Board Order No. 5 (37 Fed. Reg. 17525), the authority delegated is hereby redelegated to the Commissioner of Internal Revenue including the authority to act on all Pay Board decisions and orders coming within the purview of such Order.

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 as of July 12, 1972.

GEORGE P. SHULTZ,
Secretary of the Treasury.

NO. 200, AMENDMENT 3, DECEMBER 1, 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 8), the Personnel Operations

Division, and all its functions, positions, personnel, property, and records, are transferred from the Office of Central Services to the Deputy Assistant Secretary for Administration, under his supervision and direction, effective December 11, 1972.

WARREN F. BRECHT,
Assistant Secretary for Administration.

No. 128, REVISION 5, DECEMBER 7, 1972.—TRANSFER OF THE OFFICE OF FOREIGN ASSETS CONTROL WITHIN THE OFFICE OF THE SECRETARY

By virtue of the authority vested in me as the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, it is hereby ordered that the Office of Foreign Assets Control with its responsibilities for licensing and enforcement be transferred from the supervision of the Special Assistant to the Secretary (National Security Affairs) to that of the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations).

Regulations and rulings relating to these responsibilities shall be prepared and, when required, interpreted by the General Counsel in consultation with the Assistant Secretaries (International Affairs) and (Enforcement, Tariff and Trade Affairs, and Operations).

Such positions, records, and equipment which are determined by the Assistant Secretary for Administration and the Special Assistant to the Secretary (National Security Affairs) in consultation with the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations), and the General Counsel to be necessary to the performance of the functions of the Office of Foreign Assets Control shall be transferred from the Special Assistant to the Secretary (National Security Affairs) to the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations).

The activities of the Office of Foreign Assets Control shall continue to be supported by the Exchange Stabilization Fund.

The functions herein transferred may be reassigned by the Assistant Secretary (Enforcement, Tariff and Trade Affairs, and Operations) to subordinates in such manner as he shall direct.

Any previous orders in conflict with the provisions of this order are hereby amended accordingly, including Treasury Department Order No. 190 (Revision 8) dated September 1, 1972, Treasury Department Order No. 128 (Revision 4) dated March 1, 1972, and Treasury Department Order No. 220 dated April 23, 1971.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 150-80, DECEMBER 12, 1972.—DELEGATION OF AUTHORITY CONCERNING STABILIZATION OF WAGES AND SALARIES

By virtue of the authority vested in me as Secretary of the Treasury, including that delegated to me by Pay Board Order No. 1, Revision No. 1 (37 Fed. Reg. 25000), Pay Board Order No. 4, Revision No. 1 (37 Fed. Reg. 25002), and Pay Board Order No. 5, Revision No. 1 (37 Fed. Reg. 25002), 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 Pay Board Order No. 1, Revision No. 1 relating to the issuance of rulings respecting the regulations and other guidance issued by the Pay Board, which is redelegated to the General Counsel of the Treasury. The authority vested in the Commissioner and 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.

Under the terms of section 3 of Pay Board Order No. 1, Revision No. 1, section 7 of Pay Board Order No. 4, Revision No. 1, and section 3 of Pay Board Order No. 5, Revision No. 1, 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 with respect to Pay Board Order No. 1, Revision No. 1 be effective at 12:01 a.m., November 14, 1971, and with respect to Pay Board Order

No. 4, Revision No. 1 and Pay Board Order No. 5, Revision No. 1 be effective at 12:01 a.m., November 14, 1972.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 190-1, JANUARY 8, 1973.—DELEGATION OF AUTHORITY

By virtue of authority vested in the Secretary of the Treasury, which authority has been delegated to me as Assistant Secretary for Tax Policy by Treasury Department Order No. 190 (Revision 8), I hereby delegate to the Deputy Assistant Secretary for Tax Policy (Tax Legislation) authority to approve regulations relating to the internal revenue laws. This authority may be exercised by him in his own capacity and under his own title, and he shall be responsible for referring to the Assistant Secretary for Tax Policy any regulations on which action should appropriately be taken by him.

FREDERIC W. HICKMAN,
Assistant Secretary for Tax Policy.

No. 82 (REVISED), JANUARY 17, 1973.—PERSONNEL AND PHYSICAL SECURITY—
ORGANIZATION AND DELEGATION OF AUTHORITY

Personnel Security

1. Pursuant to the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950 and delegated to me by Treasury Department Order No. 190 (Revised), the Director of the Office of Personnel is delegated the responsibility for direction and oversight of the personnel security function in the Department of the Treasury. He will serve as the proper channel through whom matters requiring exceptional attention will be processed. The Director of Personnel will maintain the security files of, and have jurisdiction over granting TOP SECRET clearances for, the following employees:

Presidential appointees requiring confirmation by the Senate, and occupants of Executive level positions, to the extent of the Department's authority with respect to these employees.

Heads of bureaus and their first deputies.

Bureau security officers and any official to whom the authority to grant TOP SECRET security clearance has been delegated.

In addition, the Director of Personnel will assume jurisdiction over all cases involving a potential determination that an employee in any Treasury bureau or in the Office of the Secretary should be suspended, reassigned, or terminated on the grounds that such action is necessary in the interest of the national security.

2. Authority for performing the operating functions relating to personnel security, including the granting of TOP SECRET security clearances, is hereby delegated to the following officials in the Department of the Treasury:

In the Office of the Secretary:

Chief, Office of the Secretary Personnel Division

In the bureaus:

Commissioner of Accounts

Director, Bureau of Alcohol, Tobacco and Firearms

Comptroller of the Currency

Director, Consolidated Federal Law Enforcement Training Center

Commissioner of Customs

Director, Bureau of Engraving and Printing

Commissioner of Internal Revenue

Director of the Mint

Commissioner of the Public Debt

Treasurer of the United States

National Director, U.S. Savings Bonds Division

Director, U.S. Secret Service

3. The authority delegated herein may be redelegated with the concurrence of the Director of the Office of Personnel or the Assistant Director of Personnel (Personnel Security). In addition, bureau heads who do not find it feasible to

carry out these functions may, with the concurrence of the Director of the Office of Personnel or the Assistant Director of Personnel (Personnel Security), request that the functions be performed for them by the head or delegate of one of Treasury's investigative agencies, namely, Bureau of Customs, Internal Revenue Service, or the U.S. Secret Service. Subsequent to the required concurrence the request may be made directly to the head, or his delegate, of the investigative agency.

4. The personnel security program will be carried out under Executive Order 10450 and implementing regulations in the Federal and Treasury Personnel Manuals. In addition, the Director of Personnel of the Department will issue such supplemental regulations and instructions as may be required for the conduct and coordination of the personnel security program in the Department.

Physical Security

5. The Director of the Office of Administrative Programs will have and maintain responsibility for the Department's functions relating to physical security transferred to him by virtue of Treasury Department Order No. 82, Supplement No. 1. These responsibilities are to be carried out pursuant to Executive Order 11652 and implementing Treasury regulations and directives, including Treasury Department Order 160, as revised.

Physical security functions include the following:

1. Document security
2. Communications security
3. Building security
4. Industrial security

6. This order supersedes Treasury Department Order No. 82 (Revised) and Supplement 1 thereof, and is effective immediately.

WARREN F. BRECHT,
Assistant Secretary for Administration.

No. 224, JANUARY 26, 1973.—ESTABLISHMENT OF OFFICE OF REVENUE SHARING

Pursuant to the authority vested in me by Reorganization Plan No. 26 of 1950, and as Secretary of the Treasury, there is hereby established in the Office of the Secretary the Office of Revenue Sharing. This Office shall be headed by a Director who shall be appointed by the Secretary of the Treasury. The Director shall perform his duties under the direct supervision of the Deputy Secretary of the Treasury.

The Director shall perform the functions, exercise the powers and carry out the duties vested in the Secretary of the Treasury by the State and Local Fiscal Assistance Act of 1972, Title I, Public Law 92-512, and those functions, powers and duties are hereby 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 under his own name and title with the approval of the Secretary.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 170-13 (REVISION 1), MARCH 13, 1973.—ADMINISTRATION EXPENSES OF THE EXCHANGE STABILIZATION FUND

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 hereby ordered that:

The Assistant Secretary for Administration is to provide and direct the administrative servicing functions for the Office of the Assistant Secretary for International Affairs (OASIA) which are currently under the jurisdiction of the OASIA Office of Administration, except those functions performed by the Secretariat.

The Office of Administration under the Assistant Secretary for International Affairs, established by Treasury Order No. 202, dated October 14, 1964, with all its functions and personnel (except those of the Secretariat) is transferred to the supervision of the Assistant Secretary for Administration.

A Memorandum of Agreement between the Assistant Secretary for Administration and the Assistant Secretary for International Affairs will be prepared to implement the provisions of this Order.

WILLIAM E. SIMON,
Acting Secretary of the Treasury.

No. 223, APRIL 2, 1973.—ESTABLISHMENT OF AN OFFICE OF AUTOMATIC DATA PROCESSING MANAGEMENT AND OPERATIONS

By virtue of the authority vested in me as Secretary of the Treasury, including authority in Reorganization Plan No. 26 of 1950, there is hereby established an Office of Automatic Data Processing Management and Operations in the Office of the Secretary and under the direct supervision of the Assistant Secretary for Administration.

The functions of the Office include, but are not limited to, the following:

1. Manage and operate a Departmental computer service center and provide computer and related support services to users in the Office of the Secretary, the bureaus of the Department of the Treasury and others as required.
2. Develop, recommend to the Assistant Secretary, interpret, and evaluate adherence to and the effectiveness of, Department-wide policies and guidelines for the development, acquisition, management and use of automatic data processing systems, networks, equipment, software, services and related resources. Maintain a central source of information and data on the availability and use of Treasury ADP resources and programs; and serve as point of contact with other agencies on ADP matters.
3. Serve as a central technical resource for advice, guidance, assistance and consultant service to the Department on software and on ADP systems and operations. Provide systems, program and data base development and maintenance services as requested by users. Conduct research in computer sciences in support of the Department's requirements.

The Assistant Secretary for Administration will activate the Office of ADP Management and Operations effective immediately by establishing the departmental computer service center and transferring functions, personnel, funds and other resources from Office of the Secretary users as determined to be appropriate jointly with the Assistant Secretaries supervising user organizations; providing such additional resources as may be essential; and establishing an advisory committee of Treasury officials to participate in planning for Center activities and coordinating user service requirements.

The Office will commence immediately to work with the Bureau of the Public Debt in the activation of the computer to be used in the computer service center. At a date mutually agreed by the Assistant Secretary for Administration and the Fiscal Assistant Secretary, but no later than December 31, 1973, that computer and such functions, positions, personnel, funds, property and records as are jointly agreed will be transferred from the Bureau of the Public Debt to the new Office, which will, thereafter, provide necessary computer support to the Bureau of the Public Debt and other users as appropriate.

The other functions of the Office of ADP Management and Operations as identified above in paragraphs 2 and 3, with related resources, will be assigned or transferred to, or activated by the Office on a time phased basis as determined by the Assistant Secretary for Administration.

The Assistant Secretary for Administration shall consider the desirability and feasibility of transferring any other Treasury computer application to the Office and, upon agreement with the affected organizations, shall transfer such funds, personnel, property, records, etc., as may be appropriate.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 165-23, APRIL 4, 1973.—DESIGNATION AS UNITED STATES CUSTOMS SERVICE

By virtue of the authority vested in me as Secretary of the Treasury, it is hereby ordered that:

1. The Bureau of Customs is designated the United States Customs Service, effective August 1, 1973.

2. As appropriate, all regulations, rules, orders, decisions, forms, and other Customs and Treasury documents are amended to conform to this order but existing supplies of these materials shall continue to be used without change until they are exhausted.

3. No action taken pursuant to this designation shall be invalid by reason of the fact that any statute or regulation provides or indicates that the action should have been taken under a different name.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 225, MAY 11, 1973.—CREATION OF OFFICE OF THE ENERGY ADVISOR

Executive Order No. 11703 of February 7, 1973, designates the Deputy Secretary of the Treasury as the chairman of the Oil Policy Committee. By virtue of the authority vested in me by Reorganization Plan No. 26 of 1950, there is hereby created an Office of the Energy Advisor to support the Deputy Secretary in this capacity. The Office shall be headed by an Energy Advisor who will report directly to the Deputy Secretary.

Under the direction of the Deputy Secretary and in accordance with guidance from me in my capacity as Assistant to the President for Economic Affairs, this Office will develop and maintain an analytical base for providing policy direction, coordination, surveillance, and evaluation of the Federal Government's oil import control program.

The Office will play a major role in determining the impact of oil imports on the U.S. balance of trade. It will review the outflow of dollars resulting from payments for oil imports and the extent to which this generates counterbalancing U.S. exports. Concurrently, it will make continuing evaluations of the impact of oil imports on the International Monetary System resulting from increased holdings of U.S. dollars by foreign oil producing countries. These evaluations will also encompass the extent to which the income from oil imports is utilized by foreign countries for investment purposes in the U.S.

With the aim of reducing the oil industry's contribution to the United States' negative balance of payments in trade with other countries, the Office will seek appropriate ways to limit the nation's need to import oil, stimulate domestic production, and find alternative energy sources.

The analyses accomplished by this Office will assess the impact of the oil import program on national security, evaluate the net impact of policy options on national security objectives, and contribute to overall energy policies. These studies will include assessments of the relationship among the petroleum industries, the methods of allocating import licenses, levels of imports of products, the reduction of energy demand through more effective utilization, import based natural gas substitutes, emergency energy capacity, Canadian-U.S. cooperation in oil and energy, Western Hemisphere preferences, and distribution and consumption control in supply emergencies.

The Energy Advisor will also serve as Chairman of the Oil Policy Working Group.

The functions and positions now assigned to the Natural Resources Program Office under the Assistant Secretary for International Affairs are hereby reassigned to the Office of the Energy Advisor.

GEORGE P. SHULTZ,
Secretary of the Treasury.

No. 194 (REVISION 3), JUNE 10, 1973.—REASSIGNMENT OF CERTAIN ADMINISTRATIVE FUNCTIONS WITHIN THE OFFICE OF THE ASSISTANT SECRETARY FOR ADMINISTRATION

Pursuant to the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, and the authority delegated to me by Treasury Order No. 190 (Revision 8) of September 1, 1972, the Office of Central Services is hereby disestablished and its authorities, functions, positions, personnel, records, and property transferred to the Office of Administrative Programs;

except for the authorities, functions, positions, personnel, records, and property of the Fiscal Division which are transferred to a hereby created Financial Management Division reporting to the Deputy Assistant Secretary for Administration.

Pursuant to the above authorities, the former Administrative Office of the Office of the Assistant Secretary (International Affairs) is disestablished and its authorities, functions, personnel, records and property are hereby transferred to the Office of Administrative Programs, except for (a) the budget and accounting functions for the Exchange Stabilization Fund which are transferred with corresponding authorities, positions, personnel, records, and property to the Financial Management Division, and (b) the internal audit functions for the Exchange Stabilization Fund which are transferred along with corresponding authorities, positions, personnel, records, and property to the Office of Audit.

Pursuant to the above authorities, the authorities, functions, positions, personnel, records, and property of the Office of the Secretary Financial Manager are herein incorporated into the Financial Management Division.

Also pursuant to the cited authorities, the Personnel Operations Division is hereby retitled the Office of the Secretary Personnel Division and Treasury Order No. 200 (Amendment 3) dated December 1, 1972, is hereby amended accordingly. The Division will continue to report to the Deputy Assistant Secretary for Administration.

The following Treasury Orders are herein superseded: No. 194 (Revision 2) dated June 24, 1971 and No. 170-13 (Revision 1) dated March 13, 1973.

WARREN F. BRECHT,
Assistant Secretary for Administration.

NO. 175-5, JUNE 11, 1973.—TRANSFER OF THE OFFICE OF INDUSTRIAL ECONOMICS

By virtue of the authority vested in me by Reorganization Plan No. 26 of 1950, supervision of the current functions of the Office of Industrial Economics is transferred from the Commissioner of Internal Revenue to the Assistant Secretary for Tax Policy, effective immediately.

Positions, personnel, funds, records, and property of the Office of Industrial Economics, as determined by the Commissioner of Internal Revenue, the Assistant Secretary for Tax Policy and the Assistant Secretary for Administration, will be transferred from Internal Revenue Service to the Office of the Secretary effective July 1, 1973.

GEORGE P. SHULTZ,
Secretary of the Treasury.

Advisory Committees

Exhibit 83.—Advisory committees utilized by the Department of the Treasury

DEBT MANAGEMENT COMMITTEES

The Department of the Treasury has used the services of various industry committees, whose memberships include representatives of a variety of financial organizations and institutions, to advise on debt management matters. The committees have met periodically, at the invitation of the Treasury, to discuss and make recommendations about current and future Federal financings.

At the beginning of the fiscal year six such committees were active: The American Bankers Association Government Borrowing Committee, the Securities Industry Association Government Securities and Federal Agency Committee, the Committee on Government Securities and the Public Debt of the National Association of Mutual Savings Banks, the Economic Policy Committee of the American Life Insurance Association, the Savings and Loan Business Committee on Government Securities, and the Government Fiscal Policy Committee of the Independent Bankers Association of America.

Public Law 92-463, enacted October 6, 1972, and subsequent regulations from the Office of Management and Budget implementing the law, established new rules governing Federal agency use of advisory committees. The new law became effective on January 5, 1973. Following this date, only the American Bankers Association Government Borrowing Committee and the Securities Industry Association Government Securities and Federal Agency Committee were chartered as Treasury advisory committees.

Four meetings were held with the Government Borrowing Committee of the American Bankers Association during fiscal year 1973, on July 25-26, October 24-25, January 30-31, and April 24-25. Membership of the Committee was as follows:

Robert M. Surdam (Chairman)	Chairman and Chief Executive Officer, National Bank of Detroit, Detroit, Mich.
Alfred Brittain III	President, Bankers Trust Company, New York, N.Y.
Robert E. Bryans	President, First National Bank of Casper, Casper, Wyo.
Willard C. Butcher	President, The Chase Manhattan Bank, N.A., 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 and Chief Executive Officer, Wells Fargo Bank, N.A., San Francisco, Calif.
Gaylord Freeman	Chairman of the Board, The First National Bank, Chicago, Ill.
Robert J. Gaddy	Chairman and President, Tower Grove Bank and Trust Company, St. Louis, Mo.
Donald M. Graham	Chairman and Chief Executive Officer, Continental Illinois National Bank and Trust Company, Chicago, Ill.
William M. Jenkins	Chairman, Seattle-First National Bank, Seattle, Wash.
Ben F. Love	Chairman and Chief Executive Officer, Texas Commerce Bank, N.A., Houston, Texas
John A. Moorhead	Chairman and Chief Executive Officer, Northwestern National Bank, Minneapolis, Minn.
John A. Oulliber	Chairman of the Board, First National Bank of Commerce, New Orleans, La.
Howard C. Petersen	Chairman of the Board, The Fidelity Bank, Philadelphia, Pa.
Robert V. Roosa	Partner, Brown Brothers Harriman & Company, New York, N.Y.
Thomas I. Storrs	President, North Carolina National Bank, Charlotte, N.C.
D. Thomas Trigg	Chairman and Chief Executive Officer, National Shawmut Bank of Boston, Boston, Mass.
Walter B. Wriston	Chairman, First National City Bank, New York, N.Y.
John J. Larkin	Senior Vice President, First National City Bank, New York, N.Y.
Donald C. Miller	Executive 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.
James R. Sheridan	Senior Vice President, North Carolina National Bank, Charlotte, N.C.
Eugene H. Adams	President, The First National Bank, Denver, Colo.
Willis W. Alexander	Executive Vice President, The American Bankers Association, Washington, D.C.
Rex J. Morthland	Chairman of the Board, The Peoples Bank and Trust Company of Selma, Selma, Ala.
Douglas R. Smith	President and Chairman of the Board, National Savings & Trust Company, Washington, D.C.

Allen P. Stults

Chairman and Chief Executive Officer, American National Bank & Trust Company, Chicago, Ill.

Hampton A. Rabon

A.B.A. Director

Laurence Banyas

A.B.A. Consultant

Four meetings were held with the Government Securities and Federal Agencies Committee of the Securities Industry Association in fiscal 1973, on July 25-26, October 24-25, January 30-31 and April 24-25. 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

Senior 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

William M. Brachfeld

Partner, Salomon Brothers, New York, N.Y.

Robert H. Britton

President, Briggs, Schaedle & Company, Inc., New York, N.Y.

Carl F. Cooke

Senior Vice President, The First Boston Corporation, New York, N.Y.

G. Lamar Crittenden

Executive 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.

Edward R. McMillan

Senior Vice President, National Bank of Commerce, Seattle, Wash.

John H. Perkins

President, Continental Illinois National Bank & Trust Company, Chicago, Ill.

Robert B. Rivel

Partner, Lazard Freres & Co., New York, N.Y.

George A. Roeder, Jr.

Vice Chairman, 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.

Frank P. Smeal

Executive Vice President, Morgan Guaranty Trust Company, 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.

Edwin H. Yeo III

Vice Chairman, Pittsburgh National Bank, Pittsburgh, Pa.

C. Richard Youngdahl

Chairman of the Board, 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 its advisory capacity in fiscal 1973 on October 11, 1972. Membership of the Committee was as follows:

Alfred S. Mills (Chairman)	New York Bank for Savings, New York, N.Y.
Wayne Alderman	President, Community Savings Bank, Holyoke, Mass.
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.
Remayn N. Holdridge	Chairman of the Board, The Chelsey Savings Bank, Norwich, Conn.
Francis A. Holmes	President, Peoples Savings Bank of Yonkers, Yonkers, N.Y.
Sheldon L. Ladd	President and Treasurer, The Central Bank for Savings, Meriden, Conn.
Albert L. Moore	Treasurer, Waterville Savings Bank, Waterville, Me.
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.
Harold J. Patterson, Jr.	President, The Morris County Savings Bank, Morristown, N.J.
Howard M. Picking, Jr.	President, Johnstown Savings Bank, Johnstown, Pa.
Norman C. Ramsey	Chairman of the Board, Prudential 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 (Adviser)	President, Savings Banks Trust Company, New York, N.Y.
Saul B. Klamann	Staff member, NAMSB
Donald E. Lawson	Staff member, NAMSB

One meeting was held with the Savings and Loan Business Committee on Government Securities in its advisory capacity in fiscal year 1973 on October 12, 1972. 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 & Chairman of the Board, Western Federal Savings & Loan Association, Denver, Colo.
C. E. Bentley	President, Abilene Savings Association, Abilene, Tex.
Frederick Bjorklund	President, Minnesota Federal Savings & Loan Association, St. Paul, Minn.
Henry A. Bubb	Chairman of the Board, Capitol Federal Savings & Loan Association, Topeka, Kans.
Carl Distelhorst	141 Alexander Place, Winter Park, Fla.

W. O. DuVall	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 and 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.
Harry L. Leavy	President, Uptown Federal Savings & Loan, Baltimore, Md.
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.
Gregor F. Meyer	Chairman of the Board, Century Savings & Loan, Pittsburgh, Pa.
Raymond L. Miller	President, First Federal Savings & Loan Association, East Hartford, Conn.
Tom B. Scott, Jr.	President, First Federal Savings & Loan Association, Jackson, Miss.
John W. Stadler	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 and Staff Vice President, United States Savings and Loan League, Chicago, Ill.

No meetings were held during fiscal 1973 in their advisory capacities with Economic Policy Committee of the American Life Insurance Association or with the Government Fiscal Policy Committee of the Independent Bankers Association of America.

Internal Revenue Service

ART ADVISORY PANEL

The Art Advisory Panel was established by the Commissioner of Internal Revenue on February 1, 1968. This group consists of members representing the three major segments of the art world—museums, universities, and dealers. The group provides advice on the valuation of works of art for Federal tax purposes. No meetings were held during fiscal 1973.

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.
Kenneth Donahue	Director, Los Angeles County Museum of Art, Los Angeles, Calif.
Louis Goldenberg	Art dealer, Wildenstein & 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 & Co., New York, N.Y.
Theodore Rousseau	Vice Director, Metropolitan Museum of Art, New York, N.Y.
Merrill C. Rueppel	Director, Dallas Museum of Fine Arts, Dallas, Tex.

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 advises the Service on development of policies for administering new code provisions dealing with cattle and comments upon proposed administrative guidelines or revenue rulings. No meetings were held during fiscal 1973.

Harvie Branscomb, Jr.	Branscomb, Gary, Thomasson & Hall, Corpus Christi, Tex.
W. T. Berry, Jr.	Executive Secretary, American Hereford Association, Kansas City, Mo.
Frank D. Brown, Jr.	Mt. Ararat Farms, Port Deposit, Md.
Gordon M. Cairns	Dean, College of Agriculture, University of Maryland, College Park, Md.
Donald V. Hunter	Centerville, S. Dak.
Ben H. Carpenter	Chairman of the Board and Chief Executive Officer, Southland Life Insurance Co., Dallas, Tex.
John M. Marble	Rancho Tularcitos, Carmel Valley, Calif.
Robert H. Rumler	Executive Secretary, Holstein-Friesian Association of America, Brattleboro, Vt.
Nelson E. Tamplin	Ernst & Ernst, Denver, Colo.
John Trotman	Montgomery, Ala.
Gordon VanVleck	Plymouth, Calif.
Tobin Armstrong	Armstrong Ranch, Armstrong, Tex.

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 of 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. No meetings were held during fiscal 1973.

Benjamin Eshleman, Jr.	Partner, Eshleman-Vogt Ranch, Corpus Christi, Tex.
W. Sidney Felton	Herrick, Smith, Donald, Farley and Ketchum, Boston, Mass.

Katherine Haley	Thoroughbred owner, Rancho Misolar, Ventura, Calif.
Max C. Hempt	Owner of Hempt Farms, Mechanicsburg, Pa.
Edward H. Honnen	Chairman, Board of Trustees, American Horse Council, Inc., Denver, Colo.
Kenneth Merdith	Elmer Fox & Company, Wichita, Kans.
Gayle Mohnney	Stoll, Keenon & Park, Lexington, Ky.
Ogden Phipps	Chairman, The Jockey Club, New York, N.Y.
Hart H. Spiegel	Brobeck, Phleger, & Harrison, San Francisco, Calif.
Frederick Van Lennep	Treasurer, American Horse Council, Inc., Lexington, Ky.
Warner L. Jones, Jr.	President, Thoroughbred Breeders of Kentucky, Hermitage Farm, Goshen, Ky.
William S. Farish III	President, Blue Creek Ranch Co., Houston, Tex.
Robert G. Lawrence	Assistant Professor, Dept. of Agricultural Economics, University of Maryland, College Park, Md.
Robert H. Kieckhefer	Chairman, American Quarter Horse Association, Prescott, Ariz.
Albert Greene Clay	Secretary, American Horse Council, Inc., Fairway Farm, Mt. Sterling, 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. The duties of the Committee are to meet with the Comptroller and any other bureau officials the Comptroller designates to bring the specialized experience and technical knowledge of the members to bear on current problems of banking policy and practice.

This Committee met on March 28, 1973. Members of the Committee are as follows:

Eugene C. Zorn, Jr. (Chairman)	Senior Vice President and Economist, Republic National Bank of Dallas, Dallas, Tex.
Miner Baker	Vice President and Economist, Seattle-First National Bank, Seattle, Wash.
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.
James M. Howell	Vice President, The First National Bank of Boston, Boston, Mass.
William J. Korsvik	Vice President, First National Bank of Chicago, Chicago, Ill.
Leif H. Olsen	Senior Vice President and Economist, First National City Bank, New York, N.Y.

INVESTMENT SECURITIES ADVISORY COMMITTEE

In 1962, the Comptroller of the Currency established the Investment Securities Advisory Committee. The duties of the Committee are to meet with the Associate Chief Counsel (Investment Securities) and any other bureau officials the Comptroller designates to discuss matters concerning proposed regulations and legislation and the eligibility of securities for investment and underwriting, and to provide expertise on problems in the field of investment securities and municipal financing.

No meetings of this Committee were held in fiscal 1973. Members of the Committee are as follows:

John H. Perkins (Chairman)	President, Continental Illinois National Bank & Trust Company of Chicago, Chicago, Ill.
Richard F. Kezer	Vice President, First National City Bank, New York, N.Y.
Lewis F. Lyne	President, Mercantile National Bank at Dallas, Dallas, Tex.
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.
Franklin Stockbridge	Vice Chairman, 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 duties of the Committee are to meet with the Comptroller and his designated officials and participate in a cooperative effort to present the position of the banking community on the numerous matters of national concern in which the banking industry is involved.

No meetings of this Committee were held in fiscal 1973. Members of the Committee are as follows:

Robert C. Baker	Chairman, Executive Committee, American Security & Trust Company, Washington, D.C.
Robert M. Surdam	Chairman of the Board, National Bank of Detroit, Detroit, Mich.
Roger C. Damon	Director, The First National Bank of Boston, Boston, Mass.
G. Morris Dorrance, Jr.	Chairman of the Board and President, The Philadelphia National Bank, Ardmore, Pa.
George S. Eccles	Chairman of the Board, 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	Senior Chairman, Third National Bank in Nashville, Nashville, Tenn.
Robert D. H. Harvey	Chairman of the Board, Maryland National Bank, Baltimore, Md.
William M. Jenkins	Chairman of the Board, Seattle-First National Bank, Seattle, Wash.
Mills B. Lane, Jr.	Chairman of the Board, The Citizens & Southern National Bank, Atlanta, Ga.
Frederick G. Larkin, Jr.	Chairman of the Board and Chief Executive Officer, 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, The Central National Bank, Richmond, Va.
Robert H. Stewart III	Director, 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 meet with the regional administrator of national banks and any other bureau officials the Comptroller designates to discuss bank examination procedures, regulations and policies, and to develop reports and recommendations in connection with the supervision of national banks. The Committees' membership and the dates of the regional meetings during fiscal 1973 follow :

Region 1 meeting date, November 2, 1972.

Arnold M. Leibowitz (Chairman)	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
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 3-4, 1972, and May 25-26, 1973.

William I. Spencer (Chairman)	President, First National City Bank, New York, N.Y.
Richard Beekman	President, Citizens First National Bank of Ridgewood, Ridgewood, N.J.
Norman J. Brassler	Chairman of the Board, New Jersey Bank, N.A., Clifton, N.J.
Patrick J. Clifford	Chairman of the Board, Security National Bank, Hempstead, N.Y.
James L. Cooper	Chairman of the Board, Atlantic National Bank, Atlantic City, N.J.
Robert H. Fearon, Jr.	President, Oneida Valley National Bank of Oneida, Oneida, N.Y.
Thomas W. Higgins	President, The Merchants National Bank & Trust Company of Syracuse, Syracuse, N.Y.
Leonard F. Hill	President, The National Bank of New Jersey, New Brunswick, N.J.
Erwin O. Kraft	President, First National Bank of New Jersey, Totowa, N.J.
William T. Leese	President, First National Bank of East Hampton, East Hampton, N.Y.
Frederick Palmer	Chairman of the Board, Chemical Bank Hudson Valley, N.A., Nyack, N.Y.
Mary G. Roebling	Chairman of the Board, The National State Bank, Elizabeth, N.J.

Region 3 meeting date, November 30, 1972.

Thomas L. Wentling (Chairman)	President, Southwest National Bank of Pennsylvania, Greensburg, Pa.
Ernest R. Andrew	Chairman of the Board, President and Trust Officer, Deposit National Bank, DuBois, Pa.
James E. Brucklacher	Chairman of the Board, Cumberland County National Bank & Tr. Co., New Cumberland, Pa.
Harold U. Crouse	President, The Peoples National Bank of Shippensburg, Shippensburg, Pa.
G. Morris Dorrance, Jr.	President and Chairman of the Board, The Philadelphia National Bank, Ardmore, Pa.
Robert K. Gicking	President, The Hazleton National Bank, Hazleton, Pa.
Merle E. Gilliland	Chairman of the Board and Chief Executive Officer, The Pittsburgh National Bank, Pittsburgh, Pa.
Roger S. Hillas	President, Provident National Corporation, Bryn Mawr, Pa.
John J. McCartney	President, The First National Bank of Allentown, Allentown, Pa.
Wilson D. McElhinny	President, National Central Bank, Lancaster, Pa.
M. A. Powers	Chairman of the Board, First National Bank & Trust Co., Washington, Pa.
H. Myron Wetzel	President, Third National Bank and Trust Company, Scranton, Pa.

Region 4 meeting dates, September 29, 1972, and April 27, 1973.

Clair E. Fultz (Chairman)	Chairman of the Board, Huntington Bancshares, Inc., Columbus, Ohio
Claude M. Blair	Chairman of the Board and Chief Executive Officer, The National City Bank of Cleveland, Cleveland, Ohio
Harriet Brown	President, The Springs Valley National Bank, French Lick, Ind.
William P. Givens	President, The Merchants National Bank of Muncie, Muncie, Ind.
Robert E. Hall	President and Trust Officer, The First National Bank & Trust Co., Troy, Ohio
Robert A. Kerr	Chairman of the Board, The Winters National Bank and Trust Company of Dayton, Dayton, Ohio
Arch G. Mainous, Jr.	President, Citizens Union National Bank & Trust Company, Lexington, Ky.
C. W. Pratt	President, Fort Knox National Bank, Fort Knox, Ky.
J. Fred Risk	Chairman of the Board, The Indiana National Bank, Indianapolis, Ind.
Hugh M. Shwab	Chairman of the Board, First National Bank of Louisville, Louisville, Ky.
Arch C. Voris, Jr.	President, The Citizens National Bank of Bedford, Bedford, Ind.
John W. Woods, Jr.	President, The Third National Bank of Ashland, Ashland, Ky.

Region 5 meeting dates, December 9, 1972, and May 4-5, 1973.

W. N. Shearer, Jr. (Chairman)	President, Kanawha Banking and Trust Company, N.A., Charleston, W. Va.
Francis G. Addison III	President, Union Trust Co. of D.C., Washington, D.C.
W. T. Clements	President, The Wise County National Bank, Wise, Va.

H. J. Gibson	President, The National Bank of Logan, Logan, W. Va.
Paul O. Hirschbiel	President, United Virginia Bank/National Valley, Staunton, Va.
H. W. Kelly, Jr.	President, The National Bank of Fairfax, Fairfax County, Va.
William T. McLaughlin II	Executive Vice President, Community Bank and Trust, N.A., Fairmont, W. Va.
Guy W. Nusz	President, Farmers & Mechanics National Bank, Frederick, Md.
William J. Schuiling	Chairman of the Board, The First National Bank of Washington, Washington, D.C.
A. G. Thompson	President, Carolina First National Bank, Lincoln, N.C.
C. R. Tusing	President, The First National Bank of Oakland, Oakland, Md.
John P. Watlington, Jr.	President, Wachovia Bank and Trust Company, N. A., Winston-Salem, N.C.

Region 6 meeting dates, November 9, 1972, and May 11, 1973.

J. B. Williams (Chairman)	Chairman of the Board, The First National Bank and Trust Co. of Augusta, Augusta, Ga.
Clarence T. Ayers	President, The First National Bank of Gainesville, Gainesville, Fla.
Ruth Cecil	Senior Vice President, The First National Bank of Homestead, Homestead, Fla.
Charles K. Cross	President and Chief Administrative Officer, South Carolina National Bank, Columbia, S.C.
Michael J. Franco	Chairman, City National Bank of Miami, Miami, Fla.
Daniel S. Goodrum	President, First National Bank and Trust Company in Lake Worth, Lake Worth, Fla.
Henry M. Jernigan	Chairman of the Board, First National Bank of Fort Pierce, Fort Pierce, Fla.
Richard L. Kattel	President, The Citizens and Southern National Bank, Atlanta, Ga.
T. H. Milner, Jr.	Chairman of the Board and President, The First National Bank of Athens, Athens, Ga.
Charles E. Rice	Chairman of the Board, Barnett Bank of Winter Park, National Association, Winter Park, Fla.
G. H. Watts	President, The First National Bank of Dalton, Dalton, Ga.

Region 7 meeting date, November 8, 1972.

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, The First National Bank & Trust Company 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 of the Board and President, The First National Bank of Libertyville, Libertyville, Ill.
Robert C. Humphrey	President, State National Bank, Evanston, Ill.
Ned A. Kilmer, Jr.	President, City Bank and Trust Co., National Association, 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.
Selma E. Sweeney	Executive Vice President, The First National Bank of Arcola, Arcola, Ill.
Richard E. Willard	President, Farmers and Merchants National Bank in Benton Harbor, Benton Harbor, Mich.

Region 8 meeting dates, November 3, 1972, and June 1, 1973.

William A. Carpenter (Chairman)	President, Whitney National Bank of New Orleans, La.
W. E. Newell (Vice Chairman)	Chairman of the Board, The First National Bank of Sullivan County, Kingsport, Tenn.
W. B. Brannan	President, The First National Bank of Canton, Canton, Miss.
C. Bennett Harrison	Chairman of the Board, Union Planters National Bank, Memphis, Tenn.
W. E. Howard, Jr.	President, The Commercial National Bank & Trust Co. of Laurel, Laurel, Miss.
W. H. Kelly	President, The State First National Bank of Texarkana, Texarkana, Ark.
Ernest F. Ladd, Jr.	President, The Merchants National Bank of Mobile, Mobile, Ala.
Aubyn H. McKenzie	Vice President, The Homer National Bank, Homer, La.
Frank M. Moody	Chairman of the Board, The First National Bank of Tuskaloosa, Tuskaloosa, Ala.
M. J. Moody	President, Britton and Koontz First National Bank, Natchez, Miss.
William R. Rice	President, First American National Bank, North Little Rock, Ark.
J. W. Roberson	Chairman of the Board and President, First National Bank of West Monroe, West Monroe, La.

Region 9 meeting date, October 24, 1972.

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 of Beloit, 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 of the Board, The 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, September 29, 1972, and April 25, 1973.

Harold R. Deitemeyer (Chairman)	President, The First National Bank & Trust Co. of Beatrice, Beatrice, Nebr.
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William N. Brownfield	President, Leawood National Bank of Kansas City, Kansas City, Mo.
C. Q. Chandler	President, First National Bank in Wichita, Wichita, Kans.
Rex W. Crowley	Chairman of the Board, The National Bank of Pittsburg, Pittsburg, Kans.
Stanley W. Evans	Chairman of the Board and President, Northwestern National Bank of Sioux City, Sioux City, Iowa
F. Phillips Giltner	President, The First National Bank of Omaha, Omaha, Nebr.
Harold E. Larmon	President, The First National Bank of McCook, McCook, Nebr.
Bill B. Lee	Chairman of the Board and President, The First National Bank in Neosho, Neosho, Mo.
Winfield S. Mayne	Chairman of the Board and President, The Montgomery Co. National Bank of Red Oak, Red Oak, Iowa
David H. Morey	Chairman of the Board, The Boatman's National Bank of St. Louis, St. Louis, Mo.
Martin Roggen	President, First National Bank of Ottumwa, Ottumwa, Iowa
Willis E. Stout	Chairman of the Board, First National Bank in Goodland, Goodland, Kans.

Region 11 meeting dates, March 2-3, 1973.

Eugene Swearingen (Chairman)	President, National Bank of Tulsa, Tulsa, Okla.
Henry M. Bell, Jr.	President, Citizens First National Bank of Tyler, Tyler, Tex.
Benton Browning	Chairman of the Board and President, The First National Bank and Trust Company of Ada, Ada, Okla.
G. R. Crawley	President, The First National Bank of Lamesa, Lamesa, Tex.
Melvin L. Ford	President, The Union National Bank of Bartlesville, Bartlesville, Okla.
Grady D. Harris, Jr.	President, Fidelity Bank, N.A., Oklahoma City, Okla.
Walter F. Johnson	President, First National Bank of Abilene, Abilene, Tex.
Frank Junell	Chairman of the Board and Chief Executive Officer, The Central National Bank of San Angelo, San Angelo, Tex.
Ben F. Love	President, Texas Commerce Bank, National Association, Houston, Tex.
Lewis F. Lyne	President, Mercantile National Bank at Dallas, Dallas, Tex.
Johnnie E. Merchant	President, First City National Bank of Floresville, Floresville, Tex.
F. A. Sewell, Jr.	President, First National Bank in Clinton, Clinton, Okla.

Region 12 meeting date, November 17, 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 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	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 Bank of Colorado Springs, N.A., Colorado Springs, Colo.
Roger L. Reisher	President, First Westland National Bank, Lakewood, Colo.
F. A. Rummel, Jr.	Chairman of the Board, The First National Bank of Rawlins, Rawlins, Wyo.
Bernard R. Weber	President, The First National Bank and Trust Co. of Wyoming, Cheyenne, Wyo.

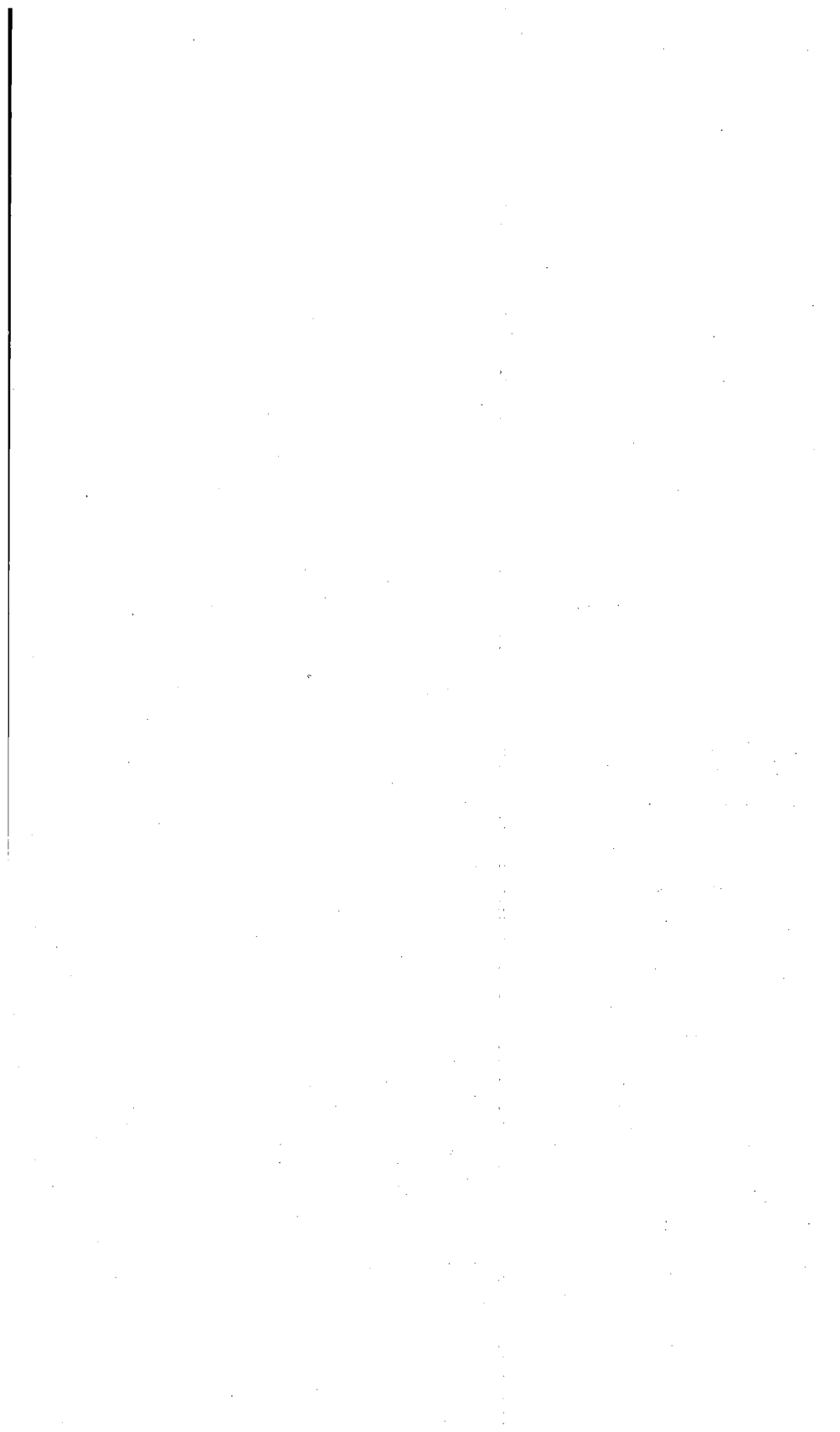
Region 13 meeting dates, August 25, 1972, and May 11, 1973.

Philip L. Cornell (Chairman)	Executive Vice President, Seattle-First National Bank, Seattle, Wash.
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.
Harry S. Goodfellow	President, Old National Bank of Washington, Spokane, Wash.
John G. Horning	President, Columbia Center National Bank, Kennewick, Wash.
R. G. Johnson	President, Continental National Bank of Harlowton, Harlowton, Mont.
W. H. Nussbaum	Executive Vice President, First National Bank of Whitefish, Whitefish, Mont.
Robert I. Penner	President, Citizens First National Bank of Wolf Point, Wolf Point, Mont.
Lyman E. Seely	Vice Chairman of the Board, First National Bank of Oregon, Portland, Oreg.
James H. Standard	Executive Vice President, The First National Bank of McMinnville, McMinnville, Oreg.
W. G. Stroecker	President, First National Bank of Fairbanks, Fairbanks, Alaska
A. F. Winegardner	President, First National Bank and Trust Company, Billings, Mont.

Region 14 meeting dates, October 20, 1972, and May 4, 1973.

W. Gordon Ferguson (Chairman)	President, National Bank of Whittier, Whittier, Calif.
Ernest D. Bonta	President, Inyo-Mono National Bank, Bishop, Calif.
Harold N. Bruce	President, San Luis Obispo National Bank, San Luis Obispo, Calif.
A. W. Clausen	President, Bank of America, N.T. & S.A., San Francisco, Calif.
Albert C. Gianoli	Chairman of the Board and President, The First National Bank of Ely, Ely, Nev.
Alden W. Johnson	Chairman of the Board, Southern California First National Corp., San Diego, Calif.
Roy G. Lovelock	President, Hayward National Bank, Hayward, Calif.
K. J. Luke	Chairman of the Board & President, Hawaii National Bank, Honolulu, Honolulu, Hawaii
William S. Pfeifle	President, The Bank of California, N.A., San Francisco, Calif.
John A. Raffetto	Chairman of the Board & President, Placer National Bank, Rocklin, 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.

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